

Consolidated Financial Statements

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31, 2020
With Independent Auditor's Report

Independent Auditor's Report

The Board of Directors
NSK, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of NSK Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 30, 2020

伊藤 功樹

/s/ Koki Ito
Designated Engagement Partner
Certified Public Accountant

松村 信

/s/ Makoto Matsumura
Designated Engagement Partner
Certified Public Accountant

大久保 豊

/s/ Yutaka Okubo
Designated Engagement Partner
Certified Public Accountant

[Financial Information]

1. Method of preparation of consolidated financial statements and non-consolidated financial statements

(1) The Company's consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (hereinafter referred to as "IFRS") pursuant to the provision of Article 93 of the *Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements* (Ordinance of the Ministry of Finance No.28 of 1976; hereinafter referred to as "the Consolidation Ordinance").

(2) The Company's non-consolidated financial statements have been prepared in accordance with the *Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements, etc.* (Ordinance of the Ministry of Finance No.59 of 1963; hereinafter referred to as "the Ordinance").

Of note, the Company corresponds to a specified company submitting non-consolidated financial statements and has prepared its non-consolidated financial statements pursuant to the provision of Article 127 of the Ordinance.

2. Audit certification

The Company has been audited by Ernst & Young ShinNihon LLC with respect to its consolidated financial statements for the consolidated fiscal year (from April 1, 2019 to March 31, 2020) and its non-consolidated financial statements for the business year (from April 1, 2019 to March 31, 2020), pursuant to the provision of Article 193-2(1) of the Financial Instruments and Exchange Act.

3. Special efforts to ensure appropriateness of consolidated financial statements, etc. and development of system to enable appropriate preparation of consolidated financial statements, etc. in accordance with IFRS

The Company has made special efforts to ensure the appropriateness of its consolidated financial statements, etc. and developed a system that enables the appropriate preparation of consolidated financial statements, etc. in accordance with IFRS, the specifics of which are as follows.

(1) In order to develop a system that enables the proper understanding of the content of accounting standards, etc. and appropriate response to changes, etc. in accounting standards, etc. the Company also endeavours to collect information such as becoming a member of the Financial Accounting Standards Foundation and participating in seminars, etc.

(2) For the purpose of preparing appropriate consolidated financial statements in accordance with IFRS, the Company has prepared IFRS-compliant Group accounting policies, based on which Group-wide standardised accounting procedures are executed. The content of the Group accounting policies is updated properly in a timely manner by obtaining press releases and Standards published by the International Accounting Standards Board (IASB) as necessary and getting a grasp of the information on the latest standards, as well as examining their impact on the Company.

1 [Consolidated financial statements, etc.]

(1) [Consolidated financial statements]

① [Consolidated statements of financial position]

(Millions of yen)

| | Note | As of March 31, 2019 | As of March 31, 2020 |
|---|------|----------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 5 | 129,965 | 137,298 |
| Trade receivables and other receivables | 6 | 195,288 | 154,226 |
| Inventories | 7 | 159,517 | 152,971 |
| Other financial assets | 10 | 1,696 | 3,138 |
| Income tax receivables | 15 | 3,502 | 3,513 |
| Other current assets | | 17,648 | 15,304 |
| Total current assets | | 507,618 | 466,452 |
| Non-current assets | | | |
| Property, plant and equipment | 8,13 | 378,333 | 383,978 |
| Intangible assets | 9 | 19,550 | 19,768 |
| Investments accounted for using equity method | 17 | 27,613 | 26,785 |
| Other financial assets | 10 | 79,934 | 55,498 |
| Deferred tax assets | 15 | 9,633 | 9,698 |
| Net defined benefit assets | 16 | 59,406 | 61,508 |
| Other non-current assets | | 4,364 | 6,193 |
| Total non-current assets | | 578,837 | 563,431 |
| Total assets | | 1,086,456 | 1,029,884 |
| Liabilities and equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables and other payables | 11 | 130,333 | 97,193 |
| Other financial liabilities | 12 | 101,145 | 71,806 |
| Provisions | 14 | 85 | 159 |
| Income tax payables | 15 | 4,004 | 3,474 |
| Other current liabilities | | 49,841 | 45,305 |
| Total current liabilities | | 285,411 | 217,939 |
| Non-current liabilities | | | |
| Financial liabilities | 12 | 175,467 | 228,707 |
| Provisions | 14 | 8,677 | 8,160 |
| Deferred tax liabilities | 15 | 31,128 | 24,764 |
| Net defined benefit liabilities | 16 | 19,530 | 18,345 |
| Other non-current liabilities | | 5,839 | 5,447 |
| Total non-current liabilities | | 240,643 | 285,426 |
| Total liabilities | | 526,055 | 503,365 |
| Equity | | | |
| Issued capital | 18 | 67,176 | 67,176 |
| Capital surplus | 18 | 80,426 | 80,456 |
| Retained earnings | 18 | 400,720 | 405,842 |
| Treasury shares | 18 | -37,779 | -37,662 |
| Other components of equity | | 26,131 | -10,308 |
| Total equity attributable to owners of the parent | | 536,676 | 505,505 |
| Non-controlling interests | | 23,724 | 21,013 |
| Total equity | | 560,400 | 526,518 |
| Total liabilities and equity | | 1,086,456 | 1,029,884 |

② [Consolidated statements of income]

(Millions of yen)

| | Note | Year ended March 31, 2019 | Year ended March 31, 2020 |
|---|------|---------------------------|---------------------------|
| Sales | 20 | 991,365 | 831,034 |
| Cost of sales | | 771,783 | 677,511 |
| Gross profit | | 219,581 | 153,522 |
| Selling, general and administrative expenses | 21 | 141,808 | 130,238 |
| Share of profits of investments accounted for using the equity method | 17 | 5,493 | 2,282 |
| Other operating expenses | 22 | 3,987 | 1,961 |
| Operating income | | 79,279 | 23,604 |
| Financial income | 23 | 2,661 | 3,409 |
| Financial expenses | 23 | 2,710 | 2,948 |
| Income before income taxes | | 79,229 | 24,065 |
| Income tax expense | 15 | 20,491 | 5,956 |
| Net income | | 58,738 | 18,108 |
| Net income attributable to: | | | |
| Owners of the parent | | 55,809 | 17,412 |
| Non-controlling interests | | 2,928 | 696 |
| (Earnings per share attributable to owners of the parent) | | | |
| Basic earnings per share (yen) | 25 | 107.46 | 34.00 |
| Diluted earnings per share (yen) | 25 | 107.24 | 33.91 |

③ [Consolidated statements of comprehensive income]

(Millions of yen)

| | Note | Year ended March 31, 2019 | | | Year ended March 31, 2020 | | |
|---|------|---------------------------|------------|--------------|---------------------------|------------|--------------|
| | | Before tax effect | Tax effect | Amount (net) | Before tax effect | Tax effect | Amount (net) |
| Net income | | | | 58,738 | | | 18,108 |
| Other comprehensive income | | | | | | | |
| Items that will not be reclassified to profit or loss | | | | | | | |
| Remeasurements of net defined benefit liability (asset) | | -4,423 | 616 | -3,807 | 2,939 | -1,194 | 1,744 |
| Net changes in financial assets measured at fair value through other comprehensive income | | -9,276 | 2,816 | -6,460 | -11,941 | 3,607 | -8,333 |
| Share of other comprehensive income of investments accounted for using equity method | | 125 | -49 | 75 | -63 | 18 | -44 |
| Total items that will not be reclassified to profit or loss | | -13,575 | 3,382 | -10,192 | -9,064 | 2,430 | -6,633 |
| Items that may be reclassified to profit or loss | | | | | | | |
| Exchange differences on translating foreign operations | | -4,731 | — | -4,731 | -22,150 | — | -22,150 |
| Share of other comprehensive income of investments accounted for using equity method | | -20 | — | -20 | -459 | — | -459 |
| Total items that may be reclassified to profit or loss | | -4,751 | — | -4,751 | -22,609 | — | -22,609 |
| Total other comprehensive income | | -18,326 | 3,382 | -14,944 | -31,673 | 2,430 | -29,242 |
| Total comprehensive income for the period | | | | 43,794 | | | -11,134 |
| Total comprehensive income for the period attributable to: | | | | | | | |
| Owners of the parent | | | | 40,803 | | | -11,075 |
| Non-controlling interests | | | | 2,991 | | | -58 |

④ [Consolidated statements of changes in equity]

From April 1, 2018 to March 31, 2019

(Millions of yen)

| | Note | Equity attributable to owners of the parent | | | |
|---|------|---|-----------------|-------------------|-----------------|
| | | Issued capital | Capital surplus | Retained earnings | Treasury shares |
| Opening balance | | 67,176 | 80,264 | 362,859 | -17,815 |
| Net income | | — | — | 55,809 | — |
| Other comprehensive income | | — | — | — | — |
| Total comprehensive income for the period | | — | — | 55,809 | — |
| Purchase of treasury shares | 18 | — | — | — | -20,053 |
| Disposal of treasury shares | 18 | — | 21 | — | 89 |
| Share-based payment transactions | 19 | — | 375 | — | — |
| Cash dividends | 26 | — | — | -21,514 | — |
| Changes in the ownership interest in subsidiaries | | — | -235 | — | — |
| Other | | — | — | 3,565 | — |
| Total transactions with owners, etc. | | — | 161 | -17,948 | -19,963 |
| Closing balance | | 67,176 | 80,426 | 400,720 | -37,779 |

| | Note | Equity attributable to owners of the parent | | | | Total | Non-controlling interests | Total equity |
|---|------|--|---|---|---------|---------|---------------------------|--------------|
| | | Other components of equity | | | Total | | | |
| | | Exchange differences on translating foreign operations | Net changes in financial assets measured at fair value through other comprehensive income | Remeasurements of net defined benefit liability (asset) | | | | |
| Opening balance | | -7,774 | 43,584 | 8,880 | 44,689 | 537,175 | 23,839 | 561,014 |
| Net income | | — | — | — | — | 55,809 | 2,928 | 58,738 |
| Other comprehensive income | | -4,823 | -6,537 | -3,645 | -15,006 | -15,006 | 62 | -14,944 |
| Total comprehensive income for the period | | -4,823 | -6,537 | -3,645 | -15,006 | 40,803 | 2,991 | 43,794 |
| Purchase of treasury shares | 18 | — | — | — | — | -20,053 | — | -20,053 |
| Disposal of treasury shares | 18 | — | — | — | — | 111 | — | 111 |
| Share-based payment transactions | 19 | — | — | — | — | 375 | — | 375 |
| Cash dividends | 26 | — | — | — | — | -21,514 | -2,816 | -24,330 |
| Changes in the ownership interest in subsidiaries | | — | — | — | — | -235 | -290 | -525 |
| Other | | — | -3,551 | — | -3,551 | 14 | — | 14 |
| Total transactions with owners, etc. | | — | -3,551 | — | -3,551 | -41,302 | -3,106 | -44,408 |
| Closing balance | | -12,598 | 33,494 | 5,234 | 26,131 | 536,676 | 23,724 | 560,400 |

From April 1, 2019 to March 31, 2020

(Millions of yen)

| | Note | Equity attributable to owners of the parent | | | |
|---|------|---|-----------------|-------------------|-----------------|
| | | Issued capital | Capital surplus | Retained earnings | Treasury shares |
| Opening balance | | 67,176 | 80,426 | 400,720 | -37,779 |
| Net income | | — | — | 17,412 | — |
| Other comprehensive income | | — | — | — | — |
| Total comprehensive income for the period | | — | — | 17,412 | — |
| Purchase of treasury shares | 18 | — | — | — | -11 |
| Disposal of treasury shares | 18 | — | 41 | — | 128 |
| Share-based payment transactions | 19 | — | -11 | — | — |
| Cash dividends | 26 | — | — | -20,501 | — |
| Other | | — | — | 8,211 | — |
| Total transactions with owners, etc. | | — | 29 | -12,290 | 117 |
| Closing balance | | 67,176 | 80,456 | 405,842 | -37,662 |

| | Note | Equity attributable to owners of the parent | | | | | Total | Non-controlling interests | Total equity |
|---|------|--|---|---|---------|---------|--------|---------------------------|--------------|
| | | Other components of equity | | | | Total | | | |
| | | Exchange differences on translating foreign operations | Net changes in financial assets measured at fair value through other comprehensive income | Remeasurements of net defined benefit liability (asset) | Total | | | | |
| Opening balance | | -12,598 | 33,494 | 5,234 | 26,131 | 536,676 | 23,724 | 560,400 | |
| Net income | | — | — | — | — | 17,412 | 696 | 18,108 | |
| Other comprehensive income | | -21,864 | -8,376 | 1,753 | -28,487 | -28,487 | -755 | -29,242 | |
| Total comprehensive income for the period | | -21,864 | -8,376 | 1,753 | -28,487 | -11,075 | -58 | -11,134 | |
| Purchase of treasury shares | 18 | — | — | — | — | -11 | — | -11 | |
| Disposal of treasury shares | 18 | — | — | — | — | 169 | — | 169 | |
| Share-based payment transactions | 19 | — | — | — | — | -11 | — | -11 | |
| Cash dividends | 26 | — | — | — | — | -20,501 | -2,652 | -23,154 | |
| Other | | — | -7,951 | — | -7,951 | 259 | — | 259 | |
| Total transactions with owners, etc. | | — | -7,951 | — | -7,951 | -20,095 | -2,652 | -22,748 | |
| Closing balance | | -34,462 | 17,166 | 6,988 | -10,308 | 505,505 | 21,013 | 526,518 | |

⑤ [Consolidated statements of cash flows]

(Millions of yen)

| | Note | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--|------|---------------------------|---------------------------|
| Operating activities | | | |
| Income before income taxes | | 79,229 | 24,065 |
| Depreciation and amortisation | | 48,801 | 53,926 |
| Increase (decrease) in net defined benefit liability and net defined benefit asset | | 621 | -80 |
| Interest and dividend income | | -2,368 | -2,145 |
| Interest expenses | | 2,600 | 2,523 |
| Share of profits of investments accounted for using the equity method | | -5,493 | -2,282 |
| Decrease (increase) in trade receivables | | 18,602 | 34,335 |
| Decrease (increase) in inventories | | -17,859 | 579 |
| Increase (decrease) in trade payables | | -10,856 | -26,888 |
| Other | | -1,354 | -1,127 |
| Subtotal | | 111,924 | 82,905 |
| Interest and dividend received | | 7,484 | 4,693 |
| Interest expenses paid | | -2,642 | -2,581 |
| Income tax paid | | -24,149 | -12,629 |
| Net cash provided by operating activities | | 92,617 | 72,387 |
| Investing activities | | | |
| Purchases of property, plant and equipment | | -73,379 | -47,876 |
| Proceeds from sale of property, plant and equipment | | 1,090 | 1,638 |
| Purchases of other financial assets | | -38 | -22 |
| Proceeds from sale of other financial assets | | 6,829 | 13,606 |
| Other | | -7,176 | -7,131 |
| Net cash used in investing activities | | -72,673 | -39,784 |
| Financial activities | | | |
| Proceeds from long-term loans | | 34,333 | 17,688 |
| Repayments of long-term loans | | -46,809 | -21,788 |
| Proceeds from issuance of corporate bonds | | 40,000 | 30,000 |
| Payments for redemption of corporate bonds | | — | -20,000 |
| Repayments of lease liabilities | 13 | — | -4,157 |
| Acquisition of treasury shares | | -20,044 | -2 |
| Dividends paid | | -21,495 | -20,483 |
| Dividends paid to non-controlling interests | | -2,892 | -2,652 |
| Other | | -3,569 | 61 |
| Net cash used in financial activities | | -20,477 | -21,333 |
| Effect of exchange rate changes on cash and cash equivalents | | -784 | -3,934 |
| Net increase (decrease) in cash and cash equivalents | | -1,318 | 7,333 |
| Cash and cash equivalents at the beginning of the period | 5 | 131,283 | 129,965 |
| Cash and cash equivalents at the end of the period | 5 | 129,965 | 137,298 |

[Notes to consolidated financial statements]

1. Reporting entity

NSK Ltd. (hereinafter referred to as “the Company”) is a company located in Japan and its shares are listed on the Tokyo Stock Exchange.

Consolidated statements of fiscal year ended March 31, 2020 consisted of the Company and its subsidiaries (hereinafter referred to as “NSK Group”) as well as its interests in associated and joint ventures. The NSK Group as well as associates and joint ventures are engaged in the Industrial Machinery Business and the Automotive Business. The Industrial Machinery Business engaged in the production and sales of industrial machinery bearings, precision machinery & parts, etc. targeted at general industry. The Automotive Business is in charge of production and sales of bearings for car manufacturers and automotive component manufacturers, steering columns, automatic transmission components, etc.

The NSK Group’s consolidated financial statements for the consolidated fiscal year ended March 31, 2020 were approved by President & CEO Toshihiro Uchiyama on June 30, 2020.

2. Basis of preparation

(1) Compliance with IFRS

As the NSK Group is a Specified Company applying Designated International Financial Reporting Standards as set forth in Article 1-2 of the Consolidation Ordinance, these consolidated financial statements have been prepared in compliance with IFRS pursuant to the provision of Article 93.

(2) Basis of measurement

In the consolidated financial statements, assets and liabilities are based on historical cost, except for financial instruments that are measured at fair value, etc.

(3) Functional currency and presentation currency

Items included in the respective financial statements prepared by the entities belonging to the NSK Group are measured in the *functional currency*, which is the currency of the primary economic environment in which each entity conducts business activities. The consolidated financial statements in this Report are presented in Japanese Yen, which is the Company’s functional currency.

Amounts presented in Japanese Yen are rounded down to the nearest million yen.

(4) Changes in accounting policies

Standards and Interpretations adopted by the NSK Group from this consolidated fiscal year ended March 31, 2020 are as follows.

| IFRS | | Description of new standards and revisions |
|---------|--------|---|
| IFRS 16 | Leases | Revision of accounting treatment for leases |

The NSK Group has adopted IFRS 16 “Leases” (issued in January 2016, hereafter, “IFRS 16”) from the year ended March 31, 2020.

In adopting IFRS 16, the NSK Group has applied the provisional method allowed in IFRS16 and recognised the cumulative effect of initially applying IFRS16 at the date of initial application. The NSK Group applies the practical expedient that allows it to continue using the same method as before with regard to whether a contract is, or contains, a lease.

At the date of initial application of IFRS 16, we additionally recognised right-of-use assets of ¥19,409 million and lease liabilities of ¥19,403 million. The weighted average of the lessee’s incremental borrowing rates applied for the calculation of lease liability recognised at the date of initial application is 1.4%.

The following are the adjustments between the amount of non-cancellable operating leases which was disclosed applying IAS 17 “Leases” (hereafter, “IAS 17”) discounted by using the incremental borrowing rate at the date of

initial application and the amount of lease liabilities presented in the consolidated statements of financial position at the date of initial application.

(Millions of yen)

| | |
|--|--------|
| The amount of non-cancellable operating leases as of March 31 2019 which was disclosed adopting IAS 17 discounted by using the incremental borrowing rate at the date of initial application | 12,426 |
| (a) Finance lease obligations which was recognised as of March 31, 2019 | 1,754 |
| (b) Amount resulting from revision of lease term based on the adoption of IFRS 16 | 6,976 |
| Amount of lease liabilities presented in the consolidated statements of financial position as of April 1, 2019 | 21,157 |

When applying IFRS 16 to the leases previously classified as operating leases applying IAS 17, the following practical expedients are applied.

- Leases for which the lease term ends within 12 months of the date of initial application, we apply exemptions, which do not recognise right-of-use asset and lease liability.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

(5) Issued Standards and Interpretations that are yet to be applied

There were no new and revised Standards and Interpretations that have been issued by the date of approval of the consolidated financial statements significant impact on the consolidated financial statements of the NSK Group.

(6) Use of estimates and judgments

In preparing IFRS-compliant consolidated financial statements, the NSK Group developed and used judgment, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may be different from such estimates and such estimates and assumptions are revised continuously. The effect of changes in accounting estimates is recognised in the period of the change and in future periods.

Although there is no unified view as to how the COVID-19 pandemic will develop, such as whether it will get worse and when it will become under control, reasonable estimate have been made based on the assumptions that the economy will gradually recover as the virus comes under control in each region and economic activities resume. When uncertainty further increases, the carrying amount of assets and liabilities in the future reporting periods may be adjusted accordingly.

The estimates and judgements that may have material impacts on the carrying amounts recognised in the consolidated financial statements are as follows:

- Recoverability of deferred tax assets (Note 3: Summary of significant accounting policies (15) Income taxes and Note 15: Income taxes)

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. To assess whether there will be sufficient taxable profits, the timing and the amounts of taxable profits are estimated based on business plans. Although this estimate is the management's best estimate, actual result may differ as a result of fluctuations on uncertain future economic conditions, etc. When it requires major revisions, amounts to be recognised in the consolidated financial statements after the next fiscal year may have significant impacts.

- Measurement of defined benefit obligation (Note 3: Summary of significant accounting policies (16) Retirement benefit and Note 16: Post-employment benefit)

The Company and some of its domestic consolidated subsidiaries have defined benefit plans and retirement lump sum payment system to finance retirement benefits for employees. The UK subsidiary of the Company, NSK Europe Limited and some of its consolidated subsidiaries in UK partially sponsor defined benefit plans.

The present value of defined benefit obligations and the service cost are calculated based on the actuarial assumption. The actuarial assumptions consist from various estimations such as discount rate, retirement rate, mortality rate and rate of increase in salary. The NSK Group receives advice from an outside pension actuary on appropriateness of actuarial assumptions including those variables. Although this estimate is the management's best estimate conducted, results of fluctuations in uncertain future economic conditions, etc. and the amendment or the publication of related laws may bring a different actual result. When it requires major revisions, amounts to be recognised in the consolidated financial statements after the next fiscal year may have significant impacts.

• Fair value measurement of financial instruments (Note 3: Summary of significant accounting policies (7) Other financial assets and Note 24: Financial instruments)

When determining the fair value of certain financial instruments, the NSK Group uses a valuation methodology that is based on unobservable input. Any unobservable input may have impacts on fluctuations on uncertain future economic conditions, etc. When it requires major revisions, it may have significant impacts on the consolidated financial statements.

3. Summary of significant accounting policies

The principal accounting policies that have been adopted upon preparing the consolidated financial statements are as follows. These policies have been applied throughout the entire reporting period consistently, unless specified otherwise.

(1) Basis of consolidation

① Subsidiaries

Subsidiaries are entities controlled by the NSK Group. Control exists in cases where the NSK Group has power over the investee, is exposed to variable returns from the investment with the investee and has the ability to affect returns through its power over the investee. The NSK Group consolidates a subsidiary from the day on which it gains control over the subsidiary, and ceases consolidation from the day on which it loses control over the subsidiary.

Intra-group balances (receivables and payables) and transactions as well as unrealised gains or losses arising from intercompany transactions are eliminated upon preparing the consolidated financial statements.

Major consolidated subsidiaries are stated in "Appendix: the NSK Group Companies".

② Associates

Associates are entities over which the NSK Group has significant influence with respect to its financial and management policies but does not have control nor joint control. In cases where the Company has 20% or more but no more than 50% of voting rights of another entity, the Company is presumed to have significant influence over such entity. Investments in associates are accounted for using the equity method and are recognised at cost at the time of acquisition.

③ Joint ventures

Joint ventures are joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of another entity, etc. Investments in a joint venture are accounted for using the equity method.

(2) Business combinations

Business combinations are accounted for using the acquisition method at the time of gaining control. Identifiable assets acquired and liabilities assumed in business combinations, non-controlling interests of the acquiree, and

goodwill are recognised on the acquisition date (the day on which the NSK Group gains control of the acquiree). In principle, the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values. The non-controlling interests of the acquiree are measured as the identifiable net assets of the acquiree multiplied by the ownership interest ratio held by the non-controlling interests.

Goodwill is measured as the sum of the amount of the fair value of the consideration transferred (including contingent consideration) in a business combination and non-controlling interests of the acquiree in excess of the amount of the identifiable acquiree's assets that have been acquired, net of liabilities assumed. Conversely, if the total transferred is less than is acquired, the NSK Group recognises such a shortfall in profit or loss at the date of the acquisition.

(3) Translation of foreign currency

① Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the spot exchange rate as at the date of the transaction or a rate that approximates such rate.

All foreign currency monetary assets and liabilities at the end of the period are re-translated into the functional currency using the spot exchange rate as at the end of the period, and the resulting difference is recognised in profit or loss.

② Financial statements of foreign operation

Assets and liabilities of foreign operation are translated into Japanese Yen using the exchange rate as at the end of the period, and income and expenses are translated into Japanese Yen using the average exchange rate during the period.

Foreign exchange translation differences arising from the translation of financial statements of foreign operation are recognised in other comprehensive income. In cases where a foreign operation is disposed of, the cumulative amount of foreign exchange translation differences relating to such foreign operation is reclassified to profit or loss at the time of disposal.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and other highly liquid short-term investments which have short maturities of three months or less from the date of acquisition.

(5) Trade receivables and other receivables

Trade receivables and other receivables are recognised on the day on which they arise and are measured at fair value at initial recognition. They are measured thereafter at amortised cost using the effective interest method less allowance for doubtful accounts with respect to impairment.

Changes in the allowance for doubtful accounts are recognised in profit or loss.

(6) Inventories

Inventories are measured at the lower of acquisition cost or net realisable value. Costs consist of the appropriate allocation of purchase cost, direct labour cost, other direct cost and related indirect production cost. Net realisable value is the estimated selling price, less the estimated selling expenses.

The cost of merchandise, finished goods, work in process and low materials are calculated by the weighted average method and the cost of supplies is calculated on the first-in-first-out basis.

(7) Other financial assets

① Initial recognition and measurement classification

Financial assets are recognised on the day on which the NSK Group becomes the party to the contract (trade date). They are classified either as financial assets measured at amortised cost or as financial assets measured

at fair value through profit or loss or other comprehensive income. This classification is determined at initial recognition. A financial asset is classified as a financial asset measured at amortised cost if it satisfies both of the following requirements:

- The asset is held based on a business model the objective of which is to hold assets to collect contractual cash flows.
- Based on the contractual terms, cash flows that are solely payment of principal and interest on the principal amount outstanding are generated on specified dates.

All financial instruments other than those classified as “financial assets measured at amortised cost” are classified as “financial assets measured at fair value.” Financial assets measured at fair value except for held-for-trading equity financial assets and derivative assets are designated either as measured at fair value through other comprehensive income or as measured at fair value through profit or loss and this designation is applied consistently.

② Subsequent measurement

“Financial assets measured at amortised cost” are measured at amortised cost using the effective interest method. Changes in fair value of “financial assets measured at fair value” that are designated as measured at fair value through other comprehensive income are recognised in other comprehensive income, while changes in fair value of those that are designated as measured at fair value through profit or loss are recognised in profit or loss. Any dividends on such assets are recognised as financial income.

③ Impairment of financial assets

For impairment of financial assets measured at amortised cost, the NSK Group recognises a loss allowance for expected credit losses on a financial asset.

At each reporting date, the NSK Group evaluates whether the credit risk on a financial instrument has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the NSK Group measures the loss allowance for losses on a financial asset at an amount equal to 12-month expected credit losses. If the credit risk on that financial instrument has increased significantly since initial recognition, the NSK Group measures the loss allowance for losses on a financial asset at an amount equal to the lifetime expected credit losses.

However, in the case of trade receivables and lease receivables, the NSK Group always measures the loss allowance for a financial asset at an amount equal to lifetime expected credit losses.

The NSK Group measures the expected credit losses of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- The time value of money
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

The amounts measured in this manner are recognised in profit or loss.

If an event occurs after the recognition of an impairment loss that reduces the amount of previously recognised impairment loss, the previously recognised impairment loss is reversed through net profit or loss.

④ Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset are expired or when the contractual rights to receive the cash flows from the financial asset are transferred and substantially all risks and rewards of the ownership of the financial asset have been transferred.

(8) Property, plant and equipment

The NSK Group adopts the *cost model* for the measurement of property, plant and equipment. Property, plant and equipment items are presented at the carrying amount calculated by deducting accumulated depreciation and accumulated impairment loss from the cost.

Depreciation costs of assets other than land and construction in progress are recorded by using the straight-line method over their estimated useful lives prescribed below. The estimated useful life, residual value and depreciation method are reviewed at the end of each consolidated fiscal year in consideration of changes in the estimates reflected in the future.

- Buildings and structures: 2 – 60 years
- Machinery and equipment: 7 – 12 years
- Vehicle and delivery equipment 4 – 7 years
- Tools, equipment and fixtures: 2 – 20 years

(9) Intangible assets

The NSK Group adopts the cost model for the measurement of intangible assets. Intangible assets are presented at the carrying amount calculated by deducting accumulated amortisation and accumulated impairment loss from cost. Intangible assets that have been acquired separately are measured at cost at initial recognition, while those acquired through a business combination are measured at fair value as of the acquisition date.

Intangible assets with finite useful lives are amortised over their estimated useful lives using the straight-line method. Intangible assets held by the NSK Group are mainly software for internal use and their estimated economic lives range from 5 years to 10 years.

The amortisation method and estimated useful lives are reviewed at the end of each consolidated fiscal year.

(10) Leases

At inception of a contract, the assessment of whether the contract is, or contains, a lease will be made when the NSK Group is the lessee. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When a contract is, or contains, a lease, at the commencement date, a right-of-use asset and a lease liability are recognised.

(1) Lease liability

At the commencement date, lease liability will be measured at the present value of the lease payments that are not paid at that date. The present value will be measured by using the interest rate implicit in the lease or the lessee's incremental borrowing rate. After the commencement date, lease liability will be measured by increasing or reducing the carrying amount to reflect interest on the lease liability and the lease payments made. Interest on the lease liability is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability, and it is recognised as a finance expense.

(2) Right-of-use asset

At the commencement date, the right-of-use asset will be measured at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability adjusting, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs incurred. After the commencement date, right-of-use asset is measured at cost less any accumulated depreciation and accumulated impairment losses applying the cost model. A right-of-use asset is depreciated mainly over the lease term using the straight-line method.

The lease payments associated with short-term leases and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term.

Right-of-use asset is presented as “property, plant and equipment” and lease liability as “financial liability (current or non-current)” in the consolidated statements of financial position.

The leases for the year ended March 31, 2019 was accounted for using the below accounting policies.

Leases that transfer substantially all the risks and rewards incidental to the ownership of an asset belong to the NSK Group are classified as finance leases. Leases other than finance leases are classified as operating leases.

Finance lease assets and liabilities are capitalised as of the commencement of the lease term at the lower of the fair value of the lease property or the present value of minimum lease payments. Property, plant and equipment acquired by finance leases are depreciated over the shorter of useful life and lease term. Lease obligations are recognised in liabilities as current financial liabilities or non-current financial liabilities in the consolidated statements of financial position. Financial expenses are allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments due to operating leases are recognised as expenses using the straight-line method over the lease term.

(11) Impairment of non-financial assets

If there is any indication that an asset may be impaired with respect to property, plant and equipment and intangible assets as of the end of each reporting period, and if the carrying amount of the asset or the cash-generating unit exceeds the recoverable amount, which is calculated as the higher of the asset’s fair value less costs to sell and value in use for each asset or cash-generating unit, the carrying amount is written down to the recoverable amount.

Intangible assets with an indefinite useful life and goodwill are not amortised and are tested for impairment annually and whenever there is an indication that they may be impaired.

For assets (other than goodwill) for which impairment was recognised, the asset are assessed as to whether there is any indication that the impairment loss recognised in prior years may no longer exist or may have decreased, and if any such indication exists, the asset is revalued as of the end of the reporting period, and reversal of the impairment loss that was initially recognised is recognised in profit or loss.

(12) Trade payables and other payables

Trade payables and other payables are recognised on the day on which they are accrued and measured at fair value at initial recognition.

They are subsequently measured at amortised cost using the effective interest method.

(13) Other financial liabilities

The NSK Group has other financial liabilities in the form of corporate bonds, borrowings, and other financial obligations, which are stated at fair value at initial recognition and measured at amortised cost except for derivative liabilities by using the effective interest rate thereafter. Other financial liabilities are recognised when the NSK Group becomes the party to a contract (trade date).

Other financial liabilities are derecognised where the underlying obligation specified in the contract is discharged or cancelled or expires.

(14) Provisions

A provision is recognised where: a present legal obligation or a constructive obligation exist as a result of a past event; it is probable that the settlement of that obligation will be required; and a reliable estimate of the amount of such obligation can be made.

For the obligations outstanding at the end of the reporting period, the provision is measured at the present value of the estimated amount of expenditure required to settle the obligations. The present value is calculated using a discount rate that reflects the time value of money and the risks specific to the liability.

(15) Income taxes

Income taxes consist of current tax and deferred tax. Tax expenses are recognised in profit or loss, excluding items that are related to business combinations or that are recognised in equity or other comprehensive income.

Current tax is calculated based on taxable income for the reporting period and recognised at the amount expected to be paid to (or refunded by) tax authorities.

Deferred tax is recognised with respect to temporary differences between the carrying amount of assets and liabilities and the tax base of assets and liabilities based on the asset and liability approach. No deferred tax is recognised with respect to the following temporary differences.

- Temporary difference arising from the initial recognition of goodwill
- Temporary difference arising from the initial recognition of assets and liabilities arising from transactions affects neither accounting profit nor taxable profit other than business combination transactions
- Taxable temporary differences associated with investments in subsidiaries and associates for which the timing of reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which carryforward of unused tax losses, carry-back/reversal of tax losses and deductible temporary differences can be utilised. In principle, deferred tax liabilities are recognised with respect to all taxable temporary differences. The carrying amount of deferred tax assets is reviewed in each period, and is written down with respect to the portion for which it is probable that sufficient taxable profit to use all or part of such deferred tax assets will not be earned. Unrecognised deferred tax assets are revalued in each period, and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured by using the tax rate that is expected to be applied to the period in which the assets are realised or the liabilities are settled based on the statutory tax rate that has been substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax liabilities against current tax assets and the taxes are levied by the same taxation authority on the same taxable entity.

(16) Retirement benefits

The Company and the NSK Group companies have defined benefit plans and defined contribution plans.

① Defined benefit plans

Defined benefit plans are calculated by estimating the future benefit amount earned by employees in exchange for the service they have provided in prior years and the current year. Net defined benefit assets or liabilities are recognised as the present value of the defined benefit obligation less than the fair value of plan assets. The present value of the defined benefit obligations and defined benefit cost are calculated by the projected unit credit method and the discount rate is determined by reference to market yields at the end of consolidated fiscal year on high quality corporate bonds.

Current and past service cost and net interest on the net defined benefit liability (asset) are recognised in profit or loss.

Actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling excluding the portion included in net interest are recognised as remeasurements concerning *defined benefit plans* as other comprehensive income in the period in which they arose.

② Defined contribution plans

Cost for defined contribution plans are recognised as expenses in the period during which services were rendered by the employees.

(17) Owners' equity

Equity capital paid by shareholders is recognised as issued capital or capital surplus.

When the company acquires treasury shares, such shares are recognised at the amount of consideration paid including direct transaction cost and are presented as a deduction from equity.

(18) Revenue recognition

The NSK Group recognises revenue from contracts with customers by applying the following five-step approach except for revenue including interest and dividends income, etc. under IFRS 9 "Financial Instruments":

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when the entity satisfies a performance obligation

The NSK Group engages in the production and sales of industrial machinery bearings, precision machinery & parts, bearings for car manufacturers and automotive component manufacturers, steering systems, automatic transmission components, etc.

For revenue by sales of such products, because the customer obtains control over the products upon delivery, the performance obligation is judged to have been satisfied and revenue is therefore recognised upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates returned products and other items.

(19) Financial income and expenses

Financial income and expenses are mainly interest received, dividends received, interest expenses, etc.

Interest received are recognised as income using the effective interest method at the time of accrual. Dividends received are recognised as revenue when the right to receive dividends becomes vested. Interest expenses are recognised as expenses using the effective interest method.

(20) Earnings per share

Basic earnings per share is computed by dividing profit or loss attributable to shareholders of the Parent by the weighted average number of common shares outstanding during the consolidated fiscal year. Diluted earnings per share is calculated by adjusting the effects of all dilutive potential shares.

4. Segment information

(1) Overview of reportable segments

The reportable segments of the NSK Group are components of the NSK Group for which discrete financial statements are available and which are subject to regular review by the Board of Directors for the purpose of making decisions about business resource allocation and assessing performance.

The NSK Group has established business divisions by customer industry at its headquarters, each of which plans comprehensive strategies not only for Japan but globally with respect to the products it handles and conducts business activities accordingly. Therefore, its two components, namely, Industrial Machinery Business and Automotive Business, are considered to be as reportable segments.

The Industrial Machinery Business engages in the production and sales of industrial machinery bearings, precision machinery & parts, etc.

The Automotive Business engages in the production and sales of bearings for car manufacturers and automotive component manufacturers, steering columns, automatic transmission components, etc.

(2) Segment revenue and performance

The accounting policies and procedures used by the reportable segments are the same as those described in "Summary of significant accounting policies". Intersegment sales are recorded based on prevailing market prices.

From April 1, 2018 to March 31, 2019

(Millions of yen)

| | Reportable segments | | | Others (Note 1) | Total | Adjustments (Note 2) | Consolidated |
|--|-------------------------------------|------------------------|----------|--------------------|-----------|-------------------------|--------------|
| | Industrial Machinery Business | Automotive Business | Subtotal | | | | |
| Sales | | | | | | | |
| Sales to third parties | 269,974 | 689,658 | 959,632 | 31,732 | 991,365 | — | 991,365 |
| Intersegment sales | — | — | — | 31,186 | 31,186 | -31,186 | — |
| Total | 269,974 | 689,658 | 959,632 | 62,919 | 1,022,552 | -31,186 | 991,365 |
| Segment income (loss) (Operating income) | 32,887 | 44,949 | 77,837 | 5,607 | 83,444 | -4,165 | 79,279 |
| Total financial income (expenses) | | | | | | | -49 |
| Income before income taxes | | | | | | | 79,229 |
| Other items | | | | | | | |
| Capital expenditure | 21,827 | 55,185 | 77,012 | 4,544 | 81,556 | -453 | 81,102 |
| Depreciation and amortisation | 10,371 | 35,295 | 45,666 | 3,410 | 49,077 | -275 | 48,801 |
| Equity gain from investment in associates | 774 | 4,636 | 5,411 | 82 | 5,493 | — | 5,493 |

(Note 1) "Others" refers to operating segments excluded from reportable segments and include such businesses as the production and sales of steel balls, and production of machineries.

(Note 2) The adjustment to segment income (loss) of ¥(4,165) million includes intersegment elimination of ¥(177) million and other operating expenses not allocated to the reportable segments of ¥(3,987) million.

From April 1, 2019 to March 31, 2020

(Millions of yen)

| | Reportable segments | | | Others (Note 1) | Total | Adjustments (Note 2) | Consolidated |
|--|-------------------------------------|------------------------|----------------|--------------------|----------------|-------------------------|----------------|
| | Industrial Machinery Business | Automotive Business | Subtotal | | | | |
| Sales | | | | | | | |
| Sales to third parties | 232,470 | 573,814 | 806,284 | 24,750 | 831,034 | — | 831,034 |
| Intersegment sales | — | — | — | 23,937 | 23,937 | -23,937 | — |
| Total | 232,470 | 573,814 | 806,284 | 48,687 | 854,971 | -23,937 | 831,034 |
| Segment income (loss) (Operating income) | 14,102 | 9,804 | 23,907 | 1,365 | 25,273 | -1,668 | 23,604 |
| Total financial income (expenses) | | | | | | | 460 |
| Income before income taxes | | | | | | | 24,065 |
| Other items | | | | | | | |
| Capital expenditure | 18,557 | 33,197 | 51,755 | 3,182 | 54,937 | -9 | 54,927 |
| Depreciation and amortisation | 11,833 | 38,050 | 49,883 | 4,345 | 54,229 | -303 | 53,926 |
| Equity gain from investment in associates | 410 | 1,854 | 2,265 | 17 | 2,282 | — | 2,282 |

(Note 1) "Others" refer to operating segments excluded from reportable segments and include such businesses as the production and sales of steel balls, and production of machineries.

(Note 2) The adjustment to segment income (loss) of ¥(1,668) million includes intersegment elimination of ¥293 million and other operating expenses not allocated to the reportable segments of ¥(1,961) million.

(3) Information by product and service

This information is omitted as similar information has been disclosed in "(2) Segment revenue and performance".

(4) Information by region

① Revenue from third parties

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--------------|------------------------------|------------------------------|
| Japan | 367,537 | 314,281 |
| The Americas | 157,581 | 139,249 |
| Europe | 130,127 | 110,075 |
| China | 194,994 | 148,525 |
| Other Asia | 141,124 | 118,902 |
| Total | 991,365 | 831,034 |

(Note 1) Sales are based on the customers' location and categorised by either countries or regions.

(Note 2) The categories of the countries or the regions are based on their relative 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, Australia, etc.

② Non-current assets

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|--------------|----------------------|----------------------|
| Japan | 204,960 | 225,530 |
| The Americas | 33,083 | 32,434 |
| Europe | 36,001 | 34,715 |
| China | 73,952 | 66,510 |
| Other Asia | 49,886 | 44,555 |
| Total | 397,884 | 403,747 |

(Note 1) Non-current assets represent the amount of property, plant and equipment and intangible assets.

(Note 2) The categories of the countries or the regions are based on their relative 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, Australia, etc.

(5) Information on major customers

In terms of sales to third parties, none of the counterparties accounted for 10% or more of sales in the consolidated statements of income in the previous consolidated fiscal year or the current consolidated fiscal year, therefore, no information on major customers is stated.

5. Cash and cash equivalents

Cash and cash equivalents consisted of the following.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|------------------------|----------------------|----------------------|
| Cash and deposits | 74,243 | 129,953 |
| Short-term investments | 55,722 | 7,344 |
| Total | 129,965 | 137,298 |

6. Trade receivables and other receivables

Trade receivables and other receivables consisted of the following.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|---------------------------------|----------------------|----------------------|
| Trade receivables | 189,378 | 149,109 |
| Allowance for doubtful accounts | -1,712 | -1,692 |
| Other | 7,622 | 6,809 |
| Total | 195,288 | 154,226 |

The change in the allowance for doubtful accounts during the period is as follows.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|-----------------------------|----------------------|----------------------|
| Opening balance | -1,842 | -1,712 |
| Increase during the period | -116 | -219 |
| Decrease due to utilisation | 46 | 14 |
| Reversal during the period | 143 | 87 |
| Other | 57 | 136 |
| Closing balance | -1,712 | -1,692 |

7. Inventories

Inventories consisted of the following.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|----------------------------|----------------------|----------------------|
| Finished goods | 83,549 | 81,664 |
| Work in process | 48,483 | 43,839 |
| Raw materials and supplies | 27,484 | 27,466 |
| Total | 159,517 | 152,971 |

Inventories recognised as expenses during the period amounted to ¥771,783 million including write-downs of ¥5,545 million in the previous consolidated fiscal year, and ¥677,511 million including write-downs of ¥6,047 million in the current consolidated fiscal year.

8. Property, plant and equipment

(1) Breakdown of property, plant and equipment

Property, plant and equipment in consolidated statements of financial position consisted of the following.

| (Millions of yen) | | |
|-------------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Property, plant and equipment | 378,333 | 362,661 |
| Right-of-use assets | — | 21,316 |
| Total | 378,333 | 383,978 |

(2) Change in property, plant and equipment

The changes in cost, accumulated depreciation and accumulated impairment loss of property, plant and equipment is as follows.

Cost

(Millions of yen)

| | Buildings and structures | Machinery, vehicles and equipment | Tools, equipment and fixtures | Land | Construction in progress | Total |
|--|--------------------------|-----------------------------------|-------------------------------|--------|--------------------------|-----------|
| Balance as of April 1, 2018 | 244,341 | 686,261 | 92,279 | 39,854 | 33,053 | 1,095,789 |
| Acquisitions | 607 | 1,796 | 774 | 337 | 71,554 | 75,069 |
| Disposals | -1,797 | -19,311 | -3,420 | -635 | -63 | -25,228 |
| Transfers from Construction in progress | 16,454 | 39,932 | 7,750 | 31 | -64,168 | — |
| Foreign exchange translation differences | -641 | -2,494 | 179 | 21 | -187 | -3,122 |
| Other | 224 | 156 | -568 | 7 | -248 | -429 |
| Balance as of March 31, 2019 | 259,188 | 706,340 | 96,994 | 39,615 | 39,939 | 1,142,078 |
| IFRS 16 reclassification(*) | -316 | -1,681 | -2,483 | — | — | -4,480 |
| Balance as of April 1, 2019 | 258,872 | 704,659 | 94,510 | 39,615 | 39,939 | 1,137,597 |
| Acquisitions | 440 | 969 | 478 | 21 | 43,090 | 45,000 |
| Disposals | -1,111 | -12,600 | -2,244 | -607 | -29 | -16,593 |
| Transfers from construction in progress | 10,557 | 34,490 | 6,901 | 57 | -52,006 | — |
| Foreign exchange translation differences | -4,658 | -19,238 | -2,407 | -203 | -1,228 | -27,736 |
| Other | -78 | 177 | -423 | 0 | -490 | -814 |
| Balance as of March 31, 2020 | 264,021 | 708,457 | 96,814 | 38,885 | 29,274 | 1,137,454 |

(*)The NSK Group has adopted IFRS 16 since April 1, 2019. Accordingly, the balance of "Cost" related to lease assets was reclassified to the balance related to right-of-use assets.

Accumulated depreciation and accumulated impairment loss

(Millions of yen)

| | Buildings and structures | Machinery, vehicles and equipment | Tools, equipment and fixtures | Land | Construction in progress | Total |
|--|--------------------------|-----------------------------------|-------------------------------|------|--------------------------|----------|
| Balance as of April 1, 2018 | -156,305 | -513,918 | -73,686 | — | -2 | -743,914 |
| Depreciation costs | -7,223 | -30,098 | -6,873 | — | — | -44,195 |
| Impairment loss | — | -62 | -17 | — | — | -79 |
| Disposals | 1,654 | 18,344 | 3,370 | — | 2 | 23,372 |
| Foreign exchange translation differences | 155 | 1,076 | -140 | — | 0 | 1,091 |
| Other | -15 | -109 | 105 | — | — | -19 |
| Balance as of March 31, 2019 | -161,735 | -524,766 | -77,242 | — | — | -763,744 |
| IFRS 16 reclassification(*) | 312 | 640 | 1,830 | — | — | 2,784 |
| Balance as of April 1, 2020 | -161,422 | -524,125 | -75,411 | — | — | -760,960 |
| Depreciation costs | -7,771 | -30,357 | -6,600 | — | — | -44,729 |
| Impairment loss | -17 | -261 | -5 | — | -35 | -319 |
| Disposals | 982 | 11,440 | 2,019 | — | — | 14,442 |
| Foreign exchange translation differences | 2,241 | 12,757 | 1,797 | — | -3 | 16,791 |
| Other | 0 | -73 | 54 | — | -0 | -17 |
| Balance as of March 31, 2020 | -165,987 | -530,620 | -78,145 | — | -39 | -774,792 |

Depreciation costs are recorded in *Cost of sales* or *Selling, general and administrative expenses* in the consolidated statements of income.

(*)The NSK Group has adopted IFRS 16 since April 1, 2019. The amounts related to lease that were recognised as accumulate depreciation of property, plant and equipment and accumulated impairment losses were transferred to the balance related to right-of-use asset.

Carrying amount

(Millions of yen)

| | Buildings and structures | Machinery, vehicles and equipment | Tools, equipment and fixtures | Land | Construction in progress | Total |
|------------------------------|--------------------------|-----------------------------------|-------------------------------|--------|--------------------------|---------|
| Balance as of April 1, 2018 | 88,035 | 172,342 | 18,592 | 39,854 | 33,050 | 351,875 |
| Balance as of March 31, 2019 | 97,452 | 181,573 | 19,752 | 39,615 | 39,939 | 378,333 |
| Balance as of March 31, 2020 | 98,034 | 177,837 | 18,669 | 38,885 | 29,235 | 362,661 |

The carrying amount of leased assets under finance leases included in property, plant and equipment for the year ended March 31, 2019 is as follows.

Assets under finance leases

(Millions of yen)

| | Buildings and structures | Machinery, vehicles and equipment | Tools, equipment and fixtures | Land | Construction in progress | Total |
|------------------------------|--------------------------|-----------------------------------|-------------------------------|------|--------------------------|-------|
| Balance as of April 1, 2018 | 9 | 482 | 688 | — | — | 1,181 |
| Balance as of March 31, 2019 | 3 | 1,040 | 653 | — | — | 1,696 |

Assets are assessed as to whether or not there is any indication that they may be impaired as of the end of each reporting period. As a result of reducing the carrying amount of idle assets that are not expected to be used in the future to their recoverable amounts, an impairment loss was recorded for *Machinery, vehicles and equipment*, etc. of ¥79 million and ¥319 million in the previous consolidated fiscal year and the current consolidated fiscal year, respectively, in *Cost of sales* and *Selling, general or administrative expenses* in the consolidated statements of income.

Recoverable amounts are measured in fair value less costs to sell.

9. Intangible assets

The change in cost, accumulated amortisation and accumulated impairment loss of intangible assets is as follows.

Cost

(Millions of yen)

| | Software | Patents | Other | Total |
|--|----------|---------|-------|--------|
| Balance as of April 1, 2018 | 25,145 | 5,210 | 1,929 | 32,285 |
| Acquisitions | 4,903 | 952 | 176 | 6,033 |
| Disposals | -4,242 | -554 | -30 | -4,827 |
| Foreign exchange translation differences | -163 | -2 | -5 | -171 |
| Other | 28 | -0 | -7 | 21 |
| Balance as of March 31, 2019 | 25,672 | 5,606 | 2,062 | 33,341 |
| Acquisitions | 4,051 | 1,226 | 6 | 5,284 |
| Disposals | -1,622 | -736 | -14 | -2,373 |
| Foreign exchange translation differences | -412 | -1 | -40 | -454 |
| Other | 77 | 0 | — | 78 |
| Balance as of March 31, 2020 | 27,766 | 6,096 | 2,014 | 35,876 |

Accumulated amortisation and accumulated impairment loss

(Millions of yen)

| | Software | Patents | Other | Total |
|--|----------|---------|-------|---------|
| Balance as of April 1, 2018 | -11,090 | -2,419 | -583 | -14,094 |
| Amortisation costs | -3,940 | -627 | -38 | -4,605 |
| Disposals | 4,220 | 554 | 29 | 4,804 |
| Foreign exchange translation differences | 122 | 2 | 3 | 128 |
| Other | -23 | 0 | — | -23 |
| Balance as of March 31, 2019 | -10,710 | -2,490 | -589 | -13,790 |
| Amortisation costs | -4,223 | -682 | -18 | -4,924 |
| Disposals | 1,527 | 736 | 14 | 2,279 |
| Foreign exchange translation Differences | 285 | 1 | 35 | 322 |
| Other | 5 | 0 | -0 | 5 |
| Balance as of March 31, 2020 | -13,115 | -2,435 | -556 | -16,108 |

Amortisation costs are recorded in *Cost of sales* or *Selling, general and administrative expenses* in the consolidated statements of income.

Carrying amount

(Millions of yen)

| | Software | Patents | Other | Total |
|------------------------------|----------|---------|-------|--------|
| Balance as of April 1, 2018 | 14,055 | 2,790 | 1,345 | 18,191 |
| Balance as of March 31, 2019 | 14,961 | 3,115 | 1,473 | 19,550 |
| Balance as of March 31, 2020 | 14,650 | 3,660 | 1,457 | 19,768 |

There were no material internally generated intangible assets as at each year end.

10. Other financial assets

Other financial assets consisted of the following.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|--------------------------------------|----------------------|----------------------|
| Time deposits over 3 months | 1,556 | 2,658 |
| Other | 140 | 480 |
| Total other current financial assets | 1,696 | 3,138 |

| | | |
|--|--------|--------|
| Investment securities | 71,396 | 45,874 |
| Other | 8,538 | 9,624 |
| Total other non-current financial assets | 79,934 | 55,498 |

11. Trade payables and other payables

Trade payables and other payables consisted of the following.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|----------------|----------------------|----------------------|
| Trade payables | 113,665 | 83,294 |
| Other | 16,668 | 13,898 |
| Total | 130,333 | 97,193 |

12. Other financial liabilities

Other financial liabilities consisted of the following.

(Millions of yen)

| Classification | As of March 31, 2019 | As of March 31, 2020 | Average interest rate (%) | Due date for repayment |
|---|----------------------|----------------------|---------------------------|------------------------|
| Short-term debt | 58,637 | 57,450 | 0.6 | — |
| Current portions of long-term debt | 22,003 | 10,233 | 1.5 | — |
| Current portions of bonds | 20,000 | — | (Note 2) | |
| Other | 504 | 4,122 | — | — |
| Total other current financial liabilities | 101,145 | 71,806 | — | — |

| | | | | |
|---|---------|---------|----------|--------------|
| Long-term debts | 74,139 | 81,486 | 0.7 | 2021 to 2035 |
| Corporate bonds | 100,000 | 130,000 | (Note 2) | |
| Other | 1,327 | 17,220 | — | — |
| Total other non-current financial liabilities | 175,467 | 228,707 | — | — |

(Note 1) Average interest rate is calculated based on the weighted average interest rate of the closing balance at year end.

(Note 2) The terms of issuance of corporate bonds are summarised below.

(Millions of yen)

| Company name | Issue | Issuance date | Balance as of March 31, 2019 | Balance as of March 31, 2020 | Interest rate (%) | Collateral | Redemption date |
|------------------------------|--------------------------------------|--------------------|------------------------------|------------------------------|-------------------|------------|--------------------|
| NSK Ltd. (i.e., the Company) | 42nd Series Unsecured Straight Bonds | September 10, 2014 | 20,000 | — | 0.288 | None | September 10, 2019 |
| NSK Ltd. (i.e., the Company) | 43rd Series Unsecured Straight Bonds | September 10, 2014 | 20,000 | 20,000 | 0.769 | None | September 10, 2024 |
| NSK Ltd. (i.e., the Company) | 44th Series Unsecured Straight Bonds | March 14, 2017 | 10,000 | 10,000 | 0.120 | None | March 14, 2022 |
| NSK Ltd. (i.e., the Company) | 45th Series Unsecured Straight Bonds | March 14, 2017 | 10,000 | 10,000 | 0.400 | None | March 12, 2027 |
| NSK Ltd. (i.e., the Company) | 46th Series Unsecured Straight Bonds | December 7, 2017 | 10,000 | 10,000 | 0.140 | None | December 7, 2022 |
| NSK Ltd. (i.e., the Company) | 47th Series Unsecured Straight Bonds | December 7, 2017 | 10,000 | 10,000 | 0.380 | None | December 7, 2027 |
| NSK Ltd. (i.e., the Company) | 48th Series Unsecured Straight Bonds | November 29, 2018 | 15,000 | 15,000 | 0.160 | None | November 29, 2023 |
| NSK Ltd. (i.e., the Company) | 49th Series Unsecured Straight Bonds | November 29, 2018 | 15,000 | 15,000 | 0.290 | None | November 28, 2025 |
| NSK Ltd. (i.e., the Company) | 50th Series Unsecured Straight Bonds | November 29, 2018 | 10,000 | 10,000 | 0.390 | None | November 29, 2028 |
| NSK Ltd. (i.e., the Company) | 51st Series Unsecured Straight Bonds | September 2, 2019 | — | 10,000 | 0.190 | None | September 2, 2026 |
| NSK Ltd. (i.e., the Company) | 52nd Series Unsecured Straight Bonds | September 2, 2019 | — | 20,000 | 0.280 | None | August 31, 2029 |

There are no assets pledged as collateral for the above financial liabilities, etc.

13. Lease transactions

As of March 31, 2019

(1) Finance leases

Finance lease obligations consisted of the following.

(Millions of yen)

| Due | Total of future minimum lease payments | Present value of minimum lease payments |
|--|---|--|
| | As of March 31, 2019 | As of March 31, 2019 |
| Not later than one year | 460 | 427 |
| Later than one year and not later than five years | 956 | 918 |
| Later than five years | 434 | 409 |
| Financial cost | -97 | — |
| Present value | 1,754 | 1,754 |

Some of the finance lease agreements include a renewal or purchase option, but none of them include an escalation clause. There are no restrictions imposed by lease agreements (restrictions relating to dividends, additional debt, further leasing, etc.).

(2) Operating leases

Future minimum lease payments under non-cancellable operating lease agreements are as follows.

(Millions of yen)

| | As of March 31, 2019 |
|--|----------------------|
| Not later than one year | 3,507 |
| Later than one year and not later than five years | 7,066 |
| Later than five years | 2,313 |
| Total | 12,887 |

The NSK Group leases some of its buildings for rent under operating lease agreements.

The total amount of lease expenses recognised as expenses was ¥6,534 million in the previous consolidated fiscal year.

Some of the operating lease agreements include a renewal or purchase option and escalation clauses but there are no restrictions imposed by lease agreements (restrictions relating to dividends, additional debt, further leasing, etc.)

As of March 31, 2020

The NSK Group leases mainly warehouses and land for plants as lessees. Some lease contracts include extension (early termination) option. There are no material lease contracts that include escalation clauses and restrictions imposed by lease agreements.

The carrying amount and depreciation cost for right-of-use assets as of March 31, 2020 are as follows.

(Millions of yen)

| | Buildings and structures | Machinery, vehicles and equipment | Tools, equipment and fixtures | Land | Total |
|---|-----------------------------|---|----------------------------------|-------|--------|
| Carrying amount as of March 31, 2020 | 13,501 | 1,988 | 1,369 | 4,456 | 21,316 |
| Depreciation cost for right- of-use asset year ended March 31, 2020 | 2,860 | 677 | 569 | 163 | 4,272 |

Total cash outflow on lease transaction for the year ended March 31, 2020 is as follows.

(Millions of yen)

| | Year ended March 31,2020 |
|--|--------------------------|
| Total cash outflow on lease transactions | 8,908 |

Expenses and income relating to lease transactions for the year ended March 31, 2020 consisted of the followings.

(Millions of yen)

| | Year ended March 31,2020 |
|--------------------------------------|--------------------------|
| Interest expense for lease liability | 277 |
| Short-term lease payments | 2,878 |
| Leases of low-value assets payments | 1,551 |
| Variable lease payments | 43 |
| Sublease revenue | 314 |

Increase in right-of-use asset for the year ended March 31, 2020 is as follows.

(Millions of yen)

| | Year ended March 31,2020 |
|--------------------------------|--------------------------|
| Increase in right-of-use asset | 4,663 |

Changes and the balance by maturity dates of lease liabilities are stated in Note 24: Financial instruments.

14. Provisions

Provisions consisted of the following.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|-------------------------------------|----------------------|----------------------|
| Reserves for environmental measures | 0 | — |
| Other | 85 | 159 |
| Total current liabilities | 85 | 159 |
| Reserves for environmental measures | 1,233 | 1,093 |
| Other | 7,444 | 7,066 |
| Total non-current liabilities | 8,677 | 8,160 |

The change in provisions consisted of the following.

(Millions of yen)

| | Reserves for environmental measures | Other | Total |
|---|-------------------------------------|-------|-------|
| Balance as of March 31, 2019 | 1,223 | 7,529 | 8,763 |
| Amount recognised during the period | 16 | 999 | 1,015 |
| Amount of decrease during the period (intended use) | -152 | -359 | -512 |
| Amount of decrease during the period (reversal) | -0 | -743 | -744 |
| Other | -3 | -199 | -202 |
| Balance as of March 31, 2020 | 1,093 | 7,225 | 8,319 |

Reserves for environmental measures

To prepare for expenditure related to the removal and disposal of asbestos and polychlorinated biphenyl (PCB), etc., that are used in buildings, equipment, etc., expenses expected to arise in the future are recorded.

The timing of the outflow of economic benefits is expected to be primarily after one year has passed since the end of each consolidated fiscal year.

Other

Provision for Costs related to Antimonopoly Act is included in "Other". The details of the related litigation and other legal matters are disclosed in "28. Contingencies (2) Litigation and other legal matters."

15. Income taxes

(1) Deferred tax

The change in deferred tax assets and liabilities consisted of the following.

From April 1, 2018 to March 31, 2019

Deferred tax assets

(Millions of yen)

| | Opening balance (April 1, 2018) | Amount recognised in profit or loss | Amount recognised in other comprehensive income | Closing balance (March 31, 2019) |
|---|------------------------------------|---|---|--|
| Net defined benefit liability | 7,097 | 407 | 515 | 8,021 |
| Non-current assets – internal profit between consolidated companies | 484 | 33 | — | 518 |
| Carryforward of unused tax losses | 2,671 | -410 | — | 2,260 |
| Accrued bonuses | 4,418 | 31 | — | 4,450 |
| Inventories | 3,109 | -107 | — | 3,001 |
| Other | 12,552 | -597 | — | 11,955 |
| Total | 30,335 | -643 | 515 | 30,207 |

Deferred tax liabilities

| | | | | |
|--|----------------|---------------|--------------|----------------|
| Depreciation costs | -2,044 | -551 | — | -2,595 |
| Reserve for advanced depreciation of fixed assets | -1,796 | 64 | — | -1,731 |
| Financial assets measured at fair value through other comprehensive income | -19,795 | — | 4,263 | -15,532 |
| Gain on contribution of securities to employees' retirement benefit trust | -9,800 | — | — | -9,800 |
| Other | -20,879 | -1,162 | — | -22,042 |
| Total | -54,317 | -1,648 | 4,263 | -51,702 |
| Net deferred tax assets (liabilities) | -23,982 | -2,291 | 4,779 | -21,494 |

(Note) The difference between the total amount recognised in profit or loss and the amount of deferred tax expense is attributable to changes in exchange rates.

From April 1, 2019 to March 31, 2020

Deferred tax assets

(Millions of yen)

| | Opening balance (April 1, 2019) | Amount recognised in profit or loss | Amount recognised in other comprehensive income | Closing balance (March 31, 2020) |
|---|------------------------------------|--|---|--|
| Net defined benefit liability | 8,021 | -155 | -1,221 | 6,644 |
| Non-current assets-internal profit between consolidated companies | 518 | -67 | — | 450 |
| Carryforward of unused tax losses | 2,260 | 2,444 | — | 4,705 |
| Accrued bonuses | 4,450 | -881 | — | 3,569 |
| Inventories | 3,001 | -314 | — | 2,687 |
| Other | 11,955 | 182 | — | 12,137 |
| Total | 30,207 | 1,208 | -1,221 | 30,194 |

Deferred tax liabilities

| | | | | |
|--|----------------|-------------|--------------|----------------|
| Depreciation costs | -2,595 | -446 | — | -3,041 |
| Reserve for advanced depreciation of fixed assets | -1,731 | -46 | — | -1,778 |
| Financial assets measured at fair value through other comprehensive income | -15,532 | — | 7,093 | -8,438 |
| Gain on contribution of securities to employees' retirement benefit trust | -9,800 | — | — | -9,800 |
| Other | -22,042 | -159 | — | -22,201 |
| Total | -51,702 | -652 | 7,093 | -45,261 |
| Net deferred tax assets (liabilities) | -21,494 | 555 | 5,872 | -15,066 |

(Note) The difference between the total amount recognised in profit or loss and the amount of the deferred tax expense is attributable to changes in exchange rates.

Unrecognised deferred tax assets

The carryforward of unused tax losses and deductible temporary differences for which deferred tax assets have not been recognised are as follows.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|-----------------------------------|----------------------|----------------------|
| Carryforward of unused tax losses | 1,794 | 2,242 |
| Deductible temporary differences | 8,797 | 8,801 |
| Total | 10,591 | 11,244 |

The amount and expiry of the carryforward of unused tax losses for which deferred tax assets have not been recognised are as follows.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|--------------|----------------------|----------------------|
| Year 1 | — | — |
| Year 2 | — | — |
| Year 3 | — | — |
| Year 4 | — | — |
| After Year 5 | 1,794 | 2,442 |
| Total | 1,794 | 2,442 |

Unrecognised deferred tax liabilities

Taxable temporary differences relating to the undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised were ¥8,234 million and ¥4,710 million in the previous consolidated fiscal year and the current consolidated fiscal year, respectively. The deferred tax liabilities have not been recognised for taxable temporary differences pertaining to subsidiary investments, because the Company and the NSK Group companies are able to control the timing at which temporary differences will be reversed, and it is probable that such differences will not be reversed within a period in the foreseeable future.

(2) Income tax expense

The Company and its domestic consolidated subsidiaries are imposed of mainly corporation tax (national tax), inhabitants' tax and enterprise tax (local taxes). The statutory effective tax rate calculated based on these taxes in the previous consolidated fiscal year and the current consolidated fiscal year were 30.5%. The amount of tax in other tax jurisdictions was calculated based on the respective general tax rates in those jurisdictions.

The Company and some of its subsidiaries adopt the consolidated taxation system.

Income tax expense consisted of the following.

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|-----------------------|---------------------------|---------------------------|
| Current tax expenses | 18,384 | 7,130 |
| Deferred tax expenses | 2,106 | -1,174 |
| Income tax expense | 20,491 | 5,956 |

The causes of the difference between the statutory effective tax rate in Japan and the effective tax rate after the application of tax effect accounting by major item consisted of the following.

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--|------------------------------|------------------------------|
| Statutory effective tax rate | 30.5 % | 30.5 % |
| Items that are never deductible for income tax purposes such as entertainment expenses | 2.5 | 3.9 |
| Different tax rates applied to income of foreign subsidiaries | -5.9 | -8.2 |
| Tax effect of unused tax losses of subsidiaries not recognised in accounting | 0.2 | 6.5 |
| Tax credits | -3.3 | -3.1 |
| Other | 1.8 | -4.9 |
| Effective tax rate after application of tax effect accounting | 25.9 % | 24.8 % |

16. Post-employment benefit

(1) Defined benefit plans

① Japan

The Company and some of its domestic consolidated subsidiaries have defined benefit plans and defined contribution plans to finance retirement benefits for employees. The Company has also established a share-based compensation plan for directors, key employees, etc., as well as a retirement benefit trust. Extra payments may be added upon the retirement of employees of the Company and its domestic consolidated subsidiaries, which are not included in the defined benefit obligation based on the retirement benefit accounting.

② U.K.

The UK subsidiary of the Company, NSK Europe Limited and some of its consolidated subsidiaries in UK sponsor a funded defined benefit and defined contribution schemes, providing retirement benefits to UK qualifying employees. Employees who joined these companies in or after 2003 have participated in the defined contribution scheme and the defined benefit scheme has been closed to new employees since 2003. Moreover, the defined benefit scheme has been frozen since the end of December 2016 to prevent the occurrence of any new benefit payment obligations that require further funding in the future and these companies offered a scheme to allow participants in the defined benefit scheme to transition to the defined contribution scheme.

③ Other

Some consolidated subsidiaries including mainly those in the United States have adopted defined benefit plans and post-employment medical benefit plans to finance retirement benefits for employees. As post-employment medical benefit plans in the United States are similar to retirement benefit plans in terms of characteristics, they are presented as a component of the net defined benefit liability.

The US subsidiaries of the Company, NSK Americas and some of its consolidated subsidiaries in US conducted defined benefit plan buy-out in March 2020 intended to transfer future risk. Consequently, the insurance company underwrote the plan assets and liabilities for the amount of the vested benefit obligation including fees, and provides benefits to the scheme participants.

Amounts recognised in the consolidated financial statements are as follows.

As of March 31, 2019

(Millions of yen)

| | Japan | U.K. | Other | Total |
|--|----------|---------|---------|----------|
| Present value of defined benefit obligations | 119,058 | 61,971 | 19,498 | 200,527 |
| Fair value of plan assets | -167,250 | -61,036 | -12,117 | -240,404 |
| Total | -48,192 | 934 | 7,381 | -39,876 |
| Net assets for retirement benefits in the consolidated statement of financial position | -48,192 | 934 | 7,381 | -39,876 |

As of March 31, 2020

(Millions of yen)

| | Japan | U.K. | Other | Total |
|--|----------|---------|--------|----------|
| Present value of defined benefit obligations | 119,771 | 52,858 | 11,047 | 183,676 |
| Fair value of plan assets | -164,843 | -58,469 | -3,526 | -226,839 |
| Total | -45,072 | -5,610 | 7,520 | -43,162 |
| Net assets for retirement benefits in the consolidated statement of financial position | -45,072 | -5,610 | 7,520 | -43,162 |

Changes in the present value of defined benefit plan obligations are as follows.

(Millions of yen)

| | Japan | U.K. | Other | Total |
|---|---------|--------|--------|---------|
| As of April 1, 2018 Present value of defined benefit obligations | 117,006 | 60,934 | 18,723 | 196,663 |
| Current service cost | 5,714 | — | 574 | 6,288 |
| Interest cost | 1,104 | 1,581 | 771 | 3,457 |
| Remeasurements of net defined benefit liability (asset) | | | | |
| Actuarial gains or losses arising from changes in demographic assumptions | — | — | -64 | -64 |
| Actuarial gains or losses arising from changes in financial assumptions | 563 | 2,903 | 141 | 3,608 |
| Retirement benefit paid | -5,726 | -2,600 | -1,308 | -9,635 |
| Past service cost | — | 1,016 | 45 | 1,061 |
| Decrease due to settlement | — | — | — | — |
| Foreign exchange translation differences, etc. | 396 | -1,864 | 616 | -851 |
| As of March 31, 2019 Present value of defined benefit obligations | 119,058 | 61,971 | 19,498 | 200,527 |
| Current service cost | 4,201 | — | 755 | 4,956 |
| Interest cost | 1,123 | 1,442 | 1,064 | 3,630 |
| Remeasurements of net defined benefit liability (asset) | | | | |
| Actuarial gains or losses arising from changes in demographic assumptions | — | -1,190 | 796 | -394 |
| Actuarial gains or losses arising from changes in financial assumptions | 278 | -2,495 | 253 | -1,963 |
| Retirement benefit paid | -4,728 | -2,645 | -1,887 | -9,261 |
| Past service cost | — | — | 2 | 2 |
| Decrease due to settlement | — | — | -8,418 | -8,418 |
| Foreign exchange translation differences, etc. | -160 | -4,224 | -1,017 | -5,402 |
| As of March 31, 2020 Present value of defined benefit obligations | 119,771 | 52,858 | 11,047 | 183,676 |

The weighted average duration of defined benefit obligations at the end of consolidated fiscal year is as follows.

| | Japan | U.K. | Other |
|---------------------------|----------|----------|---------------|
| Weighted average duration | 13 years | 18 years | 6 to 10 years |

Changes in the fair value of plan assets are as follows.

(Millions of yen)

| | Japan | U.K. | Other | Total |
|---|---------|--------|--------|---------|
| As of April 1, 2018 Fair value of plan assets | 169,922 | 60,191 | 11,767 | 241,881 |
| Interest income | 1,682 | 1,579 | 436 | 3,697 |
| Return on plan assets | -2,418 | 1,388 | -23 | -1,053 |
| Contributions by employer | 1,428 | 2,250 | 580 | 4,259 |
| Retirement benefit paid | -3,363 | -2,600 | -892 | -6,855 |
| Decrease due to settlement | — | — | — | — |
| Foreign exchange translation differences, etc. | — | -1,773 | 248 | -1,525 |
| As of March 31, 2019 Fair value of plan assets | 167,250 | 61,036 | 12,117 | 240,404 |
| Interest income | 1,669 | 1,446 | 376 | 3,492 |
| Return on plan assets | -1,123 | 837 | 825 | 540 |
| Contributions by employer | 108 | 2,187 | 704 | 3,000 |
| Retirement benefit paid | -3,062 | -2,645 | -1,203 | -6,911 |
| Decrease due to settlement | — | — | -8,739 | -8,739 |
| Foreign exchange translation differences, etc. | — | -4,394 | -553 | -4,947 |
| As of March 31, 2020 Fair value of plan assets | 164,843 | 58,469 | 3,526 | 226,839 |

The NSK Group plans to make contributions of ¥3,108 million in the fiscal year ending March 31, 2021.

Plan assets are managed for the purpose of securing necessary revenue in the long term subject to tolerable risks, in order to make sure that pension benefits, etc. will be paid into the future. For the management of plan assets, the basic policy for asset composition is formulated in consideration of the risks and returns of the assets subject to investment and investments are made in accordance with such policy; plan assets are managed properly by periodically monitoring their management status. The basic policy for asset composition is reviewed periodically in order to adapt to changes in the market environment and changes in the funding status.

Items that constitute plan assets are as follows.

As of March 31, 2019

(Millions of yen)

| | Japan | | U.K. | | Other | |
|--------|--|---|--|---|--|---|
| | Those with quoted prices in active markets | Those without quoted prices in active markets | Those with quoted prices in active markets | Those without quoted prices in active markets | Those with quoted prices in active markets | Those without quoted prices in active markets |
| Shares | 91,076 | — | 2,487 | — | 287 | 75 |
| Bonds | 31,278 | — | 50,909 | — | 10,769 | — |
| Other | 16,577 | 28,318 | 7,639 | — | 484 | 499 |
| Total | 138,932 | 28,318 | 61,036 | — | 11,541 | 575 |

As of March 31, 2020

(Millions of yen)

| | Japan | | U.K. | | Other | |
|--------|--|---|--|---|--|---|
| | Those with quoted prices in active markets | Those without quoted prices in active markets | Those with quoted prices in active markets | Those without quoted prices in active markets | Those with quoted prices in active markets | Those without quoted prices in active markets |
| Shares | 89,101 | — | — | — | 326 | — |
| Bonds | 31,516 | — | 55,154 | — | 2,416 | — |
| Other | 15,988 | 28,236 | 3,314 | — | 784 | — |
| Total | 136,606 | 28,236 | 58,469 | — | 3,526 | — |

Significant actuarial assumptions are as follows.

As of March 31, 2019

| | Japan | U.K. | Other |
|---------------|-------------|-------------|-------------|
| Discount rate | Mainly 1.0% | Mainly 2.5% | Mainly 4.0% |

As of March 31, 2020

| | Japan | U.K. | Other |
|---------------|-------------|-------------|-----------------|
| Discount rate | Mainly 1.0% | Mainly 2.4% | Mainly 2.8-3.2% |

The amount of change in defined benefit obligations in cases where there were changes in the significant actuarial assumptions in the following ratios as at the end of the reporting period is as shown below.

As of March 31, 2019

(Millions of yen)

| | | Japan | U.K. | Other |
|---------------|---------------|--------|--------|-------|
| Discount rate | 0.5% increase | -7,035 | -5,472 | -750 |
| | 0.5% decrease | 7,821 | 6,214 | 851 |

(Note) This analysis assumes that all other variables are constant.

As of March 31, 2020

(Millions of yen)

| | | Japan | U.K. | Other |
|---------------|---------------|--------|--------|-------|
| Discount rate | 0.5% increase | -7,034 | -4,668 | -222 |
| | 0.5% decrease | 7,721 | 5,302 | 263 |

(Note) This analysis assumes that all other variables are constant.

(2) Defined contribution plans

The respective amounts recognised as expenses in the previous consolidated fiscal year and the current consolidated fiscal year in relation to defined contribution plans are as follows.

(Millions of yen)

| Year ended March 31, 2019 | Year ended March 31, 2020 |
|---------------------------|---------------------------|
| 2,303 | 2,247 |

(3) Employee benefit costs

The total amounts of employee benefit costs for the previous consolidated fiscal year and the current consolidated fiscal year were ¥197,577 million and ¥182,944 million, respectively. They are presented in *Cost of sales* and *Selling, general and administrative expenses* in the consolidated statements of income.

17. Investments in equity method affiliates

Information on major subsidiaries and associates and joint ventures has been omitted as similar information is presented in "Appendix: the NSK Group Companies".

The Company's interest in joint ventures that are significant is the investment in the ordinary shares of NSK-Warner K.K. (proportion of ownership interest: 50%). Condensed financial information of NSK-Warner K.K. is as follows.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Current assets | 31,776 | 26,490 |
| Non-current assets | 23,081 | 22,710 |
| Total assets | 54,857 | 49,200 |
| Current liabilities | 14,635 | 9,678 |
| Non-current liabilities | 7,929 | 8,116 |
| Total liabilities | 22,565 | 17,794 |
| Total equity | 32,292 | 31,406 |
| Ownership ratio (%) | 50.0% | 50.0% |
| Equity attributable to owners of the parent | 16,146 | 15,703 |
| Consolidated elimination | 1,247 | 1,106 |
| Carrying amount | 17,394 | 16,809 |

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|----------------------------|---------------------------|---------------------------|
| Sales | 76,706 | 59,071 |
| Income before income taxes | 11,404 | 4,623 |
| Net income | 8,866 | 3,471 |
| Other comprehensive income | 92 | -169 |
| Total comprehensive income | 8,959 | 3,302 |

Dividends received by the Company from NSK-Warner K.K. amounted to ¥4,575 million and ¥2,094 million in the previous period and the current period, respectively.

18. Equity and other equity items

(1) Issued shares and treasury shares

As of March 31, 2019

| | Opening balance (April 1, 2018) | Increase | Decrease | Closing balance (March 31, 2019) |
|---|------------------------------------|------------|----------|-------------------------------------|
| Number of shares authorised (common shares without par value) | 1,700,000,000 | — | — | 1,700,000,000 |
| Number of shares issued (common shares without par value) | 551,268,104 | — | — | 551,268,104 |
| Number of treasury shares | 22,707,846 | 16,667,904 | 113,740 | 39,262,010 |

(Note 1) The number of treasury shares includes 2,069,878 shares of the Company held in the trust account of the Board Benefit Trust at the end of the current consolidated fiscal year.

(Note 2) The shares issued have been fully paid.

(Brief description of reasons for changes in treasury shares)

The number of increase in treasury shares consisted of the following.

| | |
|--|-------------------|
| Increase due to purchase of shares constituting less than one unit: | 4,508 shares |
| Treasury shares (the Company's shares) acquired by equity method affiliates attributable to the Company: | 7,996 shares |
| Purchase of treasury shares based on the resolution of the Board of Directors passed on August 1, 2018: | 16,655,400 shares |

The number of decrease in treasury shares consisted of the following.

| | |
|---|----------------|
| Decrease due to request for purchase of shares constituting less than one unit: | 440 shares |
| Shares provided from the Board Benefit Trust, etc: | 113,300 shares |

As of March 31, 2020

| | Opening balance (April 1, 2019) | Increase | Decrease | Closing balance (March 31, 2020) |
|---|------------------------------------|----------|----------|-------------------------------------|
| Number of shares authorised (common shares without par value) | 1,700,000,000 | — | — | 1,700,000,000 |
| Number of shares issued (common shares without par value) | 551,268,104 | — | — | 551,268,104 |
| Number of treasury shares | 39,262,010 | 11,683 | 162,659 | 39,111,034 |

(Note 1) The number of treasury shares includes 5,733,708 shares of the Company held in the trust account of the Board Benefit Trust at the end of the current consolidated fiscal year.

(Note 2) The shares issued have been fully paid.

(Brief description of reasons for changes in treasury shares)

The number of increase in treasury shares consisted of the following.

| | |
|--|--------------|
| Increase due to purchase of shares constituting less than one unit: | 2,437 shares |
| Treasury shares (the Company's shares) acquired by equity method affiliates attributable to the Company: | 9,246 shares |

The number of decrease in treasury shares consisted of the following.

| | |
|---|----------------|
| Decrease due to request for purchase of shares constituting less than one unit: | 59 shares |
| Shares provided from the Board Benefit Trust, etc.: | 162,600 shares |

(2) Capital surplus

In capital surplus, surplus arising from the issuance of shares, sale of treasury shares and other such equity transactions are recorded. Changes in capital surplus also include the effect of changes in its ownership interest in a subsidiary that do not result in a loss of control.

(3) Retained earnings

Retained earnings represents the surplus of the profit earned by the entity that has not been distributed to owners of the entity but has been retained within the entity.

19. Share-based payments

(1) Share option scheme

Until the consolidated fiscal year ended March 2016, the NSK Group had granted to its directors, executive officers and some employees the rights to purchase the Company's shares as share options. The exercise period is the period prescribed in the allotment agreement; if share options are not exercised within the period, such share options are forfeited.

Share options granted to eligible persons are accounted for as equity-settled share-based payments.

Details of the NSK Group's share option scheme in place in the previous consolidated fiscal year and the current consolidated fiscal year are as follows.

| | Grant date | Expiry date | Exercise price (yen) | Fair value at grant date (yen) |
|-----------------|-----------------|-----------------|----------------------|--------------------------------|
| Granted in 2014 | August 22, 2014 | August 21, 2019 | 1,431 | 382 |
| Granted in 2015 | August 21, 2015 | July 29, 2025 | 1,806 | 565 |

| | Number of options granted | Unexercised options outstanding at the end of the period | |
|-----------------|---------------------------|--|---------------------------|
| | | Year ended March 31, 2019 | Year ended March 31, 2020 |
| Granted in 2014 | 778,000 | 618,000 | — |
| Granted in 2015 | 820,000 | 788,000 | 747,000 |
| Total | 1,598,000 | 1,406,000 | 747,000 |

The number of exercisable share options outstanding and the average exercise prices in the previous consolidated fiscal year and the current consolidated fiscal year are shown in the table below. The weighted average remaining contractual life of unexercised share options was 3.7 years and 5.3 years, respectively, for these periods.

| | Year ended March 31, 2019 | | Year ended March 31, 2020 | |
|--|---------------------------|---------------------------------------|---------------------------|---------------------------------------|
| | Number of options | Weighted average exercise price (yen) | Number of options | Weighted average exercise price (yen) |
| Unexercised options outstanding at the beginning of the period | 1,432,000 | 1,643 | 1,406,000 | 1,641 |
| Options exercised during the period | — | — | — | — |
| Options expired during the period | -26,000 | 1,763 | -659,000 | 1,454 |
| Unexercised options outstanding at the end of the period | 1,406,000 | 1,641 | 747,000 | 1,806 |
| Exercisable options outstanding at the end of the period | 1,406,000 | 1,641 | 747,000 | 1,806 |

There were no share options exercised in the previous consolidated fiscal year and the current consolidated fiscal year.

(2) Board Benefit Trust (for directors and executive officers)

Through the resolution passed at Compensation Committee held on May 16, 2016, the Company has established a Board Benefit Trust, which is a share-based payment scheme using a trust structure, for its directors and executive officers. In this scheme, the Board Benefit Trust acquires the Company's shares and provides the Company's shares corresponding to the total points granted by the Company (share benefit portion) and money corresponding to the value of shares (cash benefit portion) to eligible directors and executive officers when they retire. The share benefit portion of this payment scheme is accounted for as equity-settled share-based payment and its cash benefit portion is accounted for as cash-settled share-based payment. These shares of the Company held in the Trust continue to be accounted for as treasury shares.

Compensation Committee held on March 27, 2019 resolved to revise a Board Benefit Trust, which is performance-based programme, for its executive officers beginning April 1, 2019. However, the stock compensation programme for directors who do not serve as executive officers will be operated as previously as a stock compensation programme with no added incentive for business performance.

Share-based payment expenses for the current consolidated fiscal year were recognised based on the number of points and others granted as consideration for the fiscal Year ended March 31, 2020. Expenses for equity-settled share-based payment transactions in the consolidated statements of income for the previous and the current consolidated fiscal year are ¥449 million and ¥369 million, respectively. Expenses for cash-settled share-based payment transactions recognised in the consolidated statements of income for the previous and the current consolidated fiscal year are ¥198 million and ¥(67) million, respectively. The number of the Company's shares held in the trust account of the Board Benefit Trust at the end of the current consolidated fiscal year is 5,442,968 shares.

Fair measurement method used to measure the unit value of the Company's shares granted under this payment scheme

- (a) The major assumptions of weighted-average fair value measurement of the Company's shares granted as stock-based compensation for its directors and executive officers in the previous consolidated fiscal year and for its directors in the current consolidated fiscal year are calculated as follows.

| Grant date | Year ended March 31, 2019 | | Year ended March 31, 2020 |
|---------------------------------------|---------------------------|---------------|---------------------------|
| | April 1, 2018 | June 26, 2018 | June 27, 2019 |
| Number of share point | 519,544 | 26,314 | 22,873 |
| Share price at the grant date | ¥1,426 | ¥1,162 | ¥958 |
| Estimated remaining life (Note 1) | 7 years | 7 years | 7 years |
| Dividend payout ratio (Note 2) | 2.6% | 3.2% | 4.1% |
| Discount rate (Note 3) | -0.06% | -0.06% | -0.24% |
| Weighted-average fair value per point | ¥1,189 | ¥930 | ¥720 |

(Note 1) Number of years from the grant date through the day on which shares are delivered.

(Note 2) Calculated based on the past payout ratios of the Company.

(Note 3) Based on the yield of Japanese government bonds corresponding to the estimated remaining life.

- (b) The weighted-average fair value of the Company's shares granted as stock-based compensation for its executive officers in the current consolidated fiscal year is calculated with relative TSR that compares total shareholder return at the end of performance evaluation period and growth rate of TOPIX.

The major assumptions of weighted-average fair value are as follows.

| Grant date | Year ended March 31, 2019 | Year ended March 31, 2020 | |
|---------------------------------------|---------------------------|---------------------------|-----------------|
| | — | April 1, 2019 | October 1, 2019 |
| Number of share points (Note 1) | — | 587,469 | 1,564 |
| Share price at the grant date | — | ¥1,067 | ¥949 |
| Estimated remaining life (Note 2) | — | 7 years | 7 years |
| Dividend payout ratio (Note 3) | — | 3.7% | 4.2% |
| TOPIX dividend rate (Note 4) | — | 2.0% | 2.6% |
| Discount rate (Note 5) | — | -0.20% | -0.29% |
| Weighted-average fair value per point | — | ¥859 | ¥769 |

(Note 1) Number of points before performance evaluation.

(Note 2) Number of years from the grant date through the day on which shares are delivered.

(Note 3) Based on expected dividend at the grant date.

(Note 4) Calculated based on TOPIX in the previous year that the grant date belongs and TOPIX Dividend Index

(Note 5) Based on the yield of Japanese government bonds corresponding to the calculation period

(3) Board Benefit Trust (for certain officers and employees of the Company and some of its subsidiaries)

The Company has established a Board Benefit Trust, which is a share-based payment scheme using a trust structure, for certain officers and employees of the Company and some of its subsidiaries (hereinafter “key employees, etc.”) In this scheme, the Board Benefit Trust acquires the Company’s shares and provides the Company’s shares corresponding to the total points granted by the Company (share benefit portion) and money corresponding to the value of shares (cash benefit portion) to eligible key employees, etc. when they retire.

These shares of the Company held in the Trust continue to be accounted for as treasury shares. The share benefit portion of this payment scheme is accounted for as equity-settled share-based payment and its cash benefit portion is accounted for as cash-settled share-based payment.

Share-based payment expenses for the current consolidated fiscal year were recognised based on the number of points granted as consideration for the fiscal year ended March 31, 2020. Expenses for equity-settled share-based payment transactions and those for cash-settled share-based payment transactions recognised in the consolidated statements of income for the previous and the current consolidated fiscal year are ¥50 million, ¥44 million and ¥22 million, ¥18 million, respectively. The number of the Company’s shares held in the trust account of the Board Benefit Trust at the end of the current consolidated fiscal year is 290,740 shares.

Fair measurement method used to measure the unit value of the Company’s shares granted under this payment scheme

The major assumptions of weighted-average fair value of the Company’s shares granted under this payment scheme are as follows.

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|---------------------------------------|---------------------------|---------------------------|
| Grant date | August 1, 2018 | August 1, 2019 |
| Number of share points | 45,757 | 40,673 |
| Share price at the grant date | ¥1,228 | ¥938 |
| Estimated remaining life (Note 1) | 5 years | 5 years |
| Dividend payout ratio (Note 2) | 3.0% | 4.2% |
| Discount rate (Note 3) | -0.09% | -0.22% |
| Weighted-average fair value per point | ¥1,056 | ¥762 |

(Note 1) Number of years from the grant date through the day on which shares are delivered.

(Note 2) Calculated based on the past payout ratios of the Company.

(Note 3) Based on the yield of Japanese government bonds corresponding to the estimated remaining life.

20. Sales

(1) Disaggregation of revenue

The business of the NSK Group is comprised of the Industrial Machinery Business and the Automotive Business, whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated and assess its performance.

Net sales have been disaggregated into these reportable segments by geographical area, as shown below.

From April 1, 2018 to March 31, 2019

(Millions of yen)

| | Reportable segments | | | Other | Total |
|--------------|-------------------------------|---------------------|----------|--------|---------|
| | Industrial Machinery Business | Automotive Business | Subtotal | | |
| Japan | 89,482 | 257,753 | 347,235 | 20,302 | 367,537 |
| The Americas | 37,697 | 119,048 | 156,746 | 835 | 157,581 |
| Europe | 45,173 | 79,038 | 124,211 | 5,915 | 130,127 |
| China | 60,362 | 132,151 | 192,513 | 2,481 | 194,994 |
| Other Asia | 37,259 | 101,667 | 138,926 | 2,197 | 141,124 |
| Total | 269,974 | 689,658 | 959,632 | 31,732 | 991,365 |

(Note 1) Sales are based on the customers' location and categorised by either countries or regions.

(Note 2) The categories of the countries or the regions are based on their relative 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, Australia, etc.

(Note 4) "Other" refer to operating segments excluded from reportable segments and include such businesses as the production and sales of steel balls, and production of machineries.

From April 1, 2019 to March 31, 2020

(Millions of yen)

| | Reportable segments | | | Other | Total |
|--------------|-------------------------------|---------------------|----------|--------|---------|
| | Industrial Machinery Business | Automotive Business | Subtotal | | |
| Japan | 70,142 | 228,328 | 298,471 | 15,809 | 314,281 |
| The Americas | 35,798 | 102,797 | 138,596 | 653 | 139,249 |
| Europe | 39,997 | 65,798 | 105,795 | 4,279 | 110,075 |
| China | 55,543 | 90,870 | 146,413 | 2,111 | 148,525 |
| Other Asia | 30,988 | 86,018 | 117,006 | 1,895 | 118,902 |
| Total | 232,470 | 573,814 | 806,284 | 24,750 | 831,034 |

(Note 1) Sales are based on the customers' location and categorised by either countries or regions.

(Note 2) The categories of the countries or the regions are based on their relative 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, Australia, etc.

(Note 4) "Other" refer to operating segments excluded from reportable segments and include such businesses as the production and sales of steel balls, and production of machineries.

The Industrial Machinery Business engages in the production and sales of industrial machinery bearings and precision machinery and parts. The Automotive Business engages in the production and sales of bearings, steering columns, automatic transmission components, etc. for car manufacturers and automotive component manufacturers.

With regard to these sales, revenue is recognised when the NSK Group transfers control of goods to the customer, in other words, when it transports and delivers the goods to a location designated by the customer.

Although the NSK Group determines the transaction price of goods with each customer at the commencement of transactions, it offers rebates on certain goods according to the transaction volume over a given period, and accordingly, with regard to the amount of such variable consideration, the NSK Group adjusts the transaction price based on the terms and conditions of the contract and other factors.

(2) Contract balances

Contract balances of the NSK Group which are stated in “6. Trade receivables and other receivables” mainly comprise of receivables arising from contracts with customers.

(3) Transaction price allocated to remaining performance obligations

As the NSK Group does not recognise significant transactions with initial expected terms exceeding one year, it has applied a practical expedient and does not disclose information on remaining performance obligations.

Additionally, among the consideration arising from contracts with customers, there are no significant amounts not included in the transaction price.

21. Selling, general and administrative expenses

Main components of selling, general and administrative expenses in the previous consolidated fiscal year and the current consolidated fiscal year are as follows.

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--------------------------------|------------------------------|------------------------------|
| Labour costs | 63,097 | 58,687 |
| Logistics expenses | 25,105 | 22,067 |
| Research and development costs | 15,186 | 14,383 |
| Rent expenses | 3,874 | 1,733 |
| Product compensation | 1,684 | 2,715 |
| Depreciation and amortisation | 6,485 | 8,734 |
| Transportation expenses | 4,577 | 3,714 |
| Fees | 2,583 | 2,397 |
| Sales-related expenses | 3,227 | 2,773 |
| Other | 15,987 | 13,029 |
| Total | 141,808 | 130,238 |

22. Exchange difference

Foreign exchange losses recognised in net income are ¥1,780 million and ¥1,271 million in the previous consolidated fiscal year and the current consolidated fiscal year, respectively, and are included in “Other operating expenses” in the consolidated statement of income.

23. Financial income and expenses

Financial income and expenses in the previous consolidated fiscal year and the current consolidated fiscal year are as follows.

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|---|------------------------------|------------------------------|
| Interests received Financial assets measured at amortised cost | 557 | 546 |
| Dividends received Financial assets measured at fair value through other comprehensive income | 1,810 | 1,599 |
| Other financial income Financial assets measured at amortised cost | 293 | 1,263 |
| Total financial income | 2,661 | 3,409 |
| Interest expenses Financial liabilities measured at amortised cost | 2,600 | 2,523 |
| Other financial expenses | 110 | 425 |
| Total financial expenses | 2,710 | 2,948 |

24. Financial instruments

(1) Equity management

The NSK Group manages equity in order to continue growing in a sustained manner and maximise its corporate value.

As management indicators, the NSK Group places importance on operating income margin—which represents stable profitability—and seeks to improve Return On Equity (ROE; ratio of share of consolidated net income attributable to owners of the parent) and appropriate control of net debt-equity ratio (ratio of net interest-bearing debt to capital attributable to owners of the parent).

(2) Management of financial risks

The NSK Group is exposed to financial risks (i.e., market risks, credit risks and liquidity risks) in the course of conducting its business activities. The NSK Group executes risk management based on certain policies to deal with such risks.

① Market risks

(a) Foreign exchange risks

The NSK Group, which is engaged in business activities on an international scale, is exposed to the risk of fluctuations in the exchange rates of various currencies, mainly in relation to the U.S. dollar and the Euro. Foreign exchange risks arise from recognised assets and liabilities denominated in foreign currencies.

Also, in order to tackle exchange rate fluctuation risks, the NSK Group seeks to strike a balance between foreign currency receivables and payables and hedge risks through foreign exchange forward contracts as necessary in accordance with internal rules.

Foreign exchange sensitivity analysis

In a scenario where the U.S. dollar and the Euro rise by 1% with respect to unhedged exposures in the balance of assets and liabilities denominated in foreign currencies as at the consolidated fiscal year-end, the amount of its impact on income before income taxes in the consolidated fiscal year is as follows. Note: This analysis assumes that other variables (balance, interest, etc.) are constant.

(Millions of yen)

| | currency | Year ended March 31, 2019 | Year ended March 31, 2020 |
|-------------------------------|-----------|------------------------------|------------------------------|
| Income before income taxes | US dollar | 24 | 24 |
| | Euro | 10 | 6 |

Details of the main foreign exchange forward contracts that existed at the end of the previous period and the current period are as follows.

(Millions of yen)

| Type | As of March 31, 2019 | | | As of March 31, 2020 | | |
|--|----------------------|---|------------|----------------------|---|------------|
| | Notional amount | Notional amount due after one year | Fair value | Notional amount | Notional amount due after one year | Fair value |
| Foreign exchange forward transactions | | | | | | |
| Sell | | | | | | |
| U.S. dollar | 16,680 | — | -129 | 12,310 | — | 43 |
| Euro | 5,201 | — | 35 | 4,657 | — | 26 |
| Buy | | | | | | |
| U.S. dollar | 840 | — | 2 | 491 | — | 8 |
| Euro | — | — | — | — | — | — |

(b) Interest risks

Some of the NSK Group's borrowings are borrowings with floating rates and are exposed to the risk of interest rate fluctuations. Interest risks are also hedged by using derivatives transactions (interest swap transactions) as necessary in accordance with internal rules.

Interest sensitivity analysis

In a scenario where the interest rate rises by 1% across the board at the consolidated fiscal year-end with respect to the NSK Group's borrowings with floating rates, the impact on income before income taxes in the consolidated fiscal year would be as follows. In this analysis, calculation is performed without taking into consideration any future change in the outstanding amount of the NSK Group's net borrowings with floating rates as at the fiscal year-end, the impact of exchange rate fluctuations, the timing of refinancing, the timing at which interest rates are revised and other such factors and by assuming that all other variables are constant.

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|----------------------------|---------------------------|---------------------------|
| Income before income taxes | -588 | -574 |

(c) Price risks

The NSK Group holds equity instruments (shares) of entities primarily with which it has a business relationship, and is exposed to share price fluctuation risks. The market value, the issuer's financial position, etc. are identified periodically with respect to equity instruments (shares), and the holding status is reviewed on an ongoing basis in consideration of its customers and financial institutions with which it has dealings.

Price sensitivity analysis

In a scenario where the share price of equity instruments (shares) held by the NSK Group for which an active market exists falls by 1% across the board at the consolidated fiscal year-end, the amount of its impact on other comprehensive income would be as follows.

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|----------------------------|---------------------------|---------------------------|
| Other comprehensive income | -465 | -293 |

② Credit risks

The NSK Group seeks to quickly identify and mitigate the risk of default in relation to customers' contractual obligations by such means as periodically monitoring the status of major customers.

The maximum amount of credit risks as of March 31, 2019 and March 31, 2020 is the balance sheet amount of financial assets that are exposed to credit risks.

Also, the NSK Group manages past-due trade receivables by treating them as high-risk and monitors the status of customers.

There are no significant assets that are held as collateral or as part of other credit enhancements with respect to financial assets.

③ Liquidity risks

The NSK Group is exposed to liquidity risk, which is the risk of not earning enough cash and thus having difficulties in performing the obligation to pay financial liabilities. The NSK Group manages liquidity risks by such means as preparing and updating a financial plan in a timely manner based on reports from each department and major consolidated subsidiaries and maintaining liquidity in hand at an adequate level. Such risks are deemed to be limited in the NSK Group, given that it has established a ¥80 billion line of commitment with financial institutions and has secured a ¥50 billion facility for issuing commercial papers, in addition to its ability to generate cash flows through operating activities.

The balance of financial liabilities by maturity dates are as follows.

(Millions of yen)

| As of March 31, 2019 | Carrying amount | Contractual amount | Not later than one year | Later than one year and not later than two years | Later than two years and not later than three years | Later than three years and not later than four years | Later than four years and not later than five years | Later than five years |
|--------------------------------------|-----------------|--------------------|-------------------------|--|---|--|---|-----------------------|
| Non-derivative financial liabilities | | | | | | | | |
| Trade payables and other payables | 130,333 | 130,333 | 130,333 | — | — | — | — | — |
| Short-term debts | 58,637 | 59,368 | 59,368 | — | — | — | — | — |
| Long-term debts | 96,142 | 99,263 | 22,843 | 10,950 | 9,777 | 10,341 | 19,231 | 26,119 |
| Corporate bonds | 120,000 | 122,442 | 20,393 | 364 | 10,364 | 10,352 | 15,338 | 65,630 |
| Lease obligations | 1,754 | 1,852 | 460 | 421 | 278 | 154 | 103 | 434 |
| Derivative financial assets | | | | | | | | |
| Foreign exchange forward contracts | 22 | 22 | 22 | — | — | — | — | — |
| Derivative financial liabilities | | | | | | | | |
| Foreign exchange forward contracts | 77 | 77 | 77 | — | — | — | — | — |

(Millions of yen)

| As of March 31, 2020 | Carrying amount | Contractual amount | Not later than one year | Later than one year and not later than two years | Later than two years and not later than three years | Later than three years and not later than four years | Later than four years and not later than five years | Later than five years |
|--------------------------------------|-----------------|--------------------|-------------------------|--|---|--|---|-----------------------|
| Non-derivative financial liabilities | | | | | | | | |
| Trade payables and other payables | 97,193 | 97,193 | 97,193 | — | — | — | — | — |
| Short-term debts | 57,450 | 57,819 | 57,819 | — | — | — | — | — |
| Long-term debts | 91,719 | 94,772 | 10,948 | 12,583 | 10,413 | 19,304 | 11,206 | 30,316 |
| Corporate bonds | 130,000 | 132,704 | 439 | 10,439 | 10,427 | 15,413 | 20,312 | 75,673 |
| Lease liabilities | 21,331 | 23,256 | 4,343 | 3,297 | 2,297 | 1,780 | 1,621 | 9,916 |
| Derivative financial assets | | | | | | | | |
| Foreign exchange forward contracts | 279 | 279 | 279 | — | — | — | — | — |
| Derivative financial liabilities | | | | | | | | |
| Foreign exchange forward contracts | 11 | 11 | 11 | — | — | — | — | — |

(3) Estimates of fair value

① Carrying amount and fair values

The carrying amount and fair value of financial assets and liabilities are as follows. Fair value of financial assets and liabilities measured at amortised cost excluding corporate bonds and long-term debts are not included because the difference between carrying amount and fair value is minimal. Financial instruments measured at fair value are also not included because the carrying amount matches the fair value.

(Millions of yen)

| | As of March 31, 2019 | | As of March 31, 2020 | |
|-----------------------|----------------------|------------|----------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial liabilities | | | | |
| Long-term debts | 96,142 | 98,109 | 91,719 | 92,739 |
| Corporate bonds | 120,000 | 121,167 | 130,000 | 129,735 |

The fair value of trade receivables and other receivables, trade payables and other payables, and short-term debts is deemed to be equal to their carrying amount as they are mainly instruments that are settled within a short-term period.

Among investment securities, the fair value of listed shares for which an active market exists is calculated based on the price at exchanges. The fair value of unlisted shares, etc. for which no active market exists is mainly calculated by using a price multiple valuation model based on price book-value ratio. Also, an illiquidity discount of 30%, which is an unobservable input, is used for measuring the fair value of unlisted shares as of March 31, 2019 and March 31, 2020.

Among financial liabilities (derivatives) measured at fair value through profit or loss, foreign exchange forward contracts are based on the valuation presented by financial institutions with which the contracts were concluded.

The fair value of long-term debt is calculated based on the present value calculated by discounting the sum of the principal and interest by the interest rate that takes into account the remaining period and credit risk of such long-term debt. However, the fair value of long-term debt with a floating rate is stated at its carrying amount, given that the periodic revision of the interest rate is a condition and the fair value is more or less the same as the carrying amount.

The fair value of corporate bonds issued by the Company is calculated and based on the present value calculated by discounting the sum of the principal and interest by the interest rate that takes into account the remaining period and credit risk of such corporate bonds.

② Fair value hierarchy

Fair value measurements of financial instruments are grouped into the following fair value hierarchy of Level 1 through Level 3.

Level 1: Fair value measured based on market prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value measured based on inputs other than market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured based on inputs for the asset or liability that are not based on observable market data

The NSK Group's financial assets and liabilities measured or disclosed at fair value and their breakdown by hierarchy are as follows:

As of March 31, 2019

(Millions of yen)

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|---------|
| Financial assets | | | | |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Shares, etc. | 67,046 | — | 4,350 | 71,396 |
| Financial assets measured at fair value through profit or loss | | | | |
| Derivative financial assets | — | 22 | — | 22 |
| Financial liabilities | | | | |
| Financial liabilities measured at amortised cost | | | | |
| Long-term debts | — | 98,109 | — | 98,109 |
| Corporate bonds | — | 121,167 | — | 121,167 |
| Financial liabilities measured at fair value through profit or loss | | | | |
| Derivative financial liabilities | — | 77 | — | 77 |

As of March 31, 2020

(Millions of yen)

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|---------|
| Financial assets | | | | |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Shares, etc. | 42,365 | — | 3,509 | 45,874 |
| Financial assets measured at fair value through profit or loss | | | | |
| Derivative financial assets | — | 279 | — | 279 |
| Financial liabilities | | | | |
| Financial liabilities measured at amortised cost | | | | |
| Long-term debts | — | 92,739 | — | 92,739 |
| Corporate bonds | — | 129,735 | — | 129,735 |
| Financial liabilities measured at fair value through profit or loss | | | | |
| Derivative financial liabilities | — | 11 | — | 11 |

Financial assets classified in Level 1 are listed shares.

Financial assets classified in Level 2 are foreign exchange forward contracts. Financial liabilities classified in Level 2 are borrowings, corporate bonds, foreign exchange forward contracts and others.

Financial assets classified in Level 3 are unlisted shares, etc.

The NSK Group recognises transfers between Levels of these assets and liabilities at the end of each quarter.

The table below shows changes in Level 3 financial instruments in the previous consolidated fiscal year and the current consolidated fiscal year.

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|---|------------------------------|------------------------------|
| Opening balance | 5,054 | 4,350 |
| Gain (loss) recognised in other comprehensive income | -701 | -816 |
| Purchase | — | — |
| Sale and redemption | -3 | -25 |
| Closing balance | 4,350 | 3,509 |

As equity instruments such as shares are held for the purpose of strengthening and maintaining relationships related to various transactions, they are classified as financial assets measured at fair value through other comprehensive income.

The fair value of the major equity instruments with an active market are as follows:

(Millions of yen)

| Listed Issue | As of March 31, 2019 | As of March 31, 2020 |
|--------------------------|----------------------|----------------------|
| Toyota Motor Corporation | 11,171 | 11,195 |
| NIDEC Corporation | 11,484 | 9,182 |
| Makita Corporation | 3,158 | 2,716 |
| Mizuho Financial Group | 2,528 | 1,824 |
| Suzuki Motor Corporation | 2,541 | 1,341 |

The fair value of financial instruments without active markets for the previous consolidated fiscal year and the current consolidated fiscal year were ¥4,350 million and ¥3,509 million, respectively

Part of valuation difference on financial assets measured at fair value through other comprehensive income pertaining to financial assets that were derecognised during a consolidated fiscal year is transferred to retained earnings. The transferred amounts for the previous consolidated fiscal year and the current consolidated fiscal year were ¥3,551 million and ¥7,951 million, respectively.

Financial assets measured at fair value through other comprehensive income that were disposed of as a result of changes in commercial relationship, etc. are as follows:

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--|------------------------------|------------------------------|
| Fair value at the date of derecognition | 6,829 | 13,605 |
| Cumulative gain or loss at the date of derecognition | 5,081 | 11,440 |
| Dividends income on investments that have been derecognised | 136 | 243 |

(4) Offset of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented in the net amount on the consolidated statement of financial position when the NSK Group has a legally enforceable right to set off the recognised amounts and also intends to settle them on the net basis or to realise the assets and settle the liabilities simultaneously.

(5) Changes in liabilities arising from financing activities

Changes in liabilities classified as cash flows from financing activities are as follows:

From April 1, 2018 to March 31, 2019

(Millions of yen)

| | Opening balance as of April 1, 2018 | Cash flow | Changes arising from non-cash transactions | | Closing balance as of March 31, 2019 |
|-----------------------------|---|---------------|---|---------------------------------------|--|
| | | | Increase | Foreign exchange translation, etc. | |
| Corporate bonds | 80,000 | 40,000 | — | — | 120,000 |
| Short-term loans payable | 62,039 | -2,740 | — | -661 | 58,637 |
| Long-term loans payable | 108,868 | -12,475 | — | -250 | 96,142 |
| Lease obligations | 1,249 | -489 | 1,015 | -21 | 1,754 |
| Total | 252,158 | 24,294 | 1,015 | -933 | 276,534 |

(Note) Cash flows pertaining to short-term loans payable and lease obligations are included in "Other" of "cash flows from financing activities."

From April 1, 2019 to March 31, 2020

(Millions of yen)

| | Opening balance as of April 1, 2019 | IFRS 16 adjustments | Cash flow | Changes arising from non-cash transactions | | Closing balance as of March 31, 2020 |
|--------------------------------|---|------------------------|--------------|---|--|--|
| | | | | Increase | Foreign exchange translation, etc. | |
| Corporate bonds | 120,000 | — | 10,000 | — | — | 130,000 |
| Short-term loans payable | 58,637 | — | -62 | — | -1,123 | 57,450 |
| Long-term loans payable | 96,142 | — | -4,099 | — | -323 | 91,719 |
| Lease liabilities | 1,754 | 19,403 | -4,157 | 4,691 | -360 | 21,331 |
| Total | 276,534 | 19,403 | 1,680 | 4,691 | -1,807 | 300,502 |

(Note) Cash flows pertaining to short-term loans payable are included in "Other" of "cash flows from financing activities."

25. Earnings per share

(1) Basic earnings per share and diluted earnings per share

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|----------------------------|------------------------------|------------------------------|
| Basic earnings per share | ¥107.46 | ¥34.00 |
| Diluted earnings per share | ¥107.24 | ¥33.91 |

(2) Basis of calculation of basic earnings per share and diluted earnings per share

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|---|------------------------------|------------------------------|
| Net income attributable to owners of the parent (millions of yen) | 55,809 | 17,412 |
| Weighted average number of issued common shares (thousand shares) | 519,350 | 512,142 |
| Impact of dilution: Board Benefit Trust, etc. (thousand shares) | 1,071 | 1,386 |
| Weighted average number of issued common shares after dilution (thousand shares) | 520,421 | 513,529 |

26. Dividends

① Dividends paid

Year ended March 31, 2019

| Resolution | Type of shares | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|---|--------------------------|--------------------|------------------|
| Meeting of Board of Directors held on May 25, 2018 | Common shares | 11,155 | 21.00 | March 31, 2018 | June 1, 2018 |
| Meeting of Board of Directors held on October 29, 2018 | Common shares | 10,446 | 20.00 | September 30, 2018 | December 3, 2018 |

(Note 1) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on May 25, 2018 includes dividend of ¥45 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

(Note 2) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on October 29, 2018 includes dividend of ¥41 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

Year ended March 31, 2020

| Resolution | Type of shares | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|---|--------------------------|--------------------|------------------|
| Meeting of Board of Directors held on May 21, 2019 | Common shares | 10,290 | 20.00 | March 31, 2019 | June 6, 2019 |
| Meeting of Board of Directors held on October 30, 2019 | Common shares | 10,367 | 20.00 | September 30, 2019 | December 2, 2019 |

(Note 1) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on May 21, 2019 includes dividend of ¥41 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

(Note 2) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on October 30, 2019 includes dividend of ¥114 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

② Dividends with a record date within the consolidated fiscal year but with an effective date in the following consolidated fiscal year

Year ended March 31, 2019

| Resolution | Type of shares | Financial source of dividends | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|-------------------------------|---|--------------------------|----------------|----------------|
| Meeting of Board of Directors held on May 21, 2019 | Common shares | Retained earnings | 10,290 | 20.00 | March 31, 2019 | June 6, 2019 |

(Note) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on May 21, 2019 includes dividend of ¥41 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

Year ended March 31, 2020

| Resolution | Type of shares | Financial source of dividends | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|-------------------------------|---|--------------------------|----------------|----------------|
| Meeting of Board of Directors held on June 2, 2020 | Common shares | Retained earnings | 5,183 | 10.00 | March 31, 2020 | June 30, 2020 |

(Note) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on June 2, 2020 includes dividend of ¥57 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

27. Related parties

(1) Related party transactions

Significant transactions with a related party are the purchase of automotive-related finished goods from NSK-Warner K.K. which is a joint venture. The purchase of finished goods is decided after engaging in price negotiations in consideration of the total costs of NSK-Warner K.K.

Transactions in the previous consolidated fiscal year and the current consolidated fiscal year are as follows.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|-----------------------------------|----------------------|----------------------|
| Purchase of finished goods | 62,977 | 49,606 |
| Balance of Accounts payable trade | 12,600 | 9,268 |

The transaction amounts above do not include consumption tax, whereas the closing balance includes consumption tax.

(2) Remuneration of management personnel

Remuneration of key management personnel in the NSK Group is as follows.

(Millions of yen)

| | Year ended March 31, 2019 | Year ended March 31, 2020 |
|--|---------------------------|---------------------------|
| Fixed remuneration/performance-linked remuneration | 1,372 | 1,295 |
| Share-based payments | 648 | 302 |
| Total | 2,020 | 1,597 |

28. Contingencies

(1) Debt guarantee

The NSK Group provides the following guarantees with respect to transactions of employees of the NSK Group with financial institutions. The amounts shown are the maximum amounts payable for the future before discount for the guarantees.

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Debt guarantee for property accumulation loans of the Company's employees | 0 | — |

(2) Litigation and other legal matters

Regarding sales of their products in the past, the Company and certain subsidiaries are under investigation by relevant authorities outside Japan on suspicion of violating competition laws. The NSK Group is cooperating fully with these respective investigations.

In addition, in the United States and Canada, plaintiffs, including representatives of purchasers of bearings or other products, have filed class actions against certain parties, including the Company and certain subsidiaries in Japan, the United States, Canada, and Europe. The plaintiffs allege, among other things, that the defendants conspired with each other to restrict competition in sales of bearings and other products in these countries, and seek damages, injunctive relief, and other relief against the defendants.

In the United States, with respect to bearings, tentative classes representing direct purchasers of bearings, such as automotive manufacturers and industrial equipment manufacturers have each filed a class action against the Company and certain subsidiaries in the United States and Europe. All of these lawsuits are pending in the United States Court for the Eastern District of Michigan.

Discovery (the formal process in which both parties in a lawsuit request disclosure from the other of evidence, including documents that may be relevant to the lawsuit) has begun for several of these lawsuits. Moreover, for part of the lawsuits a motion for class certification was filed. The court denied the motion on January 7, 2019 (EST). The plaintiffs' petition to appeal was denied by the United States Court of Appeals for the Sixth Circuit on April 1, 2019 (EST). The lawsuits are still pending in the United States Court for the Eastern District of Michigan, and another motion for class certification was filed on August 1, 2019 (EST).

In Canada, tentative classes of direct (such as automotive manufacturers) and indirect purchasers (such as automobile dealers and end purchasers of automobiles) have filed class actions against the Company and certain Japanese, US, Canadian, and European subsidiaries in Ontario, Quebec, British Columbia, and Saskatchewan, with respect to bearings or other products. The class has been certified for part of these class actions.

At the end of the consolidated fiscal year ended March 31, 2020, the Company has posted reasonably estimated losses in "provisions (non-current)" in connection with potential settlements related to alleged violations of competition laws in sales of its and certain subsidiaries' products in the past. In addition to these actions for which the provisions were posted, the Company, its subsidiaries and its affiliated companies may face additional follow-on actions similar or identical in nature to these actions. The NSK Group will manage these actions appropriately. Furthermore, as the cases proceed, the NSK Group will consider whether it may be able to reach settlements with such plaintiffs and others.

29. Events after the reporting period

Large amount of borrowings and conclusion of commitment line agreement

1. In order to prepare for liquidity risk due to the effects of the novel coronavirus, the Company and subsidiaries conducted borrowings as follows.

- (1) Use of funds: Working capital
- (2) Lender: Mizuho Bank, Ltd., MUFG Bank, Ltd. and others
- (3) Amount and terms of borrowings: The Group borrowed 51,647 million yen. The interest rate for borrowing is determined in consideration of market interest rates.
- (4) Borrowing date: April 8, 2020 and others
- (5) Final repayment date: April 8, 2021 and others
- (6) Pledged assets: None

2. In order to prepare for liquidity risk due to unexpected situations including the novel coronavirus, the Company concluded the agreement of commitment line as follows. There is no borrowing balance of this contract as of now.

- (1) Use of funds: Working capital
- (2) Lender: Mizuho Bank, Ltd., MUFG Bank, Ltd. and others
- (3) Maximum amount: 55,000 million yen
Total maximum amount is 80,000 million yen, including existing contracts
- (4) Effective date: May 1, 2020 and others
- (5) Expiration date: April 30, 2021 and others
- (6) Pledged assets: None

(2) 【Others】

1 Quarterly information from April 1, 2019 to March 31, 2020

(Millions of yen)

| | First quarter (Period from April 1, 2019 to June 30, 2019) | Second quarter (Period from April 1, 2019 to September 30, 2019) | Third quarter (Period from April 1, 2019 to December 31, 2019) | 159 th Consolidated fiscal year (Period from April 1, 2019 to March 31, 2020) |
|---|---|--|--|---|
| Sales | 222,942 | 434,820 | 641,620 | 831,034 |
| Income before income taxes | 10,636 | 15,552 | 22,963 | 24,065 |
| Net income attributable to owners of the parent | 8,838 | 11,816 | 16,272 | 17,412 |
| Basic earnings per share (yen) | 17.26 | 23.07 | 31.77 | 34.00 |

| | First quarter (Period from April 1, 2019 to June 30, 2019) | Second quarter (Period from July 1, 2019 to September 30, 2019) | Third quarter (Period from October 1, 2019 to December 31, 2019) | Fourth quarter (Period from January 1, 2019 to March 31, 2020) |
|--|---|---|--|--|
| Quarterly basic earnings per share (yen) | 17.26 | 5.81 | 8.70 | 2.22 |

2 Class actions filed against the Company

As noted in “1 [Consolidated financial statements, etc.], [Notes to consolidated financial statements], 28 Contingencies, (2) Litigation and other legal matters”, the Company and some of its subsidiaries are under investigation by relevant authorities outside Japan and multiple class actions have been filed against the Company and some of its subsidiaries abroad.

Appendix: NSK Group Companies

As of March 31, 2020

| Region | Company Name | Voting rights ratio | Outline of Business |
|---------------------|--|---|--|
| Subsidiaries | | | |
| Japan | NSK STEERING SYSTEMS CO., LTD. | 100.0% | Manufacture of automotive components |
| | NSK MICRO PRECISION CO., LTD. | 55.0% | Manufacture and sales of bearings |
| | NSK MICRO PRECISION CO., LTD. (NAGANO) | 100.0% | Manufacture of bearings |
| | AMATSUJI STEEL BALL MFG. CO., LTD. | 100.0% | Manufacture and sales of steel balls |
| | AKS EAST JAPAN CO., LTD. | 100.0% | Manufacture of steel balls |
| | NSK KYUSHU CO., LTD. | 100.0% | Manufacture of precision machinery & parts |
| | ASAHI SEIKI CO., LTD. | 73.8% | Manufacture of bearing parts and automotive components |
| | SHINWA SEIKO CO., LTD. | 82.4% | Manufacture of bearing parts |
| | NSK TOYAMA CO., LTD. | 100.0% | Manufacture of bearing parts |
| | NSK MACHINERY CO., LTD. | 100.0% | Manufacture of machine tools and precision machinery & parts |
| | KURIBAYASHI SEISAKUSHO CO., LTD. | 73.5% | Manufacture of bearing parts |
| | NSK REAL ESTATE CO., LTD. | 100.0% | Real estate management and rental |
| | NISSEI BLDG. MANAGEMENT LTD. | 70.0% | Management of Nissei Building |
| | NSK HUMAN RESOURCE SERVICES LTD. | 100.0% | Provision of personnel support services and consulting |
| | NSK LOGISTICS CO., LTD. | 100.0% | Distribution service |
| | NSK NETWORK AND SYSTEMS CO., LTD. | 100.0% | Provision of consulting, design, development, sales and maintenance services for computer systems and networks |
| | NSK-CHUGAI, LTD. | 65.0% | Insurance agent and sales of machine components, etc. |
| ADTECH CORPORATION | 100.0% | Research and development of automotive components | |
| THE AMERICAS | | | |
| 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 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 |
| | AKS PRECISION BALL MEXICO S.A. DE C.V. | 100.0% | Manufacture and sales of steel balls |
| 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 |

| Region | Company Name | Voting rights ratio | Outline of Business |
|--------|--------------|---------------------|---------------------|
|--------|--------------|---------------------|---------------------|

EUROPE

| | | | |
|--------------|---|--------|--|
| U.K. | NSK EUROPE LTD. | 100.0% | Control of European subsidiaries and affiliates |
| | NSK BEARINGS EUROPE LTD. | 100.0% | Manufacture of bearings |
| | NSK PRECISION UK LTD. | 100.0% | Manufacture of precision machinery & parts |
| | NSK UK LTD. | 100.0% | Sales of bearings, automotive components and precision machinery & parts |
| | NSK STEERING SYSTEMS EUROPE LTD. | 100.0% | Manufacture of automotive components |
| | 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 |
| 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 STEERING SYSTEMS EUROPE (POLSKA) SP. Z O.O. | 100.0% | Manufacture of automotive components |
| | NSK NEEDLE BEARING POLAND SP. Z O.O. | 100.0% | Manufacture of bearings |
| | 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 |
| Morocco | NSK STEERING SYSTEMS MOROCCO | 100.0% | Manufacture of automotive components |

ASIA

| | | | |
|-------|---|--------|--|
| 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 |
| | NSK STEERING SYSTEMS DONGGUAN CO., LTD. | 100.0% | Manufacture of automotive components |
| | ZHANGJIAGANG NSK PRECISION MACHINERY CO., LTD. | 100.0% | Manufacture of bearing parts |
| | CHANGSHU NSK NEEDLE BEARING CO., LTD. | 100.0% | Manufacture of bearings |
| | AKS PRECISION BALL (HANGZHOU) CO., LTD. | 100.0% | Manufacture and sales of steel balls |
| | SUZHOU NSK BEARINGS CO., LTD. | 100.0% | Manufacture of bearings |
| | NSK (CHINA) RESEARCH AND DEVELOPMENT CO., LTD. | 100.0% | Technological support and development of bearings, automotive components and precision machinery & parts |
| | NSK HANGZHOU AUTOMOTIVE COMPONENTS CO., LTD | 100.0% | Manufacture of automotive components |
| | NSK HANGZHOU AUTOMOTIVE ELECTRONIC TECHNOLOGY CO., LTD. | 100.0% | Manufacture of automotive components |
| | 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 |
|-------------|---|---------------------|--|
| Region | Company Name | Voting rights ratio | Outline of Business |
| 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 |
| Singapore | NSK ASEAN AND OCEANIA PTE LTD. | 100.0% | Regional Headquarters of ASEAN/OCEANIA operations |
| | NSK INTERNATIONAL (SINGAPORE) PTE LTD. | 100.0% | Sales of bearings |
| | NSK SINGAPORE (PRIVATE) LTD. | 100.0% | 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 |
| 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 |
| 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 |
| Vietnam | NSK VIETNAM CO., LTD. | 100.0% | Sales of bearings |
| 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 |
| India | NSK BEARINGS INDIA PRIVATE LTD | 100.0% | Manufacture and Sale of bearings & precision equipment |
| | RANE NSK STEERING SYSTEMS LTD. | 51.0% | Manufacture and sales of automotive components |
| 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 |

Others; 4 companies

Associates and Joint ventures

| | | | |
|----------|-----------------------------------|-------|--|
| Japan | NSK-WARNER K.K. | 50.0% | Manufacture of automotive components |
| | CHITOSE SANGYO CO., LTD. | 50.0% | Manufacture of automotive components |
| | INOUE JIKUJKE KOGYO CO., LTD. | 40.0% | Manufacture and sales of bearings |
| Thailand | NSK BEARINGS (THAILAND) CO., LTD. | 49.0% | Sales of bearings, automotive components and precision machinery & parts |

Others; 12 companies