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Consolidated Financial Statements

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022
With Independent Auditor's Report

[Financial Information]

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

(1) The consolidated financial statements of NSK Ltd. (hereinafter referred to as “the Company”) 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 fiscal year (from April 1, 2021 to March 31, 2022) and its non-consolidated financial statements for the fiscal year (from April 1, 2021 to March 31, 2022), 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 obtaining an understanding 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, 2021	As of March 31, 2022
Assets			
Current assets			
Cash and cash equivalents	6	176,638	137,504
Trade receivables and other receivables	7	185,993	209,351
Inventories	8	150,046	196,736
Other financial assets	12	1,569	1,658
Income tax receivables	17	4,670	5,562
Other current assets		15,850	19,065
Total current assets		534,769	569,879
Non-current assets			
Property, plant and equipment	9,15	378,677	379,042
Intangible assets	10	42,872	43,987
Investments accounted for using equity method	19	29,773	30,824
Other financial assets	12	79,203	66,094
Deferred tax assets	17	10,962	15,128
Net defined benefit assets	18	88,809	123,989
Other non-current assets		6,632	5,603
Total non-current assets		636,930	664,672
Total assets		1,171,699	1,234,551
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables and other payables	13	112,374	119,855
Other financial liabilities	14	130,205	113,882
Provisions	16	318	516
Income tax payables	17	3,203	5,990
Other current liabilities		54,888	56,758
Total current liabilities		300,989	297,003
Non-current liabilities			
Financial liabilities	14	223,211	214,684
Provisions	16	2,919	3,050
Deferred tax liabilities	17	45,521	56,084
Net defined benefit liabilities	18	17,349	17,714
Other non-current liabilities		8,139	8,555
Total non-current liabilities		297,140	300,088
Total liabilities		598,130	597,091
Equity			
Issued capital	20	67,176	67,176
Capital surplus	20	80,338	80,374
Retained earnings	20	397,837	410,872
Treasury shares	20	-37,303	-37,025
Other components of equity		46,467	96,402
Total equity attributable to owners of the parent		554,516	617,800
Non-controlling interests		19,052	19,659
Total equity		573,569	637,460
Total liabilities and equity		1,171,699	1,234,551

② [Consolidated statements of income]

(Millions of yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Sales	22	747,559	865,166
Cost of sales		621,318	695,440
Gross profit		126,240	169,725
Selling, general and administrative expenses	23	125,425	144,724
Share of profits of investments accounted for using the equity method	19	4,076	3,785
Other operating income	24	―	10,225
Other operating expenses	25	-1,472	9,582
Operating income		6,364	29,430
Financial income	26	2,137	2,229
Financial expenses	26	2,612	2,143
Income before income taxes		5,889	29,516
Income tax expense	17	6,637	11,851
Net income (loss)		-748	17,664
Net income attributable to:			
Owners of the parent		355	16,587
Non-controlling interests		-1,103	1,077
(Earnings per share attributable to owners of the parent)			
Basic earnings per share (yen)	28	0.69	32.35
Diluted earnings per share (yen)	28	0.69	32.26

③ [Consolidated statements of comprehensive income]

(Millions of yen)

	Note	Year ended March 31, 2021			Year ended March 31, 2022		
		Before tax effect	Tax effect	Amount (net)	Before tax effect	Tax effect	Amount (net)
Net income (loss)				−748			17,664
Other comprehensive income							
Items that will not be reclassified to profit or loss							
Remeasurements of net defined benefit liability (asset)		25,333	-10,127	15,205	32,433	-11,263	21,170
Net changes in financial assets measured at fair value through other comprehensive income		28,028	-8,561	19,467	-2,353	710	-1,642
Share of other comprehensive income of investments accounted for using equity method		206	-61	144	235	-68	166
Total items that will not be reclassified to profit or loss		53,568	-18,751	34,817	30,315	-10,621	19,694
Items that may be reclassified to profit or loss							
Exchange differences on translating foreign operations		23,783	—	23,783	35,774	—	35,774
Cash flow hedges		404	-123	281	—	—	—
Share of other comprehensive income of investments accounted for using equity method		715	—	715	872	—	872
Total items that may be reclassified to profit or loss		24,904	-123	24,780	36,647	—	36,647
Total other comprehensive income		78,472	-18,874	59,597	66,963	-10,621	56,341
Total comprehensive income for the period				58,849			74,006
Total comprehensive income for the period attributable to:							
Owners of the parent				59,290			72,220
Non-controlling interests				-441			1,785

④ [Consolidated statements of changes in equity]

From April 1, 2020 to March 31, 2021

(Millions of yen)

	Note	Equity attributable to owners of the parent			
		Issued capital	Capital surplus	Retained earnings	Treasury shares
Opening balance		67,176	80,456	405,842	-37,662
Net income (loss)		—	—	355	—
Other comprehensive income		—	—	—	—
Total comprehensive income for the period		—	—	355	—
Purchase of treasury shares	20	—	—	—	-8
Disposal of treasury shares	20	—	30	—	367
Share-based payment transactions	21	—	-147	—	—
Cash dividends	29	—	—	-10,256	—
Other		—	—	1,896	—
Total transactions with owners, etc.		—	-117	-8,360	359
Closing balance		67,176	80,338	397,837	-37,303

	Note	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Other components of equity					Total		
		Exchange differences on translating foreign operations	Cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income	Remeasure-ments of net defined benefit liability (asset)	Total			
Opening balance		-34,462	—	17,166	6,988	-10,308	505,505	21,013	526,518
Net income (loss)		—	—	—	—	—	355	-1,103	-748
Other comprehensive income		23,846	281	19,509	15,298	58,935	58,935	662	59,597
Total comprehensive income for the period		23,846	281	19,509	15,298	58,935	59,290	-441	58,849
Purchase of treasury shares	20	—	—	—	—	—	−8	—	−8
Disposal of treasury shares	20	—	—	—	—	—	398	—	398
Share-based payment transactions	21	—	—	—	—	—	−147	—	-147
Cash dividends	29	—	—	—	—	—	-10,256	-1,519	-11,775
Other		—	-281	-1,879	—	-2,160	-264	—	-264
Total transactions with owners, etc.		—	-281	-1,879	—	-2,160	-10,279	-1,519	-11,798
Closing balance		-10,616	—	34,797	22,286	46,467	554,516	19,052	573,569

From April 1, 2021 to March 31, 2022

(Millions of yen)

	Note	Equity attributable to owners of the parent			
		Issued capital	Capital surplus	Retained earnings	Treasury shares
Opening balance		67,176	80,338	397,837	-37,303
Net income		—	—	16,587	—
Other comprehensive income		—	—	—	—
Total comprehensive income for the period		—	—	16,587	—
Purchase of treasury shares	20	—	—	—	−8
Disposal of treasury shares	20	—	-14	—	286
Share-based payment transactions	21	—	42	—	—
Cash dividends	29	—	—	-10,263	—
Changes in ownership interests in subsidiaries		—	7	—	—
Other		—	—	6,711	—
Total transactions with owners, etc.		—	35	-3,551	278
Closing balance		67,176	80,374	410,872	-37,025

	Note	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Other components of equity					Total		
		Exchange differences on translating foreign operations	Cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income	Remeasure-ments of net defined benefit liability (asset)	Total			
Opening balance		-10,616	—	34,797	22,286	46,467	554,516	19,052	573,569
Net income		—	—	—	—	—	16,587	1,077	17,664
Other comprehensive income		35,933	—	-1,638	21,338	55,633	55,633	708	56,341
Total comprehensive income for the period		35,933	—	-1,638	21,338	55,633	72,220	1,785	74,006
Purchase of treasury shares	20	—	—	—	—	—	-8	—	-8
Disposal of treasury shares	20	—	—	—	—	—	271	—	271
Share-based payment transactions	21	—	—	—	—	—	42	—	42
Cash dividends	29	—	—	—	—	—	-10,263	-1,164	-11,428
Changes in ownership interests in subsidiaries		—	—	—	—	—	7	-14	-7
Other		—	—	-5,697	—	-5,697	1,013	—	1,013
Total transactions with owners, etc.		—	—	-5,697	—	-5,697	-8,936	-1,179	-10,115
Closing balance		25,316	—	27,460	43,625	96,402	617,800	19,659	637,460

⑤ [Consolidated statements of cash flows]

(Millions of yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Operating activities			
Income before income taxes		5,889	29,516
Depreciation and amortisation		54,527	56,558
Impairment loss	11	132	10,222
Increase (decrease) in net defined benefit liability and net defined benefit asset		-2,658	-2,442
Interest and dividend income		-1,763	-1,728
Interest expenses		2,739	2,573
Share of profits of investments accounted for using the equity method		-4,076	-3,785
Loss (gain) on sales of property, plant and equipment		-291	-10,048
Decrease (increase) in trade receivables		-20,822	-11,902
Decrease (increase) in inventories		9,155	-34,821
Increase (decrease) in trade payables		13,800	442
Other		5,591	-2,707
Subtotal		62,225	31,876
Interest and dividend received		3,895	5,241
Interest expenses paid		-2,398	-2,936
Income tax paid		-9,880	-11,447
Net cash provided by operating activities		53,842	22,733
Investing activities			
Purchases of property, plant and equipment		-33,797	-36,063
Proceeds from sale of property, plant and equipment		878	10,829
Purchases of other financial assets		-130	-20
Proceeds from sale of other financial assets		3,804	11,290
Acquisition of shares of subsidiaries	5	-20,118	—
Other		-1,732	-6,010
Net cash used in investing activities		-51,096	-19,973
Financing activities			
Increase (decrease) in short-term loans	27	39,194	-22,035
Proceeds from long-term loans	27	16,727	9,000
Repayments of long-term loans	27	-10,142	-9,304
Payments for redemption of corporate bonds	27	—	-10,000
Repayments of lease liabilities	27	-4,409	-4,722
Acquisition of treasury shares		-2	-1
Dividends paid	29	-10,253	-10,259
Dividends paid to non-controlling interests		-1,519	-1,164
Other		398	263
Net cash provided by (used in) financing activities		29,992	-48,224
Effect of exchange rate changes on cash and cash equivalents		6,602	6,330
Net increase (decrease) in cash and cash equivalents		39,340	-39,133
Cash and cash equivalents at the beginning of the period	6	137,298	176,638
Cash and cash equivalents at the end of the period	6	176,638	137,504

[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.

The consolidated statements for the fiscal year ended March 31, 2022 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, 2022 were approved by President and CEO Akitoshi Ichii on June 28, 2022.

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) 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.

(5) Change in the presentation method

(Relating to “Consolidated statements of cash flows”)

“Impairment loss” and “loss (gain) on sales of property, plant and equipment” were included in “Other” under “Operating activities” in the previous consolidated fiscal year, but have been presented as separate accounts in the current consolidated fiscal year due to their financial materiality.

As a result, the amount of ¥5,432 million presented in “Other” under “Operating activities” in the consolidated statements of cash flows for the previous consolidated fiscal year has been reclassified into ¥132 million in “Impairment loss”, ¥(291) million in “loss (gain) on sales of property, plant and equipment” and ¥5,591 million in “other”.

(6) Use of estimates and judgements

In preparing IFRS-compliant consolidated financial statements, the NSK Group developed and used judgement, 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.

The impact of the COVID-19 pandemic and Ukraine crisis have been reflected in estimates and judgements to the extent deemed reasonable based on information currently available. Due to the uncertainties involved in estimating the situation of COVID-19 and impact of the Ukraine crisis, actual results may differ from these estimates.

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

① Recoverability of deferred tax assets (Note 3. Summary of significant accounting policies (15) Income taxes and Note 17. Income taxes)

(a) Amount recorded as of March 31, 2022

Deferred tax assets ¥31,288 million

(b) Other information contributing to the understanding of the content of the estimate

1) Method of calculation

For deductible temporary differences, the recoverability of deferred tax assets is determined based on taxable profit based on future profitability and tax planning. Estimates of taxable profit take into account projected revenue and revenue growth rate.

2) Key assumptions

The key assumptions used in future business planning as the basis for estimating taxable profit are projected revenue and revenue growth rate. The projected revenue takes into account the expected orders received from major customers and market trends in each business segment. The revenue growth rate is estimated by taking into account market conditions with reference to available external data.

3) Impact on the consolidated financial statements for the next consolidated fiscal year

Although the projected revenue and revenue growth rate are calculated based on management's best estimates, the actual results may differ due to the results of uncertain future changes in economic conditions, etc. If a significant revision is required, it may have a significant impact on the amounts recognised in the consolidated financial statements for the next consolidated fiscal year.

② Measurement of defined benefit obligation (Note 3. Summary of significant accounting policies (16) Retirement benefits and Note 18. Post-employment benefit)

(a) Amount recorded as of March 31, 2022

Present value of defined benefit obligations ¥200,183 million

(b) Other information contributing to the understanding of the content of the estimate

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 consolidated fiscal year may have significant impacts.

③ Fair value measurement of financial instruments (Note 3. Summary of significant accounting policies (7) Other financial assets and Note 27. Financial instruments)

Amount recorded as of March 31, 2022 ¥4,885 million

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.

④ Impairment loss on fixed assets in the automotive components business

(Note 3. Summary of significant accounting policies (11) Impairment of non-financial assets, Note 9. Property, plant and equipment, Note 10. Intangible assets and Note 11. Impairment of non-financial assets)

(a) Amount recorded for the current consolidated fiscal year

The NSK Group recognised impairment loss of ¥9,044 million for the current consolidated fiscal year and recorded as “Other operating expenses” in the consolidated statements of income.

(b) Other information contributing to the understanding of the content of the estimate

1) Method of calculation

The recoverable amount of a cash-generating unit is compared with its carrying amount, and if the carrying amount exceeds its recoverable amount, the excess is recognised as an impairment loss.

The recoverable amount is the higher of fair value less costs of disposal or value in use. In calculating the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the inherent risks of the asset.

The estimated future cash flows in the calculation of the value in use are estimated based on the business plan for the period corresponding to the estimated remaining useful life of the fixed asset.

2) Key assumptions

The major assumptions used in estimating value in use are as follows: predicted sales volume for each customer based on the predicted production volume information of the automotive industry were used when establishing the business plan, operating expenses including research and development expenses to earn revenue, estimated disposal value of assets in the cash-generating unit as at the end of the estimated remaining useful lives and the discount rate calculated based on weighted average cost of capital.

Determination of recoverable amounts by nature entails judgement, and in many cases, uses material estimates and assumptions. Such estimates and assumptions may have a significant impact on determination of whether or not an impairment loss is to be recognised and the amount of the impairment loss to be recognised.

3) Impact on the consolidated financial statements for the next consolidated fiscal year

Although the key assumptions are calculated based on management’s best estimates, there may be impact due to socio-economic turmoil caused by the COVID-19 infection and supply shortage of semiconductors which is one of the main components of automobiles, etc. If the underlying conditions change, the calculation results of the recoverable amount may differ.

⑤ Estimate of fair value of intangible assets at the acquisition-date identified in the acquisition of the Condition Monitoring System Business

(Note 3. Summary of significant accounting policies (9) Intangible assets, Note 5. Business combinations and Note 10. Intangible assets)

(a) Amount recorded as of March 31, 2022

Intangible assets	¥10,995 million

(b) Other information contributing to the understanding of the content of the estimate

On March 1, 2021, the Company acquired the condition monitoring system business and brand known as the Brüel & Kjær Vibro (the “BKV business”) for a consideration of ¥21,114 million. Although the consolidated financial statements were reported with provisional amounts at the end of the previous fiscal year, the initial accounting for the business combination was completed in the current fiscal year, and the consolidated statement of financial position for the previous fiscal year was retrospectively adjusted. As a result, intangible assets of ¥10,998 million (mainly customer relationship assets of ¥6,145 million and trademarks of ¥3,440 million) were recorded at the acquisition date.

The intangible assets are measured by discounting the future cash flows from the assets (income approach). The measurement is based on key assumptions such as sales to customers and revenue growth rate, operating income margin, and discount rate included in the future plans of BKV business. In addition, key assumptions are rate of decline in existing customers used in measuring customer relationship assets and royalty rate used in measuring trademarks.

Although these key assumptions are based on management’s best estimates, changes in the underlying assumptions may have a significant impact on the recorded amount of intangible assets.

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.

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 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	5 – 12 years
・Vehicle and delivery equipment	4 – 7 years
・Tools, equipment and fixtures	2 – 20 years

(9) Intangible assets

① Goodwill

The measurement at initial recognition is referred to “Note 3. Summary of significant accounting policies (2) Business combinations”. Goodwill is presented at the carrying amount calculated by deducting accumulated impairment loss from the acquisition cost.

② Other intangible assets

The NSK Group adopts the *cost model* for measurement of intangible assets other than goodwill. Intangible assets are presented at the carrying amount calculated by deducting accumulated depreciation and accumulated impairment loss from the acquisition cost. Intangible assets acquired individually are measured at acquisition cost and intangible assets acquired in a business combination are measured at fair value as of the acquisition date. Intangible assets with finite useful lives are amortised by using the straight-line method over their estimated useful life.

・Software	5 – 10 years
・Customer relationship assets	21 years
・Technology	10 years

The amortisation method and the estimated useful life 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.

(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 of an impairment.

For assets (other than goodwill) for which impairment was recognised, the assets 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 profit 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. In addition, deferred tax assets and liabilities are offset where current tax liabilities and assets are intended to be settled in net amounts or assets realisation and liabilities settlement are intended to be carried out concurrently although taxes are imposed on separate taxable entities.

(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 has adopted IFRS 15 and 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.

(21) Government grants

Government grants are measured and recognised at fair value if the Company or the NSK Group companies meet the conditions for granting and there is reasonable assurance that the grants will be received. Grants related to expenses incurred are recognised in profit or loss in the same consolidated fiscal year as the year of accrual of the expenses. Grants related to assets are recognised as deferred income, and are recognised in profit or loss on a systematic basis over the useful lives of the related assets.

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.

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

“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, 2020 to March 31, 2021

(Millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustments (Note 2)	Consolidated
	Industrial Machinery Business	Automotive Business	Subtotal				
Sales							
Sales to third parties	275,226	449,722	724,948	22,611	747,559	—	747,559
Intersegment sales	—	—	—	20,307	20,307	-20,307	—
Total	275,226	449,722	724,948	42,918	767,866	-20,307	747,559
Segment income (loss) (Operating income)	7,697	-4,018	3,678	979	4,658	1,705	6,364
Total financial income (expenses)							-475
Income before income taxes							5,889
Other items							
Capital expenditure	15,189	20,643	35,833	1,527	37,361	-57	37,303
Depreciation and amortisation	19,059	31,540	50,599	4,219	54,818	-290	54,527
Share of profits of investments accounted for using the equity method	562	3,357	3,920	156	4,076	—	4,076

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

(Note 2) The adjustment to segment income of ¥1,705 million includes intersegment elimination of ¥233 million and other operating expenses not allocated to the reportable segments of ¥1,472 million.

From April 1, 2021 to March 31, 2022

(Millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustments (Note 2)	Consolidated
	Industrial Machinery Business	Automotive Business (Note 3)	Subtotal				
Sales							
Sales to third parties	345,785	482,547	828,333	36,833	865,166	―	865,166
Intersegment sales	―	―	―	22,911	22,911	-22,911	―
Total	345,785	482,547	828,333	59,745	888,078	-22,911	865,166
Segment income (loss) (Operating income)	30,943	-13,762	17,180	2,282	19,462	9,967	29,430
Total financial income (expenses)							86
Income before income taxes							29,516
Other items							
Capital expenditure	21,837	23,569	45,407	6,904	52,311	―	52,311
Depreciation and amortisation	20,447	31,083	51,530	5,307	56,837	-279	56,558
Impairment loss (Note 3)	―	9,044	9,044	―	9,044	―	9,044
Share of profits of investments accounted for using the equity method	831	2,916	3,748	37	3,785	―	3,785

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

(Note 2) The ¥9,967 million adjustment made for segment income includes intersegment elimination of ¥279 million and ¥9,687 million in other operating expenses not allocated to the reportable segments.

(Note 3) Segment loss excluding the impairment loss of ¥9,044 million resulting from nonrecurring factors was ¥4,718 million.
This impairment loss is referred in “Note 11. Impairment of non-financial assets”.

(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, 2021	Year ended March 31, 2022
Japan	275,777	317,612
The Americas	107,829	125,094
Europe	94,800	111,890
China	166,660	182,036
Other Asia	102,492	128,532
Total	747,559	865,166

(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, 2021	As of March 31, 2022
Japan	221,115	223,306
The Americas	30,440	30,844
Europe	59,881	60,452
China	65,922	65,788
Other Asia	44,189	42,637
Total	421,549	423,029

(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. Business combinations

(Acquisition of Condition Monitoring System Business)

On December 10, 2020, the Company's Board of Directors resolved to acquire the Condition Monitoring System ("CMS") business (the "BKV business") known under the Brüel & Kjær Vibro ("BKV") brand. On the same day, the Company signed a transfer agreement with Spectris Plc. of the United Kingdom, the owner of BKV business, and completed the acquisition procedures on March 1, 2021.

(1) Outline of the business combination

①BKV Germany

(i) Name of the acquired company and its business

Name of the acquired company: Brüel & Kjær Vibro GmbH

Business activities: Equipment maintenance and condition monitoring solutions

(ii) Percentage of voting equity interest acquired

100%

②BKV Denmark

(i) Name of the acquired company and its business

Name of the acquired company: Brüel & Kjær Vibro A/S

Business activities: Equipment maintenance and condition monitoring solutions

(ii) Percentage of voting equity interest acquired

100%

③BKV America

(i) Name of the acquired company and its business

Name of the acquired company: BK Vibro America Inc

Business activities: Equipment maintenance and condition monitoring solutions

(ii) Percentage of voting equity interest acquired

100%

(2) Date of Acquisition

March 1, 2021

(3) Method of acquisition of the acquired company

Acquisition of shares with cash as consideration

(4) Main reason for the business combination

In recent years, predictive maintenance has been attracting attention as a maintenance method for equipment and manufacturing lines. Predictive maintenance refers to the analysis and diagnosis of information obtained through condition monitoring of equipment and production lines. Our main products, including bearings, are important components that support the functions and performance of equipment, and the wealth of data, technology, and knowledge we have accumulated to date can be the key to putting predictive maintenance to practical use. Against this backdrop, in our 6th mid-term management plan (FY2019-2021), we set the goal of “building a condition monitoring system business” as a new mechanism for growth. Specifically, starting from the technical services of failure diagnosis and remaining life diagnosis, we are expanding into the business of selling products that provide solutions to the problems and issues faced by equipment, and are promoting research and development and business development with the aim of further contributing to the development of a wide range of industries.

With the aim of accelerating and expanding the implementation measures of its mid-term management plan, the Company acquired BKV business, a leading specialist in the CMS market and one that is expected to grow rapidly in the future, and use it as a platform (foundation) for building the Company's CMS business. The BKV business will be an autonomous organization under the direct control of the President and CEO, and will be able to develop its business more quickly and aggressively by utilizing our resources. We will position the BKV business as a growth driver for our CMS business, and by utilizing BKV's excellent customer base, technology, trusted brand, CMS human resources, and access to big data essential for business development, we will accelerate CMS business development and further strengthen our ability to respond to social needs such as automation, labour-saving, smart, and environmental measures.

(5) Fair value of assets acquired, liabilities assumed and consideration paid as of the acquisition date

In the previous fiscal year, the measurements of fair value of the acquired assets and the assumed liabilities were incomplete and therefore were provisionally calculated. In the current fiscal year, fair value calculations were completed and the provisional amounts have been revised as shown in the table below.

(Millions of yen)

	Provisional	Change	Final
Cash and cash equivalents	926	—	926
Other current assets	2,186	—	2,186
Property, plant and equipment	430	—	430
Intangible assets	716	10,281	10,998
Current liabilities	-3,251	-334	-3,586
Non-current liabilities	-194	-3,272	-3,467
Fair value of assets acquired and liabilities assumed	813	6,674	7,488
Basis adjustment	404	—	404
Goodwill	20,230	-7,008	13,221
Fair value of consideration paid	21,449	-334	21,114

(Note 1) The components of goodwill mainly reflect the future excess profitability expected from future business development. No amount of goodwill is expected to be deductible for tax purposes.

(Note 2) The balance of intangible assets of ¥10,998 million mainly includes assets related to customer relationship of ¥6,145 million, trademarks of ¥3,440 million, and technology of ¥1,117 million.

(Note 3) Adjustment of fair value of paid consideration ¥(334) million includes consideration adjustments.

The finalisation of this provisional accounting treatment increased intangible assets and non-current liabilities by ¥10,332 million and ¥3,295 million, respectively, and decreased goodwill by ¥6,898 million in the previous fiscal year.

(6) Cash flow information

(Millions of yen)

	Amount
Cash and cash equivalents used in the acquisition	-21,044
Cash and cash equivalents held by the acquired company at the time of acquisition	926
Payments for acquisition of subsidiaries	-20,118

(7) Acquisition-related expenses

Acquisition-related costs incurred for the relevant business combination of ¥824 million is recognised under “Other operating expenses” in the consolidated statement of income for the previous consolidated fiscal year.

(8) Effect on the consolidated statements of income

①Sales and net income of the acquired company after the acquisition date which are recognised in the consolidated statement of income for the previous consolidated fiscal year

This information has been omitted due to its immateriality in terms of amount.

②The effect on net sales and net income (loss) of the acquired company in the previous consolidated fiscal year on the assumption that the acquisition had taken place at the beginning of the fiscal year

This information has been omitted due to its immateriality in terms of amount. The relevant pro forma information has not been audited.

6. Cash and cash equivalents

Cash and cash equivalents consisted of the following.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Cash and deposits	121,994	86,108
Short-term investments	54,644	51,396
Total	176,638	137,504

7. Trade receivables and other receivables

Trade receivables and other receivables consisted of the following.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Trade receivables	180,147	203,632
Allowance for doubtful accounts	-534	-1,071
Other	6,380	6,790
Total	185,993	209,351

The NSK Group securitizes a part of its trade receivables. However, there are some securitized receivables for which the NSK Group will be held liable for payment retroactively if the debtor does not make payment. Such securitized receivables are not derecognised as they do not qualify the requirements for derecognition of financial assets, and each creditor of the related liabilities corresponding to transferred assets has the right of redemption only for their relevant transferred assets.

The carrying amounts of "Trade receivables and other receivables" which are transferred assets that do not qualify the requirements for derecognition in its entirety and related liabilities recongnised in "Other financial liabilities" are as follows.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Carrying amount of transferred assets	2,209	2,346
Carrying amount of related liabilities	2,209	2,346

The difference between carrying amount and fair value of the financial assets and liabilities is minimal.

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Opening balance	-1,692	-534
Increase during the period	-128	-597
Decrease due to utilisation	113	24
Reversal during the period	1,223	76
Other	-50	-40
Closing balance	-534	-1,071

8. Inventories

Inventories consisted of the following.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Finished goods	77,348	99,505
Work in process	44,024	60,852
Raw materials and supplies	28,673	36,378
Total	150,046	196,736

Inventories recognised as expenses during the period amounted to ¥621,318 million including write-downs of ¥5,881 million in the previous consolidated fiscal year, and ¥695,440 million including write-downs of ¥7,101 million in the current consolidated fiscal year.

9. 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, 2021	As of March 31, 2022
Property, plant and equipment	358,646	355,509
Right-of-use assets	20,031	23,533
Total	378,677	379,042

(2) Change in property, plant and equipment

The change 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, 2020	264,021	708,457	96,814	38,885	29,274	1,137,454
Acquisitions	222	649	387	—	29,044	30,303
Acquisitions through business combinations	79	6	194	—	—	280
Disposals	-1,916	-12,158	-2,659	-15	-168	-16,919
Transfers from construction in progress	6,055	26,002	4,572	1	-36,632	—
Foreign exchange translation differences	5,468	22,590	3,068	193	1,013	32,334
Other	-29	14	46	—	188	220
Balance as of March 31, 2021	273,902	745,562	102,424	39,063	22,720	1,183,674
Acquisitions	430	703	363	302	37,162	38,961
Disposals	-1,269	-15,952	-3,138	-180	-115	-20,656
Transfers from construction in progress	6,095	23,423	4,905	9	-34,435	—
Foreign exchange translation differences	9,118	37,885	5,285	341	1,184	53,815
Other	-0	-207	184	2	430	409
Balance as of March 31, 2022	288,276	791,416	110,025	39,537	26,947	1,256,203

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, 2020	-165,987	-530,620	-78,145	—	-39	-774,792
Depreciation costs	-7,781	-30,484	-6,445	—	—	-44,712
Impairment loss	—	-125	-7	—	—	-132
Disposals	1,813	11,268	2,582	—	—	15,664
Foreign exchange translation differences	-2,894	-15,678	-2,412	—	-7	-20,993
Other	-14	-6	19	—	-60	-61
Balance as of March 31, 2021	-174,864	-565,646	-84,408	—	-107	-825,028
Depreciation costs	-7,906	-31,712	-6,245	—	—	-45,864
Impairment loss	-1,269	-7,509	-662	—	-699	-10,141
Disposals	1,109	14,650	3,010	—	—	18,770
Foreign exchange translation differences	-5,420	-28,743	-4,277	—	-41	-38,483
Other	-72	-269	-55	—	449	52
Balance as of March 31, 2022	-188,425	-619,230	-92,639	—	-398	-900,694

(Note 1) Depreciation costs are recorded in cost of sales or selling, general and administrative expenses in the consolidated statements of income.

(Note 2) The impairment loss is stated in “Note 11. Impairment of non-financial assets”.

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, 2020	98,034	177,837	18,669	38,885	29,235	362,661
Balance as of March 31, 2021	99,037	179,916	18,016	39,063	22,612	358,646
Balance as of March 31, 2022	99,850	172,186	17,386	39,537	26,548	355,509

10. Intangible assets

(1) Change in intangible assets

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

Cost

(Millions of yen)

	Goodwill	Software	Patent	Customer relationship assets	Technology	Trademarks	Other	Total
Balance as of April 1, 2020	226	27,766	6,096	—	—	—	1,788	35,876
Acquisitions	—	3,235	580	—	—	—	11	3,827
Acquisitions through business combinations	13,221	89	—	6,145	1,117	3,440	206	24,220
Disposals	—	-1,602	-609	—	—	—	-3	-2,214
Foreign exchange translation differences	112	481	4	42	7	24	38	712
Other	—	86	7	—	—	—	0	94
Balance as of March 31, 2021	13,560	30,056	6,079	6,188	1,125	3,464	2,041	62,516
Acquisitions	329	4,826	397	—	—	—	5	5,559
Disposals	—	-5,121	-397	—	—	—	-7	-5,526
Foreign exchange translation differences	764	943	3	334	60	187	63	2,357
Other	—	-6	—	—	—	—	-47	-54
Balance as of March 31, 2022	14,655	30,698	6,082	6,522	1,185	3,651	2,055	64,852

Accumulated amortisation and accumulated impairment loss

(Millions of yen)

	Goodwill	Software	Patent	Customer relationship assets	Technology	Trademarks	Other	Total
Balance as of April 1, 2020	—	-13,115	-2,435	—	—	—	-556	-16,108
Amortisation costs	—	-4,607	-709	—	—	—	-9	-5,327
Disposals	—	1,565	609	—	—	—	3	2,177
Foreign exchange translation differences	—	-341	-3	—	—	—	-33	-378
Other	—	-7	-0	—	—	—	-0	-7
Balance as of March 31, 2021	—	-16,505	-2,539	—	—	—	-598	-19,644
Amortisation costs	—	-4,687	-701	-321	-122	—	-121	-5,954
Impairment loss	—	-78	—	—	—	—	-2	-80
Disposals	—	5,114	397	—	—	—	7	5,520
Foreign exchange translation differences	—	-686	-2	-15	-5	—	-39	-749
Other	—	0	—	—	—	—	43	44
Balance as of March 31, 2022	—	-16,843	-2,845	-336	-128	—	-709	-20,864

(Note 1) Amortisation costs are recorded in cost of sales or selling, general and administrative expenses in the consolidated statements of income.

(Note 2) The Impairment loss is stated in “Note 11. Impairment of non-financial assets”.

Carrying amount

(Millions of yen)

	Goodwill	Software	Patent	Customer relationship assets	Technology	Trademarks	Other	Total
Balance as of April 1, 2020	226	14,650	3,660	—	—	—	1,231	19,768
Balance as of March 31, 2021	13,560	13,550	3,539	6,188	1,125	3,464	1,443	42,872
Balance as of March 31, 2022	14,655	13,854	3,236	6,185	1,057	3,651	1,345	43,987

(Note 1) For the fiscal year ended March 31, 2022, the Company finalised the provisional accounting treatment for the business combination, and the related figures for the fiscal year ended March 31, 2021 reflect the details of the finalisation of the provisional accounting treatment.

This business combination is stated in “Note 5. Business combinations”.

(Note 2) Customer relationship assets, technology and trademarks were recognised due to the acquisition of the condition monitoring system business acquisition on March 1, 2021. The remaining useful life of customer relationship assets and technology are 20 years and 9 years, respectively. Trademarks basically exists as long as the business continues so it is recognised as intangible assets with no determined useful life.

(Note 3) There were no material internally generated intangible assets as at each year end.

(2) Impairment test for goodwill and intangible assets with indefinite useful lives

Goodwill and the intangible assets with indefinite useful lives that are allocated into each cash-generating unit are as follows.

(Millions of yen)

Cash-generating unit	Segment	Account	Year ended March 31, 2022
Condition monitoring system business	Others	Goodwill	14,088
		Trademarks	3,651

The recoverable amount of the relevant cash-generating unit is measured based on the value in use. The value in use is calculated using the following information, order backlog, sales forecasts based on probability of successful sales order, future cash flow based on the next five-year business plan that reflects sales trends for each product, future cash flow from the 6th to 9th year assuming an average sales growth rate of 3.5% as used in the business acquisition plan, and terminal value after the 10th year. Regarding terminal value, the growth rate of 2.0% based on the expected inflation rate of the country to which the cash-generating unit belongs to is used. The discounted present value of future cash flow is calculated by using a discount rate before tax of 10.7%.

The key assumptions are future cash flows and discount rate, including sales growth. The value in use exceeds the carrying amount by ¥1,553 million at the end of the current consolidated fiscal year. If the discount rate increases by 0.5%, or future cash flow before discount decreases by 6.0% over its estimated period, the carrying amount and the value in use becomes equal. Although these assumptions are based on management's best estimates, changes in the underlying assumptions could have a significant impact on the recorded amount of goodwill and intangible assets with indefinite useful lives.

11. Impairment of non-financial assets

The NSK Group has groups assets by the smallest independent cash inflow generating units. Idle assets are individually reviewed if impairment is necessary or not.

The impairment loss is decided by assessing whether there is any indication of possible impairment at the end of each reporting period.

From April 1, 2020 to March 31, 2021

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, the impairment loss of ¥132 million is presented in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.

Recoverable amounts are measured at fair value less costs of disposal.

From April 1, 2021 to March 31, 2022

In the automotive components business cash-generating unit, due to the change of business environment including changes in electric power steering technology trends, the carrying amount of property, plant and equipment and intangible assets have been reduced to the recoverable amount of ¥43,300 million. This decrease is recognised as the impairment loss in the amount of ¥9,044 million under ”Other operating expenses” in the consolidated statements of income.

The recoverable amount of this cash-generating unit is measured based on the value in use and calculated by using a discount rate before tax of 7.6% for future cash flow.

As a result of reducing the carrying amount to the recoverable amount for idle assets that are not expected to be used in the future, the impairment loss of ¥1,178 million is presented in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.

Recoverable amounts are measured at fair value less costs of disposal.

12. Other financial assets

Other financial assets consisted of the following.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Time deposits over 3 months	1,375	1,510
Other	194	147
Total other current financial assets	1,569	1,658
Investment securities	70,224	56,600
Other	8,978	9,494
Total other non-current financial assets	79,203	66,094

13. Trade payables and other payables

Trade payables and other payables consisted of the following.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Trade payables	98,461	102,825
Other	13,912	17,029
Total	112,374	119,855

14. Other financial liabilities

Other financial liabilities consisted of the following.

(Millions of yen)

Classification	As of March 31, 2021	As of March 31, 2022	Average interest rate (%)	Due date for repayment
Short-term debt	103,474	83,744	0.8	—
Current portions of long-term debt	12,072	14,311	1.1	—
Current portions of bonds	10,000	10,000	(Note 2)	
Other	4,658	5,826	—	—
Total other current financial liabilities	130,205	113,882	—	—
Long-term debt	86,893	85,401	0.7	2023 to 2035
Corporate bonds	120,000	110,000	(Note 2)	
Other	16,318	19,282	—	—
Total other non-current financial liabilities	223,211	214,684	—	—

(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, 2021	Balance as of March 31, 2022	Interest rate (%)	Collateral	Redemption date
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	—	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	10,000	0.190	None	September 2, 2026
NSK Ltd. (i.e., the Company)	52nd Series Unsecured Straight Bonds	September 2, 2019	20,000	20,000	0.280	None	August 31, 2029

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

15. Lease transactions

The NSK Group leases mainly warehouses and land for plants as a lessee. Some lease contracts include extension (early termination) options. 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 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, 2021	12,050	1,924	1,704	4,350	20,031
Depreciation cost for right-of-use asset year ended March 31, 2021	2,979	716	616	174	4,487
Carrying amount as of March 31, 2022	15,710	1,898	1,718	4,205	23,533
Depreciation cost for right-of-use asset year ended March 31, 2022	3,144	772	657	165	4,739

Total cash outflow on lease transaction is as follows.

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Total cash outflow on lease transactions	8,962	9,229

Expenses and income relating to lease transactions consisted of the followings.

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Interest expense for lease liability	270	265
Short-term lease payments	2,685	2,731
Low-value asset lease payments	1,555	1,465
Variable lease payments	40	44
Sublease revenue	318	323

Increase in right-of-use asset is as follows.

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Increase in right-of-use asset	3,172	7,790

Changes and the balance by maturity dates of lease liabilities are stated in “Note 27. Financial instruments”.

16. Provisions

Provisions consisted of the following.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Reserves for environmental measures	4	—
Other	313	516
Total current liabilities	318	516
Reserves for environmental measures	1,077	1,252
Other	1,841	1,798
Total non-current liabilities	2,919	3,050

The change in provisions consisted of the following.

(Millions of yen)

	Reserves for environmental measures	Other	Total
Balance as of March 31, 2021	1,082	2,155	3,237
Amount recognised during the period	442	343	785
Amount of decrease during the period (intended use)	-328	-337	-665
Amount of decrease during the period (reversal)	-12	-16	-29
Other	68	169	237
Balance as of March 31, 2022	1,252	2,314	3,566

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 stated in “Note 31. Contingencies (Litigation and other legal matters)”.

17. Income taxes

(1) Deferred tax

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

From April 1, 2020 to March 31, 2021

Deferred tax assets (Millions of yen)

	Opening balance (April 1, 2020)	Amount recognised in profit or loss	Amount recognised in other comprehensive income	Business combination	Closing balance (March 31, 2021)
Net defined benefit liability	6,644	-5	-3,297	—	3,342
Non-current assets – internal profit between consolidated companies	450	-78	—	—	372
Carryforward of unused tax losses	4,705	623	—	—	5,328
Accrued bonuses	3,569	81	—	—	3,650
Inventories	2,687	588	—	—	3,275
Other	12,137	160	—	—	12,298
Total	30,194	1,370	-3,297	—	28,268

Deferred tax liabilities

Net defined benefit liability	—	—	-6,833	—	-6,833
Depreciation costs	-3,041	310	—	—	-2,731
Reserve for advanced depreciation on fixed assets	-1,778	64	—	—	-1,714
Financial assets measured at fair value through other comprehensive income	-8,438	—	-7,796	—	-16,235
Gain on contribution of securities to employees' retirement benefit trust	-9,800	—	—	—	-9,800
Business combination identified assets	—	-22	—	-3,272	-3,295
Other	-22,201	-14	—	—	-22,215
Total	-45,261	337	-14,629	-3,272	-62,826
Net deferred tax assets (liabilities)	-15,066	1,707	-17,927	-3,272	-34,558

(Note 1) 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.

(Note 2) In the current fiscal year, the Company finalised the provisional accounting treatment for the business combination (acquisition of condition monitoring system business), and the related figures for the previous fiscal year reflect the details of the finalisation of the provisional accounting treatment.

From April 1, 2021 to March 31, 2022

Deferred tax assets (Millions of yen))

	Opening balance (April 1, 2021)	Amount recognised in profit or loss	Amount recognised in other comprehensive income	Business combination	Closing balance (March 31, 2022)
Defined benefit liability	3,342	45	-961	—	2,425
Non-current assets-internal profit between consolidated companies	372	-90	—	—	282
Carryforward of unused tax losses	5,328	981	—	—	6,310
Accrued bonuses	3,650	529	—	—	4,180
Inventories	3,275	649	—	—	3,925
Other	12,298	1,866	—	—	14,165
Total	28,268	3,981	-961	—	31,288

Deferred tax liabilities

Defined benefit asset	-6,833	—	-10,811	—	-17,644
Depreciation costs	-2,731	710	—	—	-2,020
Reserve for advanced Depreciation on fixed assets	-1,714	-129	—	—	-1,844
Financial assets measured at fair value through other comprehensive income	-16,235	—	3,214	—	-13,020
Gain on contribution of securities to employees' retirement benefit trust	-9,800	—	—	—	-9,800
Business combination identified assets	-3,295	-191	—	—	-3,487
Other	-22,215	-2,209	—	—	-24,425
Total	-62,826	-1,820	-7,596	—	-72,243
Net deferred tax assets (liabilities)	-34,558	2,161	-8,558	—	-40,955

(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, deductible temporary differences and tax credit carried forward for which deferred tax assets have not been recognised are as follows.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Carryforward of unused tax losses	4,181	6,845
Deductible temporary differences	9,639	10,935
Carryforward of tax credits	2,586	3,045
Total	16,407	20,826

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Year 1	—	—
Year 2	—	—
Year 3	—	—
Year 4	—	—
After Year 5 or no expiry date	4,181	6,845
Total	4,181	6,845

The amounts of carryforward of unused tax losses for which deferred tax assets have not been recognized with no expiry date in the previous consolidated fiscal year and the current consolidated fiscal year are ¥3,061 million and ¥5,333 million, respectively.

The amounts and expiry dates of the carryforward of tax credits for which deferred tax assets have not been recognised are as follows.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Year 1	—	834
Year 2	655	2,210
Year 3	1,931	—
Year 4	—	—
After Year 5 or no expiry date	—	—
Total	2,586	3,045

Among the deferred tax assets recognised in the previous and current consolidated fiscal year, those recognised by taxable entities which record losses in the previous or current consolidated fiscal year and the recoverability of the deferred tax assets is dependent on whether these entities can generate sufficient future taxable profits are ¥16,940 million and ¥5,690 million, respectively. The NSK Group considers the recoverability of deferred tax assets by analysing future taxable profits based on future profit-generating capabilities and tax planning strategies.

Unrecognised deferred tax liabilities

Taxable temporary differences relating to the undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised were ¥16,118 million and ¥25,401 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, 2021	Year ended March 31, 2022
Current tax expenses	8,333	12,838
Deferred tax expenses	-1,696	-986
Income tax expense	6,637	11,851

The NSK Group records estimated amounts of income taxes to be additionally paid based on requests for advance pricing arrangement related to transfer pricing taxation, and "Income tax expense" for the current consolidated fiscal year includes said amount.

The major causes of the difference between the statutory effective tax rate in Japan and the effective tax rate after the application of tax effect accounting are as follows.

	Year ended March 31, 2021	Year ended March 31, 2022
Statutory effective tax rate	30.5 %	30.5 %
Items that are never deductible for income tax purposes such as entertainment expenses	13.5	4.4
Different tax rates applied to income of foreign subsidiaries	-9.5	-3.8
Tax effect of unused tax losses of subsidiaries not recognised in accounting	28.3	6.2
Tax credits	-10.1	-8.2
Changes in unrecognised deferred tax assets	36.6	2.3
Items relating to transfer pricing taxation	24.7	1.3
Other	-1.3	7.5
Effective tax rate after application of tax effect accounting	112.7 %	40.2 %

18. 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 and East Asia 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, 2021

(Millions of yen)

	Japan	U.K.	Other	Total
Present value of defined benefit obligations	124,861	64,114	9,770	198,747
Fair value of plan assets	-198,436	-67,622	-4,147	-270,206
Total	-73,574	-3,508	5,623	-71,459
Net assets for retirement benefits in the consolidated statement of financial position	-73,574	-3,508	5,623	-71,459

As of March 31, 2022

(Millions of yen)

	Japan	U.K.	Other	Total
Present value of defined benefit obligations	126,830	62,903	10,449	200,183
Fair value of plan assets	-229,191	-72,265	-5,001	-306,459
Total	-102,360	-9,362	5,447	-106,275
Net assets for retirement benefits in the consolidated statement of financial position	-102,360	-9,362	5,447	-106,275

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, 2020 Present value of defined benefit obligations	119,771	52,858	11,047	183,676
Current service cost	4,120	—	747	4,867
Interest cost	1,129	1,273	407	2,810
Remeasurements of net defined benefit liability (asset)				
Actuarial gains or losses arising from changes in demographic assumptions	—	-533	163	-369
Actuarial gains or losses arising from changes in financial assumptions	4,719	5,647	-24	10,342
Retirement benefit paid	-5,223	-2,444	-690	-8,359
Past service cost	—	122	3	126
Decrease due to settlement	—	—	—	—
Foreign exchange translation differences, etc.	344	7,190	-1,882	5,652
As of March 31, 2021 Present value of defined benefit obligations	124,861	64,114	9,770	198,747
Current service cost	4,382	—	657	5,040
Interest cost	1,177	1,331	326	2,835
Remeasurements of net defined benefit liability (asset)				
Actuarial gains or losses arising from changes in demographic assumptions	—	15	-102	-87
Actuarial gains or losses arising from changes in financial assumptions	2,532	-3,839	-573	-1,880
Retirement benefit paid	-5,942	-2,407	-336	-8,686
Past service cost	—	—	-5	-5
Decrease due to settlement	—	—	—	—
Foreign exchange translation differences, etc.	-180	3,689	711	4,220
As of March 31, 2022 Present value of defined benefit obligations	126,830	62,903	10,449	200,183

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

	Japan	U.K.	Other
Weighted average duration	13 years	17 years	8 to 13 years

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

(Millions of yen)

	Japan	U.K.	Other	Total
As of April 1, 2020 Fair value of plan assets	164,843	58,469	3,526	226,839
Interest income	1,674	1,437	100	3,212
Return on plan assets	34,973	388	-14	35,347
Contributions by employer	147	2,210	431	2,788
Retirement benefit paid	-3,232	-2,444	-217	-5,894
Decrease due to settlement	—	—	—	—
Foreign exchange translation differences, etc.	30	7,562	320	7,913
As of March 31, 2021 Fair value of plan assets	198,436	67,622	4,147	270,206
Interest income	1,992	1,430	127	3,550
Return on plan assets	31,363	-890	-52	30,420
Contributions by employer	1,074	2,416	881	4,371
Retirement benefit paid	-3,645	-2,407	-148	-6,201
Decrease due to settlement	—	-1	—	-1
Foreign exchange translation differences, etc.	-29	4,096	46	4,113
As of March 31, 2022 Fair value of plan assets	229,191	72,265	5,001	306,459

The NSK Group plans to make contributions of ¥3,292 million in the fiscal year ending March 31, 2023.

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, 2021

(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	120,818	—	—	—	364	—
Bonds	32,445	—	63,856	—	2,919	—
Other	15,516	29,656	3,766	—	863	—
Total	168,780	29,656	67,622	—	4,147	—

As of March 31, 2022

(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	151,238	—	—	—	259	—
Bonds	32,010	—	71,597	—	3,458	—
Other	16,078	29,864	668	—	1,284	—
Total	199,327	29,864	72,265	—	5,001	—

Significant actuarial assumptions are as follows.

As of March 31, 2021

	Japan	U.K.	Other
Discount rate	Mainly 1.0%	Mainly 2.1%	Mainly 2.6-3.2%

As of March 31, 2022

	Japan	U.K.	Other
Discount rate	Mainly 0.9%	Mainly 2.8%	Mainly 3.6-4.1%

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, 2021

(Millions of yen)

		Japan	U.K.	Other
Discount rate	0.5% increase	-7,394	-5,271	-340
	0.5% decrease	8,071	6,005	388

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

As of March 31, 2022

(Millions of yen)

		Japan	U.K.	Other
Discount rate	0.5% increase	-7,475	-5,160	-333
	0.5% decrease	8,174	5,878	379

(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, 2021	Year ended March 31, 2022
2,134	2,304

(3) Employee benefit costs

The total amounts of employee benefit costs for the previous consolidated fiscal year and the current consolidated fiscal year were ¥171,827 million and ¥193,136 million, respectively. They are presented in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.

19. Investments in equity method affiliates

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, 2021	As of March 31, 2022
Current assets	31,274	30,154
Non-current assets	21,598	20,675
Total assets	52,873	50,830
Current liabilities	10,680	10,006
Non-current liabilities	7,876	6,901
Total liabilities	18,556	16,907
Total equity	34,316	33,922
Ownership ratio (%)	50.0%	50.0%
Equity attributable to owners of the parent	17,158	16,961
Consolidated elimination	2,013	2,892
Carrying amount	19,171	19,853

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Sales	52,544	56,464
Income before income taxes	7,240	7,151
Net income	5,982	5,378
Other comprehensive income	399	209
Total comprehensive income	6,381	5,587

Dividends received by the Company from NSK-Warner K.K. amounted to ¥1,735 million and ¥2,991 million in the previous fiscal year and the current fiscal year, respectively.

20. Equity and other equity items

(1) Issued shares and treasury shares

As of March 31, 2021

	Opening balance (April 1, 2020)	Increase	Decrease	Closing balance (March 31, 2021)
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	39,111,034	10,185	403,498	38,717,721

(Note 1) The number of treasury shares includes 5,330,308 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: 2,350 shares

Treasury shares (the Company's shares) acquired by equity method affiliates attributable to the Company: 7,835 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: 98 shares

Shares provided from the Board Benefit Trust, etc: 403,400 shares

As of March 31, 2022

	Opening balance (April 1, 2021)	Increase	Decrease	Closing balance (March 31, 2022)
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	38,717,721	9,563	313,300	38,413,984

(Note 1) The number of treasury shares includes 5,017,008 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: 1,712 shares

Treasury shares (the Company's shares) acquired by equity method affiliates attributable to the Company: 7,851 shares

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

Shares provided from the Board Benefit Trust, etc.: 313,300 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.

21. 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 2015	August 21, 2015	July 29, 2025	1,806	565

	Number of options granted	Unexercised options outstanding at the end of the period	
		As of March 31, 2021	As of March 31, 2022
Granted in 2015	820,000	717,000	585,000

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 4.3 years and 3.3 years, respectively, for these periods.

	Year ended March 31, 2021		Year ended March 31, 2022	
	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	747,000	1,806	717,000	1,806
Options exercised during the period	—	—	—	—
Options expired during the period	-30,000	1,806	-132,000	1,806
Unexercised options outstanding at the end of the period	717,000	1,806	585,000	1,806
Exercisable options outstanding at the end of the period	717,000	1,806	585,000	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, 2022. Expenses for equity-settled share-based payment transactions in the consolidated statements of income for the previous and the current consolidated fiscal year are ¥236 million and ¥346 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 ¥419 million and ¥(47) 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 4,795,868 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 are calculated as follows.

	Year ended March 31, 2021	Year ended March 31, 2022
Grant date	June 30, 2020	June 25, 2021
Number of share points	27,174	39,802
Share price at the grant date	¥799	¥979
Estimated remaining life (Note 1)	7 years	7 years
Dividend payout ratio (Note 2)	4.5%	3.1%
Discount rate (Note 3)	-0.09%	-0.07%
Weighted-average fair value per point	¥583	¥790

(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 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.

	Year ended March 31, 2021	Year ended March 31, 2022
Grant date	April 1, 2020	April 1, 2021
Number of share points (Note 1)	669,439	499,782
Share price at the grant date	¥641	¥1,106
Estimated remaining life (Note 2)	7 years	7 years
Dividend payout ratio (Note 3)	4.7%	2.3%
TOPIX dividend rate (Note 4)	2.4%	2.0%
Discount rate (Note 5)	-0.15%	-0.01%
Weighted-average fair value per point	¥504	¥948

(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 the previous year for the year of the grant date TOPIX and Dividend included TOPIX

(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, 2022. Expenses for equity-settled share-based payment transactions recognised in the consolidated statements of income for the previous and the current consolidated fiscal years are ¥23 million, ¥39 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 ¥7 million, ¥17 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 221,140 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, 2021	Year ended March 31, 2022
Grant date	August 1, 2020	August 1, 2021
Number of share points	47,833	56,759
Share price at the grant date	¥700	¥899
Estimated remaining life (Note 1)	5 years	5 years
Dividend payout ratio (Note 2)	5.1%	3.3%
Discount rate (Note 3)	-0.11%	-0.12%
Weighted-average fair value per point	¥541	¥761

(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.

22. 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, 2020 to March 31, 2021

(Millions of yen)

	Reportable segments			Other	Total
	Industrial Machinery Business	Automotive Business	Subtotal		
Japan	71,793	189,747	261,541	14,236	275,777
The Americas	35,298	72,065	107,363	465	107,829
Europe	43,125	47,779	90,904	3,895	94,800
China	82,012	82,029	164,041	2,619	166,660
Other Asia	42,997	58,100	101,097	1,395	102,492
Total	275,226	449,722	724,948	22,611	747,559

(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” refers to operating segments excluded from reportable segments and includes such businesses as the production and sales of steel balls, and production machineries.

From April 1, 2021 to March 31, 2022

(Millions of yen)

	Reportable segments			Other	Total
	Industrial Machinery Business	Automotive Business	Subtotal		
Japan	94,824	203,173	297,997	19,614	317,612
The Americas	46,606	76,816	123,422	1,671	125,094
Europe	54,603	48,841	103,445	8,445	111,890
China	96,107	81,525	177,632	4,404	182,036
Other Asia	53,645	72,190	125,835	2,696	128,532
Total	345,785	482,547	828,333	36,833	865,166

(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” refers to operating segments excluded from reportable segments and includes businesses such as the production and sales of steel balls, condition monitoring systems and the 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. Promised considerations include no significant financing component as the NSK Group mostly receives considerations within three months after the delivery of goods to the customers.

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 “Note 7. 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.

23. 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, 2021	Year ended March 31, 2022
Labour costs	55,416	62,680
Logistics expenses	20,734	26,567
Research and development costs	13,110	14,583
Rent expenses	1,434	1,619
Product compensation	4,793	3,366
Depreciation and amortisation	8,924	10,002
Transportation expenses	1,140	1,570
Commission	2,189	3,799
Sales-related expenses	2,343	2,865
Other	15,335	17,670
Total	125,425	144,724

24. Other operating income

Components of “Other operating income” in the previous consolidated fiscal year and the current consolidated fiscal year are as follows.

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Foreign exchange gains	－	113
Gain on sales of property, plant and equipment	－	9,802
Other	－	309
Total	－	10,225

“Gain on sales of property, plant and equipment” for the current consolidated fiscal year includes gain from selling NSK Saginuma Sports Ground in Kawasaki City, Kanagawa Prefecture to improve asset efficiency through effective use of management resources.

25. Other operating expenses

Components of "Other operating expenses" in the previous consolidated fiscal year and the current consolidated fiscal year are as follows.

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Foreign exchange losses	550	—
Loss related to Antimonopoly Act	-2,975	133
Acquisition-related costs incurred for business combinations	824	—
Impairment loss	—	9,044
Other	128	404
Total	-1,472	9,582

In regard to the litigation of the NSK Group's products, as a result of reviewing the estimates of potential settlement-related losses recognised in "Provisions (non-current)", the NSK Group recognised return profit in "Loss related to Antimonopoly Act" for the previous and current consolidated fiscal year.

"Acquisition-related costs incurred for business combinations" for the previous consolidated fiscal year includes acquisition-related costs for the condition monitoring system business. The detail of business combination is stated in "Note 5. Business combinations".

The "Impairment loss" for the current consolidated fiscal year is stated in "Note 11. Impairment of non-financial assets".

26. 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, 2021	Year ended March 31, 2022
Interests received Financial assets measured at amortised cost	524	457
Dividends received Financial assets measured at fair value through other comprehensive income	1,238	1,271
Other financial income Financial assets measured at amortised cost	373	500
Total financial income	2,137	2,229
Interest expenses Financial liabilities measured at amortised cost	2,739	2,573
Other financial expenses	-127	-430
Total financial expenses	2,612	2,143

27. 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, 2021	Year ended March 31, 2022
Income before income taxes	U.S. dollar	14	0
	Euro	16	13

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

(Millions of yen)

Type	As of March 31, 2021			As of March 31, 2022		
	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	18,513	—	-620	19,492	—	-735
Euro	5,603	—	-86	5,894	—	-231
Buy						
U.S. dollar	563	—	5	672	—	-1
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, 2021	Year ended March 31, 2022
Income before income taxes	-1,034	-837

(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, 2021	Year ended March 31, 2022
Other comprehensive income	-448	-359

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, 2021 and March 31, 2022 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 ¥70 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, 2021	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	112,374	112,374	112,374	—	—	—	—	—
Short-term debt	103,474	104,375	104,375	—	—	—	—	—
Long-term debt	98,965	101,725	12,844	14,451	25,847	11,235	18,205	19,140
Corporate bonds	130,000	132,265	10,439	10,427	15,413	20,312	15,235	60,437
Lease liabilities	20,179	22,010	4,086	3,091	2,195	1,830	1,615	9,190
Derivative financial assets								
Foreign exchange forward contracts	6	6	6	—	—	—	—	—
Derivative financial liabilities								
Foreign exchange forward contracts	797	797	797	—	—	—	—	—

(Millions of yen)

As of March 31, 2022	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	119,855	119,855	119,855	—	—	—	—	—
Short-term debt	83,744	84,436	84,436	—	—	—	—	—
Long-term debt	99,712	102,341	15,014	29,409	11,281	18,251	2,183	26,201
Corporate bonds	120,000	121,826	10,427	15,413	20,312	15,235	20,182	40,255
Lease liabilities	23,750	25,619	4,707	3,476	2,702	2,338	2,060	10,333
Derivative financial assets								
Foreign exchange forward contracts	8	8	8	—	—	—	—	—
Derivative financial liabilities								
Foreign exchange forward contracts	1,358	1,358	1,358	—	—	—	—	—

(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 debt 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, 2021		As of March 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Long-term debt	98,965	100,125	99,712	100,364
Corporate bonds	130,000	129,894	120,000	119,828

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, 2021 and 2022.

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.

The fair value of corporate bonds issued by the Company is calculated and based on market prices.

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, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Shares, etc.	64,585	—	5,638	70,224
Financial assets measured at fair value through profit or loss				
Derivative financial assets	—	6	—	6
Financial liabilities				
Financial liabilities measured at amortised cost				
Long-term debt	—	100,125	—	100,125
Corporate bonds	—	129,894	—	129,894
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	797	—	797

As of March 31, 2022

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Shares, etc.	51,714	—	4,885	56,600
Financial assets measured at fair value through profit or loss				
Derivative financial assets	—	8	—	8
Financial liabilities				
Financial liabilities measured at amortised cost				
Long-term debt	—	100,364	—	100,364
Corporate bonds	—	119,828	—	119,828
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	1,358	—	1,358

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.

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, 2021	Year ended March 31, 2022
Opening balance	3,509	5,638
Transfer to Level 1 due to listing	—	-221
Gain (loss) recognised in other comprehensive income	2,027	-519
Purchase	108	0
Sale and redemption	-6	-11
Closing balance	5,638	4,885

Gains (losses) recognised in other comprehensive income are those related to equity instruments measured at fair value through other comprehensive income and are included in “Net changes in financial assets measured at fair value through other comprehensive income” in the consolidated statements of 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, 2021	As of March 31, 2022
NIDEC Corporation	22,002	15,964
Toyota Motor Corporation	14,838	13,575
Mizuho Financial Group	2,360	2,312

The fair value of financial instruments without active markets for the previous consolidated fiscal year and the current consolidated fiscal year were ¥5,638 million and ¥4,885 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 ¥1,879 million and ¥5,697 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, 2021	Year ended March 31, 2022
Fair value at the date of derecognition	3,809	11,267
Cumulative gain or loss at the date of derecognition	2,643	8,201
Dividends income on investments that have been derecognised	80	226

(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, 2020 to March 31, 2021

(Millions of yen)

	Opening balance as of April 1, 2020	Cash flow	Changes arising from non-cash transactions			Closing balance as of March 31, 2021
			Increase due to business combinations	Increase due to contract	Foreign exchange translation, etc.	
Corporate bonds	130,000	—	—	—	—	130,000
Short-term loans payable	57,450	39,194	1,871	—	4,957	103,474
Long-term loans payable	91,719	6,584	—	—	660	98,965
Lease liabilities	21,331	-4,409	143	3,161	-47	20,179
Total	300,502	41,369	2,015	3,161	5,570	352,619

From April 1, 2021 to March 31, 2022

(Millions of yen)

	Opening balance as of April 1, 2021	Cash flow	Changes arising from non-cash transactions			Closing balance as of March 31, 2022
			Increase due to business combinations	Increase due to contract	Foreign exchange translation, etc.	
Corporate bonds	130,000	-10,000	—	—	—	120,000
Short-term loans payable	103,474	-22,035	—	—	2,305	83,744
Long-term loans payable	98,965	-304	—	—	1,052	99,712
Lease liabilities	20,179	-4,722	—	7,794	498	23,750
Total	352,619	-37,062	—	7,794	3,856	327,207

28. Earnings per share

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

	Year ended March 31, 2021	Year ended March 31, 2022
Basic earnings per share	¥0.69	¥32.35
Diluted earnings per share	¥0.69	¥32.26

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

	Year ended March 31, 2021	Year ended March 31, 2022
Net income attributable to owners of the parent (millions of yen)	355	16,587
Weighted average number of issued common shares (thousand shares)	512,427	512,760
Impact of dilution: Board Benefit Trust, etc. (thousand shares)	1,627	1,466
Weighted average number of issued common shares after dilution (thousand shares)	514,054	514,227

29. Dividends

(1) Dividends paid

Year ended March 31, 2021

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 June 2, 2020	Common shares	5,183	10.00	March 31, 2020	June 30, 2020
Meeting of Board of Directors held on November 2, 2020	Common shares	5,183	10.00	September 30, 2020	December 8, 2020

(Note 1) 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.

(Note 2) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on November 2, 2020 includes dividend of ¥53 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

Year ended March 31, 2022

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 20, 2021	Common shares	5,183	10.00	March 31, 2021	June 11, 2021
Meeting of Board of Directors held on November 1, 2021	Common shares	5,183	10.00	September 30, 2021	December 3, 2021

(Note 1) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on May 20, 2021 includes dividend of ¥53 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 November 1, 2021 includes dividend of ¥50 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, 2021

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 20, 2021	Common shares	Retained earnings	5,183	10.00	March 31, 2021	June 11, 2021

(Note) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on May 20, 2021 includes dividend of ¥53 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

Year ended March 31, 2022

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 20, 2022	Common shares	Retained earnings	7,775	15.00	March 31, 2022	June 9, 2022

(Note) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on May 20, 2022 includes dividend of ¥75 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

30. 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, 2021	As of March 31, 2022
Purchase of finished goods	44,854	48,813
Balance of Accounts payable trade	10,811	9,849

(Note) 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)

	As of March 31, 2021	As of March 31, 2022
Fixed remuneration/performance-linked remuneration	1,348	1,156
Share-based payments	655	298
Total	2,003	1,455

31. Contingencies

(Litigation and other legal matters)

Regarding sales of their products in the past, the Company and certain subsidiaries were under investigation by relevant authorities outside Japan on suspicion of violating competition laws. These respective investigations have effectively been completed.

At the end of the current consolidated fiscal year, the Company has posted reasonably estimated losses in “provisions (non-current)” in connection with possible actions, including payment of potential settlement money related to alleged violations of competition laws in past sales of its and certain subsidiaries’ products. In addition to these actions in relation to which such losses 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.

In addition, on and after January 13, 2021 (local time), the plaintiffs, consisting of residents in the vicinity of a tank terminal and others, filed several lawsuits with district courts in the State of Texas, U.S. against Intercontinental Terminals Company LLC (“ITC”), a U.S. company which is the owner of the tank terminal, and other related parties, alleging that a fire occurred on March 17, 2019 (local time) at the tank terminal owned by ITC in Houston, Texas, and that the plaintiffs suffered damage, such as, among other damage, health problems due to the fire. Subsequently, the plaintiffs filed multiple lawsuits against the Company and certain subsidiaries, along with other related parties, alleging that the NSK Group’s products were used for some of the equipment in the tank terminal. The NSK Group will continue to fight against these claims, arguing that the NSK Group’s products had nothing to do with the fire.

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.

32. Events after the reporting period

Not applicable.

(2) 【Others】

① Quarterly information from April 1, 2021 to March 31, 2022

	First quarter (Period from April 1, 2021 to June 30, 2021)	Second quarter (Period from April 1, 2021 to September 30, 2021)	Third quarter (Period from April 1, 2021 to December 31, 2021)	161st Consolidated fiscal year (Period from April 1, 2021 to March 31, 2022)
Sales (millions of yen)	213,458	417,764	632,780	865,166
Income before income taxes (millions of yen)	9,305	15,624	20,932	29,516
Net income attributable to owners of the parent (millions of yen)	4,712	7,760	12,055	16,587
Basic earnings per share (yen)	9.19	15.14	23.51	32.35

	First quarter (Period from April 1, 2021 to June 30, 2021)	Second quarter (Period from July 1, 2021 to September 30, 2021)	Third quarter (Period from October 1, 2021 to December 31, 2021)	Fourth quarter (Period from January 1, 2022 to March 31, 2022)
Quarterly basic earnings per share (yen)	9.19	5.94	8.37	8.84

In the fiscal year ended March 31, 2022, the Company finalised the provisional accounting treatment for the business combination, and the related figures for the fiscal year ended March 31, 2021 reflect the details of the finalisation of the provisional accounting treatment. This business combination is stated in “Note 5. Business combinations”.

② Important litigation and other legal matters

The important litigation and other legal matters are stated in ”Note 31. Contingencies (Litigation and other legal matters)”.

Independent Auditor’s Audit Report and Internal Control Audit Report

June 28, 2022

The Board of Directors
NSK Ltd.

Ernst & Young ShinNihon LLC
Tokyo, Japan

Designated Engagement Partner Certified Public Accountant	Koki Ito
Designated Engagement Partner Certificated Public Accountant	Makoto Matsumura
Designated Engagement Partner Certificated Public Accountant	Yutaka Okubo

<Financial statements audit>

Opinion

We have audited, pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act of Japan, the consolidated financial statements included in “Financial Information”, which consist of the consolidated statements of financial position, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows, and material basis of the preparation of consolidated financial statements and other notes of NSK Ltd. and its subsidiaries (the “Group”) for the fiscal year ended March 31, 2022 (April 1, 2021 through March 31, 2022).

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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial statements.

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

(1) Estimation of value in use to assess impairment of the automotive components business	
Description of Key Audit Matter	Auditor's Response
As described in Paragraph (11) "Impairment of non-financial assets" in Note 3 "Summary of significant accounting policies" to the consolidated financial statements, NSK Ltd. (the "Company") assesses whether there is any indication that an asset or a cash-generating unit may be impaired as at the end of each reporting period. Of property, plant and equipment and intangible assets recorded in the consolidated statement of financial position, the Company has identified indications of impairment on property, plant and equipment and intangible assets of the cash-generating unit pertaining to the automotive components business included in the Automotive Business segment due to changes in the business environment, including changes in electric power steering technology trends. The Company therefore tested these assets for impairment in accordance with IAS 36 Impairment of Assets and, as a result of comparing the value in use of the cash-generating unit with the carrying amount of related property, plant and equipment and intangible assets, the Company determined that the value in use was less than the carrying amount and accordingly reduced the carrying amount to the recoverable amount of ¥43,300 million and recognized impairment loss of ¥9,044 million for the year ended March 31, 2022 (the "current year"). The value in use is calculated using the discount rate and the estimated future cash flows based on the business plan for the period corresponding to the estimated remaining useful lives of the assets in the cash-generating unit. As described in ④ "Impairment loss on fixed assets in the automotive components business" under Paragraph (6) "Use of estimates and judgments" in Note 2 "Basis of preparation" to the consolidated financial statements, the key assumptions used in estimating the value in use are as follows: (1) forecasted sales volume for each customer based on the information on expected production volume for the automotive industry that was used in formulating the business plan, (2) operating expenses including research and development expenses to earn revenue,	We mainly performed the following audit procedures to evaluate management's estimation of value in use calculated to assess impairment of the cash-generating unit of the automotive components business: ・In order to evaluate the effectiveness of management's estimation process, we obtained the business plan that serves as the basis for the estimation and compared the business plan formulated in the previous year with the results for the current year and with the business plan for the following years that was revised at the end of the current year and obtained an understanding of the reasons for the differences. ・[Procedures to address (1) to the left] a. In order to evaluate management's estimate of revenue in the business plan, we obtained detailed sales order information and made inquiries of management and, accordingly, evaluated the consistency with revenue forecasts included in the business plan, including forecasts related to the timing of the end of production (EOP) for the Company's products. b. We obtained information on the expected production volume of the automobile industry and evaluated its consistency with the business plan, including the timing with which automobile production volume will recover following the end of the semiconductor shortage. ・[Procedures to address (2) to the left] We compared estimated operating expenses with past performance, including development information by project, and evaluated management's estimates of future operating expenses. ・[Procedures to address (3) to the left] We involved valuation specialists from our network firm in verifying the real estate appraisal that forms the basis for the estimated disposal value of assets in the cash-generating unit as at the end of the estimated remaining useful lives. ・[Procedures to address (4) to the left] With regard to the valuation method and the discount rate used to calculate value in use, we involved valuation specialists

(3) estimated disposal value of assets in the cash-generating unit as at the end of the estimated remaining useful lives, and (4) the discount rate calculated based on the weighted average cost of capital. Given that the key assumptions used in estimating the value in use described above are highly uncertain and require management's judgment since they are greatly affected by the economic and social disruption resulting from the COVID-19 pandemic, supply shortages of semiconductors, which are one of the key components in automobiles, and changes in the external environment (e.g., rising prices of steel and other raw materials), we have determined that this is a key audit matter.	from our network firm to evaluate the consistency between the valuation method adopted and the applicable accounting standards and to evaluate the consistency between the inputs used to calculate the discount rate and industry information. Although the Company identified indications that property, plant and equipment and intangible assets of the cash-generating unit pertaining to the automotive components business may have been impaired in the previous year as well, it did not recognize any impairment loss since it determined, as a result of comparing the value in use of the cash-generating unit with the carrying amount of the related property, plant and equipment and intangible assets, that the value in use exceeded the carrying amount. We compared the business plan used in the assessment of impairment for the previous year with the business plan used in the assessment of impairment for the current year and evaluated the reasonableness of significant changes between the plans by performing procedures such as making inquiries of management, inspecting internal documents, and inspecting documents obtained from customers.

<table>
<tr><td colspan="2">(2) Estimate of fair value of intangible assets at the acquisition-date identified in the acquisition of the Condition Monitoring System Business</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor’s Response</th></tr>
<tr><td>As described in Note 5 “Business Combinations” to the consolidated financial statements, on December 10, 2020, the Company's Board of Directors resolved to acquire the condition monitoring system business (the “BKV Business”) known under the Brüel & Kjær Vibro brand and, on the same day, signed a transfer agreement with Spectris Plc. of the United Kingdom, the owner of the BKV Business, and completed the acquisition procedures on March 1, 2021. The method of acquisition of the acquired company (i.e., the method of acquisition) was an acquisition of shares with cash as consideration, and the cash and cash equivalents used in the acquisition amounted to ¥21,114 million.
The Company completed the measurement of the identifiable assets acquired and liabilities assumed (purchase price allocation) in the current year and, as a result, recorded intangible assets of ¥10,998 million (mainly, customer relationship assets of ¥6,145 million and trademarks of ¥3,440 million) and goodwill of ¥13,221 million.
As described in ⑤ Estimate of fair value of intangible assets at the acquisition-date identified in the acquisition of the Condition Monitoring System Business under Paragraph (6) “Use of estimates and judgments” in Note 2 “Basis of preparation” to the consolidated financial statements, the Company measures intangible assets by discounting the future cash flows from the assets (the income approach) and, as such, the measurement of intangible assets is affected by estimates of future cash flows and the discount rate.
The key assumptions used in measuring intangible assets include (1) sales to customers and (2) revenue growth rate, both of which are included in future business plans for the BKV Business, as well as (3) operating income margin, (4) discount rate, (5) rate of decline in existing customers used in measuring customer relationship assets, and (6) royalty rate used in measuring trademarks.
Given that the measurement of intangible assets in business combinations is highly uncertain and requires management’s judgment since such measurement involves applying multiple calculation elements to relatively complex measurement models, and considering that long-term estimation periods are used in the calculations, we have determined that this is a key audit matter.</td>
<td>We mainly performed the following procedures with regard to the measurement of the intangible assets:
・We obtained an understanding of the details and purpose of the transaction by related documents such as Operating Committee materials and agreements and making inquiries of management.
・We evaluated the competence, capabilities, and objectivity of the specialists used by management in measuring intangible assets.
・We involved valuation specialists from our network firm to perform procedures to consider the valuation method for intangible assets and the key assumptions used in the estimate of future cash flows, including the following:
a. We conducted whether the measurement model used by the Company conforms with the relevant standards and whether it is consistent with valuation practice.
b. We conducted whether the measurement model was appropriately applied and, specifically, whether data was appropriately used and whether the key assumptions were appropriately applied.
c. [Procedures to address (1) and (3) to the left] In order to evaluate management’s estimates of sales to customers and operating income margin, which are included in future business plans for the BKV Business, we obtained sales order information and evaluated the consistency with revenue forecasts included in the business plan. In addition, we compared the business plan to actual results and analyzed the factors contributing to any differences.
・[Procedures to address (2), (4), (5), and (6) to the left] Regarding the key assumptions on which estimates are based (e.g., revenue growth rate, rate of decline in existing customers, discount rate, and royalty rate), we considered whether there is a reasonable basis for the assumptions used by the Company by performing procedures such as making inquiries of specialists used by the Company and inspecting documents.</td></tr>
</table>

“Recoverability of deferred tax assets,” which was a key audit matter in the auditor’s report for the fiscal year ended March 31, 2021 (the “previous fiscal year”), was omitted as it is no longer a key audit matter for the current fiscal year in consideration of its relative significance given the decreased uncertainty associated with the key assumptions underlying estimates of taxable profit based on estimated future profitability, which were deemed to involve significant uncertainty in the previous fiscal year.

Other Information

Other information comprises information contained in the Annual Securities Report other than the consolidated financial statements, the non-consolidated financial statements, and the audit report of the consolidated financial statements and the non-consolidated financial statements. Management is responsible for the preparation and disclosure of the other information. The Audit Committee responsible for overseeing the Group’s reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 IFRS, 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 IFRS, 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 judgement 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 IFRS.
・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.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Internal control audit>

Opinion

We also have audited, pursuant to the provisions of Article 193-2, paragraph (2) of the Financial Instruments and Exchange Act of Japan, the internal control report as of March 31, 2022 of NSK Ltd.

In our opinion, the internal control report referred to above, which represents that the internal control over financial reporting of NSK Ltd. as of March 31, 2022 is effective, presents fairly, in all material respects, the result of management's assessment on internal control over financial reporting in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under auditing standards for internal control over financial reporting are described in the Auditor's Responsibilities for Audit of the Internal Control section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

Responsibilities of Management and Audit Committee for the Internal Control Report

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the internal control report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

The Audit Committee is responsible for supervising and inspecting the provision and status of operation of internal control over financial reporting.

Internal control over financial reporting may not prevent or detect misstatements.

Auditor's Responsibilities for Audit of the Internal Control

Our responsibilities are to obtain reasonable assurance about whether the internal control report is free from material misstatement and to issue an auditor's report of internal control that expresses our opinion on the internal control report based on our audit from an independent point of view.

In accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. Our audit of the internal control involves the following:

・We perform auditing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in the internal control report. The procedures selected depend on our judgment as the Independent Auditor, including the significance of effects on reliability of financial reporting.

・We evaluate the overall internal control report presentation, including the appropriateness of the scope, procedures and result of the assessment determined and presented by management.

・We obtain sufficient and appropriate audit evidence about the results of the assessment of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding the planned scope and timing of the audit of the internal control and significant findings of the audit of the internal control, significant deficiencies in internal control that we identified requiring disclosure, results of the correction of such deficiencies and other matters required by auditing standards for internal control.

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.

Although the Independent Auditor's Audit Report and Internal Control Audit Report includes opinions on "Internal control audit" and "Other information" included in the original Annual Securities Report, these information have not been translated into English and are not included in the English translation of the Consolidated Financial Statements.

(Note) 1 The original version of the Independent Auditor's Audit Report presented above is kept separately by the Company (the filing company of the Annual Securities Report).

2 XBRL data is not included in the scope of audit.