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Consolidated Financial Statements

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

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, 2022 to March 31, 2023) and its non-consolidated financial statements for the fiscal year (from April 1, 2022 to March 31, 2023), 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, 2022	As of March 31, 2023
Assets			
Current assets			
Cash and cash equivalents	5	137,504	160,109
Trade receivables and other receivables	6	209,351	207,812
Inventories	7	196,736	197,754
Other financial assets	11	1,658	1,590
Income tax receivables	16	5,562	1,633
Other current assets		19,065	18,756
Total current assets		569,879	587,656
Non-current assets			
Property, plant and equipment	8,14	379,042	385,613
Goodwill and intangible assets	9,14	43,987	49,227
Investments accounted for using equity method	18	30,824	30,699
Other financial assets	11	66,094	56,425
Deferred tax assets	16	15,128	15,288
Net defined benefit assets	17	123,989	101,165
Other non-current assets		5,603	7,179
Total non-current assets		664,672	645,600
Total assets		1,234,551	1,233,256
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables and other payables	12	119,855	112,535
Other financial liabilities	13	113,882	129,801
Provisions	15	516	536
Income tax payables	16	5,990	7,797
Other current liabilities		56,758	56,678
Total current liabilities		297,003	307,348
Non-current liabilities			
Financial liabilities	13	214,684	231,309
Provisions	15	3,050	1,867
Deferred tax liabilities	16	56,084	32,661
Net defined benefit liabilities	17	17,714	16,027
Other non-current liabilities		8,555	9,318
Total non-current liabilities		300,088	291,183
Total liabilities		597,091	598,532
Equity			
Issued capital	19	67,176	67,176
Capital surplus	19	80,374	80,476
Retained earnings	19	410,872	415,736
Treasury shares	19	−37,025	−36,781
Other components of equity		96,402	89,604
Total equity attributable to owners of the parent		617,800	616,213
Non-controlling interests		19,659	18,511
Total equity		637,460	634,724
Total liabilities and equity		1,234,551	1,233,256

② [Consolidated statements of income]

(Millions of yen)

	Note	Year ended March 31, 2022	Year ended March 31, 2023
Sales	21	865,166	938,098
Cost of sales		695,440	747,033
Gross profit		169,725	191,065
Selling, general and administrative expenses	22	144,724	159,319
Share of profits of investments accounted for using the equity method	18	3,785	3,196
Other operating income	23	10,225	—
Other operating expenses	24	9,582	2,005
Operating income		29,430	32,936
Financial income	25	2,229	2,369
Financial expenses	25	2,143	3,380
Income before income taxes		29,516	31,926
Income tax expense	16	11,851	13,264
Net income		17,664	18,661
Net income attributable to:			
Owners of the parent		16,587	18,412
Non-controlling interests		1,077	249
(Earnings per share attributable to owners of the parent)			
Basic earnings per share (yen)	27	32.35	35.89
Diluted earnings per share (yen)	27	32.26	35.77

③ [Consolidated statements of comprehensive income]

(Millions of yen)

	Note	Year ended March 31, 2022			Year ended March 31, 2023		
		Before tax effect	Tax effect	Amount (net)	Before tax effect	Tax effect	Amount (net)
Net income				17,664			18,661
Other comprehensive income							
Items that will not be reclassified to profit or loss							
Remeasurements of net defined benefit liability (asset)		32,433	−11,263	21,170	−24,255	9,768	−14,486
Net changes in financial assets measured at fair value through other comprehensive income		−2,353	710	−1,642	−5,550	1,711	−3,839
Share of other comprehensive income of investments accounted for using equity method		235	−68	166	−329	96	−232
Total items that will not be reclassified to profit or loss		30,315	−10,621	19,694	−30,135	11,576	−18,558
Items that may be reclassified to profit or loss							
Exchange differences on translating foreign operations		35,774	—	35,774	13,774	—	13,774
Share of other comprehensive income of investments accounted for using equity method		872	—	872	169	—	169
Total items that may be reclassified to profit or loss		36,647	—	36,647	13,943	—	13,943
Total other comprehensive income		66,963	−10,621	56,341	−16,192	11,576	−4,615
Total comprehensive income for the period				74,006			14,046
Total comprehensive income for the period attributable to:							
Owners of the parent				72,220			13,449
Non-controlling interests				1,785			597

④ [Consolidated statements of changes in equity]

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	19	—	—	—	−8
Disposal of treasury shares	19	—	−14	—	286
Share-based payment transactions	20	—	42	—	—
Cash dividends	28	—	—	−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	Net changes in financial assets measured at fair value through other comprehensive income	Remeasurements 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	19	—	—	—	—	−8	—	−8
Disposal of treasury shares	19	—	—	—	—	271	—	271
Share-based payment transactions	20	—	—	—	—	42	—	42
Cash dividends	28	—	—	—	—	−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

From April 1, 2022 to March 31, 2023

(Millions of yen)

	Note	Equity attributable to owners of the parent			
		Issued capital	Capital surplus	Retained earnings	Treasury shares
Opening balance		67,176	80,374	410,872	−37,025
Net income		—	—	18,412	—
Other comprehensive income		—	—	—	—
Total comprehensive income for the period		—	—	18,412	—
Purchase of treasury shares	19	—	—	—	−8
Disposal of treasury shares	19	—	28	—	252
Share-based payment transactions	20	—	74	—	—
Cash dividends	28	—	—	−15,403	—
Other		—	—	1,855	—
Total transactions with owners, etc.		—	102	−13,548	243
Closing balance		67,176	80,476	415,736	−36,781

	Note	Equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity						
		Exchange differences on translating foreign operations	Net changes in financial assets measured at fair value through other comprehensive income	Remeasurements of net defined benefit liability (asset)	Total	Total		
Opening balance		25,316	27,460	43,625	96,402	617,800	19,659	637,460
Net income		—	—	—	—	18,412	249	18,661
Other comprehensive income		13,606	−3,809	−14,759	−4,962	−4,962	347	−4,615
Total comprehensive income for the period		13,606	−3,809	−14,759	−4,962	13,449	597	14,046
Purchase of treasury shares	19	—	—	—	—	−8	—	−8
Disposal of treasury shares	19	—	—	—	—	280	—	280
Share-based payment transactions	20	—	—	—	—	74	—	74
Cash dividends	28	—	—	—	—	−15,403	−1,744	−17,148
Other		—	−1,835	—	−1,835	20	—	20
Total transactions with owners, etc.		—	−1,835	—	−1,835	−15,037	−1,744	−16,782
Closing balance		38,922	21,816	28,865	89,604	616,213	18,511	634,724

⑤ [Consolidated statements of cash flows]

(Millions of yen)

	Note	Year ended March 31, 2022	Year ended March 31, 2023
Operating activities			
Income before income taxes		29,516	31,926
Depreciation and amortisation		56,558	58,376
Impairment loss	10	10,222	50
Increase (decrease) in net defined benefit liability and net defined benefit asset		−2,442	−3,056
Interest and dividend income		−1,728	−1,987
Interest expenses		2,573	3,726
Share of profits of investments accounted for using the equity method		−3,785	−3,196
Loss (gain) on sales of property, plant and equipment		−10,048	−157
Decrease (increase) in trade receivables		−11,902	5,100
Decrease (increase) in inventories		−34,821	6,330
Increase (decrease) in trade payables		442	−10,130
Other		−2,707	−3,820
Subtotal		31,876	83,161
Interest and dividend received		5,241	5,122
Interest expenses paid		−2,936	−3,670
Income tax paid		−11,447	−20,449
Net cash provided by operating activities		22,733	64,163
Investing activities			
Purchases of property, plant and equipment		−36,063	−44,292
Proceeds from sale of property, plant and equipment		10,829	302
Purchases of intangible assets		−5,559	−7,457
Purchases of other financial assets		−20	−118
Proceeds from sale of other financial assets		11,290	3,348
Other		−450	−561
Net cash used in investing activities		−19,973	−48,778
Financing activities			
Increase (decrease) in short-term loans	26	−22,035	−8,065
Proceeds from long-term loans	26	9,000	16,409
Repayments of long-term loans	26	−9,304	−14,436
Proceeds from issuance of corporate bonds	26	—	43,000
Payments for redemption of corporate bonds	26	−10,000	−10,000
Repayments of lease liabilities	26	−4,722	−5,636
Acquisition of treasury shares		−1	−1
Dividends paid	28	−10,259	−15,386
Dividends paid to non-controlling interests		−1,164	−1,744
Other		263	280
Net cash provided by (used in) financing activities		−48,224	4,417
Effect of exchange rate changes on cash and cash equivalents		6,330	2,801
Net increase (decrease) in cash and cash equivalents		−39,133	22,604
Cash and cash equivalents at the beginning of the period	5	176,638	137,504
Cash and cash equivalents at the end of the period	5	137,504	160,109

[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, 2023 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, condition monitoring systems, 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, 2023 were approved by President and CEO Akitoshi Ichii on June 23, 2023.

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”)

”Purchases of intangible assets” was included in “Other” under “Investing activities” in the previous consolidated fiscal year, but has been presented as a separate account in the current consolidated fiscal year due to financial materiality.

As a result, the amount of ¥(6,010) million presented in “Other” under “Investing activities” in the consolidated statements of cash flows for the previous consolidated fiscal year has been reclassified into ¥(5,559) million in “Purchases of intangible assets” and ¥(450) 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 and Ukraine crisis have been reflected in estimates and judgements to the extent deemed reasonable based on information currently available.

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 16. Income taxes)

(a) Amount recorded as of March 31, 2023

Deferred tax assets ¥30,737 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 17. Post-employment benefit)

(a) Amount recorded as of March 31, 2023

Present value of defined benefit obligations ¥182,069 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 of 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 26. Financial instruments)

Amount recorded as of March 31, 2023 ¥5,229 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.

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.

・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

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.

(9) Goodwill and 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 Intangible assets

The NSK Group adopts the *cost model* for measurement of intangible assets. 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 or intangible assets 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 is 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, condition monitoring systems, bearings for car manufacturers and automotive component manufacturers, steering systems, automatic transmission components, etc. For revenue by sales of products such as bearings, 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. For transactions whereby control over goods and services, etc. is transferred over time such as providing condition monitoring system services, the Company measures its progress towards complete satisfaction of that performance obligation on the basis of output or input methods in consideration of the nature of the goods and services for the purpose of recognising revenue. 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, condition monitoring systems, etc.

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

In order to expand the Condition Monitoring System business (hereinafter CMS business) and establish a product lifecycle management business model, on October 1, 2022, the NSK Group established the Condition Monitoring System Division Headquarters under the Industrial Machinery Business Division Headquarters. Accordingly, the NSK Group has reclassified the CMS business from the “Others” business to the “Industrial Machinery” business as of the third quarter of the fiscal year ended March 31, 2023. Prior year amounts have been reclassified to conform to the current segment categorisation.

(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, 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	352,226	482,547	834,774	30,392	865,166	—	865,166
Intersegment sales	—	—	—	22,911	22,911	−22,911	—
Total	352,226	482,547	834,774	53,304	888,078	−22,911	865,166
Segment income (loss) (Operating income)	30,353	−13,762	16,590	2,871	19,462	9,967	29,430
Total financial income (expenses)							86
Income before income taxes							29,516
Other items							
Capital expenditure	22,232	23,454	45,686	6,624	52,311	—	52,311
Depreciation and amortisation	21,374	30,994	52,368	4,469	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 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 10. Impairment of non-financial assets".

From April 1, 2022 to March 31, 2023

(Millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustments (Note 2)	Consolidated
	Industrial Machinery Business	Automotive Business	Subtotal				
Sales							
Sales to third parties	385,103	520,711	905,815	32,283	938,098	—	938,098
Intersegment sales	—	—	—	26,715	26,715	−26,715	—
Total	385,103	520,711	905,815	58,999	964,814	−26,715	938,098
Segment income (loss) (Operating income)	35,541	−3,951	31,590	2,159	33,750	−813	32,936
Total financial income (expenses)							−1,010
Income before income taxes							31,926
Other items							
Capital expenditure	28,972	29,463	58,435	3,649	62,085	—	62,085
Depreciation and amortisation	23,562	30,428	53,991	4,636	58,627	−251	58,376
Share of profits of investments accounted for using the equity method	773	2,373	3,147	49	3,196	—	3,196

(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 ¥(813) million adjustment made for segment income includes intersegment elimination of ¥251 million and ¥(1,064) million in other operating expenses not allocated to the reportable segments.

(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, 2022	Year ended March 31, 2023
Japan	317,612	310,745
The Americas	125,094	168,014
Europe	111,890	130,076
China	182,036	184,458
Other Asia	128,532	144,803
Total	865,166	938,098

(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, 2022	As of March 31, 2023
Japan	223,306	233,153
The Americas	30,844	32,660
Europe	60,452	60,789
China	65,788	64,937
Other Asia	42,637	43,300
Total	423,029	434,841

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

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

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

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

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

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

(5) Information on major customers

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

5. Cash and cash equivalents

Cash and cash equivalents consisted of the following.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Cash and deposits	86,108	138,679
Short-term investments	51,396	21,429
Total	137,504	160,109

6. Trade receivables and other receivables

Trade receivables and other receivables consisted of the following.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Trade receivables	203,632	202,529
Allowance for doubtful accounts	−1,071	−786
Other	6,790	6,069
Total	209,351	207,812

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 recognised in "Other financial liabilities" are as follows.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Carrying amount of transferred assets	2,346	—
Carrying amount of related liabilities	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, 2022	As of March 31, 2023
Opening balance	−534	−1,071
Increase during the period	−597	−98
Decrease due to utilisation	24	61
Reversal during the period	76	384
Other	−40	−62
Closing balance	−1,071	−786

7. Inventories

Inventories consisted of the following.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Finished goods	99,505	94,829
Work in process	60,852	62,824
Raw materials and supplies	36,378	40,100
Total	196,736	197,754

Inventories recognised as expenses during the period amounted to ¥695,440 million including write-downs of ¥7,101 million in the previous consolidated fiscal year, and ¥747,033 million including write-downs of ¥9,150 million in the current consolidated fiscal year.

8. Property, plant and equipment

(1) Breakdown of property, plant and equipment

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

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Property, plant and equipment	355,509	362,587
Right-of-use assets	23,533	23,026
Total	379,042	385,613

(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, 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
Acquisitions	515	1,459	441	—	45,323	47,738
Disposals	−1,196	−14,933	−3,084	—	−340	−19,555
Transfers from construction in progress	8,051	26,634	6,904	935	−42,526	—
Foreign exchange translation differences	4,761	19,661	3,429	314	574	28,741
Other	−149	−956	−101	—	442	−765
Balance as of March 31, 2023	300,260	823,280	117,613	40,787	30,420	1,312,363

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, 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
Depreciation costs	−8,114	−32,706	−6,376	—	—	−47,197
Impairment loss	—	−74	−17	—	40	−50
Disposals	954	14,496	3,000	—	—	18,451
Foreign exchange translation differences	−3,210	−15,958	−2,752	—	−7	−21,928
Other	730	621	79	—	212	1,644
Balance as of March 31, 2023	−198,065	−652,851	−98,704	—	−153	−949,775

(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 10. 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, 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
Balance as of March 31, 2023	102,195	170,429	18,908	40,787	30,266	362,587

9. Goodwill and intangible assets

(1) Breakdown of goodwill and intangible assets

“Goodwill and intangible assets” in consolidated statements of financial position consisted of the following.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Goodwill and intangible assets	43,987	47,571
Right-of-use assets	—	1,656
Total	43,987	49,227

(2) Change in goodwill and intangible assets

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

Cost

(Millions of yen)

	Goodwill	Software	Patent	Customer relationship assets	Technology	Trademarks	Other	Total
Balance as of April 1, 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
Acquisitions	—	6,658	498	—	—	—	508	7,666
Disposals	—	−2,799	−491	—	—	—	−14	−3,305
Foreign exchange translation differences	894	638	4	426	77	238	55	2,335
Other	—	−60	—	—	—	—	−3	−64
Balance as of March 31, 2023	15,549	35,137	6,093	6,949	1,263	3,890	2,601	71,485

Accumulated amortisation and accumulated impairment loss

(Millions of yen)

	Goodwill	Software	Patent	Customer relationship assets	Technology	Trademarks	Other	Total
Balance as of April 1, 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
Amortisation costs	—	−4,505	−696	−320	−122	—	−108	−5,752
Disposals	—	2,768	491	—	—	—	12	3,272
Foreign exchange translation differences	—	−485	−3	−32	−12	—	−35	−570
Other	—	0	—	—	—	—	0	0
Balance as of March 31, 2023	—	−19,065	−3,054	−689	−263	—	−841	−23,913

(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 10. 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, 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
Balance as of March 31, 2023	15,549	16,071	3,039	6,259	1,000	3,890	1,760	47,571

(Note 1) Customer relationship assets, technology and trademarks were recognised due to the acquisition of the condition monitoring system business on March 1, 2021. The remaining useful life of customer relationship assets and technology are 19 years and 8 years, respectively. Trademarks basically exists as long as the business continues so it is recognised as intangible assets with no determined useful life.

(Note 2) There were no material internally generated intangible assets as at each year end.

(3) 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	Year ended March 31, 2023
Industrial Machinery Bearings Business	Industrial Machinery Business	Goodwill	14,088	14,951
		Trademarks	3,651	3,890

(Note) In order to expand the CMS business and establish a product lifecycle management business model, the NSK Group established the Condition Monitoring System Division Headquarters under the Industrial Machinery Business Division Headquarters in the fiscal year ended March 31, 2023. Accordingly, the CMS business, which was previously an independent cash-generating unit, has been combined with the Industrial Machinery Bearings Business. Goodwill that had been allocated to the CMS Business has been reallocated to this cash- generating unit.

The NSK Group recognises the impairment loss of goodwill when the recoverable amount of a cash-generating unit is less than its carrying amount.

There is no impairment loss recorded in the prior consolidated fiscal year. The recoverable amount of the relevant cash-generating unit is measured based on the value in use in CMS business. 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 prior 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.

There is no impairment loss recorded in the current consolidated fiscal year. The recoverable amount of the relevant cash-generating unit is measured based on the value in use in the Industrial Machinery Bearings Business. 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 four-year business plan that reflects sales trends for each product sector and individual products, and terminal value after the 5th year. Regarding terminal value, the growth rate of 0% is used. The discounted present value of future cash flow is calculated by using a discount rate before tax of 8.9%.

The recoverable amount exceeds the carrying amount of the cash-generating unit sufficiently and impairment loss would not occur even if the assumptions used varied within a reasonable range.

10. 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, 2021 to March 31, 2022

In the automotive steering 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. 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.

From April 1, 2022 to March 31, 2023

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 ¥50 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.

11. Other financial assets

Other financial assets consisted of the following.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Time deposits over 3 months	1,510	1,345
Other	147	244
Total other current financial assets	1,658	1,590
Investment securities	56,600	47,807
Other	9,494	8,618
Total other non-current financial assets	66,094	56,425

12. Trade payables and other payables

Trade payables and other payables consisted of the following.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Trade payables	102,825	94,603
Other	17,029	17,931
Total	119,855	112,535

13. Other financial liabilities

Other financial liabilities consisted of the following.

(Millions of yen)

Classification	As of March 31, 2022	As of March 31, 2023	Average interest rate (%)	Due date for repayment
Short-term debt	83,744	79,937	3.0	—
Current portions of long-term debt	14,311	29,626	1.1	—
Current portions of bonds	10,000	15,000	(Note 2)	
Other	5,826	5,237	—	—
Total other current financial liabilities	113,882	129,801	—	—
Long-term debt	85,401	73,173	0.8	2024 to 2035
Corporate bonds	110,000	138,000	(Note 2)	
Other	19,282	20,135	—	—
Total other non-current financial liabilities	214,684	231,309	—	—

(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, 2022	Balance as of March 31, 2023	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)	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	—	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
NSK Ltd. (i.e., the Company)	53rd Series Unsecured Straight Bonds	September 5, 2022	—	14,000	0.445	None	September 3, 2027
NSK Ltd. (i.e., the Company)	54th Series Unsecured Straight Bonds	September 5, 2022	—	11,000	0.709	None	September 3, 2032
NSK Ltd. (i.e., the Company)	55th Series Unsecured Straight Bonds	March 7, 2023	—	10,000	0.300	None	March 6, 2026
NSK Ltd. (i.e., the Company)	56th Series Unsecured Straight Bonds	March 7, 2023	—	8,000	1.150	None	March 7, 2033

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

14. 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	Intangible assets	Total
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
Carrying amount as of March 31, 2023	15,273	2,398	1,265	4,088	1,656	24,682
Depreciation cost for right-of-use asset year ended March 31, 2023	3,381	925	647	162	308	5,425

Total cash outflow on lease transaction is as follows.

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Total cash outflow on lease transactions	9,229	10,370

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

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Interest expense for lease liability	265	297
Short-term lease payments	2,731	2,908
Low-value asset lease payments	1,465	1,486
Variable lease payments	44	41
Sublease revenue	323	321

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

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Increase in right-of-use asset	7,790	6,680

Changes and the balance by maturity dates of lease liabilities are stated in “Note 26. Financial instruments”.

15. Provisions

Provisions consisted of the following.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Reserves for environmental measures	—	0
Other	516	536
Total current liabilities	516	536
Reserves for environmental measures	1,252	1,314
Other	1,798	552
Total non-current liabilities	3,050	1,867

The change in provisions consisted of the following.

(Millions of yen)

	Reserves for environmental measures	Other	Total
Balance as of March 31, 2022	1,252	2,314	3,566
Amount recognised during the period	127	532	659
Amount of decrease during the period (intended use)	−73	−1,076	−1,150
Amount of decrease during the period (reversal)	—	−853	−853
Other	7	172	180
Balance as of March 31, 2023	1,314	1,089	2,403

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 30. Contingencies (Litigation and other legal matters)”.

16. Income taxes

(1) Deferred tax

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

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	Closing balance (March 31, 2022)
Net 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

Net defined benefit liability	−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 deferred tax expense is attributable to changes in exchange rates.

From April 1, 2022 to March 31, 2023

Deferred tax assets (Millions of yen)

	Opening balance (April 1, 2022)	Amount recognised in profit or loss	Amount recognised in other comprehensive income	Closing balance (March 31, 2023)
Defined benefit liability	2,425	1,932	−2,754	1,603
Non-current assets-internal profit between consolidated companies	282	−81	—	200
Carryforward of unused tax losses	6,310	218	—	6,528
Accrued bonuses	4,180	158	—	4,338
Inventories	3,925	57	—	3,982
Other	14,165	−80	−1	14,083
Total	31,288	2,204	−2,755	30,737

Deferred tax liabilities

Defined benefit asset	−17,644	—	12,509	−5,134
Depreciation costs	−2,020	457	—	−1,562
Reserve for advanced Depreciation on fixed assets	−1,844	88	—	−1,755
Financial assets measured at fair value through other comprehensive income	−13,020	—	2,507	−10,513
Gain on contribution of securities to employees' retirement benefit trust	−9,800	4,900	—	−4,900
Business combination identified assets	−3,487	173	−222	−3,536
Other	−24,425	3,718	—	−20,707
Total	−72,243	9,338	14,794	−48,110
Net deferred tax assets (liabilities)	−40,955	11,543	12,039	−17,373

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

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, 2022	As of March 31, 2023
Carryforward of unused tax losses	6,845	8,843
Deductible temporary differences	10,935	14,977
Carryforward of tax credits	3,045	2,210
Total	20,826	26,031

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, 2022	As of March 31, 2023
Year 1	—	—
Year 2	—	—
Year 3	—	—
Year 4	—	—
After Year 5 or no expiry date	6,845	8,843
Total	6,845	8,843

The amounts of carryforward of unused tax losses for which deferred tax assets have not been recognised with no expiry date in the previous consolidated fiscal year and the current consolidated fiscal year are ¥5,333 million and ¥7,341 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, 2022	As of March 31, 2023
Year 1	834	2,210
Year 2	2,210	—
Year 3	—	—
Year 4	—	—
After Year 5 or no expiry date	—	—
Total	3,045	2,210

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 ¥5,690 million and ¥6,152 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 ¥25,401 million and ¥41,325 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, 2022	Year ended March 31, 2023
Current tax expenses	12,838	24,380
Deferred tax expenses	−986	−11,116
Income tax expense	11,851	13,264

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, 2022	Year ended March 31, 2023
Statutory effective tax rate	30.5 %	30.5 %
Items that are never deductible for income tax purposes such as entertainment expenses	4.4	4.0
Different tax rates applied to income of foreign subsidiaries	−3.8	−6.7
Tax effect of unused tax losses of subsidiaries not recognised in accounting	6.2	3.1
Tax credits	−8.2	−8.9
Changes in unrecognised deferred tax assets	2.3	10.4
Organisational restructuring	—	6.4
Items relating to transfer pricing taxation	1.3	—
Other	7.5	2.8
Effective tax rate after application of tax effect accounting	40.2 %	41.5 %

17. 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, executive 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 Other 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.

Amounts recognised in the consolidated financial statements are as follows.

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

As of March 31, 2023

(Millions of yen)

	Japan	U.K.	Other	Total
Present value of defined benefit obligations	123,748	47,685	10,635	182,069
Fair value of plan assets	−208,314	−53,265	−5,627	−267,207
Total	−84,566	−5,580	5,007	−85,138
Net assets for retirement benefits in the consolidated statement of financial position	−84,566	−5,580	5,007	−85,138

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, 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
Current service cost	4,717	—	680	5,397
Interest cost	1,023	1,737	436	3,197
Remeasurements of net defined benefit liability (asset)				
Actuarial gains or losses arising from changes in demographic assumptions	—	40	−60	−19
Actuarial gains or losses arising from changes in financial assumptions	−1,818	−15,724	−720	−18,263
Retirement benefit paid	−6,888	−2,804	−555	−10,248
Past service cost	43	212	−69	186
Decrease due to settlement	—	—	—	—
Foreign exchange translation differences, etc.	−160	1,320	475	1,635
As of March 31, 2023 Present value of defined benefit obligations	123,748	47,685	10,635	182,069

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	14 years	7 to 8 years

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

(Millions of yen)

	Japan	U.K.	Other	Total
As of April 1, 2021 Fair value of plan asset	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
Interest income	1,925	2,036	211	4,172
Return on plan assets	−20,218	−22,153	−81	−42,453
Contributions by employer	1,807	2,574	756	5,138
Retirement benefit paid	−4,117	−2,804	−339	−7,261
Decrease due to settlement	—	—	—	—
Foreign exchange translation differences, etc.	−274	1,347	79	1,152
As of March 31, 2023 Fair value of plan assets	208,314	53,265	5,627	267,207

The NSK Group plans to make contributions of ¥6,005 million in the fiscal year ending March 31, 2024.

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, 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	—

As of March 31, 2023

(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	74,285	—	—	—	258	—
Bonds	32,917	—	52,950	—	3,723	—
Other	72,437	28,673	315	—	1,645	—
Total	179,640	28,673	53,265	—	5,627	—

Significant actuarial assumptions are as follows.

As of March 31, 2022

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

As of March 31, 2023

	Japan	U.K.	Other
Discount rate	Mainly 1.4%	Mainly 4.8%	Mainly 4.6-4.9%

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, 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.

As of March 31, 2023

(Millions of yen)

		Japan	U.K.	Other
Discount rate	0.5% increase	−7,215	−3,060	−276
	0.5% decrease	7,828	3,559	304

(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, 2022	Year ended March 31, 2023
2,304	2,587

(3) Employee benefit costs

The total amounts of employee benefit costs for the previous consolidated fiscal year and the current consolidated fiscal year were ¥193,136 million and ¥208,055 million, respectively. They are presented in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.

18. 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, 2022	As of March 31, 2023
Current assets	30,154	29,626
Non-current assets	20,675	17,609
Total assets	50,830	47,235
Current liabilities	10,006	10,580
Non-current liabilities	6,901	3,901
Total liabilities	16,907	14,481
Total equity	33,922	32,753
Ownership ratio (%)	50.0%	50.0%
Equity attributable to owners of the parent	16,961	16,376
Consolidated elimination	2,892	2,946
Carrying amount	19,853	19,323

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Sales	56,464	47,101
Income before income taxes	7,151	5,902
Net income	5,378	4,700
Other comprehensive income	209	−491
Total comprehensive income	5,587	4,209

Dividends received by the Company from NSK-Warner K.K. amounted to ¥2,991 million and ¥2,689 million in the previous fiscal year and the current fiscal year, respectively.

19. Equity and other equity items

(1) Issued shares and treasury 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

As of March 31, 2023

	Opening balance (April 1, 2022)	Increase	Decrease	Closing balance (March 31, 2023)
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	38,413,984	12,683	274,495	38,152,172

(Note 1) The number of treasury shares includes 7,669,880 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: 1,750 shares

Treasury shares (the Company's shares) acquired by equity method affiliates attributable to the Company: 10,933 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 : 95 shares

Shares provided from the Board Benefit Trust, etc: 274,400 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.

20. 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, 2022	As of March 31, 2023
Granted in 2015	820,000	585,000	548,000

The number of exercisable share options outstanding and the average exercise prices in the previous consolidated fiscal year and the current consolidated fiscal year are shown in the table below. The weighted average remaining contractual life of unexercised share options was 3.3 years and 2.3 years, respectively, for these periods.

	Year ended March 31, 2022		Year ended March 31, 2023	
	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	717,000	1,806	585,000	1,806
Options exercised during the period	—	—	—	—
Options expired during the period	−132,000	1,806	−37,000	1,806
Unexercised options outstanding at the end of the period	585,000	1,806	548,000	1,806
Exercisable options outstanding at the end of the period	585,000	1,806	548,000	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, 2023. Expenses for equity-settled share-based payment transactions in the consolidated statements of income for the previous and the current consolidated fiscal year are ¥346 million and ¥229 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 ¥(47) million and ¥117 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 6,390,575 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, 2022	Year ended March 31, 2023
Grant date	June 25, 2021	June 28, 2022
Number of share points	39,802	57,391
Share price at the grant date	¥979	¥763
Estimated remaining life (Note 1)	7 years	7 years
Dividend payout ratio (Note 2)	3.1%	3.3%
Discount rate (Note 3)	−0.07%	0.18%
Weighted-average fair value per point	¥790	¥607

(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, 2022	Year ended March 31, 2023
Grant date	April 1, 2021	April 1, 2022
Number of share points (Note 1)	499,782	516,119
Share price at the grant date	¥1,106	¥733
Estimated remaining life (Note 2)	7 years	7 years
Dividend payout ratio (Note 3)	2.3%	4.1%
TOPIX dividend rate (Note 4)	2.0%	2.1%
Discount rate (Note 5)	−0.01%	0.10%
Weighted-average fair value per point	¥948	¥569

(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 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 "executive 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 executive employees, etc. when they retire.

The Company determined to apply performance-based programme for certain corporate officers among executive employees, etc. and revised this programme as of April 1, 2022.

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, 2023. 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 ¥39 million, ¥141 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 ¥17 million, ¥64 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 1,279,305 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 executive employees, etc. excluding certain corporate officers are calculated as follows.

	Year ended March 31, 2022	Year ended March 31, 2023
Grant date	August 1, 2021	August 1, 2022
Number of share points	56,759	92,431
Share price at the grant date	¥899	¥756
Estimated remaining life (Note 1)	5 years	5 years
Dividend payout ratio (Note 2)	3.3%	3.3%
Discount rate (Note 3)	−0.12%	−0.03%
Weighted-average fair value per point	¥761	¥641

(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 major assumptions of weighted-average fair value measurement of the Company's shares granted as stock -based compensation for certain corporate officers are calculated as follows.

	Year ended March 31, 2022	Year ended March 31, 2023
Grant date	—	August 1, 2022
Number of share points (Note1)	—	198,655
Share price at the grant date	¥—	¥756
Estimated remaining life (Note 2)	— years	4 years
Dividend payout ratio (Note 3)	—%	4.0%
TOPIX dividend rate (Note 4)	—%	2.1%
Discount rate (Note 5)	—%	−0.08%
Weighted-average fair value per point	¥—	¥652

(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 of the grant date TOPIX and estimated TOPIX Dividend Index.

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

21. 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, 2021 to March 31, 2022

(Millions of yen)

	Reportable segments			Other	Total
	Industrial Machinery Business	Automotive Business	Subtotal		
Japan	94,858	203,173	298,031	19,580	317,612
The Americas	47,841	76,816	124,658	436	125,094
Europe	57,772	48,841	106,614	5,276	111,890
China	97,282	81,525	178,807	3,228	182,036
Other Asia	54,471	72,190	126,662	1,870	128,532
Total	352,226	482,547	834,774	30,392	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 and the production of machineries.

(Note 5) The NSK Group changed the categories of its reportable segments from the current consolidated fiscal year. The details are stated in "Note 4: Segment information". The reportable segments information for the previous consolidated fiscal year has been reclassified based on the new reportable segments.

From April 1, 2022 to March 31, 2023

(Millions of yen)

	Reportable segments			Other	Total
	Industrial Machinery Business	Automotive Business	Subtotal		
Japan	95,972	195,416	291,388	19,356	310,745
The Americas	63,010	104,588	167,599	414	168,014
Europe	62,773	60,201	122,975	7,101	130,076
China	101,365	79,908	181,273	3,184	184,458
Other Asia	61,981	80,596	142,578	2,225	144,803
Total	385,103	520,711	905,815	32,283	938,098

(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 and the production of machineries.

(Note 5) The NSK Group changed the categories of its reportable segments from the current consolidated fiscal year. The details are stated in “Note 4: Segment information”.

The Industrial Machinery Business engages in the production and sales of industrial machinery bearings, precision machinery and parts, condition monitoring systems, etc. 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 the sales of products such as bearings, 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. For a performance obligation satisfied over time such as providing condition monitoring system services, the Company measures its progress towards complete satisfaction of that performance obligation on the basis of output or input methods in consideration of the nature of the goods and services for the purpose of recognising revenue. 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 6. Trade receivables and other receivables” mainly comprise of receivables arising from contracts with customers.

(3) Transaction price allocated to remaining performance obligations

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

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

22. 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, 2022	Year ended March 31, 2023
Labour costs	62,680	69,911
Logistics expenses	26,567	28,371
Research and development costs	14,583	14,725
Rent expenses	1,619	1,945
Product compensation	3,366	2,979
Depreciation and amortisation	10,002	10,962
Transportation expenses	1,570	2,574
Commission	3,799	4,036
Sales-related expenses	2,865	3,641
Other	17,670	20,170
Total	144,724	159,319

23. 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, 2022	Year ended March 31, 2023
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 previous consolidated fiscal year includes gain from selling the land in Kawasaki City, Kanagawa Prefecture to improve asset efficiency through effective use of management resources.

24. 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, 2022	Year ended March 31, 2023
Foreign exchange losses	—	2,080
Loss related to Antimonopoly Act	133	−782
Business restructuring related expenses	—	940
Impairment loss	9,044	—
Other	404	−233
Total	9,582	2,005

In regards to the claim related to the past sales of the NSK Group’s products on suspicion of violating competition laws, as a result of reviewing the estimates of settlement-related losses recognised in “Provisions (non-current)”, the NSK Group recognised return profit in “Loss related to Antimonopoly Act” for the current consolidated fiscal year.

“Business restructuring related expenses” for the current consolidated fiscal year includes external professional fees related to the restructuring of the steering business. The details are stated in “Note 31: Events after the reporting period (2) Signing of joint venture agreement for steering business”.

The “Impairment loss” for the previous consolidated fiscal year is stated in “Note 10. Impairment of non-financial assets”.

25. 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, 2022	Year ended March 31, 2023
Interests received Financial assets measured at amortised cost	457	760
Dividends received Financial assets measured at fair value through other comprehensive income	1,271	1,227
Other financial income Financial assets measured at amortised cost	500	381
Total financial income	2,229	2,369
Interest expenses Financial liabilities measured at amortised cost	2,573	3,726
Other financial expenses	−430	−346
Total financial expenses	2,143	3,380

26. 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), Return On Investment Capital (ROIC; ratio of consolidated operating income to invested capital) 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, 2022	Year ended March 31, 2023
Income before income taxes	U.S. dollar	0	98
	Euro	13	40

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, 2022			As of March 31, 2023		
	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	19,492	—	−735	19,274	—	−89
Euro	5,894	—	−231	5,490	—	−118
Buy						
U.S. dollar	672	—	−1	1,439	—	−3
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, 2022	Year ended March 31, 2023
Income before income taxes	−837	−799

(c) Price risks

The NSK Group holds equity instruments (shares) of entities primarily with which it has business relationships, 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, 2022	Year ended March 31, 2023
Other comprehensive income	−359	−295

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, 2022 and March 31, 2023 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, 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	—	—	—	—	—

(Millions of yen)

As of March 31, 2023	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	112,535	112,535	112,535	—	—	—	—	—
Short-term debt	79,937	82,342	82,342	—	—	—	—	—
Long-term debt	102,800	105,837	30,418	16,100	18,355	2,287	10,283	28,391
Corporate bonds	153,000	156,429	15,675	20,574	25,497	20,414	24,333	49,933
Lease liabilities	25,078	27,124	5,217	4,236	3,224	2,711	1,929	9,805
Derivative financial assets								
Foreign exchange forward contracts	3	3	3	—	—	—	—	—
Derivative financial liabilities								
Foreign exchange forward contracts	294	294	294	—	—	—	—	—

(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, 2022		As of March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Long-term debt	99,712	100,364	102,800	102,337
Corporate bonds	120,000	119,828	153,000	152,225

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, 2022 and 2023.

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, 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

As of March 31, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Shares, etc.	42,578	—	5,229	47,807
Financial assets measured at fair value through profit or loss				
Derivative financial assets	—	3	—	3
Financial liabilities				
Financial liabilities measured at amortised cost				
Long-term debt	—	102,337	—	102,337
Corporate bonds	—	152,225	—	152,225
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	294	—	294

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, 2022	Year ended March 31, 2023
Opening balance	5,638	4,885
Transfer to Level 1 due to listing	−221	−0
Gain (loss) recognised in other comprehensive income	−519	258
Purchase	0	97
Sale and redemption	−11	—
Other	—	−12
Closing balance	4,885	5,229

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, 2022	As of March 31, 2023
Toyota Motor Corporation	13,575	11,483
NIDEC Corporation	15,964	11,209
Mizuho Financial Group	2,312	2,771

The fair value of financial instruments without active markets for the previous consolidated fiscal year and the current consolidated fiscal year were ¥4,885 million and ¥5,229 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 ¥5,697 million and ¥1,835 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, 2022	Year ended March 31, 2023
Fair value at the date of derecognition	11,267	3,348
Cumulative gain or loss at the date of derecognition	8,201	1,835
Dividends income on investments that have been derecognised	226	73

(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, 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 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

From April 1, 2022 to March 31, 2023

(Millions of yen)

	Opening balance as of April 1, 2022	Cash flow	Changes arising from non-cash transactions		Closing balance as of March 31, 2023
			Increase due to contract	Foreign exchange translation, etc.	
Corporate bonds	120,000	33,000	—	—	153,000
Short-term loans payable	83,744	−8,065	—	4,258	79,937
Long-term loans payable	99,712	1,972	—	1,115	102,800
Lease liabilities	23,750	−5,636	6,897	67	25,078
Total	327,207	21,269	6,897	5,441	360,817

27. Earnings per share

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

	Year ended March 31, 2022	Year ended March 31, 2023
Basic earnings per share	¥32.35	¥35.89
Diluted earnings per share	¥32.26	¥35.77

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

	Year ended March 31, 2022	Year ended March 31, 2023
Net income attributable to owners of the parent (millions of yen)	16,587	18,412
Weighted average number of issued common shares (thousand shares)	512,760	513,029
Impact of dilution: Board Benefit Trust, etc. (thousand shares)	1,466	1,750
Weighted average number of issued common shares after dilution (thousand shares)	514,227	514,779

28. Dividends

(1) Dividends paid

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.

Year ended March 31, 2023

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, 2022	Common shares	7,775	15.00	March 31, 2022	June 9, 2022
Meeting of Board of Directors held on October 31, 2022	Common shares	7,819	15.00	September 30, 2022	December 2, 2022

(Note 1) 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.

(Note 2) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on October 31, 2022 includes dividend of ¥115 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, 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.

Year ended March 31, 2023

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 23, 2023	Common shares	Retained earnings	7,819	15.00	March 31, 2023	June 7, 2023

(Note) The total amount of dividends based on the resolution passed at the meeting of the Board of Directors held on May 23, 2023 includes dividend of ¥115 million paid to the Company's shares held in the trust account of the Board Benefit Trust.

29. 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, 2022	As of March 31, 2023
Purchase of finished goods	48,813	41,624
Balance of Accounts payable trade	9,849	8,049

(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, 2022	As of March 31, 2023
Fixed remuneration/performance-linked remuneration	1,156	804
Share-based payments	298	347
Total	1,455	1,151

30. Contingencies

(Litigation and other legal matters)

At the end of the current consolidated fiscal year, the Company has posted reasonably estimated losses in “Provisions (non-current)” in connection with possible claims for damages related to alleged violations of competition laws in past sales of its and certain subsidiaries’ products. In addition to these claims for damages in relation to which such losses were posted, the Company, its subsidiaries or its affiliated companies may receive claims for damages related to the above-mentioned alleged violations of competition laws in the future. The NSK Group will manage these claims appropriately.

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.

31. Events after the reporting period

(1) Partial refunding of retirement benefit trust

The Company has established a stock-based retirement benefit trust for the purpose of providing for future retirement benefits. In recent years, however, pension assets including the retirement benefit trust have been significantly overfunded relative to retirement benefit obligations, and this situation is expected to continue in the future. Therefore, the Company has received a partial refund of the retirement benefit trust. Please note that some of the shares in the trust have been sold during the fiscal year (fiscal year ended March 31, 2023).

①Date of event

April 20, 2023

②Date of refund

April 28, 2023

③Amount refunded

¥35,000 million

④Impact of event

There is no impact on the consolidated statement of income for the fiscal year ending March 31, 2024. For the consolidated statement of financial position, an increase of ¥35,000 million in cash and cash equivalents and a decrease of ¥35,000 million in net defined benefit asset is expected.

(2) Signing of joint venture agreement for steering business

On May 12, 2023, the Company has entered into a joint venture agreement (“Joint Venture Agreement”) with Japan Industrial Solutions III Investment Limited Partnership (“JIS”). It is agreed i) NSK Steering & Control, Inc. (“NS&C”), a consolidated subsidiary which controls the Company’s global steering business, will issue class shares equivalent to 50.1% of voting rights of NS&C by way of third-party allotment (“Third-Party Allotment”) to JIS, ii) NS&C will distribute special dividend to the Company prior to the Third-Party Allotment (the series of transactions including such share issuance and distribution of special dividend are hereinafter referred to as the “Transaction”) and iii) JIS and the Company will jointly operate subsidiary of NS&C and a specified subsidiary /sub-subsidiary of the Company, will become equity-method affiliated companies.

①Background and purpose

The automotive industry is currently facing major transformation. In addition, supply chain disruptions triggered by Covid-19 outbreak, semiconductor shortages, geopolitical risks including the Ukraine situation, and global inflation have added to the increasingly challenging business environment. In this environment, as announced in the Mid-Term Management Plan 2026 (“MTP2026”) dated May 13, 2022, the Company has initiated business structural reforms to enhance the automotive steering business; and at the same time, the Company has been pursuing alliance discussions with external partners. As a result, the Company has decided to enter into the Joint Venture Agreement with JIS regarding NS&C.

JIS has extensive experience and expertise in investing and providing managerial support in a wide range of industries, including the automotive industry, and possesses knowledge and network of information based on its track record and experience. The Company has come to a conclusion that inviting JIS as the partner to the steering business is important amid an increasingly uncertain business environment, with an aim to further progress with measures to improve the steering business as quickly as possible. Specifically, the Company will work with JIS to consider a variety of measures, including the following.

- Further structural reforms to improve profitability
- Promote independent operation (review governance structure and processes)

• Explore opportunities for all alliances with strategic partners
• Strengthen monitoring system

②Outline of the Agreement

NS&C will issue 10,041 class shares (Note) by way of third-party allotment, all of which will be subscribed by JIS for ¥20 billion. Prior to the Third-Party Allotment, NS&C plans to distribute special dividend to the Company. As a result of the Transaction, the ownership structure of voting rights NS&C will be as follows. The Company currently plans to implement the aforementioned structure, however, in an event that the structure of the Transaction has a significant impact on the Company's financial results due to material changes in external environment, the Company may choose to take the alternative scheme where the Company will subscribe the class shares issued by NS&C and transfer all of which to JIS, after obtaining the consent from JIS. (The shareholder composition and shareholding ratios will remain unchanged in the event of a change in scheme)

NSK: 49.9%

JIS: 50.1%

(Note) At both the General meetings of shareholders and the general meetings of exclusively shareholders of the Class Shares, each shareholder of the Class Shares will have one voting right per share.

As a result of this Transaction, NS&C will become an affiliate of the Company accounted by equity method. The Company will continue to support NS&C's sustainable growth and enhancement of corporate value as a shareholder. From the consolidated fiscal year ending March 31, 2024, the steering business will be classified as a discontinued operation. The income from discontinued operation will be presented separately from continuing operations and disclosed as equity-method affiliates after the Transaction. The assets and liabilities of the steering business will be categorised to assets held for sale from the consolidated fiscal year ending March 31, 2024.

③Schedule for execution of the Transaction

July 3, 2023 (Planned)

④Outlook and impact on business performance

The impact of the Transaction on the consolidated financial results is currently being examined. Also, the special dividend to be conducted as part of the Transaction will be a capital transaction where the dividend will be paid from NS&C's capital surplus, therefore, the impact of this matter to the consolidated statement of income of the Company is insignificant.

＜Reference＞

Operating performance of the steering business for the fiscal year ended March 31, 2023

Sales: ¥161,300 million

(3) Decision on matters related to acquiring of treasury stock

At a meeting of the Board of Directors held on May 12, 2023, the Company passed a resolution on matters pertaining to the acquisition of treasury stock in accordance with Article 156 of the Companies Act applied by replacing the terms pursuant to Article 165, Paragraph 3 of the Companies Act.

①Reasons for acquiring shares

To enhance shareholder returns and improve capital efficiency.

②Details of matters related to acquiring

Type of shares to be acquired:	Common shares of the Company
Number of shares to be acquired:	25 million shares (maximum) (Percentage of total shares issued (excluding treasury stock): 4.8%)
Total value of shares to be acquired:	¥22,000 million (maximum)
Period of acquisition:	From May 15, 2023 to June 30, 2023
Method of acquisition:	Purchase in the market through the Tokyo Stock Exchange (including acquisition of treasury stock through ToSTNeT-3 system of the Tokyo Stock Exchange)

③Result of acquiring

The acquisition of treasury stock based on the decision at the meeting has been completed on June 16, 2023.

Type of shares to be acquired:	Common shares of the Company
Number of shares acquired:	25,000,000 shares
Total value of shares acquired:	¥21,712,533,110
Period of acquisition:	From May 15, 2023 to June 16, 2023
Method of acquisition:	Purchase in the market through the Tokyo Stock Exchange (including acquisition of treasury stock through ToSTNeT-3 system of the Tokyo Stock Exchange)

(2) 【Others】

① Quarterly information from April 1, 2022 to March 31, 2023

	First quarter (Period from April 1, 2022 to June 30, 2022)	Second quarter (Period from April 1, 2022 to September 30, 2022)	Third quarter (Period from April 1, 2022 to December 31, 2022)	162nd Consolidated fiscal year (Period from April 1, 2022 to March 31, 2023)
Sales (millions of yen)	219,387	463,824	700,180	938,098
Income before income taxes (millions of yen)	4,521	12,819	21,511	31,926
Net income attributable to owners of the parent (millions of yen)	1,320	6,027	10,926	18,412
Basic earnings per share (yen)	2.57	11.75	21.30	35.89

	First quarter (Period from April 1, 2022 to June 30, 2022)	Second quarter (Period from July 1, 2022 to September 30, 2022)	Third quarter (Period from October 1, 2022 to December 31, 2022)	Fourth quarter (Period from January 1, 2023 to March 31, 2023)
Quarterly basic earnings per share (yen)	2.57	9.18	9.55	14.59

② Important litigation and other legal matters

The important litigation and other legal matters are stated in ”Note 30. Contingencies (Litigation and other legal matters)”.

Translation

Independent Auditor's Audit Report and Internal Control Audit Report

June 23, 2023

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. (the "Company") and its subsidiaries (the "Group") for the fiscal year ended March 31, 2023 (April 1, 2022 through March 31, 2023).

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, 2023, 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 judgment, 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.

<table>
<tr><td colspan="2">(1) Changes to goodwill and intangible asset cash-generating units identified at 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 "9. Goodwill and intangible assets" in Notes to consolidated financial statements, the Company recorded goodwill of ¥14,951 million and intangible assets of ¥11,150 million (mainly, customer relationship assets of ¥6,259 million and trademarks of ¥3,890 million) as at the end of the fiscal year ended March 31, 2023, related to the Condition Monitoring System Business ("CMS Business") acquired on March 1, 2021.
The CMS Business was previously an independent cash-generating unit to which these assets belonged. However, the CMS Business and the industry machinery bearings business were combined into a single cash-generating unit due to the structural reorganization of the CMS Business on October 1, 2022. Goodwill previously allocated to the CMS Business was reallocated to this cash-generating unit.
The change in cash-generating unit to one in which the assets belong to a cash-generating unit different from that in the prior fiscal year requires management to exercise judgment regarding the cash-generating unit as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The selection of method for the reallocation of goodwill associated with this change in cash-generating unit also includes management's judgment.
Given that these judgments exercised by management may have a material effect on the results of the recognition and measurement of impairment losses on related intangible assets and goodwill (i.e., impairment tests) for the current fiscal year and from the following fiscal year, we have determined that this is a key audit matter.</td><td>We mainly performed the following procedures for the Company's changes to cash-generating units.
1. With regard to the organizational change as of October 1, 2022, the basis for the Company's changes to the cash-generating units, we obtained an understanding of the nature and purpose of the change by inspecting related materials such as Operating Committee materials and making inquiries of management.
2. In conjunction with the above organizational change, we performed procedures, including the following, to consider whether the Company's renewed identification of "the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets" is appropriate.
(A) We considered management's business monitoring methods and monitoring units by inspecting related materials such as Operating Committee materials.
(B) We considered the interdependency between the industry machinery bearings business and CMS Business by inspecting related materials, making inquiries of management, making inquiries of relevant management of the CMS Business, inspecting status of implementation of condition monitoring, and making inquiries of sales representatives.

We also mainly performed the following procedures on the Company's reallocation of goodwill to cash-generating units.
1. We considered the basis for the Company's judgment that the whole amount of goodwill should be allocated to the cash-generating unit of the industry machinery bearings business, which included the CMS Business cash-generating unit to date, by making inquiries of management and inspecting related materials.</td></tr>
</table>

	2. We considered whether the date of initial application of goodwill reallocation was consistent with the initial date of management's monitoring of activities based on new internal reporting units by inspecting the minutes of Operating Committee meetings and making inquiries of management.

<table>
<tr><td colspan="2">(2) Note on events after the reporting period for investment limited partnership agreements related to the steering business</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor’s Response</th></tr>
<tr><td>As described in “(2) Signing of joint venture agreement for steering business” of the steering business under 31. Events after the reporting period” in Notes to consolidated financial statements, the Company concluded an agreement with Japan Industrial Solutions III Investment Limited Partnership (“JIS”) on May 12, 2023, related to NSK Steering & Control, Inc., a consolidated subsidiary that supervises the Company’s steering business on a global basis. As a result, consolidated subsidiaries in the steering business, including NSK Steering & Control, Inc., will be excluded from the Company’s scope of consolidation and will be accounted for by the equity method. Consolidated sales for the steering business in the fiscal year ended March 31, 2023 were ¥161,300 million, which accounted for 17.2% of the Company’s consolidated sales of ¥938,098 million.

The ratio of steering business to the Company's consolidated financial statements is significant for all financial figures including the above-mentioned consolidated sales, operating income, net income, total assets, and net assets, and whether the business is excluded from the Company's consolidated financial statements on and after the date of conclusion of the transaction significantly impacts the consolidated financial statements from the following fiscal year. In addition, the determination of whether a company is excluded from the scope of consolidation is based on the agreement concluded between the Company and JIS, but details of the agreement are complex. Furthermore, such a transaction in which the Company enters into an agreement with an investment limited partnership resulting in the loss of control over a consolidated subsidiary as the counterparty is a non-recurring transaction for the Company.

Based on the above, we have determined that this is a key audit matter.</td>
<td>We considered the appropriateness of the Company's judgment that the steering business will be excluded from the scope of consolidation and accounted for by the equity method on and after the date of conclusion of the transaction mainly based on the procedures performed in 2. below with consideration to 1. as follows.

1. Considerations and descriptions
<table>
<tr><th>Consideration</th><th>Description</th></tr>
<tr><td>Power over the investee</td><td>Appropriateness of particular activities that significantly impact investee returns
Appropriateness of basis for judgments that JIS has existing rights that give the current ability to direct the relevant activities
Appropriateness of judgments on the effect of the provisions on the purchase of JIS-held shares by the Company when certain conditions are satisfied</td></tr>
<tr><td>Exposure, or rights, to variable returns from involvement with the investee</td><td>Appropriateness of types of returns received by JIS (receipt of dividends, sale of investment, etc.)
Appropriateness of consideration by return type related to whether the investor's returns have the potential to vary as a result of the investee's performance</td></tr>
<tr><td>The ability to use its power over the investee to affect the amount of the investor's returns</td><td>Appropriateness of consideration of whether JIS has the ability to use its power to affect the investor's returns from its involvement with the investee</td></tr>
</table></td></tr>
</table>

	2. Main audit procedures we performed (A) We inspected the agreement concluded between the Company and JIS. (B) We inspected materials for consideration related to the transfer of control prepared by the Company. (C) We inspected the Company's Board of Directors' materials. (D) We inspected the Company's Operating Committee materials. (E) We made inquiries of the Company's management. (F) We consulted with IFRS specialists from our firm.

(3) Note on events after the reporting period for the portion of repayment related to retirement benefit trust	
Description of Key Audit Matter	Auditor's Response
As described in "(1) Partial refunding of retirement benefit trust under 31. Events after the reporting period" in Notes to consolidated financial statements, as a result of the sale of a portion of the stock-based retirement benefit trust established to provide for future retirement benefits, a portion of the retirement benefit trust in the amount of ¥35,000 million was repaid to the Company on April 28, 2023. Cash and cash equivalents are expected to increase by ¥35,000 million and net defined benefit assets are expected to decrease by ¥35,000 million in the consolidated statement of financial position for the year ending March 31, 2024. Even if a portion of the excess of the retirement benefit obligations (excess reserve) of the plan assets including the retirement benefit trust is repaid to the Company, as a requirement for the portion of retirement benefit trust that has not been repaid to continue to qualify as plan assets, IAS19 Employee Benefits states that it is necessary to compare the retirement benefit obligation to plan assets, and to be able to reasonably forecast that the excess reserve will continue to exist for a certain period of time that can be expected in the future and that the excess reserve will not be used for the retirement benefits. Given that the repayment of the retirement benefit trust has satisfied the requirements above, and, therefore, determining whether the portion of the retirement benefit trust that has not been repaid continues to qualify as plan assets requires management forecasts of changes in retirement benefit obligations and plan assets (including the retirement benefit trust) over a certain period of time in the future, and that the forecast period is long and the amount repaid is material, we have determined that this is a key audit matter.	We mainly performed the following procedures with regard to the reasonableness of the Company's projection calculations for future changes in retirement benefit obligations and plan assets ("Projection Calculations"). 1. We considered the competence, capabilities, and objectivity of the specialists used by management in the Projection Calculations by inspecting the corporate website of the specialists and assessing status of their qualification registration. 2. To obtain an understanding of the work of the specialists, we made inquiries of the specialists and inspected the agreement between the Company and the specialists. 3. We involved specialists from our firm to assess the reasonableness of the actuarial assumptions for retirement benefit obligations and the method of calculating future projections of plan assets in the Projection Calculations. In addition, in order to assess whether the trust property that has not been repaid continues to satisfy the requirements for plan assets (retirement benefit trust) after repayment of a portion of the trust property, we made inquiries of the trust administrators and inspected related documents prepared by them to consider whether the excess reserve amount should be repaid to the Company under the trust agreement and whether the repayment amount was appropriate, which were determined in accordance with the independent judgment of the trustees or the trust administrators.

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, 2023 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, 2023 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.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the Independent Auditor's Report as required by the Companies Act of Japan for the conveniences of the reader.

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.