Management’s Discussion and Analysis of Financial Position, Results of Operations and Cash Flows

1 Overview of the Year Ended March 31, 2019

Looking at global economic conditions during the year ended March 31, 2019, the Japanese economy continued its gradual growth due to solid capital expenditure and a favorable employment environment. However, this expansion lacked strength due to the impact of a slowdown in the overseas economy during the second half of the fiscal year under review. In the US, economic growth continued due to increases in capital expenditure and individual consumption, although signs of a slowdown have recently begun to emerge. In Europe, although consumer spending remained strong in the Eurozone, economic growth slowed due to confusion surrounding the UK’s withdrawal from the European Union as well as a decrease in vehicle production due to new exhaust gas emission testing methods (WLTP).

In China, economic growth slowed against the backdrop of increased trade friction with the US, with weaker capital expenditure and consumer spending, and vehicle production volume falling below the previous year’s level. In other Asian countries, economic growth slowed, reflecting the weakness in the global economy.

In this economic environment, consolidated sales for the year ended March 31, 2019 totaled ¥991,365 million, a year-on-year decrease of 2.8%, and operating income totaled ¥79,279 million, a year-on-year decrease of 19.0%. Income before income taxes was ¥79,229 million, a year-on-year decrease of 18.5%. Net income attributable to owners of the parent was ¥55,809 million, a year-on-year decrease of 19.5%.

2 Business Segment Information

Details regarding the market environment and results by business segment are as follows.

Industrial Machinery Business segment

Overall sales in the industrial machinery business increased year on year as strong demand for the Company’s products continued through to the end of the first half of the fiscal year due to increased capital expenditure related to IoT, automation, and labor-saving. Although demand shifted to an adjustment phase in the second half against the backdrop of a sluggish smartphone market as well as slowdown in Chinese economy, the Company was able to secure a year-on-year increase in full-year sales in the industrial machinery business.

Looking at the segment’s results by geographic breakdown, sales in Japan increased, primarily in the aftermarket sector, despite the negative impact of a slowdown in the smartphone-related market. In the Americas, despite strong demand from sectors including medical equipment, sales declined due to depreciation of emerging countries’ currencies, including the Brazilian real. Sales in Europe decreased due to a decline in the electrical sector, including home appliances, although sales in the wind power sector rose. In China, sales grew due to an increase in the aftermarket, wind power and machine tool sectors, despite weaker sales in the electrical sector, including electric tools and motors. In other Asian countries sales increased, primarily in India.

As a result, sales in the industrial machinery business totaled ¥269,974 million, a year-on-year increase of 1.4%. Operating income was ¥32,887 million, a year-on-year increase of 16.1%.

Looking ahead, the industrial machinery business segment will continue to address changing trends in demand in a flexible and agile manner. As social needs across a wide range of fields, beginning with IoT as well as robotics and renewal energy, expand, NSK will endeavor to enhance its presence within the market, cover the medium and long term and expand its business commensurate with revenues by building a foundation that is capable of adapting to these growth fields.

Automotive Business segment

Despite an increase in sales of products for the automatic transmission (AT) systems and needle bearings, overall sales in the automotive business declined year on year due to lower sales of electric power steering (EPS) systems resulting from vehicle model changes as well as a slowdown in the Chinese and European automotive markets.

Looking at the segment’s results by geographic breakdown, sales in Japan decreased due to lower sales in the EPS business despite robust sales of products for AT systems. In the Americas, sales increased mainly due to solid sales of products for AT systems. In Europe, sales decreased due to lower vehicle production stemming from new exhaust gas emission testing methods (WLTP). Sales in China decreased due to a reactionary decline from special tax incentives for compact cars which ended last year, as well as lower EPS sales. In other Asian countries, overall sales decreased due to the impact of exchange rate fluctuations, although sales in India increased.

As a result, sales in the automotive business totaled ¥689,658 million, a year-on-year decrease of 4.7%. Operating income totaled ¥44,949 million, a year-on-year decrease of 31.9%.

In conjunction with efforts to expand its business focusing mainly on AT-related products, which are projected to experience an ongoing increase in demand, the automotive business segment will work to secure regrowth of the EPS business. Moreover, every effort will be made to contribute to technological innovation in automobiles in such areas as electrification and autonomous driving through the use of existing technologies nurtured over a long period and the development of new technologies. In addition, this business segment will strive to improve profitability by increasing productivity and reducing fixed costs.

3 Analysis of Financial Position

Total assets were ¥1,086,456 million, a decrease of ¥5,854 million compared to total assets as of March 31, 2018. The main reasons for this were decreases of ¥21,912 million in trade receivables and other receivables and ¥16,608 million in other financial assets (non-current), which offset an increase of ¥26,458...
million in property, plant and equipment. Total liabilities were ¥526,055 million, a decrease of ¥5,240 million compared to total liabilities as of March 31, 2018. The main reason for this was a decrease of ¥11,463 million in trade payables and other payables. Total equity totaled ¥560,400 million, a decrease of ¥613 million compared to total equity as of March 31, 2018. The main reasons for this decrease were ¥21,514 million in cash dividends from retained earnings, ¥19,963 million in treasury shares and ¥18,558 million in other components of equity, which offset ¥55,809 million in net income attributable to owners of the parent.

Total current assets decreased ¥3,727 million compared with the previous fiscal year-end, to ¥507,618 million. Total current liabilities decreased ¥22,548 million compared with the previous fiscal year-end to ¥285,411 million. As a result, the current ratio increased from 1.66 times as of the previous fiscal year-end to 1.78 times. Gross interest-bearing debt increased ¥23,871 million compared with the end of the previous fiscal year-end to ¥274,780 million. Net interest-bearing debt [interest-bearing debt net of cash and cash equivalents] was up ¥25,190 million compared with the previous fiscal year-end to ¥144,814 million. The net D/E ratio increased from 0.22 in the previous fiscal year to 0.27. Equity per share attributable to owners of the parent increased from ¥1,016.30 to ¥1,048.18. The equity ratio attributable to owners of the parent increased from 49.2% as of the previous fiscal year-end to 49.4%.

## Cash Flows

Total cash and cash equivalents at the end of the period under review were ¥129,965 million, a decrease of ¥1,318 million compared to total cash and cash equivalents as of March 31, 2018. Cash flows for the fiscal year under review are presented as follows.

### Net cash flow provided by operating activities

Net cash flow provided by operating activities totaled ¥92,617 million, an increase of ¥8,870 million, compared to the previous year. The main cash inflows were ¥79,229 million in income before income taxes, ¥48,801 million in depreciation and amortisation, and ¥18,602 million in decrease in trade receivables. Meanwhile, the main outflows were ¥17,859 million in increase in inventories, ¥10,856 million in decrease in trade payables and ¥24,149 million in income tax paid.

### Net cash flow used in investing activities

Net cash flow used in investing activities totaled ¥72,673 million, an increase of ¥19,671 million compared to the previous year. Net cash flow used in investing activities includes ¥73,379 million in purchases of property, plant and equipment.

### Net cash flow used in financing activities

Net cash flow used in financing activities totaled ¥20,477 million, a decrease of ¥19,327 million compared to the previous year. The main cash inflows were ¥34,333 million in proceeds from long-term loans and ¥40,000 million in proceeds from issuance of corporate bonds. Meanwhile, the main outflows were ¥46,809 million in repayments of long-term loans, ¥20,044 million in acquisition of treasury shares and ¥21,495 million in dividends paid.

## Fiscal Policy

The NSK Group’s financing is currently derived from its own funds and borrowings, etc. With regard to working capital, in the case of financing through borrowing, it is common to obtain short-term loans with a term of less than one year in the local currency used by each consolidated company. As of March 31, 2019, the outstanding balance of short-term loans was ¥58,637 million. Long-term funds, such as those for machinery and equipment for production, are financed primarily through long-term loans and corporate bonds. As of March 31, 2019, the outstanding balance of long-term loans and corporate bonds was ¥216,142 million, the breakdown of which was loans from financial institutions of ¥96,142 million and unsecured corporate bonds of ¥120,000 million.

The NSK Group believes that it is possible to finance the working capital and capital expenditures necessary to maintain growth through its sound financial situation, ability to generate cash flow from operating activities, commitment line contracts totaling ¥15,000 million and the issuance of commercial paper amounting to ¥50,000 million.

## NSK Group Tax Policy

As the globalization of business advances, the NSK Group believes that the proper payment of taxes in the countries and regions where it operates is one of the most fundamental and important social responsibilities that it should undertake. With this understanding, the Group has established an NSK Group Tax Policy and is striving to ensure appropriate tax treatment. For more details, please visit the website given below.