Business Forecast for FY2016 and Progress of the 5th Mid-term Plan

March 2017
NSK Ltd.

Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this report with respect to plans, strategies and future performance that are not historical fact are forward-looking statements. NSK cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

Note : This document is an English translation of material written initially in Japanese.
The Japanese original should be considered the primary version

Contents

1. Consolidated Business Results
for FY2016 Q3 (Ended December 31, 2016)

2. Progress of the 5th Mid-Term Management Plan

(Supplementary Information)

1. Consolidated Business Results for the FY2016 Q3 (Ended December 31, 2016)

Summary of Consolidated Business Results for FY2016: Q3

Business Results for FY2016: Q3

✓Consolidated Business Results for FY2016: Q3

	Q3 (Oct. – Dec.)	(vs. FY2015:Q3)	Q3 YTD (Apr. – Dec.)	(vs. FY2015: Q3 YTD)
Net Sales :	¥ 242.1 billion	(-¥ 3.6 billion / -1.5%)	¥ 697.7 billion	(-¥ 37.8 billion / -5.1%)
Operating Income :	¥ 17.7 billion	(-¥ 6.9 billion / -28.1%)	¥ 45.0 billion	(-¥ 28.1 billion / -38.4%)
Net Income Attributable to Owners of the Parent :	¥ 10.4 billion	(-¥ 5.7 billion / -35.2%)	¥ 30.3 billion	(-¥ 18.3 billion / -37.7%)
<Reference> Segment Income∗ :	¥ 22.7 billion	(-¥ 2.8 billion / -11.1%)	¥ 57.6 billion	(-¥ 18.0 billion / -23.8%)

∗Segment Income : Operating income before inclusion/deduction of other operating income/expenses

✓YOY: Both net sales and operating income decreased. However, excluding exchange rate impact net sales increased due to higher volume.

✓Exchange rate impact: (3Q) Net sales: -¥20.2 billion, Operating Income: -¥ 4.5 billion
(3Q YTD) Net sales: -¥69.8 billion, Operating Income: -¥15.4 billion

Current demand environment and FY2016 Forecast

✓Industrial machinery business: Recovered from market bottom. Volume trend increasing.

✓Automotive business: Solid growth in China. Overall market environment remains steady.

✓FY2016 forecast: No change from original plan.
Attention to US policy trend and exchange rate required.

Summary of Consolidated Business Results for FY2016: Q3

IFRS (Billions of yen)	FY2015			FY2016						
	Q3 <Actual>	Apr-Dec <Actual>	Full year <Actual>	Q3 <Actual>	Increase/ Decrease YOY	% Change	Apr-Dec <Actual>	Increase/ Decrease YOY	% Change	Full year <May Fcst>
Net sales	245.7	735.5	975.3	242.1	-3.6	-1.5%	697.7	-37.8	-5.1%	920.0
Operating income	24.6	73.1	89.5	17.7	-6.9	-28.1%	45.0	-28.1	-38.4%	65.0
<%>	<10.0%>	<9.9%>	<9.2%>	<7.3%>			<6.5%>			<7.1%>
Income before income taxes	24.2	71.6	87.2	17.5	-6.7	-27.6%	44.0	-27.6	-38.5%	63.0
Net income attributable to owners of the parent	16.1	48.6	65.7	10.4	-5.7	-35.2%	30.3	-18.3	-37.7%	40.0
(Ex. rate:1USD=)	¥121.50	¥121.70	¥120.14	¥109.34	-¥12.16	-10.0%	¥106.68	-¥15.02	-12.3%	¥105
(〃 1EUR=)	¥132.94	¥134.36	¥132.58	¥117.83	-¥15.11	-11.4%	¥118.09	-¥16.27	-12.1%	¥120
(〃 1CNY=)	¥18.90	¥19.26	¥18.85	¥15.98	-¥2.92	-15.4%	¥15.96	-¥3.30	-17.1%	¥16.7

*Reference

Segment Income	25.5	75.7	94.3	22.7	-2.8	-11.1%	57.6	-18.0	-23.8%	
<%>	<10.4%>	<10.3%>	<9.7%>	<9.4%>			<8.3%>			

Segment Income : Operating income before inclusion/deduction of other operating income/expenses
Other operating expenses : Antimonopoly Act -related losses, foreign exchange gains and losses

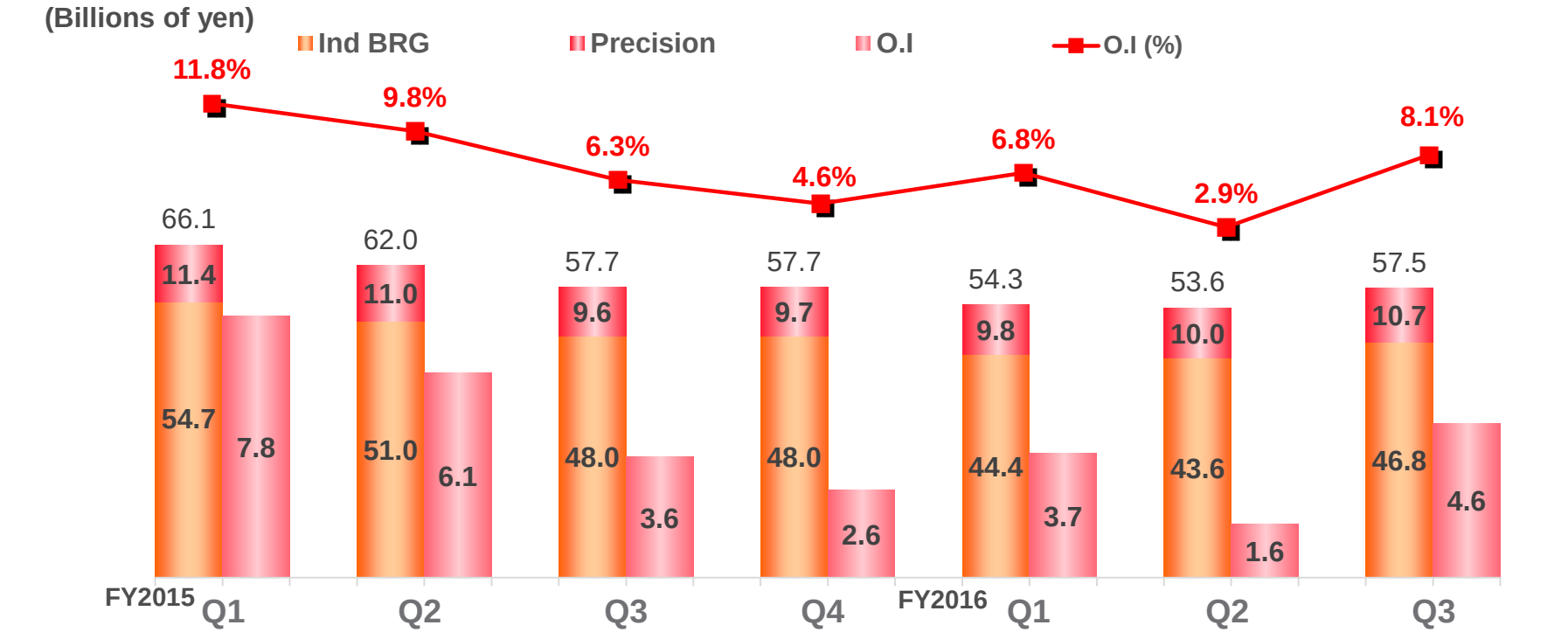
Sales & Operating Income Results by Business Segment

NSK

IFRS (Billions of yen)		FY2015			FY2016					
		Q3 <Actual>	Apr-Dec <Actual>	Full year <Actual>	Q3 <Actual>	Increase/ Decrease YOY	% Change	Apr-Dec <Actual>	Increase/ Decrease YOY	% Change
Total	Net sales	245.7	735.5	975.3	242.1	−3.6	−1.5%	697.7	−37.8	−5.1%
	Operating income	24.6	73.1	89.5	17.7	−6.9	−28.1%	45.0	−28.1	−38.4%
	<%>	10.0%	9.9%	9.2%	7.3%			6.5%		
Industrial Machinery Business	Net sales	57.7	185.7	243.4	57.5	−0.1	−0.2%	165.4	−20.4	−11.0%
	Industrial machinery bearings	48.0	153.7	201.7	46.8	−1.2	−2.6%	134.8	−18.9	−12.3%
	Precision machinery and parts	9.6	32.0	41.7	10.7	+1.1	+11.5%	30.6	−1.4	−4.5%
	Operating income	3.6	17.5	20.2	4.6	+1.0	+28.0%	9.9	−7.6	−43.3%
	<%>	6.3%	9.4%	8.3%	8.1%			6.0%		
Automotive Business	Net sales	182.1	529.5	705.5	178.1	−4.0	−2.2%	513.5	−16.0	−3.0%
	Automotive bearings	84.6	248.2	330.7	83.6	−1.0	−1.2%	241.4	−6.8	−2.7%
	Automotive components	97.4	281.3	374.8	94.4	−3.0	−3.1%	272.1	−9.2	−3.3%
	Operating income	21.3	55.0	70.8	16.8	−4.5	−21.1%	44.9	−10.0	−18.3%
	<%>	11.7%	10.4%	10.0%	9.5%			8.7%		
Others	Net sales	11.9	39.0	52.0	14.0	+2.1	+17.7%	37.9	−1.1	−2.9%
	Operating income	0.4	3.0	3.1	1.1	+0.7	+153.4%	2.7	−0.3	−10.9%
	<%>	3.8%	7.6%	5.9%	8.1%			7.0%		
Eliminations (sales)		−5.9	−18.8	−25.6	−7.5	−1.6		−19.1	−0.3	
Eliminations/corporate expenses		−0.8	−2.4	−4.5	−4.9	−4.1		−12.5	−10.1	

Changes in reporting segments: Part of industrial machinery business operations were transferred to the automotive business. Accordingly, figures for the previous year have been reclassified to match current segments.

Business Results: Industrial Machinery Business

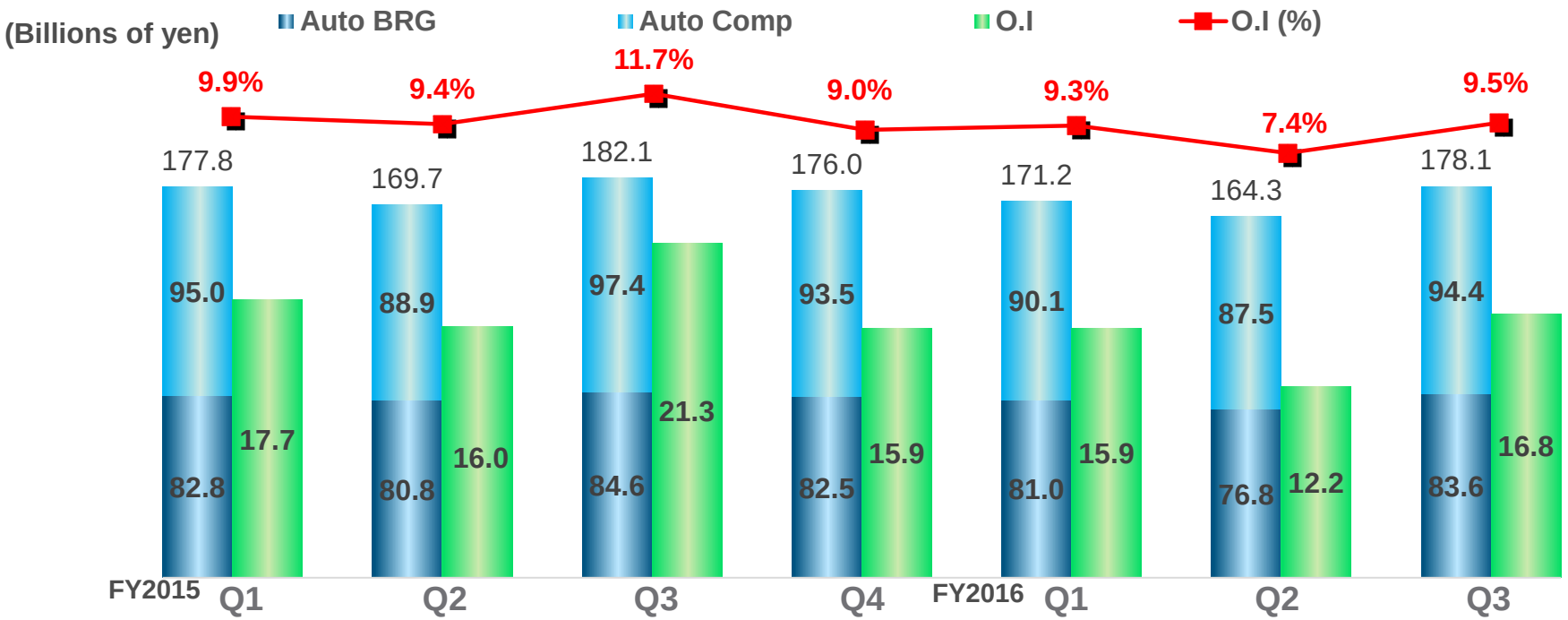


	FY2015 Q1	Q2	Q3	Q4	FY2016 Q1	Q2	Q3
1USD=	¥121.36	¥122.24	¥121.50	¥115.46	¥108.25	¥102.45	¥109.34
1EUR=	¥134.16	¥135.98	¥132.94	¥127.24	¥122.17	¥114.27	¥117.83
1CNY=	¥19.56	¥19.32	¥18.90	¥17.62	¥16.54	¥15.36	¥15.98

Part of industrial machinery business operations were transferred to the automotive business. Accordingly, figures for the previous year have been reclassified to match current segments.

- ✓YoY: Volume increased, although sales impacted by exchange rate. (Industrial BRG: +5%, Precision: +18%)
- ✓QoQ: Increase in both sales and operating income due to 5% volume increase and weaker yen.
- ✓Solid growth in sectors such as machine tools, construction, agriculture and fluids on both YoY and QoQ basis. Wind turbine sector currently in an adjustment phase.
- ✓Precision: steady increase in semiconductor-related demand saw Q3 sales recover to ¥10 billion level.

Business Results: Automotive Business



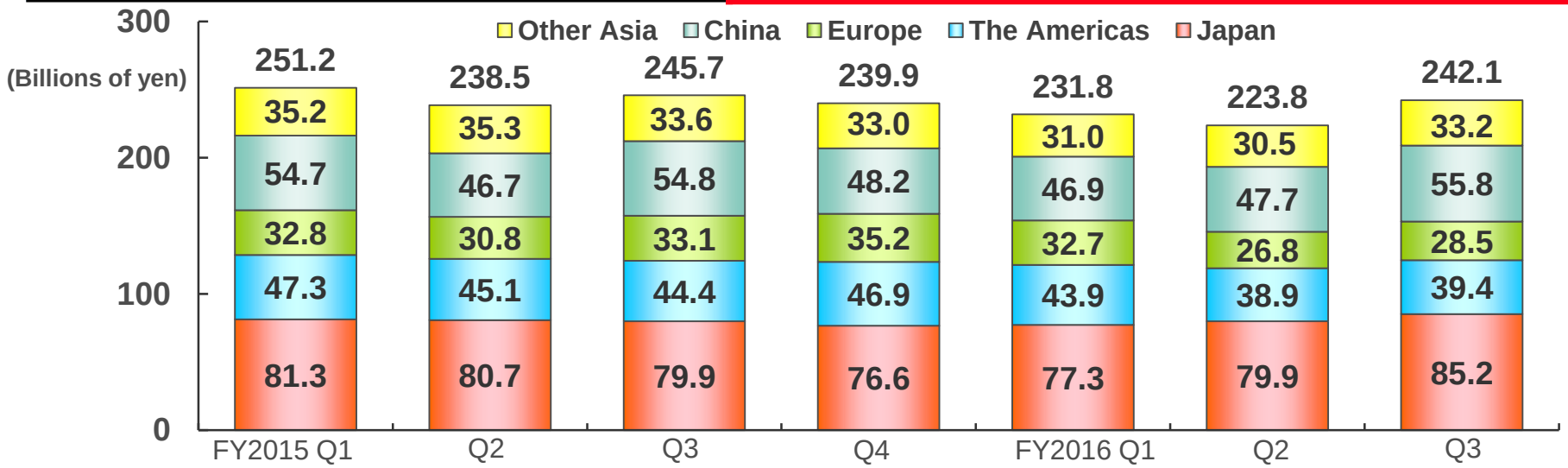
	FY2015 Q1	Q2	Q3	Q4	FY2016 Q1	Q2	Q3
1USD=	¥121.36	¥122.24	¥121.50	¥115.46	¥108.25	¥102.45	¥109.34
1EUR=	¥134.16	¥135.98	¥132.94	¥127.24	¥122.17	¥114.27	¥117.83
1CNY=	¥19.56	¥19.32	¥18.90	¥17.62	¥16.54	¥15.36	¥15.98

Part of industrial machinery business operations were transferred to the automotive business. Accordingly, figures for the previous year have been reclassified to match current segments.

- ✓Automotive business remained steady. Volume in China increased substantially.
- ✓YoY: Volume increased by 6%, although sales decreased due to appreciation of the yen.
- ✓QoQ: Increase in both sales and operating income due to 6% rise in volume and depreciation of the yen.
- ✓In order to respond to rapidly-growing needs for vehicle electrification, part of industrial machinery business operations were transferred to the automotive business.

Sales Results by Customer Location

IFRS (Billions of yen)	FY2015 Q3 <Actual>	FY2015 Apr-Dec <Actual>	FY2015 Full year <Actual>	FY2016 Q3 <Actual>	FY2016 Increase/ Decrease YOY	FY2016 % Change	FY2016 Apr-Dec <Actual>	FY2016 Increase/ Decrease YOY	FY2016 % Change
Net sales	245.7	735.5	975.3	242.1	−3.6	−1.5%	697.7	−37.8	−5.1%
Japan	79.9	241.9	318.4	85.2	+5.3	+6.6%	242.4	+0.5	+0.2%
Non-Japan	165.8	493.6	656.9	156.9	−8.9	−5.4%	455.3	−38.3	−7.8%
<Non-Japan ratio>	<67.5%>	<67.1%>	<67.4%>	<64.8%>			<65.3%>		
The Americas	44.4	136.7	183.7	39.4	−4.9	-11.1%	122.2	−14.5	−10.6%
Europe	33.1	96.7	131.8	28.5	−4.6	−13.8%	88.0	−8.7	−9.0%
China	54.8	156.2	204.4	55.8	+1.0	+1.9%	150.5	−5.7	−3.6%
Other Asia	33.6	104.1	137.0	33.2	−0.4	−1.3%	94.7	−9.4	−9.0%



2. Progress of the 5th Mid-Term Management Plan

The 5th MTP Outline

NSK Vision 2026 Setting the Future in Motion

Embark on new chapter in evolution towards next 100 years

Operational Excellence

Sustainable Growth

Deliver new value to society
Work together with stakeholders

Reconstruct profit base

Increase and stabilize profitability
Monozukuri, quality, personnel

Expand into new growth fields

Growth in core businesses
New products, new fields

Innovate and Challenge

Industrial Machinery • Automotive

Safety • Quality • Compliance

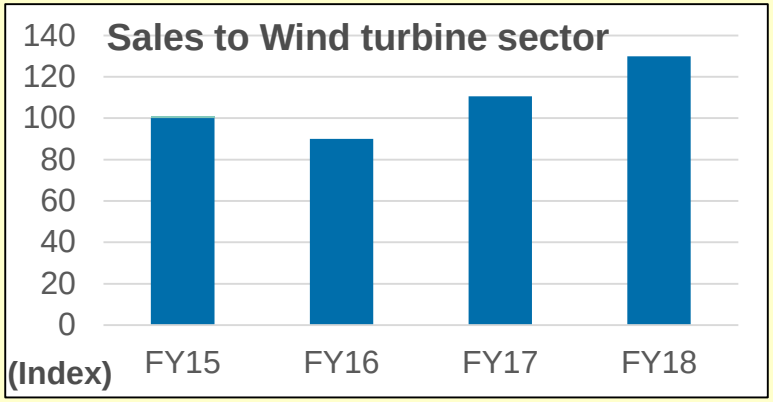
Business Foundation as 1 trillion Yen Company

Industrial Machinery Business 1

The 5th MTP: Status of Key Initiatives

Wind turbines

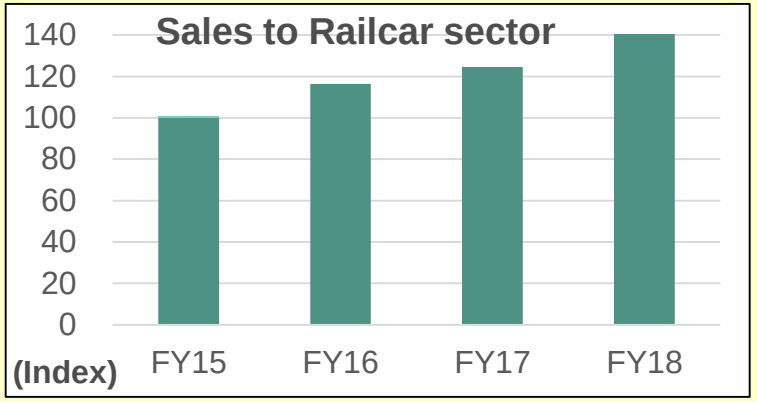
Expansion of Giant Bearings



- Shift to higher capacity and offshore wind turbines -> Higher demand for giant bearings
- Focus on bearings used in gear boxes, where advanced technology is necessary.
- Introduce new products
  - ・Downsizing of gear boxes
    -> Increase load rating
  - ・MRO(maintenance and repair) demand
    -> Countermeasures against white structure flaking
- Expand production in China, shorten lead time, establish NSK quality standards for wind turbine bearings

Railways

Expansion in overseas projects



- Expansion in global demand
- Utilize strength gained from Shinkansen business
- Targets by region
  - ・Japan: Maintain top market share, handle export projects
  - ・Europe: Largest market. Achieve full-scale entry, starting from MRO
  - ・China: High-speed railway and Metro projects, gain entry to CRRC Shinkansen
- Respond to European standards

Industrial Machinery Business 2
The 5th MTP: Status of Key Initiatives

Aftermarket

Focus on 3 segments

■ Distributors
- Channel Management
  Manage distributor certification policy to reflect regional circumstances
  Strengthen channel management by conducting distributor assessments

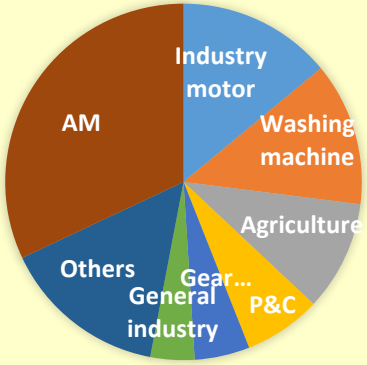
■ MRO
- Focus on key sectors (steel, mining, paper & railcars, wind turbines)
- **Asset Improvement Program (AIP)**
- Strengthen tools related to bearings: CMS, **mounting and dismounting tools, laser alignment tools**

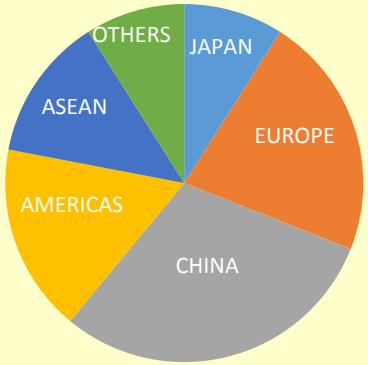
■ Auto-AM
- Expand network of specialized distributors
- Focus on key products (HUB, clutch release)

Single Row Medium Ball Bearings

Focus Product

Focus sector, regions





■ Expand sales as a top manufacturer of ball bearings

■ Response customized to demand layer

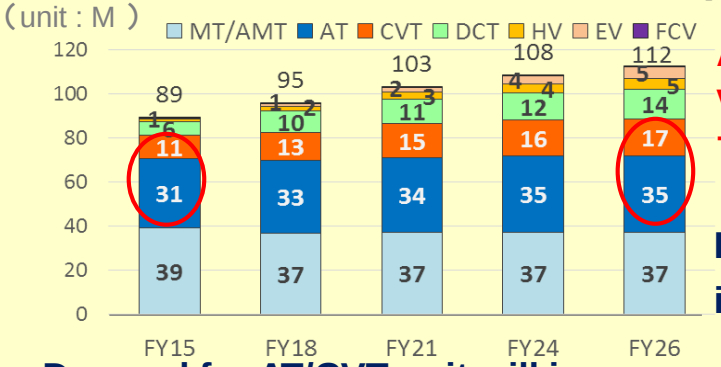
Layer	High-end	High-performance standard products	Commodity
Main usage	High efficiency motors	AM, fluid machinery, washing machines	General machinery, agricultural machinery
Response	Expand low-torque bearings to top customers in Japan, US, and Europe	Expand HPS series	Enhance production in China

Automotive Business 1

The 5th MTP : Status of Key Initiatives : Powertrain business

Powertrain Business

Transmission Market Forecast (by type)



AT + CVT vs. FY15 +10 Million

Demand increase

- Demand for AT/CVT unit will increase rapidly

Ratio of multistepping AT (7 speed or more)

FY15 22% → FY18 46%

- More than 7 speed AT increase

PT Bearing/AT Components Sales Forecast

- Needle Roller Bearings
- Ball Bearings
- Taper Roller Bearings
- AT components

	FY18 vs. FY15	FY21 vs. FY18
As of May 16	+26%	+17%
As of Oct 16	+31%	+21%

- Sales increase due to overseas demand and multistepping
- Respond to increasing demand from existing customers
- Leverage technological capabilities to expand customer portfolio

Increase Production Capacity

Secure stable supply

Korea Needle Roller Bearing Plant

- Location: Cheonan, Chungcheongnam-do, Korea
- Commencement of operations: Planned for April 2017
- Products manufactured: Needle roller bearings for vehicles
- Investment amount: Approx. 5 billion yen
- Size of plant: Site area: approx. 90,000㎡
  Building floor space: approx. 20,000㎡ ca

NSK Warner Mexico Plant

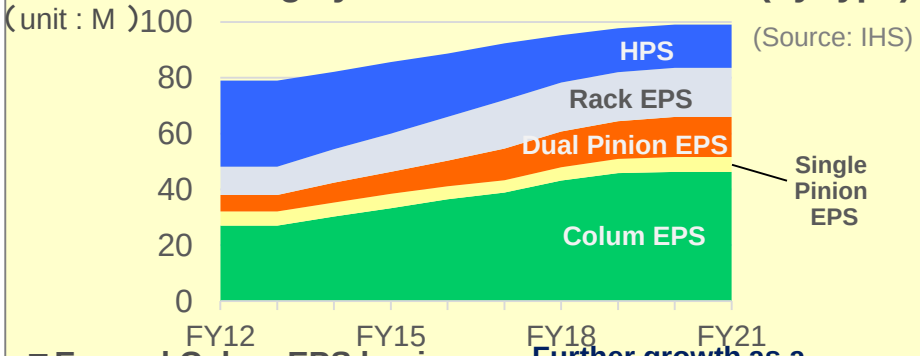
- Location: Silao, Guanajuato, Mexico
- Commencement of operations: Planned for July 2017
- Products manufactured: Products for automotive automatic transmissions (clutch assemblies)
- Investment amount: Approx. 2 billion yen
- Size of plant: Site area: approx. 50,000㎡
  Building floor space: approx. 10,000㎡

Automotive Business 2

The 5th MTP : Status of Key Initiatives : Steering & Actuator business

Steering Business

Power steering system demand forecast (by type)



■ Expand Colum EPS business — Further growth as a leading manufacturer

Market Environment + **Engineering**

Demand in Column EPS continues to expand

Development of next-generation Column EPS
-> Respond to ADAS, Redundancy, light weight, handling feel, modular design, next-generation automated manufacturing lines

Expand customer portfolio through technical response capability, global production footprint, and improved project management capability

■ Develop Rack EPS

Leverage Ball Screw technology

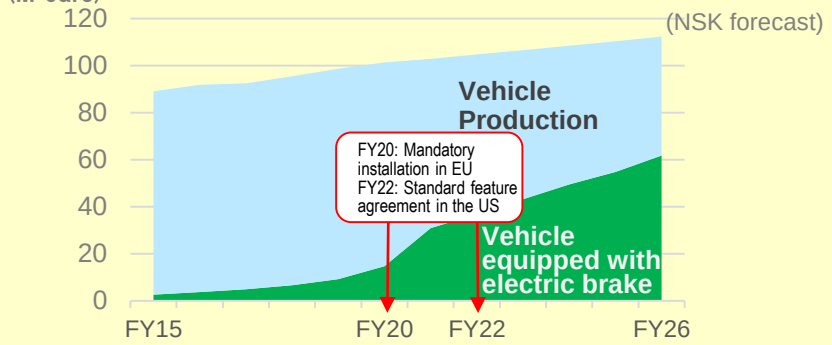
Accelerate development and sales activities to win early orders
-> 2017 1H: Complete demonstration cars for target customers

■ Further utilize of ADTech

In-house development of E/E system (ECU hardware & software)

Actuator Business

Electric brake demand forecast

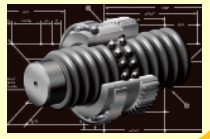


Expansion in demand for electric brake systems

Changes in market environment + **Technical competitive-ness**

Improved vehicle safety, autonomous driving,
Mandatory installation of automatic emergency braking
(EU: Regulations, US: Automakers' agreement)

Strength in ball screw type
Regenerative cooperative,
High response,
Integrated multifunction



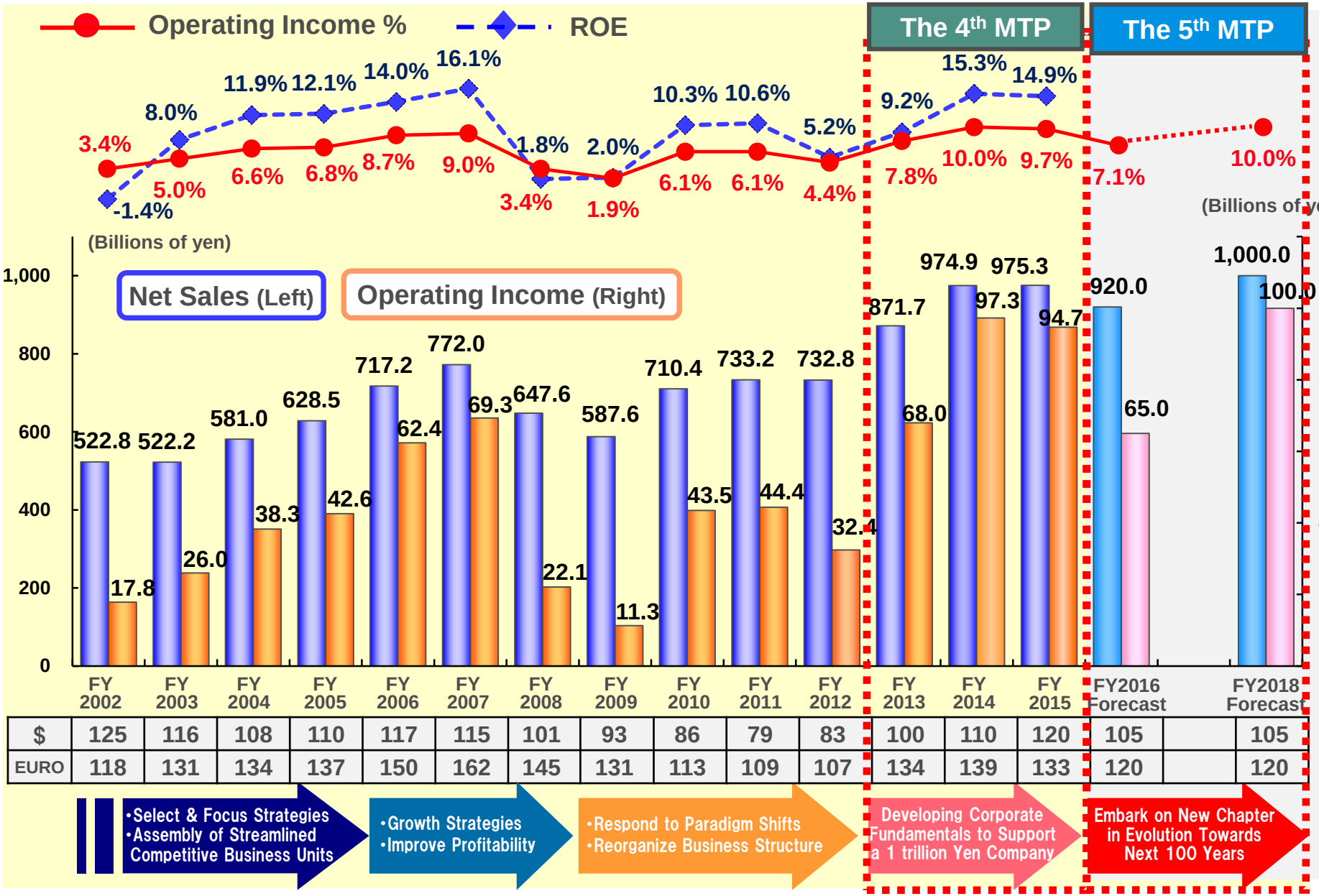
Received order for ball screws for electric brake boosters
: Peak volume: More than 1 million / year (Mar. 2018 SOP)
+ Sales initiatives for other projects are underway

Establish position in electric brake components

(Supplementary Information)

(Supplementary Information)

Consolidated Business Trend



$	125	116	108	110	117	115	101	93	86	79	83	100	110	120	105	105
EURO	118	131	134	137	150	162	145	131	113	109	107	134	139	133	120	120

- •Select & Focus Strategies
  •Assembly of Streamlined Competitive Business Units
- •Growth Strategies
  •Improve Profitability
- •Respond to Paradigm Shifts
  •Reorganize Business Structure
- Developing Corporate Fundamentals to Support a 1 trillion Yen Company
- Embark on New Chapter in Evolution Towards Next 100 Years

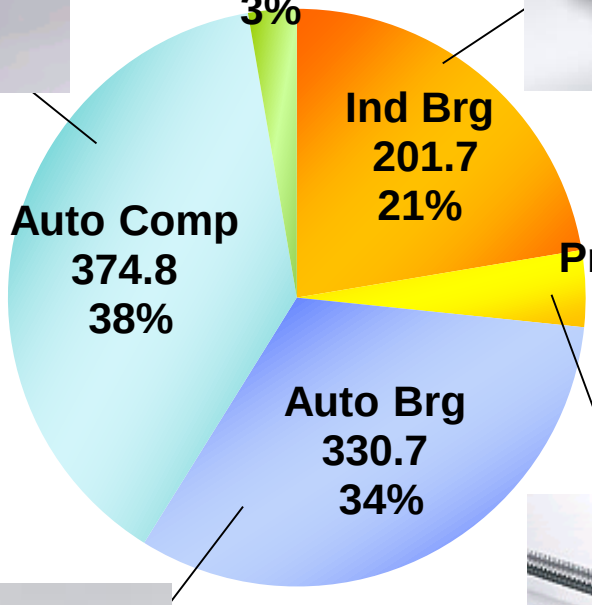
(Supplementary Information)

FY2015 Sales Breakdown by Business Segment

Automotive Segment
705.5 72%

FY2015
Total 975.3

Industrial Segment
243.4 25%



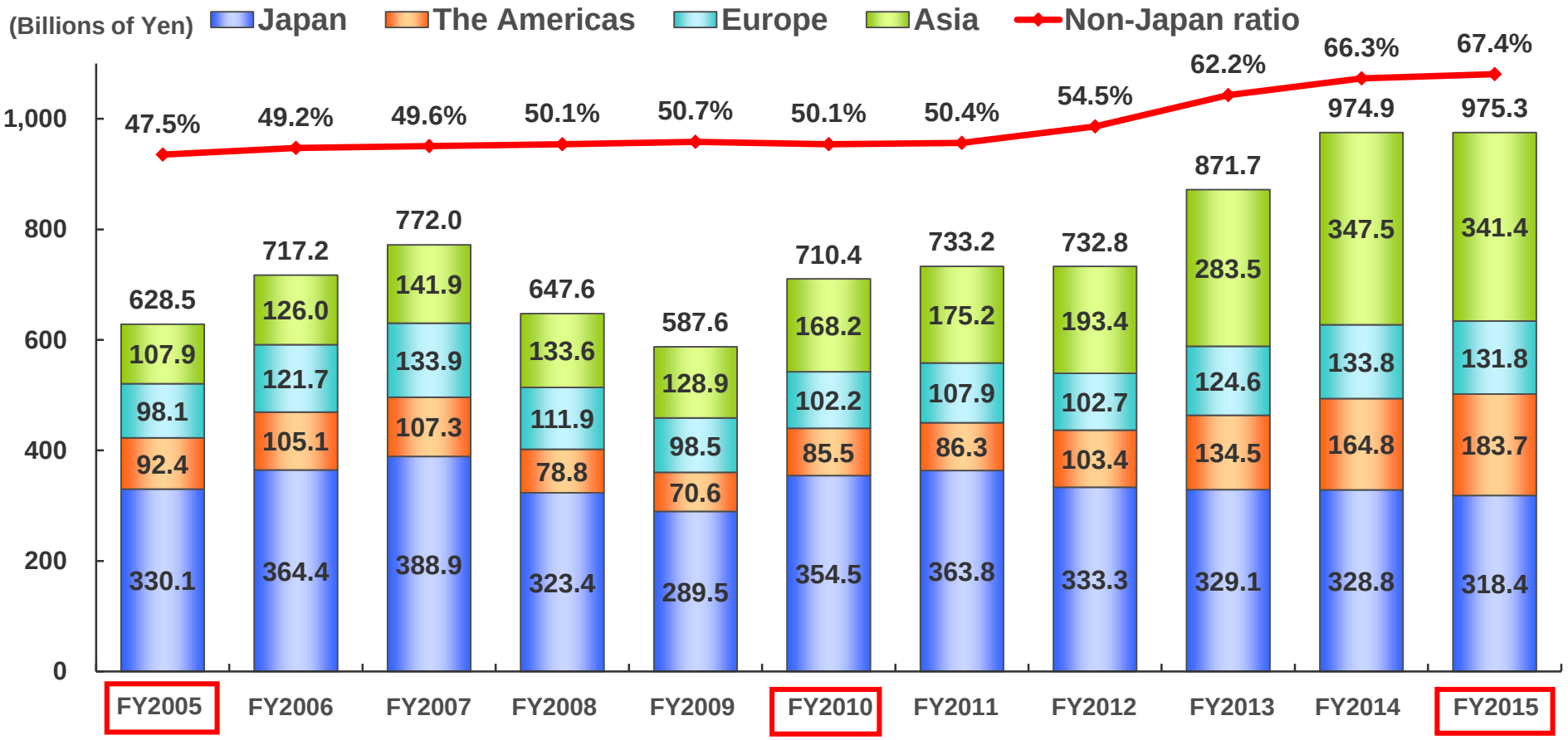
Others

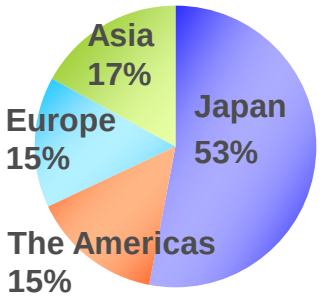
Steel Ball

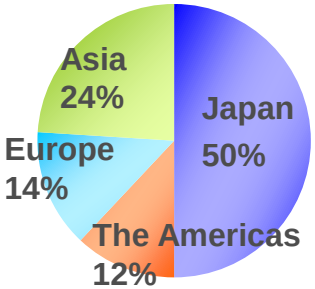
(Billions of yen)

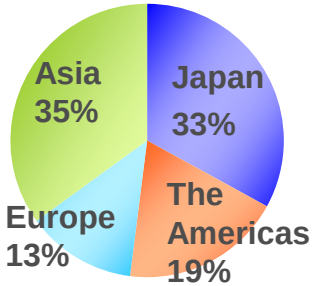
(Supplementary Information)

Sales Trend by Customer Location





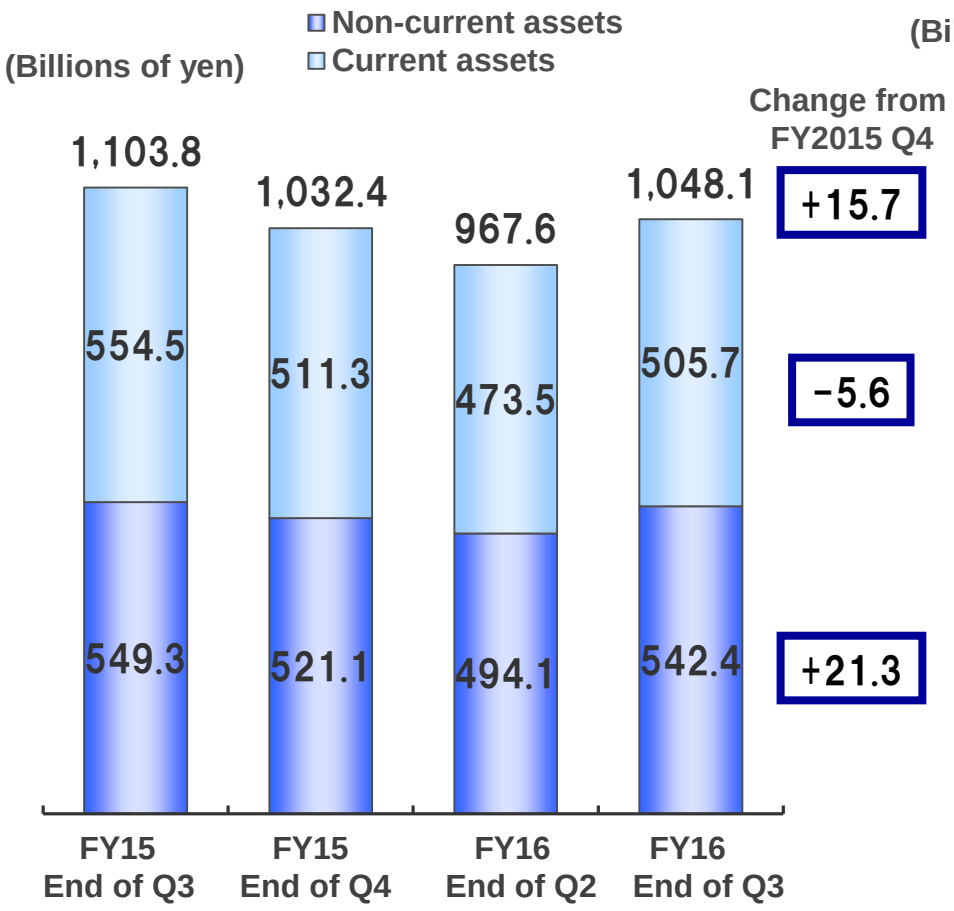




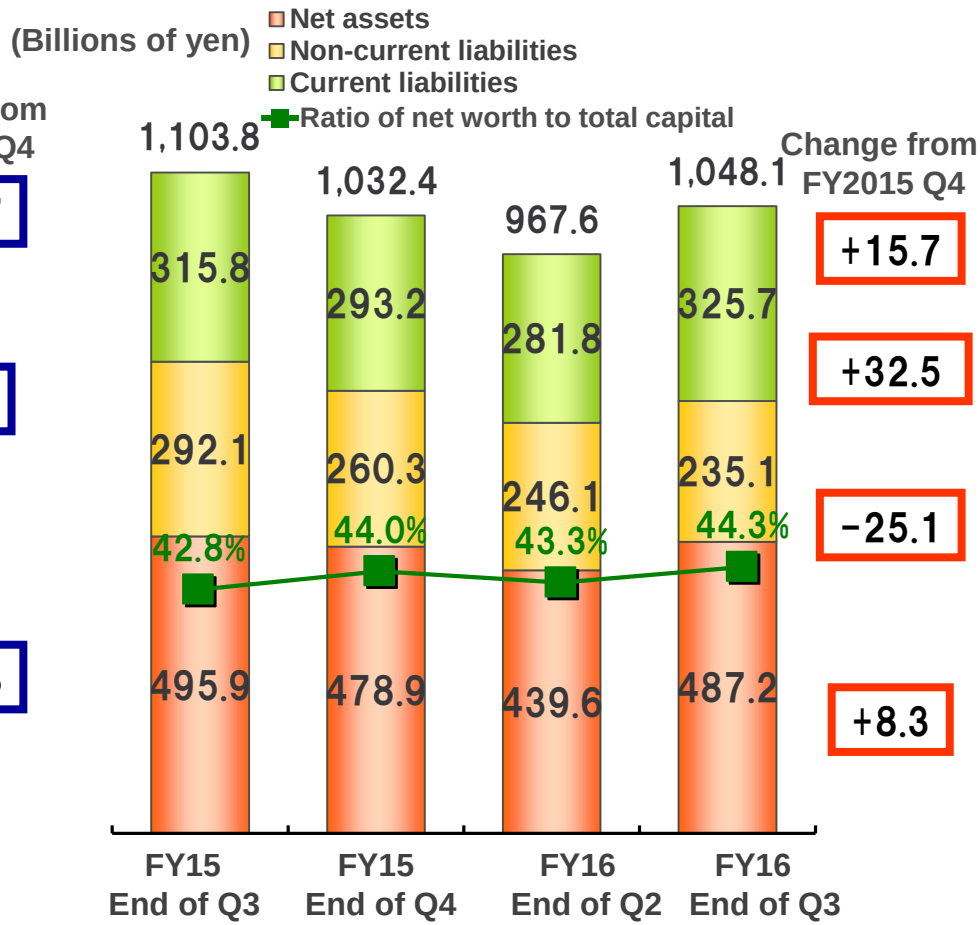
(Supplementary Information)

Consolidated Balance Sheets

Assets



Liabilities and Net Assets



Ex. Rate	FY15 End of Q3	FY15 End of Q4	FY16 End of Q2	FY16 End of Q3
1USD	¥120.61	¥112.68	¥101.12	¥116.53
1EUR	¥131.77	¥127.70	¥113.29	¥122.73
1CNY	¥18.36	¥17.39	¥15.15	¥16.76

(Supplementary Information) Capital Expenditure, Depreciation and Amortization, R&D Expenses

(Billions of yen)	FY2015 <Actual>	FY2016 Q3 Apr-Dec <Actual>	FY2016 <Forecast>
Capital expenditure (※)	55.0	33.2	62.0

※Including intangible assets

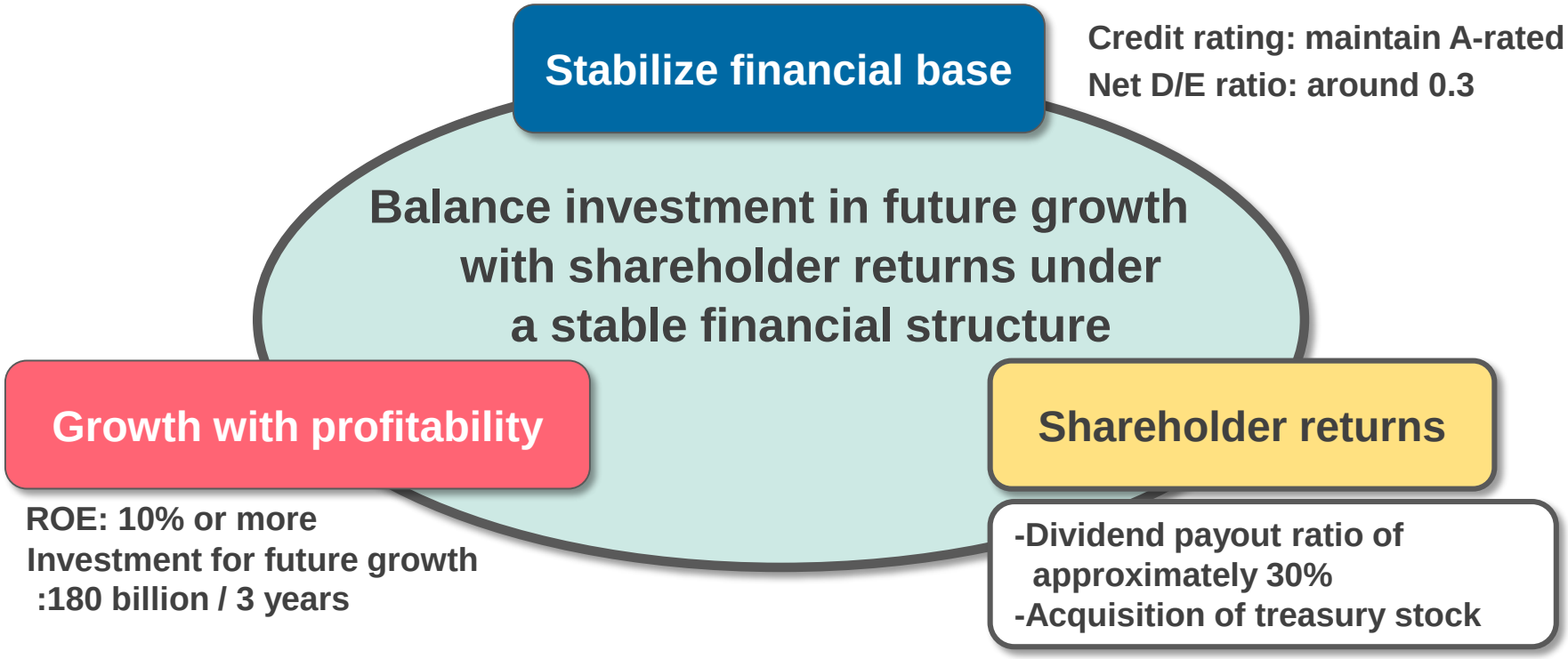
(Billions of yen)	FY2015 <Actual>	FY2016 Q3 Apr-Dec <Actual>	FY2016 <Forecast>
Depreciation and amortization (※)	43.0	31.7	42.0

※Including intangible assets

(Billions of yen)	FY2015 <Actual>	FY2016 Q3 Apr-Dec <Actual>	FY2016 <Forecast>
R&D expenses	11.2	9.2	13.0

(Supplementary Information)

Finance Strategy / Policy on Shareholder Returns



<Shareholder Returns FY2016 Plan>

FY2016 Plan	
Dividend	**Total: ¥38**
	-Ordinary dividend: ¥28 （Interim ¥14＋Year-end ¥14）
	-100th anniversary commemorative dividend: ¥10 （at time of the interim dividend）
Acquisition of treasury stock	**Total acquisition cost: ¥15.0 billion** (Completed in May, 2016)