

NSK



FINANCIAL CONFERENCE

Consolidated Business Results and Forecast

November 4, 2016
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

- 1. Consolidated Business Results
for the Six Months Ended September 30, 2016**
- 2. Consolidated Business Forecast
for the Year Ending March 31, 2017**
- 3. Progress of the 5th Mid-Term Management Plan
(Supplementary Information)**

1. Consolidated Business Results for the Six Months Ended September 30, 2016

Business Environment

- ✓ Industrial machinery business: Railcar and semiconductor sectors were strong; however, overall demand remained stagnant.
- ✓ Automotive business: Overall market environment remained steady, primarily in North America and Europe . Production outside Japan by Japanese automakers increased.
- ✓ Exchange rate(US\$,EURO,CNY): Yen appreciated by more than 10% year-on-year.

Summary of Business Results (IFRS)

(From FY2015: 1H)

Net Sales :	¥455.6 billion	(-¥34.2 billion / -7.0%)
Operating Income :	¥27.3 billion	(-¥21.2 billion / -43.7%)
Net Income Attributable to Owners of the Parent :	¥19.9 billion	(-¥12.7 billion / -39.0%)
(Segment Income :	¥35.0 billion	(-¥15.2 billion / -30.3%)

:Segment Income : Operating income before deducting other operating expenses

- ✓ Year-on-year decrease in both net sales and operating income.
Exchange rate impact: Sales: -¥ 49.4 billion, Operating Income: -¥ 11.0 billion.
- ✓ Net sales declined due to lower volume in industrial machinery business and appreciation of the yen, which offset higher volume in automotive business
- ✓ Strengthening shareholder returns: Interim dividend ¥24 (Ordinary ¥14, anniversary commemorative dividend ¥10), ¥15.0 billion acquisition of treasury stock (Completed in May 2016)

Summary of Consolidated Business Results for the Six Months Ended September 30, 2016


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IFRS (Billions of yen)	FY2015 1 st half <Actual>	FY2016 1 st half <Actual>	Increase/ Decrease YOY	Difference YOY	FY2016 1 st half <Original forecast in May>
Net sales	489.7	455.6	-34.2	-7.0%	450.0
Operating income <%>	48.5 <9.9%>	27.3 <6.0%>	-21.2	-43.7%	28.0 <6.2%>
Income before income taxes	47.4	26.5	-20.9	-44.1%	27.0
Net income attributable to owners of the parent	32.6	19.9	-12.7	-39.0%	17.0
(Ex. rate: US1\$=)	(¥121.80)	(¥105.35)	-¥16.45	-13.5%	(¥105)
(" 1EURO=)	(¥135.07)	(¥118.22)	-¥16.85	-12.5%	(¥120)
(" 1CNY=)	(¥19.44)	(¥15.95)	-¥3.49	-18.0%	(¥16.7)

*Reference :

Segment Income (OI before deducting other operating expenses)	50.2	35.0	-15.2	-30.3%
<%>	<10.2%>	<7.7%>		

Other operating expenses : Antimonopoly Act related loss, etc.

Major Indexes

ROE	14.1%	9.1%		
Net D/E ratio (times)	0.27	0.27		
Inventory turnover (times)	6.9	7.1		

Quarterly Business Performance

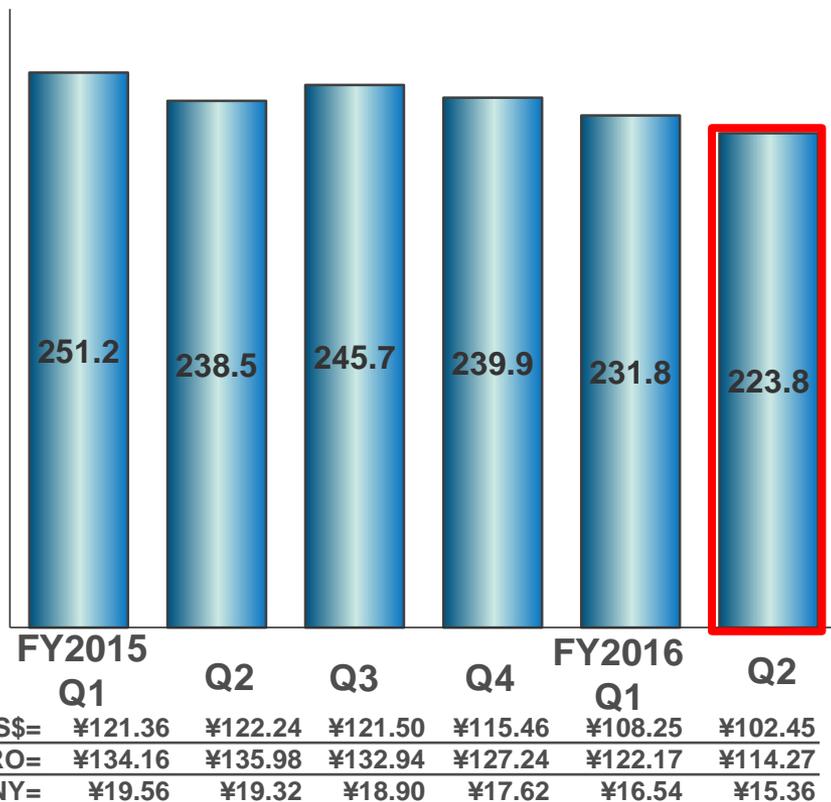


Sales

Q2 (YOY) : Actual volume rose year-on-year due to higher volume in the automotive business, despite appreciation of the yen and lower volume in the industrial machinery business.

Q2 (QoQ): Sales declined due to seasonal factors and the yen's appreciation (volume increased slightly).

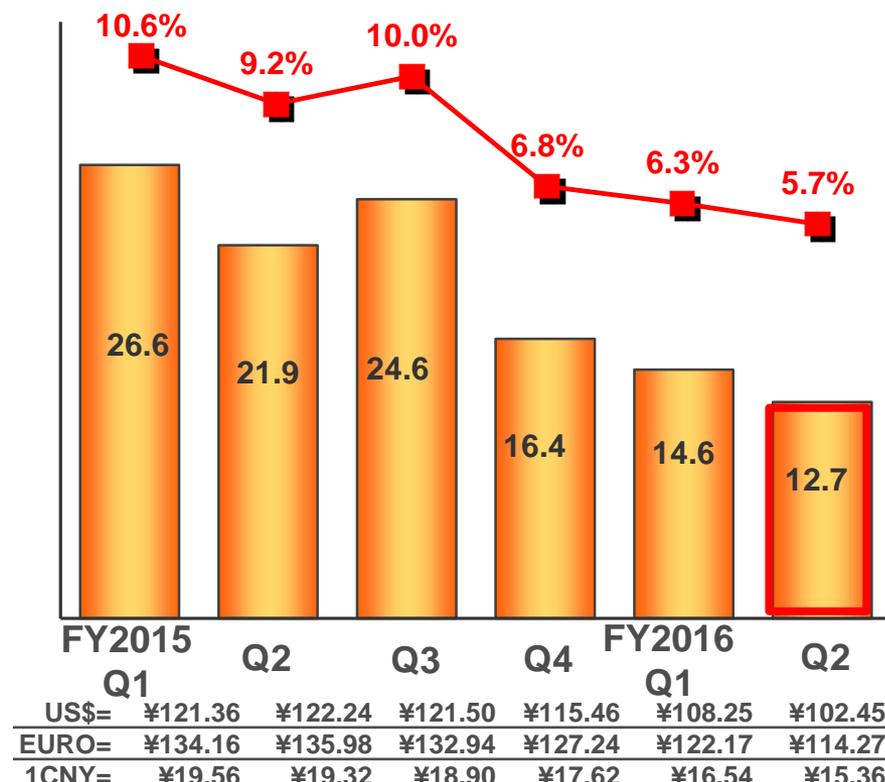
(Billions of yen)



Operating Income / Margin

Operating income results include other operating expenses (Antimonopoly Act related losses, etc.) of ¥5.8 billion in Q1 and ¥1.9 billion in Q2.

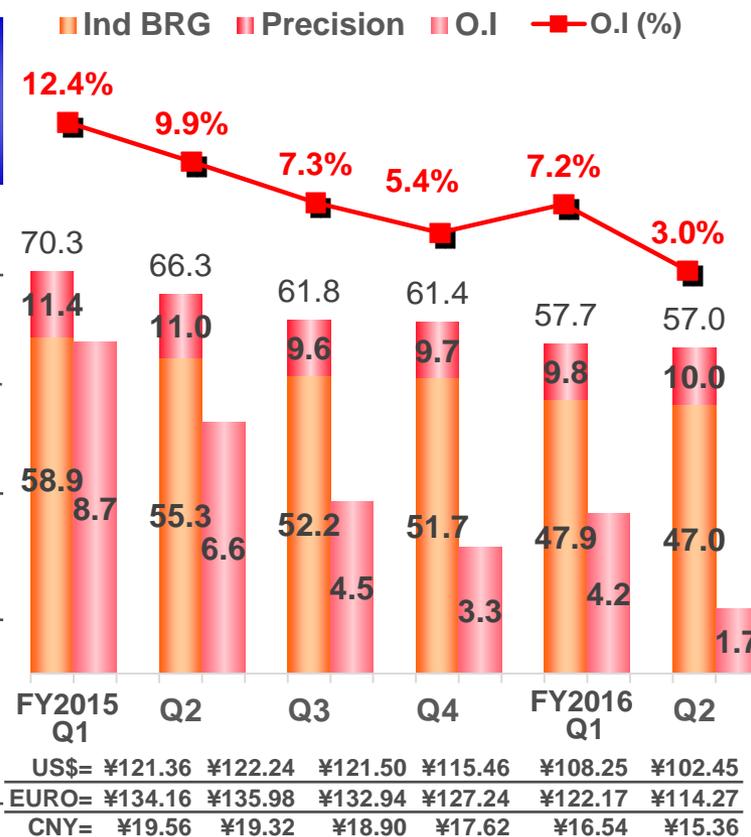
(Billions of yen)



Business Results: Industrial Machinery Business



IFRS (Billions of yen)	FY2015 1st half <Actual> [IFRS]	FY2016 1st half <Actual> [IFRS]	Increase/ Decrease YOY	Difference YOY	FY2016 1st half <Forecast> [IFRS]
Sales	136.6	114.7	-21.9	-16.0%	116.0
Industrial machinery Bearings	114.2	94.8	-19.3	-16.9%	97.5
Precision machinery and parts	22.4	19.8	-2.6	-11.4%	18.5
Operating income	15.3 <11.2%>	5.8 <5.1%>	-9.4	-61.7%	5.0 <4.3%>
(Ex. rate: US1\$=)	(¥121.80)	(¥105.35)	-¥16.45	-13.5%	¥105
(" 1EURO=)	(¥135.07)	(¥118.22)	-¥16.85	-12.5%	¥120
(" 1CNY=)	(¥ 19.44)	(¥15.95)	-¥3.49	-18.0%	¥16.7

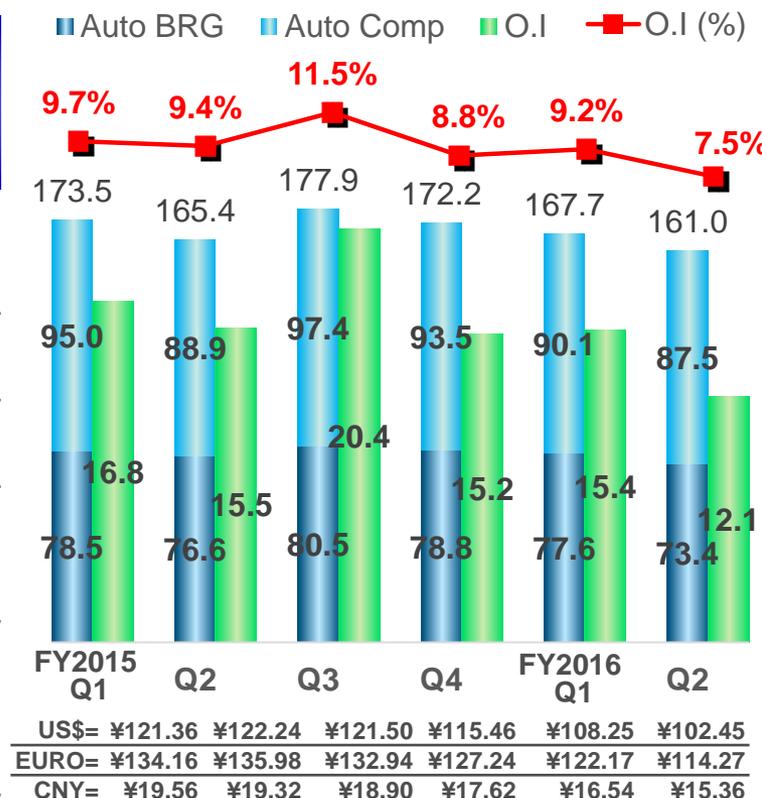


- ✓ YOY decrease in both net sales and operating income due to lower volume and appreciation of the yen.
- ✓ Railcar and semiconductor sectors increased year-on-year, while sectors including machine tools, fluid machinery, and steel remained stagnant.
- ✓ Net sales of precision machinery and parts exceeded ¥10 billion for fourth consecutive quarter.

Business Results: Automotive Business



IFRS (Billions of yen)	FY2015 1st half <Actual> [IFRS]	FY2016 1st half <Actual> [IFRS]	Increase/ Decrease YOY	Difference YOY	FY2016 1st half <Forecast> [IFRS]
Sales	339.0	328.6	-10.4	-3.1%	324.0
Automotive Bearings	155.1	151.0	-4.1	-2.6%	151.0
Automotive Components	183.9	177.6	-6.3	-3.4%	173.0
Operating income	32.3 <9.5%>	27.5 <8.4%>	-4.7	-14.7%	22.0 <6.8%>
(Ex. rate: US1\$=)	(¥121.80)	(¥105.35)	-¥16.45	-13.5%	¥105
(" 1EURO=)	(¥135.07)	(¥118.22)	-¥16.85	-12.5%	¥120
(" 1CNY=)	(¥ 19.44)	(¥15.95)	-¥3.49	-18.0%	¥16.7



- ✓ Vehicle sales in North America and Europe remained robust.
- ✓ Sales in the Chinese market increased substantially due to production adjustment in the first half of the last year.
- ✓ Although overall volume increased, YOY net sales declined due to stronger yen.
- ✓ YOY operating income declined due to appreciation of the yen and recall-related costs.

Operating Income: Factors Behind Change (FY2015 1st Half ⇒ FY2016 1st Half)



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(Billions of yen)

48.5

Decline in sales price

-4.9

Increase in costs

-6.5

Volume increase etc.

+2.3

Reduction of external procurement costs

+4.9

-11.0

Other operating expenses

-6.0

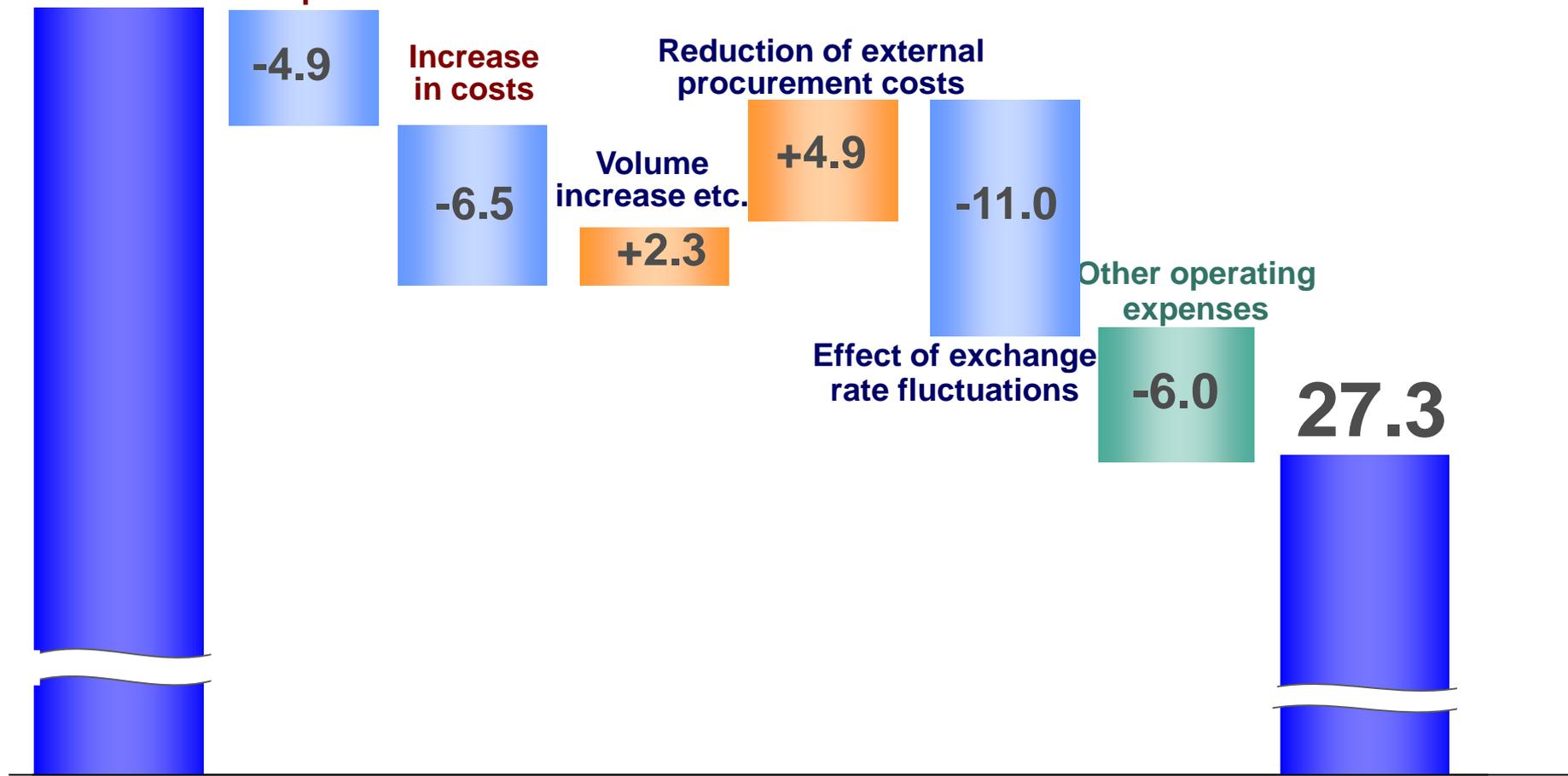
Effect of exchange rate fluctuations

27.3

FY2015 1st half

-21.2

FY2016 1st half



Business Results by Customer Location



(Billions of yen)	FY2015 1 st half <Actual>	FY2016 1 st half <Actual>	Increase/ Decrease YOY	Difference YOY
Net sales	489.7	455.6	-34.2	-7.0%
Japan	162.0	157.2	-4.8	-2.9%
Non-Japan	327.8	298.4	-29.4	-9.0%
(Non-Japan ratio)	(66.9%)	(65.5%)		
The Americas	92.3	82.7	-9.6	-10.4%
Europe	63.6	59.5	-4.1	-6.4%
China	101.4	94.7	-6.7	-6.6%
Other Asia	70.5	61.5	-9.0	-12.7%
(Ex. rate: US1\$=)	(¥121.80)	(¥105.35)	-¥16.45	-13.5%
(" 1EURO=)	(¥135.07)	(¥118.22)	-¥16.85	-12.5%
(" 1CNY=)	(¥19.44)	(¥15.95)	-¥3.49	-18.0%



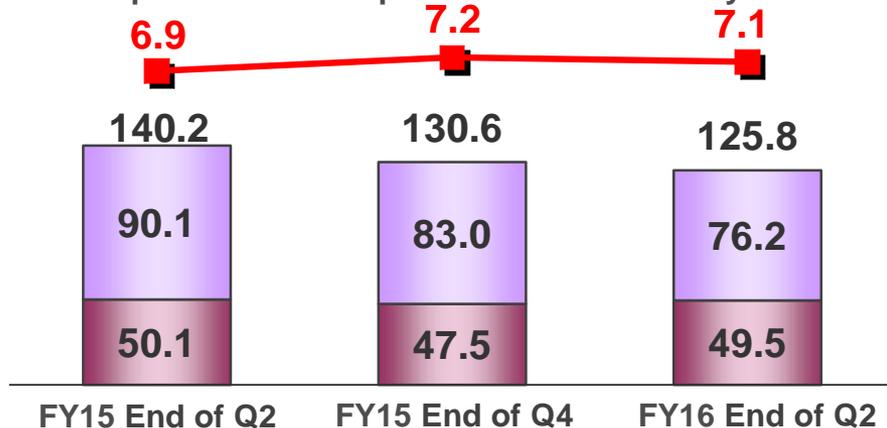
Inventories / Interest-Bearing Debt, Capital Expenditure / Depreciation and Amortization



Inventories

(Billions of yen)

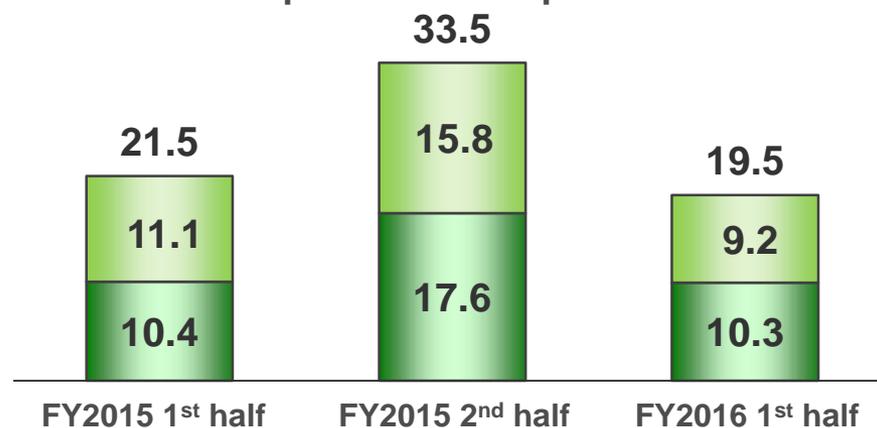
Japan Non-Japan Inventory turnover



Capital Expenditure

(Billions of yen)

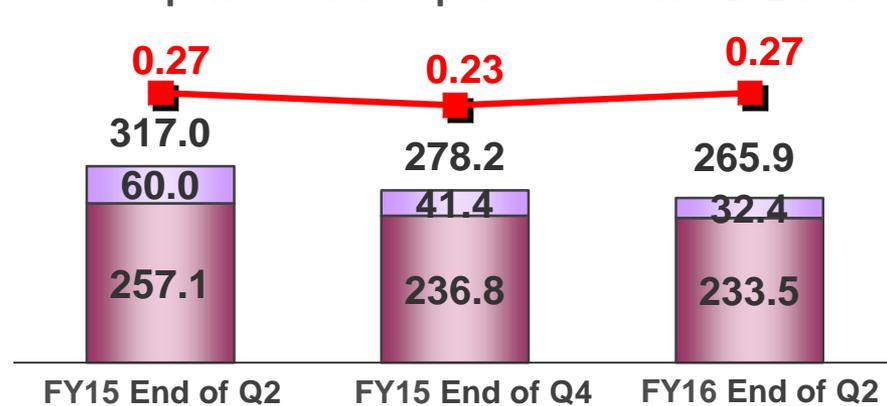
Japan Non-Japan



Interest-Bearing Debt

(Billions of yen)

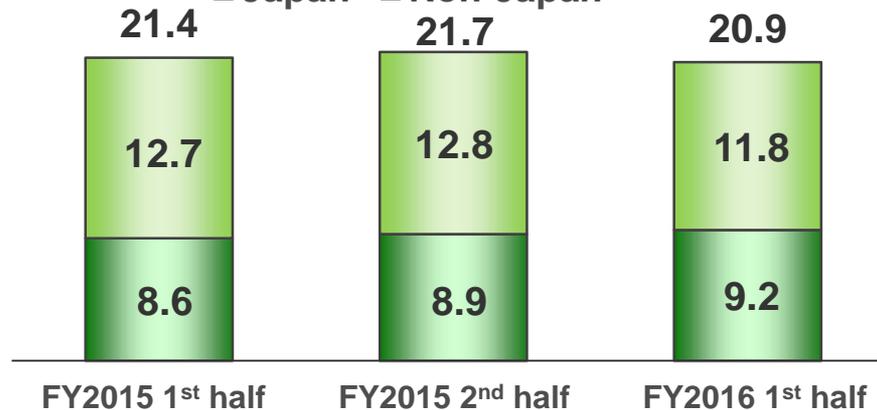
Japan Non-Japan Net D/E ratio



Depreciation and Amortization

(Billions of yen)

Japan Non-Japan



2. Consolidated Business Forecast for the Year Ending March 31, 2017

Forecasted Business Environment

- ✓ Industrial machinery business: Demand adjustment to continue, no clear driver for recovery anticipated.
- ✓ Automotive business: Overall market will remain steady, although uncertainty remains in markets such as North America and China. Multisteping AT (7 speed or more) continues to increase.
- ✓ Careful observation of overseas risk is needed (US Presidential election, Brexit, CNY trend)
- ✓ Rapid advance in technological innovation in both automotive and industrial machinery businesses.

Business Forecast

- ✓ Forecast remained same from May

		(YOY)
Net Sales :	¥920.0 billion	(-¥55.3 billion / -5.7%)
Operating Income :	¥65.0 billion	(-¥24.5 billion / -27.4%)
Net Income Attributable to Owners of the Parent :	¥40.0 billion	(-¥25.7 billion / -39.1%)

- ✓ Exchange rate forecast for the 2nd half : 1US\$=¥105, 1EURO=¥120, 1CNY =¥16.7
- ✓ Annual Dividend : ¥38 (+¥4 year on year (Interim ¥24, 2H ¥14))

Summary of Consolidated Business Forecast for the Year Ending March 31, 2017 (FY2016)



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IFRS (Billions of yen)	FY2015 Full year <Actual>	1 st half <Actual>	FY2016		
			Full year <May forecast>	Increase/ Decrease YOY	Change YOY
Net sales	975.3	455.6	920.0	-55.3	-5.7%
Operating income <%>	89.5 <9.2%>	27.3 <6.0%>	65.0 <7.1%>	-24.5	-27.4%
Income before income taxes	87.2	26.5	63.0	-24.2	-27.8%
Net income attributable to owners of the parent	65.7	19.9	40.0	-25.7	-39.1%
(Exchange rate: US1\$=)	(¥120.14)	(¥105.35)	(¥105)	-¥15.14	-12.6%
(Exchange rate: 1EURO=)	(¥132.58)	(¥118.22)	(¥120)	-¥12.58	-9.5%
(Exchange rate: 1CNY=)	(¥18.85)	(¥15.95)	(¥16.7)	-¥2.15	-11.4%

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

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

Business Environment and Forecast



Demand trend by Sector

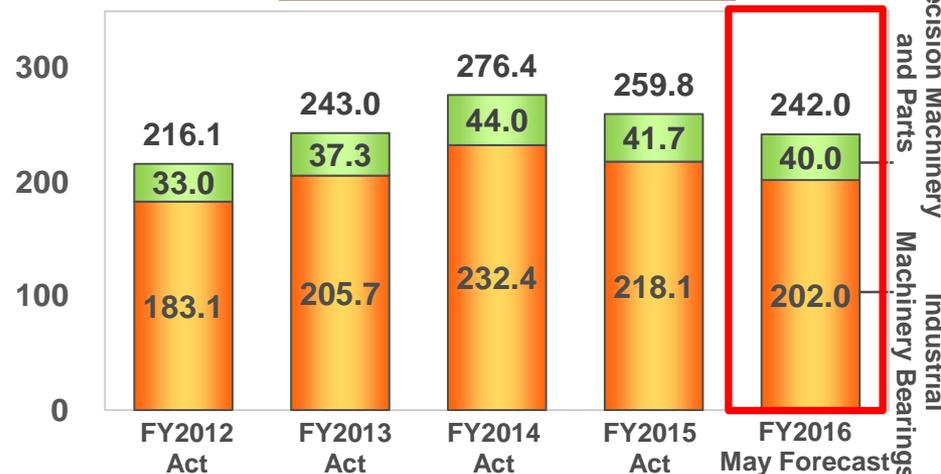
Sector	2H vs 1H	FY17 vs FY16
Home Appliances	→	↑
Steel Plant Facilities	↓ ↓	↑
Fluid Machinery	→	→
Mining / Construction Machinery	→	↑
Agricultural Machinery	↑	↑
Wind Turbines	↓ ↓ ↓	↑ ↑
Railcars	→	↑
Machine Tools	↓ ↓	→
Injection Molding	→	→
Semiconductors	→	→
Robots	→	↑ ↑
Aftermarket	→	↑

Demand forecast: ↑ Upward, → Same level, ↓ Downward

- FY16 2H : Variance by sector; generally flat or weak
- FY17 : Recovery in increasing number of sectors, although gradual

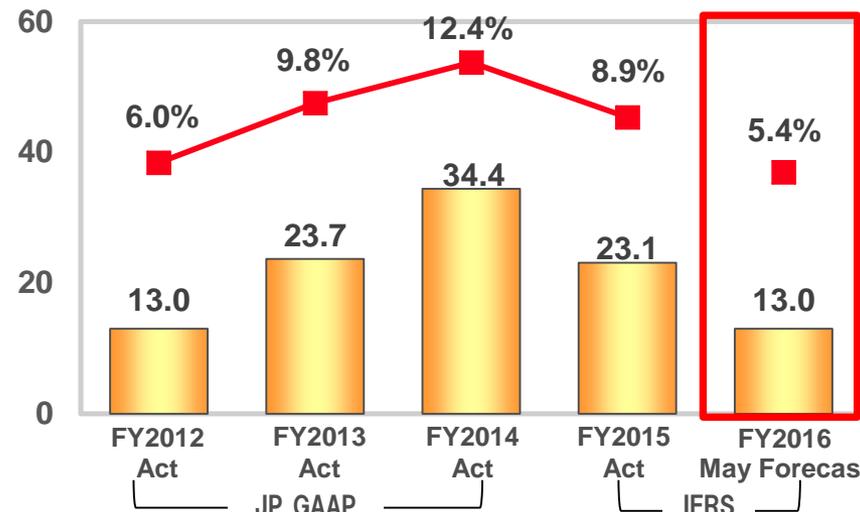
(Billions of yen)

Sales



Operating Income / Margin

(Billions of yen)



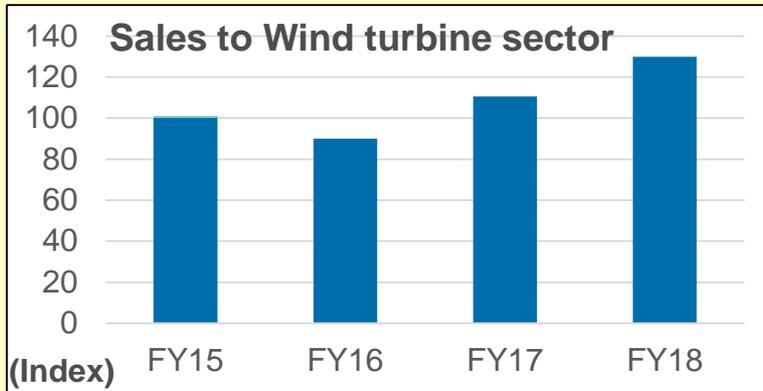
Industrial Machinery Business 2

The 5th MTP: Status of Key Initiatives



Wind turbines

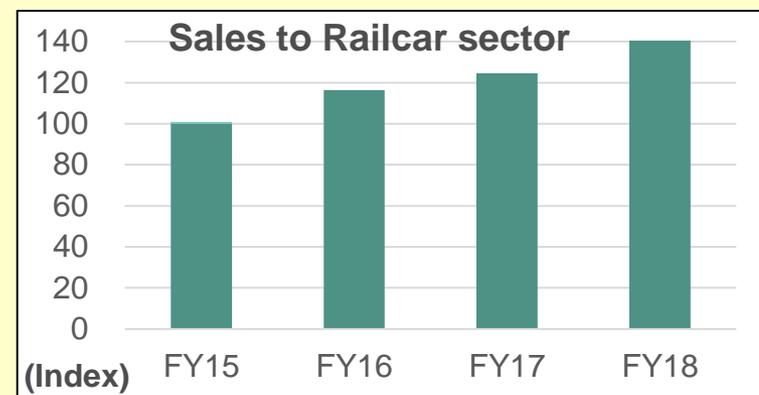
Expansion of Giant Bearings



- 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 3

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

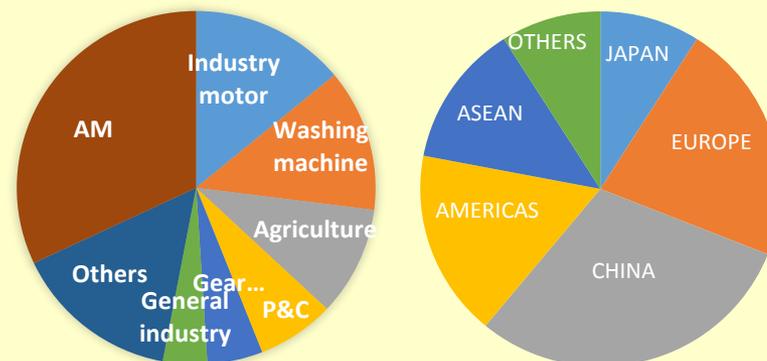
• Expand network of specialized distributors

• 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

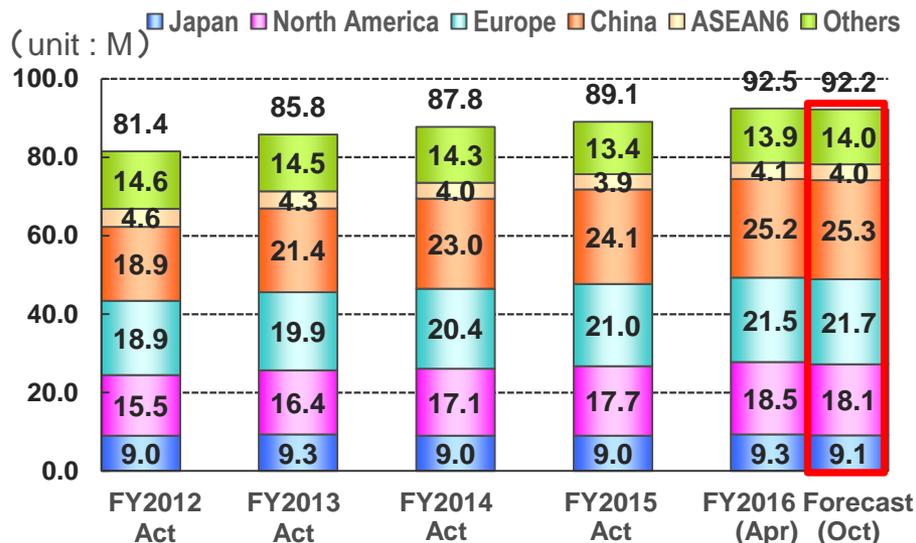
Layer	High-end	High-performance standard products	Commodity
Main usage	High efficiency motors	AM, fluid machinery, washing machines	General machinery, agricultural machinery
Response	Expand low-torque bearings to top customers in Japan, US, and Europe	Expand HPS series	Enhance production in China

Automotive Business 1

Vehicle Production and Business Forecast

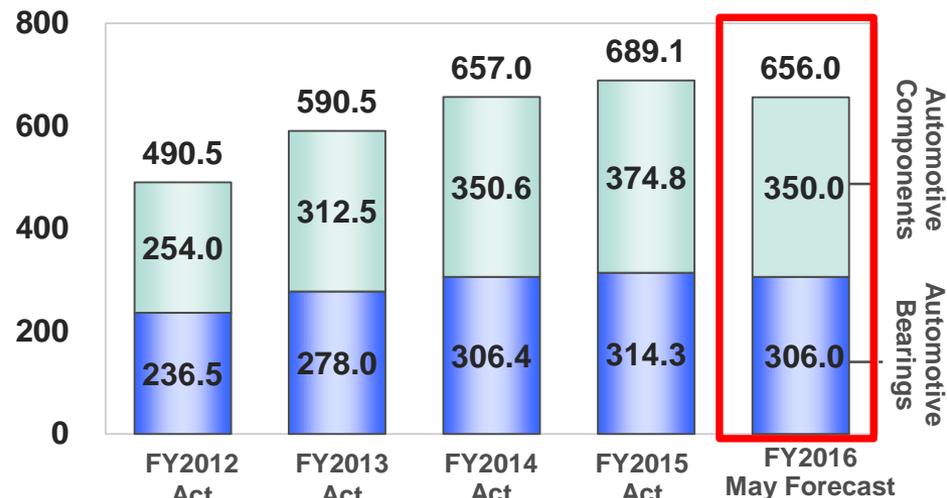


Global Vehicle Production Volume

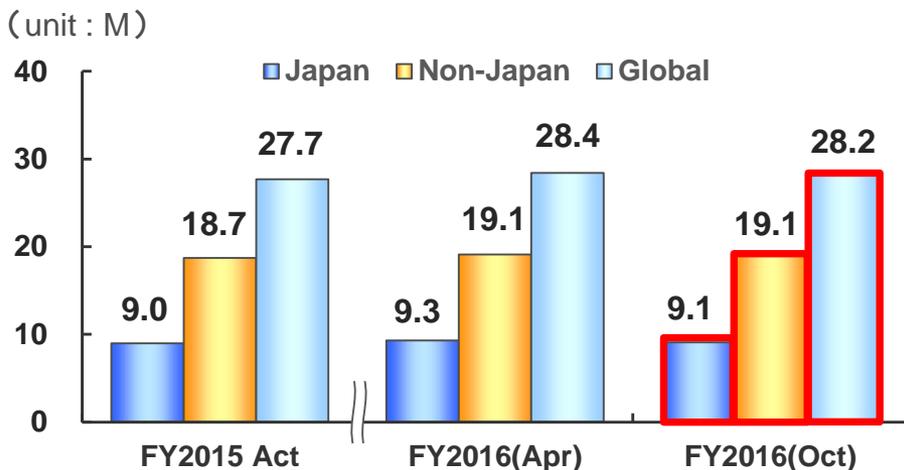


(Billions of yen)

Sales

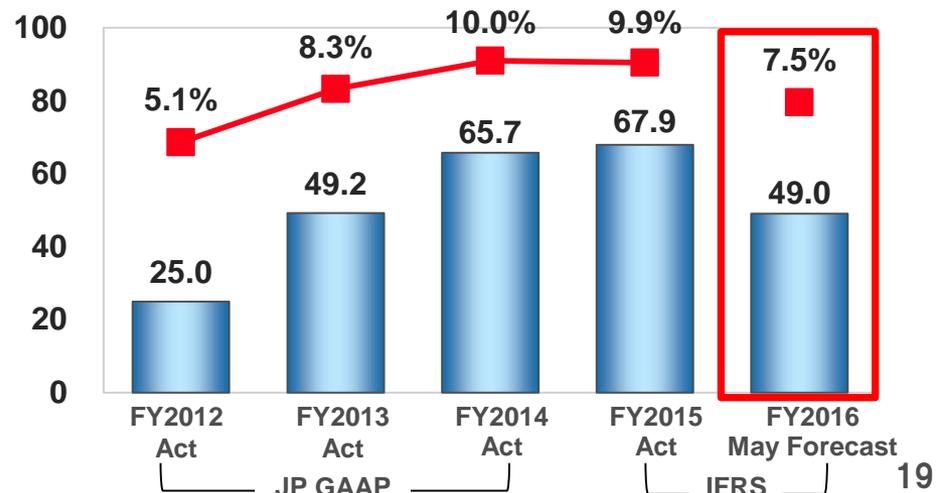


Production Volume by Japanese Automakers



(Billions of yen)

Operating Income / Margin



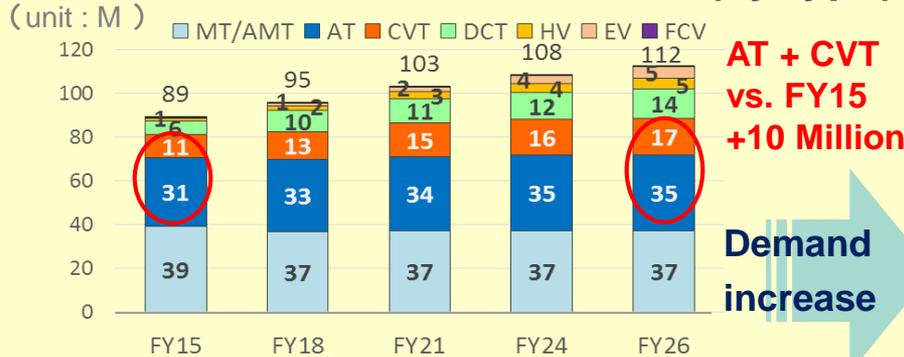
Automotive Business 2

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



Powertrain Business

Transmission Market Forecast (by type)



• Demand for AT/CVT unit will increase rapidly

Ratio of multisteping AT (7 speed or more)

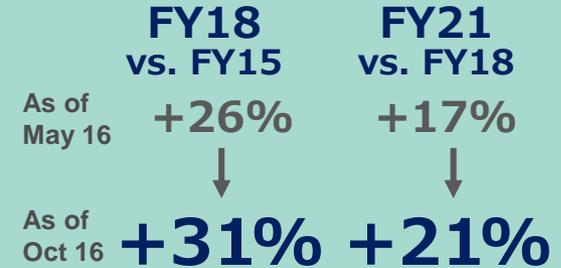


• More than 7 speed AT increase

Increase Production Capacity
Secure stable supply

PT Bearing/AT Components Sales Forecast

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



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

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. 90,000m²

Building floor space: approx. 20,000m² 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. 50,000m²

Building floor space: approx. 10,000m²



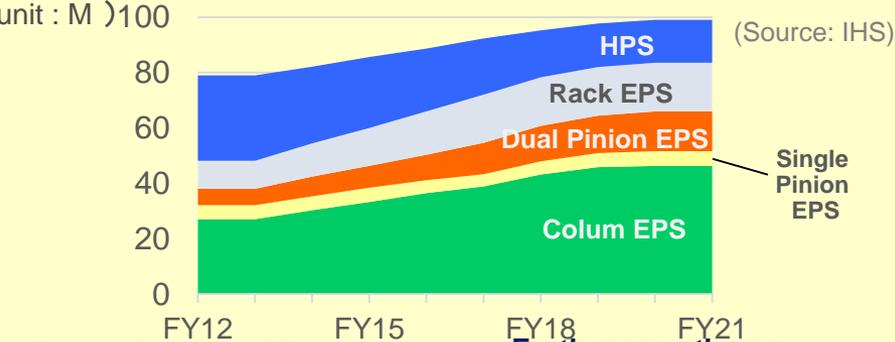
Automotive Business 3

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 Demand in Column EPS continues to expand

Engineering 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

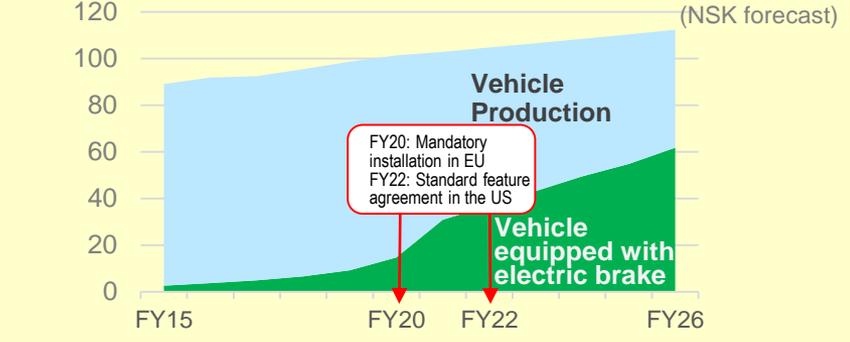
■ Further utilize of ADTech



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

Actuator Business

Electric brake demand forecast (M cars)



Expansion in demand for electric brake systems

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

Technical competitiveness 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

FY2016 2H Key Issues

- **Stick to original plan, overcoming low-growth economy and appreciation of the yen**
 - ✓ Enhance business profitability (ensure implementation of improvement plans and key projects)
 - ✓ Thoroughly manage investment projects and SG&A
 - ✓ Focus on Safety, Quality, and Compliance
- **Industrial Machinery Business**
 - ✓ Construct profitability base that does not rely on volume
 - ✓ Roll out concrete measures in focus sectors
- **Automotive Business**
 - ✓ Secure profit through expansion of powertrain business
 - ✓ Win orders for target EPS projects and accelerate technological development.
- **100th anniversary commemorative projects**

(Supplementary Information)

Sales and O.I. by Business Segment

(Billions of yen)	FY2015 1 st half <Actual>	FY2016 1 st half <Actual>	Increase/ Decrease YOY	Change YOY	FY2016 1 st half <May Forecast>
Net sales	489.7	455.6	-34.2	-7.0%	450.0
Industrial machinery business	136.6	114.7	-21.9	-16.0%	116.0
Industrial machinery bearings	114.2	94.8	-19.3	-16.9%	97.5
Precision machinery and parts	22.4	19.8	-2.6	-11.4%	18.5
Automotive business	339.0	328.6	-10.4	-3.1%	324.0
Automotive bearings	155.1	151.0	-4.1	-2.6%	151.0
Automotive components	183.9	177.6	-6.3	-3.4%	173.0
Others	27.1	23.8	-3.2	-12.0%	24.0
Eliminations	-12.9	-11.5	+1.4	-	-14.0
Operating income	48.5 <9.9%>	27.3 <6.0%>	-21.2	-43.7%	28.0
Industrial machinery business	15.3 <11.2%>	5.8 <5.1%>	-9.4	-61.7%	5.0
Automotive business	32.3 <9.5%>	27.5 <8.4%>	-4.7	-14.7%	22.0
Others	2.5 <9.3%>	1.5 <6.4%>	-1.0	-40.0%	2.0
Other operating expenses/ Eliminations	-1.5	-7.6	-6.0	-	-1.0

(Supplementary Information)
Consolidated Balance Sheets

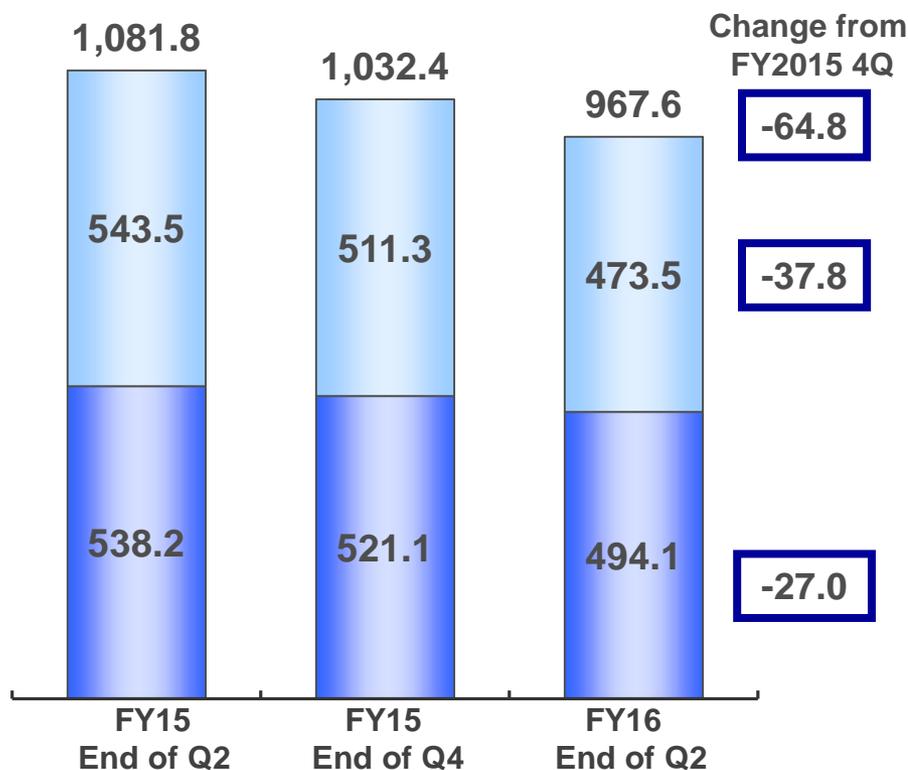


Assets

Liabilities and Net Assets

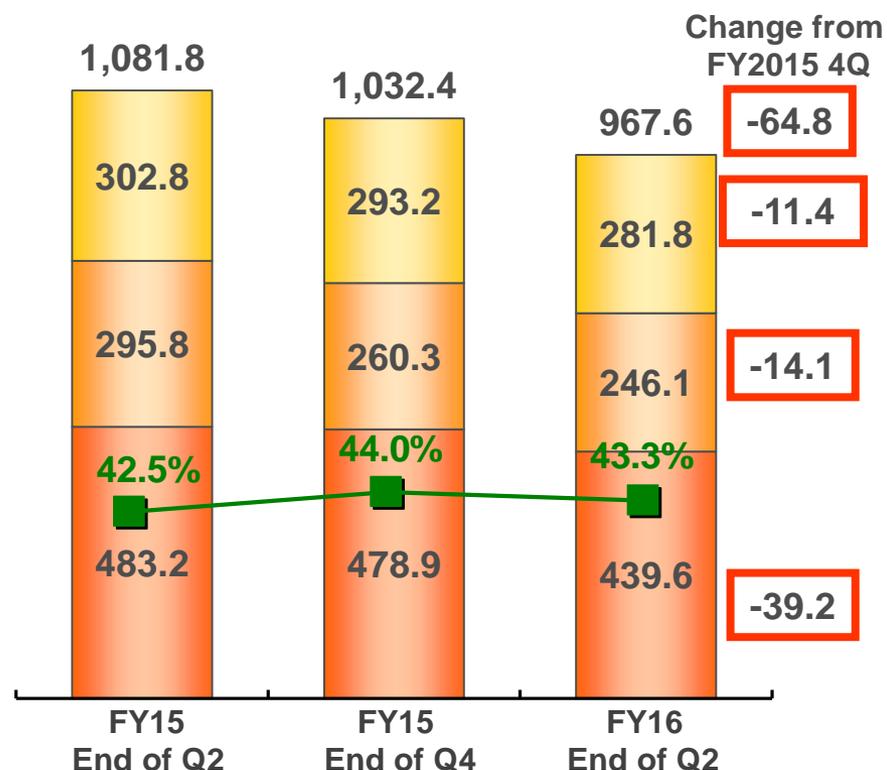
(Billions of yen)

■ Non-current assets ■ Current assets



(Billions of yen)

■ Net assets ■ Non-current liabilities
 ■ Current liabilities ■ Ratio of net worth to total capital



Ex. Rate	FY15 End of Q2	FY15 End of Q4	FY16 End of Q2
1USD=	119.96	112.68	101.12
1Euro=	134.97	127.70	113.29
1CNY=	18.96	17.39	15.15

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



(Billions of yen)	FY2015 <Actual>	FY2016 1 st half <Actual>	FY2016 <Forecast>
Capital expenditure (※)	55.0	19.5	62.0

※Including intangible assets

(Billions of yen)	FY2015 <Actual>	FY2016 1 st half <Actual>	FY2016 <Forecast>
Depreciation and amortization (※)	43.0	20.9	42.0

※Including intangible assets

(Billions of yen)	FY2015 <Actual>	FY2016 1 st half <Actual>	FY2016 <Forecast>
R&D expenses	11.2	6.0	13.0