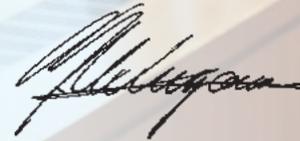


To Our Stakeholders

Contributing to Society While Growing as a Company— NSK Will Set the Future in Motion by Creating New Value Beyond the World's Expectations

President and Chief Executive Officer



Review of FY2017 and Outlook for FY2018—the Final Year of NSK's Fifth Mid-Term Management Plan

Record Performance in FY2017

In fiscal 2017 (the year ended March 31, 2018), NSK reached ¥1 trillion in sales for the first time in our history, while also marking record profits of ¥97.9 billion in operating income. Demand in the Industrial Machinery Business recovered markedly, contributing to a significant boost in sales volume. Demand from the machine tool sector—which began a gradual recovery in the third quarter of fiscal 2016—underwent a rapid surge, primarily due to investment in machines used to manufacture smartphones and related components. We also saw an increase in sales to the automotive industry and the general machinery sector. Furthermore, in addition to increased investment in semiconductor production equipment, demand for durable goods and home appliances also remained strong, resulting in a surge in demand for NSK's

precision bearings, ball screws, linear guides, and other precision products. In NSK's Automotive Business, although global vehicle production in fiscal 2017 was flat from the previous year, sales of needle bearings and components used in automatic transmissions (ATs) grew significantly. Consumer demand for a comfortable driving experience has grown in China and other developing countries, leading to an increase in the AT adoption rate. Meanwhile, the move to multistep AT technology in developing countries has also contributed to higher demand. At the same time, sales of NSK's electric power steering (EPS) products, which had previously served as a growth driver for the Company, declined due to vehicle model changes.

Toward the Final Year of Our Fifth Mid-Term Management Plan

Fiscal 2018 marks the final year of our current Fifth Mid-Term Management Plan. Under the banner of *Operational Excellence*, we are striving to build robust frontline capabilities and strengthen our manufacturing, sales, technology, and administrative functions in order to further boost the competitiveness of our core business and maintain a firm focus on our goal of achieving ¥100 billion in operating income and a 10% operating income margin.

At the same time we are also striving to *Innovate and Challenge* by developing new technologies and products, as well as smart

factories. Although these efforts are gradually beginning to produce results, we will further accelerate initiatives in these areas. Utilizing the innovation centers we have established in the US and Germany, we are working to stay at the forefront of technological trends in the US and Europe while searching for M&A opportunities.

To give an outline of our specific initiatives in each business, in light of the robust demand environment in the industrial machinery market we are working to strengthen our personnel base, optimize our global production capacity, and maximize our output. We are



also working to absorb rising personnel and material costs and further enhance our profitability by restoring our pricing levels, which had declined during the preceding period of low demand. We will continue to improve our productivity and push forward with global procurement initiatives. In light of mid- to long-term demand trends, we will also move to expand our production capacity as quickly as possible. Through these and other measures, we will further strengthen our supply framework while developing technical response capabilities to win the trust of our customers, including the introduction of automatic inspection systems and digital technology to meet quality requirements in an increasingly sophisticated market.

In the Automotive Business, global vehicle production is forecast to increase by around 3% during the current fiscal year. However, in growth areas such as AT-related products we will need

to further bolster our supply framework. We will also work to quickly secure mass production orders for our lower assist type EPS products. To achieve this, we are accelerating our development efforts to create models ready for installation in actual vehicles. Meanwhile, we commenced mass production of our first large-scale order of ball screws for electric brake boosters*—a product for which we anticipate demand growth in the future. In light of the technological trend toward electric braking systems, we proposed a solution to our customers in the form of a ball screw type product integrated into a unit together with bearings. By utilizing our time-tested comprehensive mass production and quality control systems spanning design to manufacturing, we will develop this product line into a next-generation core product for NSK—one that delivers both outstanding technological performance and strong profitability.



*Ball screws for electric brake boosters (P. 17, P. 18)

Creating Value Together With Our Stakeholders

Aiming for Sustainable Value Co-Creation

NSK's business is founded on a trust relationship with a range of stakeholders. Together with each of our stakeholders we aim to generate a range of value, ultimately contributing to the realization of a sustainable society.

Although many changes have been predicted to occur in the world around us, the speed and impact of these developments has been even greater than initially anticipated. Amidst this wave of dynamic technological innovation, the requirements of our

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customers—one of our key stakeholders—are shifting. NSK must respond by delivering performance and applications that fulfill these needs. In doing so, we must move more quickly than ever. Rather than simply waiting for the lead from our customers, we will strive to anticipate the unmet needs of end users—the consumers who actually use the durable goods and the operators who actually use the machines containing NSK products. With an open imagination and a firm focus on our future society, we will seize the initiative to deliver innovative technological and business proposals to our customers. Going forward, NSK aims to generate value for both customers and end users by contributing to the environment and the realization of a safer, smoother society. In the Automotive Business, we aim to seize new opportunities in what is being dubbed a “once-in-a-century” technological evolution,* including electric vehicles (EVs), electrification, autonomous driving, and by-wire systems. Meanwhile, in the Industrial Machinery business we will work to respond to customer needs for stable operation and component life prediction, which will be required as IoT technology advances.

To achieve this, we need a transformation in the mindsets of our employees. I always stress to employees the importance of stepping outside the company and experiencing the world firsthand. There is a limit to the knowledge and information one can obtain within the confines of the company. Only by stepping out into the real world can you truly sense the breakneck speed of change and evolution taking place. It soon becomes evident that we at NSK will need to use our imagination and creativity to kick it into high gear. Whether test driving an electric car, trying out a high-end appliance, or going to an open cut coal or metal ore mine and observing the systems by which the minerals are transported, it is always important to identify the current reality firsthand and imagine the range of unmet needs that might exist.

At the corporate level it is also critical that we speed up our decision-making processes in order to keep up with the pace of change in the world around us. I have stressed to employees that we must review and optimize our internal systems, the way we structure and run our meetings, and the reports and other documents we produce. We should not fear change, and if necessary should even be prepared to do away with long-standing ways of working. As part of our initiatives toward NSK Vision 2026 (Setting the Future in Motion),* our workplaces around the world are holding workshops. During this exercise, our aim is for participants to review their current ways of doing things, discuss their ideal future, and then set to work on making this a reality.

We have also kicked off new health and wellness initiatives.* As a company, we aim to support employees working to improve their health, such as by quitting smoking or striving to maintain a healthy weight.

While we have always valued dialogue between our management and employees, we are working to create even more opportunities for open discussion. By further enhancing two-way communication with employees, we aim to manage the company in a way that resonates with all who work there.

The companies that provide us with materials, components, and machines are not simply suppliers but valued business partners who play an important role in our final products. NSK’s business, including our quality, performance, and delivery standards, would not be possible without their support. It is therefore important that we establish a relationship where our business partners are able to offer us constructive feedback and suggestions, rather than NSK giving a one-sided explanation of our procurement policy or simply stating our performance requirements. For example, it may be that revising the drawings or specifications we request could make it easier for our business

partners to provide these items while maintaining product performance and quality. These types of initiatives will ultimately help improve the products and services we deliver to customers.

The distributors and sales outlets that serve as the contact point between NSK and a diverse range of end users and the market are also our important business partners. Sales outlets communicate the needs of and problems experienced by end users. We use this information to develop products and services that can help solve these problems, which are once again delivered to end users via sales outlets. We realize that each distributor and sales outlet is unique, with different regions and fields of specialty. At NSK we aim to build a brand that is relied on and trusted in the maintenance/repair and



commercial market, while in turn respecting the strengths and competitiveness of each distributor and sales partner.

At NSK, we believe that future generations are also important stakeholders. Accordingly, we hold several children's science events at the Japan Science Foundation's Science Museum as well as our own sites.* While there is particular interest in IT and AI among the young generation of today, the devices these technologies are applied in require mechanical elements to move. NSK shows children the physical mechanisms that support movement in high-tech devices, helping spark their interest in science and technology. We feel that these opportunities play a positive role in education and plan to continue holding such events in the future. We also established the NSK Scholarship Foundation* as part of events to commemorate our 100th anniversary, and last year began extending support to both Japanese and overseas students studying outside their home countries. With the number of Japanese students studying overseas on the decline, the presence and influence of Japanese experts at overseas educational institutions is rapidly diminishing. If this trend continues, Japan's voice on the international stage will inevitably weaken. With the aim of ensuring Japan remains a trusted member of the Asian community, we established the NSK Scholarship Foundation in order to develop

young leaders capable of supporting this role. The Foundation proactively promotes exchanges between Japan and overseas nations, extending support to Japanese students studying overseas as well as international students studying in Japan.

We are also working to increase opportunities for dialogue with our shareholders and investors. In addition to our regular results-based IR initiatives, we also held a total of 35 ESG-focused dialogues during fiscal 2017. While we also provided detailed presentations on our "E" (Environment) and "S" (Society) policies and initiatives based on pre-submitted questions, there was particularly strong interest from and engagement with investors in relation to our "G" (Corporate Governance) initiatives. On several occasions we held constructive dialogue on topics such as the operation and effectiveness of our Board of Directors, our succession planning at the management level, and the independence of NSK's outside directors. At our 2018 Ordinary General Meeting of Shareholders, our shareholders also voted to increase the number of outside directors on NSK's Board to five out of 12 total members, including the Company's first female outside director.



- *Seizing new opportunities in "once-in-a-century" technological evolution (PP. 16-19)
- *NSK Vision 2026: Setting the Future in Motion (PP. 20-21)
- *Health and wellness initiatives (P. 53)
- *Children's science events held at Science Museum and NSK sites (P. 49)
- *NSK Scholarship Foundation (P. 49)

Building a Sustainable Society

The UN Sustainable Development Goals (SDGs) and NSK's Role

With irregular weather events and natural disasters becoming an increasingly frequent occurrence around the world, it is important that we obtain a firm understanding of the impact climate change will have on NSK's business. The NSK Mission Statement avows that NSK will contribute to a safer, smoother society and protect the global environment through its innovative technology integrating Motion & Control™, as well as work across national boundaries to improve relationships between people throughout the world. Although the 17 sustainable development goals established by the United Nations are not directly linked to NSK's business activities, several are deeply related to our operations and are areas in which we can contribute proactively.

Thus far, we have worked to raise awareness of the SDGs among our employees* via a range of tools. In the next stage, we will link these goals to our business and discuss the specific steps NSK can take to contribute to their achievement. In doing so, we will clarify the actions we at NSK must take. We will present our goals and how their achievement will be measured in our next Mid-Term Management Plan, which will start in fiscal 2019.

The foundation of our efforts will remain our core products and

services—namely their ability to reduce the burden on the environment. Bearings reduce friction, while EPS products help improve fuel efficiency. Reducing friction and improving control is NSK's field of expertise. Accordingly, we will work to minimize environmental impact through our core business as well as to communicate these efforts. We will also disclose key performance indicators (KPIs) that help the general public understand how our efforts are contributing to environmental preservation.

As an example related to SDG 12: *Responsible Consumption and Production*, one contribution NSK can make is to improve the efficiency of its material balance.* For instance, one possible measure in the materials and production stage could involve improving yield by replacing the conventional cutting method with cold forging technology. We plan to introduce a range of environmentally-friendly technology such as this. We can also raise productivity, improve the material balance, and improve energy efficiency by upgrading or overhauling older production machinery. For example, utilizing induction hardening technology during the heat treatment process can reduce the overall amount of energy used. One other initiative we are taking on the production side is the



- *Raising employee awareness of the UN SDGs (P. 47)
- *Material balance (P. 50)

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development of smart factories in both our automotive and industrial businesses. We have already established concept model lines, and will continue working to develop next-generation manufacturing systems which save space, reduce energy consumption, and are highly automated. Our future facilities will not

only be more efficient and less labor-intensive, but will also reduce environmental load while ensuring a clean, noise-free workplace environment for our employees. These concepts have been realized in our second Korea plant,* which opened last year.



*Second Korea plant (PP. 44-45)

Toward Further Growth

Tasks for NSK's Business

Regarding the current tasks facing NSK's business, in the short term we must compensate for the decline in profitability in the steering business by bolstering profits in the industrial business and other areas of the automotive business. In the steering business, our policy of intentionally concentrating resources on column type EPS products for successful delivering on orders we have secured is a factor that have led to a delay in the development of lower assist type EPS products and a recent sales decline as a result. Going forward, we will focus on accelerating development of rack type EPS products utilizing NSK's ball screw technology, EPS control technology that can help deliver safe, comfortable driving, and steer-by-wire systems in order to restore the business to growth as swiftly as possible.

Although the Industrial Machinery Business is largely influenced by the broader economic environment, we are recently seeing the emergence of a dynamic supply and demand structure that differs from our past experiences and assumptions, as well as changes in the economic cycle. Smart technology is being incorporated in automobiles, home appliances, industrial machinery, infrastructure, and other applications, while technological innovations are taking place in the fields of IoT, AI, and robotics. These trends are beginning to generate large-scale demand for new electronic devices and functional components. We will aim to achieve sustainable growth by looking at which fields

will grow in line with this demand and identifying the areas where NSK can expand its sales through its differentiated technology.

Meanwhile, it is essential that we develop a mid- to long-term strategic approach which allows us to link the dramatic evolution in automotive technology to growth in our business. Some investors remain concerned that the shift toward electric vehicles will significantly reduce the number of bearings required, and it is certainly true that the number of bearings incorporated in a pure EV with no internal combustion engine may decline. However, there are some areas in which bearing specifications and applications will become even more sophisticated. I believe that NSK will be able to attain a dominant position in this field in terms of value and quality by utilizing the technological prowess we have developed over the years. Furthermore, outside the field of bearings we are working to develop new products that incorporate NSK's element technology. Specific examples include Parallel Link type Active Suspension*, which we exhibited at the 2017 Tokyo Motor Show, as well as the Wheel Hub Motor Fit*, the Traction Reducer*—a compact, lightweight speed reducer for use in high-revolution EV drive motors—and the Force Feedback Actuator* designed for use with steer-by-wire systems. Going forward, we aim to release products that incorporate NSK's proprietary technology, such as the above, or composite products. We hope our investors will share our enthusiasm for the potential such products hold.



*Overview of each product (PP. 18-19)

Investing in the Future

Going forward, we will continue to prioritize investment in our sustainable growth when utilizing our cash flow. Specifically, we will invest in the development of new technologies that allow us to deliver new products through combination with NSK's four core technologies, manufacturing technologies such as precision grinding, and other elemental technologies. We will also invest in upgrading and overhauling our manufacturing machinery, securing sound supply capabilities in growth fields, and strengthening our production capabilities by switching to more efficient manufacturing methods and installing new machinery based on our smart factory concept. To fund this investment, we will maintain a firm focus on

profitability, namely our goal of securing a double-digit operating income margin. If we can secure double-digit profitability, I believe we will also be able to maintain the returns we provide to investors above a certain floor.

Although we have indicated the possibility of M&A activity as a method to supplement our future growth, this had not yet come to fruition. Rather than simply waiting for chances to fall into our lap, we need to take a more proactive approach and search out new opportunities. We will actively pursue any opportunities for synergy in our current business domain or related fields, such as a relevant and complementary technology or territory.

Toward Greater Diversity and Inclusion

The world around us is rapidly changing. We are increasingly finding that our conventional mindset and ways of working do not produce the same results as in the past. This trend is only going to accelerate further in the future. In such an age, homogeneous organizations with members of a single mindset and background who rely on past examples in their decision-making will be unable to keep pace with changes in society. It is critical that we consider the future in a flexible and agile manner and from a variety of perspectives—this is why diversity among the people who make up our teams and larger organization is so important. In order to change and adapt the way we do things, it is important that team members from a variety of backgrounds—including gender, age, and nationality—gather to offer their perspective. Diversity and inclusion* is the source of competitiveness that will power NSK's future. Although I am well aware that diversity is more than just gender, one of our plants in China where 40% of employees and managers—including the plant manager—are women has significantly outperformed all other plants in the country in terms of quality and safety performance. In addition to combating noise and oil mist to create a safer and more pleasant workplace environment, the plant has refurbished a meeting room into a gym where employees can work out to maintain their health. While a higher ratio of female employees does not necessarily lead to higher performance in all situations, I believe that incorporating a variety of perspectives can help drive new reforms and lead to positive outcomes. Providing a workplace environment where women can work to their full potential is a key management issue for NSK, particularly in Japan where we are employing a range of measures, including greater career support for female employees and expanding the areas of the business where women play an active role.

NSK is also promoting diversity in other areas, including working to globalize our headquarters in Japan, introducing programs that give employees more flexibility to provide care for aging family members, and responding to LGBT* issues. Furthermore, it is important to build a workplace environment that is not only diverse but also

multi-cultural—where each and every employee can function at their full capacity.

We are also promoting diversity in the form of globalization in our training programs.* Since 2011 we have operated the NSK Global Management College on an annual basis. In this program, talented young leaders from each region are selected to take part in global management training to prepare them as candidates for future global management roles. Over a six month period, participants visit four or five NSK sites around the world, where they experience firsthand the issues facing the business in each region as they work in teams to devise and propose solutions. This interaction between employees spanning different regions and job types—which would not be possible through the regular performance of their duties—provides participants with a valuable opportunity to experience a variety of viewpoints and ideas as well as to expand their personal global network. Our hope is that these participants will continue to interact and collaborate following the program's conclusion, bringing the NSK Group together as one and helping to solve key problems.



*Diversity and inclusion, LGBT (P. 52)

*In-house training and development programs (P. 53)

Uniting the NSK Group in One Direction

NSK's Integrated Report is now in its third year of publication, and we are honored to have received acclaim for our past two reports from a wide range of stakeholders. Last fiscal year we held employee briefings on the Integrated Report, taking the opportunity to build a common understanding of the NSK's value creation and the importance of a shared direction. Although this initiative is still in its early stages, we hope to proactively broaden the scope and engage in communication with our employees outside Japan. In order to build a common understanding it is important that the vision and approach of management, as well as our overall direction and external expectations are clearly communicated and discussed.

I therefore believe that utilizing NSK's Integrated Report in this manner has had a significant effect on building a shared awareness and promoting better communication within the Company.

As the business environment becomes increasingly complex, the responsibilities of and expectations placed on companies are becoming more diverse. In order for NSK to contribute to sustainable global growth together with our stakeholders, we must continue to be a company that is needed by society. NSK will strive to continue growing as a company while contributing to society by generating value that not only meets the needs of the times but constantly exceeds expectations.