

**NACHI**

# INTERIM BUSINESS REPORT 2014

December 1, 2013 to May 31, 2014



**NACHI-FUJIKOSHI CORP.**

Securities Code: 6474

# TO OUR SHAREHOLDERS

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I hope you are in the best of spirits and health as our valued shareholders.

We report the interim results for the NACHI-FUJIKOSHI Group for the period from December 1, 2013 to May 31, 2014.

I would like to inform you that the end date of the fiscal period for our overseas subsidiaries has been changed from September 30 to November 30 as of the current consolidated fiscal year. For this reason, the consolidated cumulative period of the 2014 interim period is only eight months, from October 2013 to May 2014.

## Business Environment

As for the business environment surrounding the NACHI-FUJIKOSHI Group during the interim period under review, production and capital investment in the automotive sector has increased in Japan and overseas. In addition, some improvement has been seen in the industrial machinery and commercial sectors, which is a sign of the steady economic recovery.

## Business Progress and Results

Given this environment, the NACHI-FUJIKOSHI Group worked to expand its business by playing to the strengths of the Group as a comprehensive machinery manufacturer encompassing the machining, robotics, components, and materials businesses, and by providing a wide range of solutions for our customers.

As a result of our efforts to deploy new products, to expand the existing product

range, and to find new customers, mainly local clients in other countries, in addition to the change to the fiscal term of our overseas subsidiaries, sales for the interim period under review totaled 110.9 billion yen, up 33.9% over the same interim period of the previous fiscal year. Of this, sales in the Japanese market reached 58.4 billion yen, up 15.9% from the same interim period of the previous fiscal year, while overseas sales totaled 52.4 billion yen, up 62.0%.

In terms of profitability, with the effect of the total cost reduction efforts, such as improvement of productivity, operating income totaled 10 billion yen, up 91.7% over the same interim period of the previous fiscal year, ordinary income 9.4 billion yen, up 77.1%, and interim net income 4.7 billion yen, up 109.0%.

We wish to forego the payment of interim dividends for this interim period.

## Future Initiatives

As for the future outlook, although there is a concern that the economy is slowing down in some emerging markets, it is expected that the demand in the automotive, construction machinery and aircraft sectors will increase, mainly in the North American and Asian markets, which is believed to contribute to steady growth in general.

The Group will continue to enhance our framework and workforce in each section such as sales and services, production and procurement, and research and development, while having our base in the North American /

emerging markets where the mid- and long-term growth of demand is expected. By doing this, we will work on the expansion of merchandise and product range, the creation of new business opportunities, the improvement of processes, and fundamental cost reform.

The company will work to improve business results and secure a stable profit structure with the purpose of fulfilling our Long-Term Vision 2020 and the Mid-Term Business Plan 2016 that was formulated in January 2014.

I would like to express my sincerest appreciation to all of our shareholders for their continued support and understanding.



President and  
Representative Director

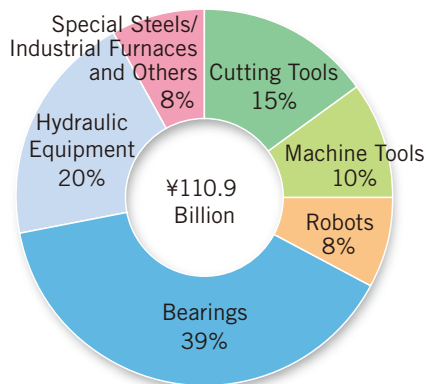
A handwritten signature in black ink, appearing to read 'Hiroaki Sonoda', written in a cursive style.

August 2014

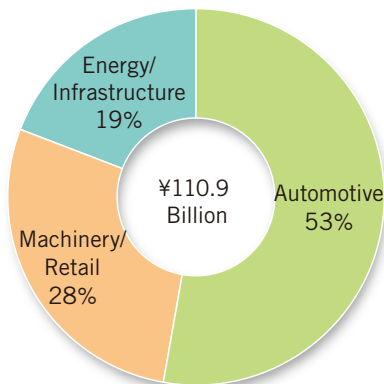
# RESULTS OF OPERATIONS (Consolidated Operating Result for Second Quarter of Fiscal 2014)

## Breakdown of Net Sales

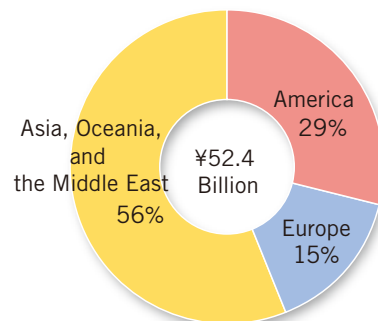
By Operation



By Market

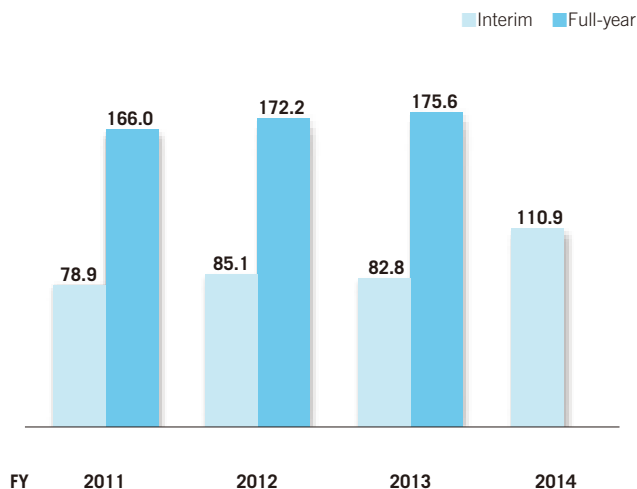


Overseas

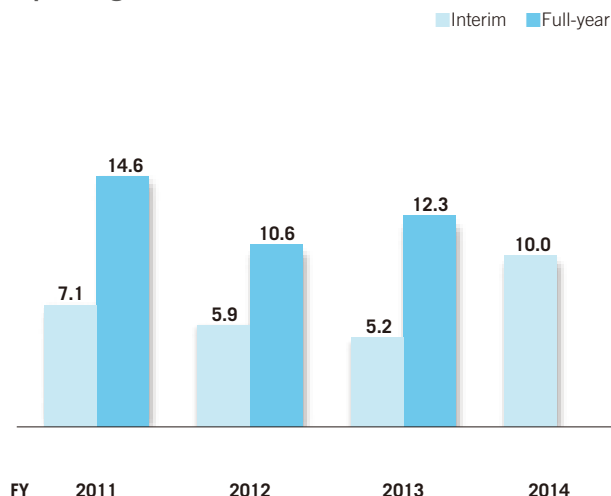


## Trend in Business Results

Net Sales (¥ billions)



Operating Income (¥ billions)



## Expanding Business in the Growing Market

We will focus our investment of management resources for production, sales and services on the growing market, including in North America and Asia, where the mid- and long-term growth of demand can be expected, in order to further strengthen our business base.



### ○ Further Cultivation of the North American Market

As manufacturing is returning to North America, we will expand our production in North America in order to capture the robust local demand.

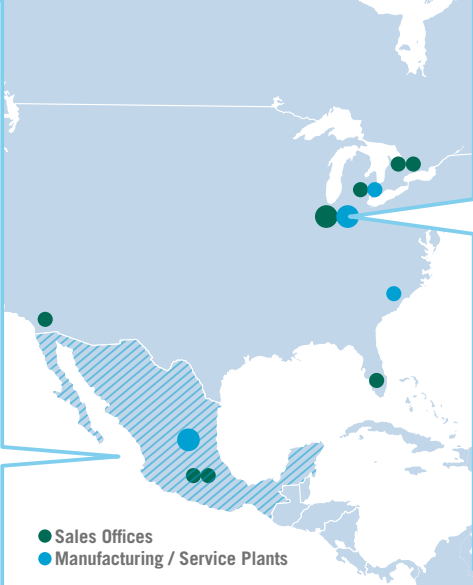
#### Local Production of Bearings Will Start in Mexico

The automotive industry has been integrated in Mexico, and the country is expected to continue its economic growth. We will start preparation for the local production of bearings in Mexico.

Roller bearings for constant velocity joints





Bearings for transmissions




● Sales Offices  
● Manufacturing / Service Plants

#### Started the Local Production of Broaches



#### NACHI TOOL AMERICA INC.

Due to the increase of the number of gears in automatic transmission (AT), the demand for broaches is increasing in North America. We will start the local production of broaches in North America, aiming to expand our market share.



Large-diameter helical broach for machining the gears for automotive transmissions

### ○ Enhancing the Production Capacity in the Emerging Market

We will enhance our production capacity of bearings for automobiles, hydraulic equipment for construction / industrial machines, automotive hydraulics, and robots to meet the increasing local demand, in accordance with the “local production for local consumption” concept.

#### ■ The China market



**NACHI (JIANGSU) INDUSTRIES CO., LTD.**

#### ■ The ASEAN market



**NACHI TECHNOLOGY (THAILAND) CO., LTD.**

#### ■ The India market



**NACHI KG TECHNOLOGY INDIA PTE. LTD.**

## Expansion of Products

### ○ Development of the Market for the Robots for Industrial Machinery

For the purpose of expanding the market for the robots for industrial machinery, in which the needs for automation of assembly and transportation tasks is increasing, we have launched the world's fastest lightweight, compact robot, MZ07, simultaneously worldwide. We will strengthen our sales and service structure inside and outside Japan.

“The World’s Fastest”  
Lightweight,  
Compact Robot  
“MZ07”



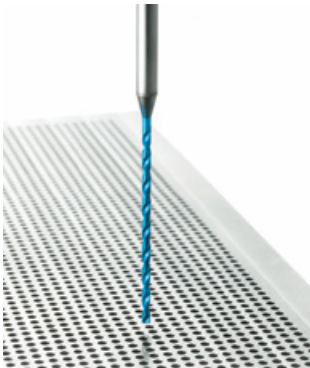
### Establishment of a New Robot Technical Center



Our first robot technical center opened in Shanghai. We will promote efforts to improve customer satisfaction and increase sales orders.

### ○ Expansion of Carbide Drill Lineup

A new lineup of the small-diameter drills has been added to the highly acclaimed AQUA Drill EX series. It will meet the need for more accurate drilling of small-diameter, deep holes, and for longer service life of drills.



AQUA Drill EX Oil-Hole Long



“Power Meister”

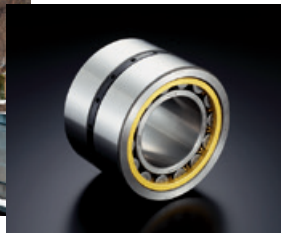
### ○ Improvement of the Performance of Energy-saving Hydraulic Unit

A new type of Power Meister, which is ideal as the driving source of all kinds of machine tools and press machines, has been deployed to the market. In addition to improving the accuracy and quality, we have succeeded in reducing the weight and size, as well as increasing the energy efficiency.

### Contributing to the Fast and Safe Operation of Hokuriku Shinkansen Line



Bearings for railway cars



In spring 2015, the Hokuriku Shinkansen Line will start operation, linking Tokyo and Toyama / Ishikawa Prefecture.

In addition to the improvement of design and comfort of the railway cars, the convenience of transportation will be significantly improved, reducing the travel time between Tokyo and Toyama to a minimum of two hours and seven minutes.

With the integrated manufacturing, from raw material to finishing, we provide reliable quality that contributes to the safe operation of Hokuriku Shinkansen Line.

# FINANCIAL STATEMENTS

## Consolidated Balance Sheets

Item	Interim 2014 (as of May 31, 2014)	Previous (as of November 30, 2013)
<b>ASSETS:</b>		
<b>Current assets</b>	<b>111,485</b>	<b>101,135</b>
Cash and cash equivalents	20,040	18,591
Notes and accounts receivable	45,657	39,896
Inventories	39,323	35,448
Other	6,464	7,199
<b>Fixed assets</b>	<b>109,916</b>	<b>106,780</b>
<b>Property, plant and equipment</b>	<b>85,670</b>	<b>82,354</b>
Buildings and structures	28,561	28,803
Machinery and equipment	39,916	38,472
Other	17,192	15,078
<b>Intangible fixed assets</b>	<b>811</b>	<b>716</b>
<b>Investments and advances</b>	<b>23,434</b>	<b>23,709</b>
<b>Total assets</b>	<b>221,402</b>	<b>207,916</b>

(¥ millions)

Item	Interim 2014 (as of May 31, 2014)	Previous (as of November 30, 2013)
<b>LIABILITIES:</b>		
<b>Current liabilities</b>	<b>89,720</b>	<b>79,292</b>
Notes and accounts payable	43,120	38,918
Bonds and short-term bank loans	28,421	23,795
Other	18,178	16,579
<b>Long-term liabilities</b>	<b>46,660</b>	<b>47,263</b>
Bonds and long-term debt	30,141	31,328
Allowance for retirement benefits	6,849	6,626
Other	9,669	9,308
<b>Total liabilities</b>	<b>136,381</b>	<b>126,556</b>
<b>NET ASSETS:</b>		
<b>Shareholders' equity</b>	<b>79,199</b>	<b>75,964</b>
Common stock	16,074	16,074
Additional paid-in capital	11,561	11,561
Retained earnings	51,772	48,527
Treasury stock	△ 208	△ 199
Revaluations and translation adjustments	1,207	1,157
<b>Minority interests</b>	<b>4,612</b>	<b>4,238</b>
<b>Total net assets</b>	<b>85,020</b>	<b>81,360</b>
<b>Total liabilities and net assets</b>	<b>221,402</b>	<b>207,916</b>

## Consolidated Statements of Income

(¥ millions)

Item	Interim 2014 (December 1, 2013 to May 31, 2014)	Interim 2013 (December 1, 2012 to May 31, 2013)
<b>Net sales</b>	<b>110,907</b>	<b>82,834</b>
<b>Operating income</b>	<b>10,076</b>	<b>5,257</b>
<b>Ordinary income</b>	<b>9,468</b>	<b>5,346</b>
Extraordinary income	1	396
Extraordinary losses	1,244	1,149
Income before income taxes and minority interests	8,225	4,592
<b>Net income</b>	<b>4,736</b>	<b>2,266</b>

## Consolidated Statements of Cash Flows

(¥ millions)

Item	Interim 2014 (December 1, 2013 to May 31, 2014)	Interim 2013 (December 1, 2012 to May 31, 2013)
<b>Cash flows from operating activities</b>	<b>8,071</b>	<b>12,455</b>
<b>Cash flows from investing activities</b>	<b>△ 8,105</b>	<b>△ 6,188</b>
<b>Cash flows from financing activities</b>	<b>1,103</b>	<b>8,457</b>
<b>Net decrease in cash and cash equivalents</b>	<b>1,396</b>	<b>16,049</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>18,229</b>	<b>15,761</b>
<b>Cash and cash equivalents at end of the year</b>	<b>19,625</b>	<b>31,811</b>

# SHAREHOLDER INFORMATION (As of May 31, 2014)

**Number of Shares Issued:** 249,193,436

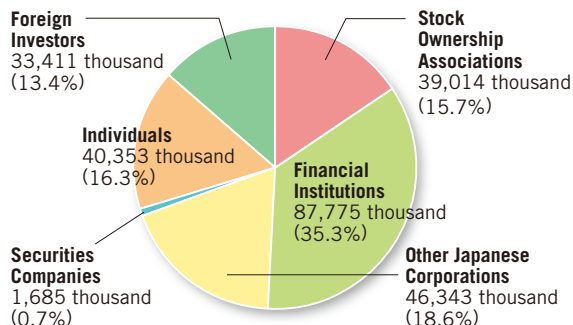
**Number of Shareholders:** 23,933

**Major Shareholders (top five):**

Note: Shareholding ratio is calculated after subtracting treasury stock (610 thousand shares).

Shareholders	Number of shares held (thousand)	Shareholding ratio (%)
NACHI WANEI Stockholding	18,939	7.62
Employees' Stock Ownership Plan	13,292	5.35
Toyota Motor Corporation	13,182	5.30
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	11,888	4.78
The Master Trust Bank of Japan, Ltd. (holder of trust units)	9,527	3.83

## Breakdown of Shareholders



# DIRECTORS AND AUDITORS (As of August, 2014)

<i>President and Representative Director</i> Hiroo Honma	<i>Managing Director</i> Kenji Susukida	<i>Director</i> Hideo Oba*	<i>Standing Corporate Auditor</i> Nobuo Okada
<i>Managing Director</i> Yukihiko Tanaka	<i>Managing Director</i> Kazuhito Yoshida	<i>Director</i> Masayuki Kobayashi	<i>Standing Corporate Auditor</i> Atsushi Saguchi*
<i>Managing Director</i> Noriyasu Shiba	<i>Managing Director</i> Isao Hori	<i>Director</i> Katsumi Nishijima	<i>Standing Corporate Auditor</i> Hiroshi Yamada
<i>Managing Director</i> Naoshi Katayama	<i>Managing Director</i> Hidenori Hayashi	<i>Director</i> Tetsu Furusawa	<i>Corporate Auditor</i> Eiichi Fukushima*

\*Outside director or outside corporate auditor.

# CORPORATE OFFICERS (As of August, 2014)

<i>Corporate Officer</i> Kiyoshi Meguro	<i>Corporate Officer</i> Tadatoka Hori
<i>Corporate Officer</i> Shinichi Urata	<i>Corporate Officer</i> Shigeru Togashi
<i>Corporate Officer</i> Fumio Honda	<i>Corporate Officer</i> Hiroshi Goto
<i>Corporate Officer</i> Atsushi Umezawa	<i>Corporate Officer</i> Masatoshi Akagawa
<i>Corporate Officer</i> Hideaki Hara	

# CORPORATE INFORMATION (As of May 31, 2014)

<b>Foundation:</b>	December 21, 1928						
<b>Capital:</b>	¥16 billion						
<b>Number of Employees:</b>	2,822 (Group employees 6,270)						
<b>Major Products:</b>	Cutting Tools, Forming Tools, Cutting Saws, Machine Tools, Machining Systems Robots, Robot Systems, Electronic Equipment Bearings, Hydraulic Equipment, Automotive Hydraulics, Seismic Isolation Systems, Filtration Systems Special Steels, Coating, Industrial Furnaces						
<b>Major Domestic Offices and Plants:</b>	<table border="0"> <tbody> <tr> <td>Toyama Head Office</td> <td>1-1-1, Fujikoshi-Honmachi, Toyama 930-8511, Japan</td> <td>Tel:+81-76-423-5111</td> </tr> <tr> <td>Tokyo Head Office</td> <td>Shiodome Sumitomo Bldg. 17F, 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-0021, Japan</td> <td>+81-3-5568-5111</td> </tr> </tbody> </table>	Toyama Head Office	1-1-1, Fujikoshi-Honmachi, Toyama 930-8511, Japan	Tel:+81-76-423-5111	Tokyo Head Office	Shiodome Sumitomo Bldg. 17F, 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-0021, Japan	+81-3-5568-5111
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Tokyo Head Office	Shiodome Sumitomo Bldg. 17F, 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-0021, Japan	+81-3-5568-5111					
Eastern Japan Main Branch	Shiodome Sumitomo Bldg. 17F, 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-0021, Japan						
Central Japan Main Branch	Nachi Nagoya Bldg., 2-120-3, Takayashiro, Meitou-ku, Nagoya 465-0095, Japan						
Western Japan Main Branch	Sumitomo Nakanoshima Bldg. 5F, 3-2-18, Nakanoshima, Kita-ku, Osaka 530-0005, Japan						
Toyama Plant	1-1-1, Fujikoshi-Honmachi, Toyama 930-8511, Japan [Cutting Tools / Machine Tools / Bearings / Robots]						
Higashi-Toyama Plant	3-1-1, Yoneda-machi, Toyama 931-8511, Japan [Special Steels] 3-2-1, Nakada, Toyama 931-8453, Japan [Hydraulic Equipment]						
Namerikawa Plant	176, Ogake, Namerikawa 936-0802, Japan [Hydraulic Equipment / Automotive Hydraulics / Coating / Industrial Furnaces]						
<b>Major Overseas Offices and Plants:</b>	NACHI AMERICA INC. NACHI EUROPE GmbH NACHI SINGAPORE PTE. LTD. NACHI TECHNOLOGY (THAILAND) CO., LTD. NACHI (SHANGHAI) CO., LTD. NACHI (JIANGSU) INDUSTRIES CO., LTD.						

# INVESTOR INFORMATION

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<b>Securities Code:</b>	6474
<b>Fiscal Year:</b>	From Dec. 1 of each year to Nov. 30 of the following year
<b>Ordinary General Meeting of Shareholders:</b>	February
<b>Record Date:</b>	Voting rights at General Meeting of Shareholders November 30 Year-end dividend November 30 Interim dividend May 31
<b>Unit:</b>	1,000 shares
<b>Shareholders' Register Custodian/Administrator for Special Accounts:</b>	1-4-1, Marunouchi, Chiyoda-ku, Tokyo, 100-8233, Japan
<b>Administrative Office/ Mailing Address:</b>	Sumitomo Mitsui Trust Bank, Limited 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department
<b>Inquiries:</b>	Toll-free: 0120-782-031 (Toll-free in Japan)
<b>URL:</b>	<a href="http://www.nachi-fujikoshi.co.jp/eng/">http://www.nachi-fujikoshi.co.jp/eng/</a>

## Notice regarding the Transfer of Dividends to the Shareholder's Account We recommend transfer to the shareholder's account as a safe, foolproof, and convenient way to receive dividends.

Please choose from the following three methods for receiving dividends through transfer to the shareholder's account.

**Designation by Specific Stock:** Assigning an account that the shareholder has with banks, etc. for each category of stock and receiving dividends through such accounts.

**Registration of a Single Account for Receiving Dividends:** Receiving dividends for all categories of stock that the shareholder owns through a single account that the shareholder has with banks, etc. (An account with the Japan Post Bank may not be designated for this purpose.)

**Allocation by Proportion of Shares:** Receiving dividends through accounts that the shareholder has with securities firms. (A shareholder who does not have an account at a securities firm may not use this method.)

## Procedures regarding Shares

### 1. Notification regarding Designation of the Method for Receiving Dividends; the Purchase of Additional Shares or Buyback of Holdings Less Than the Minimum Trading Unit; Change of Address, Name, etc.; and Request for Stock Transfers between Accounts

Please notify the securities company with which you have your account. For those shareholders who do not have an account with a securities company and who have set up a special account instead, please notify Sumitomo Mitsui Trust Bank, Limited which is the account administrator for special accounts.

### 2. Questions regarding Payments of Accrued Dividends and Other General Administrative Matters regarding Shares

Please contact Sumitomo Mitsui Trust Bank, Limited which administers the shareholders registry.

## The Cover Photograph

The cover photograph captures an image of a bearing for railway cars used for the Hokuriku Shinkansen Line that will start operation in spring 2015.

Ever since it was used for the first 0 series trains of the Tokaido Shinkansen Line in 1964, it has been supporting the safe operation of Shinkansens.