

## Consolidated Statements of Cash Flows

Millions of yen

	FY2017	FY2018
<b>Cash flows from operating activities</b>		
Profit before income taxes	82,842	61,034
Depreciation	60,414	66,901
Impairment loss	1,769	6,061
Amortization of goodwill	345	662
Increase (decrease) in allowance for doubtful accounts	(448)	197
Increase (decrease) in retirement benefit liability	(1,039)	(4,351)
Decrease (increase) in retirement benefit asset	(179)	(253)
Increase (decrease) in provision for retirement benefits for directors	78	30
Interest and dividend income	(2,944)	(3,530)
Loss (gain) on sales and valuation of investment securities	(98)	(80)
Loss (gain) on valuation of investment securities	0	1
Interest expenses	2,855	3,723
Share of loss (profit) of entities accounted for using equity method	(672)	(1,104)
Loss (gain) on sales of property, plant and equipment	(435)	(1,264)
Loss on retirement of property, plant and equipment	774	1,350
Loss (gain) on step acquisitions	(9,708)	—
Decrease (increase) in trade receivables	(9,693)	3,957
Decrease (increase) in inventories	(7,590)	(9,231)
Increase (decrease) in trade payables	1,843	6,645
Increase (decrease) in accrued expenses	3,972	1,286
Other, net	(1,208)	(3,745)
Subtotal	120,877	128,292
Interest and dividends received	2,932	3,547
Interest paid	(2,998)	(3,611)
Income taxes (paid) refund	(20,777)	(25,206)
Net cash provided by operating activities	100,033	103,022
<b>Cash flows from investing activities</b>		
Payments into time deposits	(1,606)	(3,571)
Proceeds from withdrawal of time deposits	1,701	2,969
Purchase of property, plant and equipment	(73,048)	(71,161)
Proceeds from sales of property, plant and equipment	899	2,498
Purchase of investment securities	(202)	(762)
Proceeds from sales of investment securities	5	225
Proceeds from sales of investments in capital	—	1,269
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(22,862)	—
Loan advances	(136)	(283)
Collection of loans receivable	342	344
Other, net	(4,141)	(6,852)
Net cash (used in) investing activities	(99,049)	(75,324)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	4,171	14,114
Proceeds from long-term borrowings	91,358	19,915
Repayments of long-term borrowings	(38,559)	(35,263)
Proceeds from issuance of bonds	20,000	—
Repayments of finance lease obligations	(522)	(605)
Dividends paid	(14,406)	(15,092)
Dividends paid to non-controlling interests	(1,754)	(4,065)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(5,592)
Net (increase) in treasury shares	(4)	(3)
Net cash provided by (used in) financing activities	60,282	(26,592)
<b>Effect of exchange rate change on cash and cash equivalents</b>	629	(1,341)
<b>Net increase (decrease) in cash and cash equivalents</b>	61,896	(236)
<b>Cash and cash equivalents at beginning of period</b>	70,207	132,648
<b>Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation</b>	543	60
<b>Cash and cash equivalents at end of period</b>	132,648	132,471



Kazuhisa Makino  
Executive Director

Intensive investment is needed to support sustainable growth of the Company. We are currently building a solid financial base to make this possible.

For JTEKT to continue its sustainable growth, we must help resolve social issues through our business activities.

Toward that end, the finance division works to build a strong financial base to support such business activities as R&D, improved productivity, and building professionals.

### Investment Strategy

JTEKT's business environment is at a major turning point. We are now at the stage where we must plant the seeds of our future by taking a long-term view of what JTEKT needs in order to realize sustainable growth. We need to make aggressive forward-looking investments to strengthen our management infrastructure in such areas as R&D, IT, and building professionals. In particular, the transformation in the automotive industry encapsulated in the acronyms CASE<sup>\*1</sup> and MaaS<sup>\*2</sup> represents both the biggest risks and opportunities for JTEKT. We will continue to invest aggressively in R&D and new business development to capture growth opportunities created by these changes. As the CFO, I will support business activities by fully reviewing the need for investment and associated potential returns. After organizing these plans in a manner that is readily visible to management, I will work to secure funding for R&D and alliances as well as consider a variety of investment methods to support JTEKT's business activities.

Furthermore, with regard to the global market, we expect continued growth in Asia and Africa and anticipate considerable business opportunities in those regions. To cite one example, we have made a publicly listed company in India in the Steering business into a JTEKT subsidiary. I believe we should continue to make such strategic investments in a dynamic manner going forward.

With respect to investments in other companies including through M&A, we will support planning and implementation and the provision of funding. At the same time, I believe we need to strengthen our function for formulating exit strategies, looking carefully at the timing to recoup investments and, as the case may be, the timing to withdraw.

To implement such strategic investments, our policy is to shrink business assets and secure the funding necessary for management with good asset efficiency while minimizing our interest-bearing debt balance. We will not only be managing profitability as part of business administration but also promoting business management that is focused on the balance sheet and cash flows through such measures as monitoring the cash conversion cycle and introducing asset efficiency metrics for each business.

### Capital Strategy

The JTEKT Group is currently working to shrink its interest-bearing debt balance. In addition, we have proactively introduced cash management systems<sup>\*3</sup> with hubs in each regional headquarters and are conducting financing on a cross-border basis to raise capital efficiency of the Group as a whole. We consider such activities to be increasingly important for controlling interest rate expenses, particularly as countries around the world are changing their low interest rate policies.

Meanwhile, we maintain a certain level of working capital in preparation for unforeseen circumstances given the significant latent risks inherent in the JTEKT Group's business environment. For the Group as a whole, we have built a structure in which the headquarters holds an appropriate level of working capital while reducing net interest-bearing debt on a consolidated basis. We are thus able to quickly supply funds from the headquarters to Group companies as and when needed.

As a result of such activities, our interest-bearing debt balance is currently higher than it was five years ago, but this reflects an intentional increase in working capital and in fact our net interest-bearing debt balance decreased. I think it is commendable that we have generated a degree of success in responding to one-off demand for funding for loan repayments, M&A investment, capital investment, and the like by generating cash flows from operating activities and working to create funds by trimming the balance sheet.

We intend to continue these activities going forward. I believe even more efficient and advantageous fundraising will be possible by continuing such activities and by concentrating capital management functions at the Group and at regional headquarters.

### Cost Strategy

The JTEKT Group is currently working to improve its cost structure to strengthen its earning power, including bringing its fixed costs to appropriate levels. The Group has a global footprint and therefore has, for example, R&D and purchasing functions in each region tailored to the local market environment and local management issues. While giving due recognition to local nuances, we are working to manage fixed costs at appropriate levels for each region and thus improve the efficiency of indirect divisions in the Group as a whole.

\*1 Connected, Autonomous, Shared, and Electric

\*2 MaaS refers to paying a fee to use of automobiles and other transportation methods as a service only when they are needed.

\*3 Cash management system refers to services provided by banks mainly in the areas of fund management and administration aimed at improving a company's capital efficiency.