

September 4th, 2018

To whom it may concern,

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Supplemental explanation regarding goodwill impairment loss for the FY2018 first half period

The following is a supplemental explanation regarding goodwill impairment loss, which Nabtesco Corporation (hereinafter, the “Company”) announced on July 31, 2018.

1. Subsidiary subject to the impairment loss
OVALO GmbH (Germany, wholly owned; hereinafter, “OVALO”)
2. Overview of OVALO GmbH
Founded in 2006 as a subsidiary of Harmonic Drive AG of Germany for developing, manufacturing, and selling system products with wave gears for the automobile industry.
With its main strengths in chassis system and engine system products, OVALO’s technology is highly rated as a Tier 1 supplier for German car manufacturers.
3. Overview of the acquisition

Aim of the acquisition	1. Leverage the development capacity of OVALO and its subsidiary adcos GmbH in integrated motor and control unit products to accelerate the Company’s efforts in systemization and mechatronics. 2. Consider using OVALO’s bases to establish new development and production bases in Europe.
Acquisition date	February 2017
Acquisition price	€82 million (approx. ¥10 billion)*1
Goodwill	€50 million (approx. ¥6 billion)
2017 sales	Approx. €25 million (Approx. ¥3 billion)

*1 This figure includes the amount of the shareholder loan.

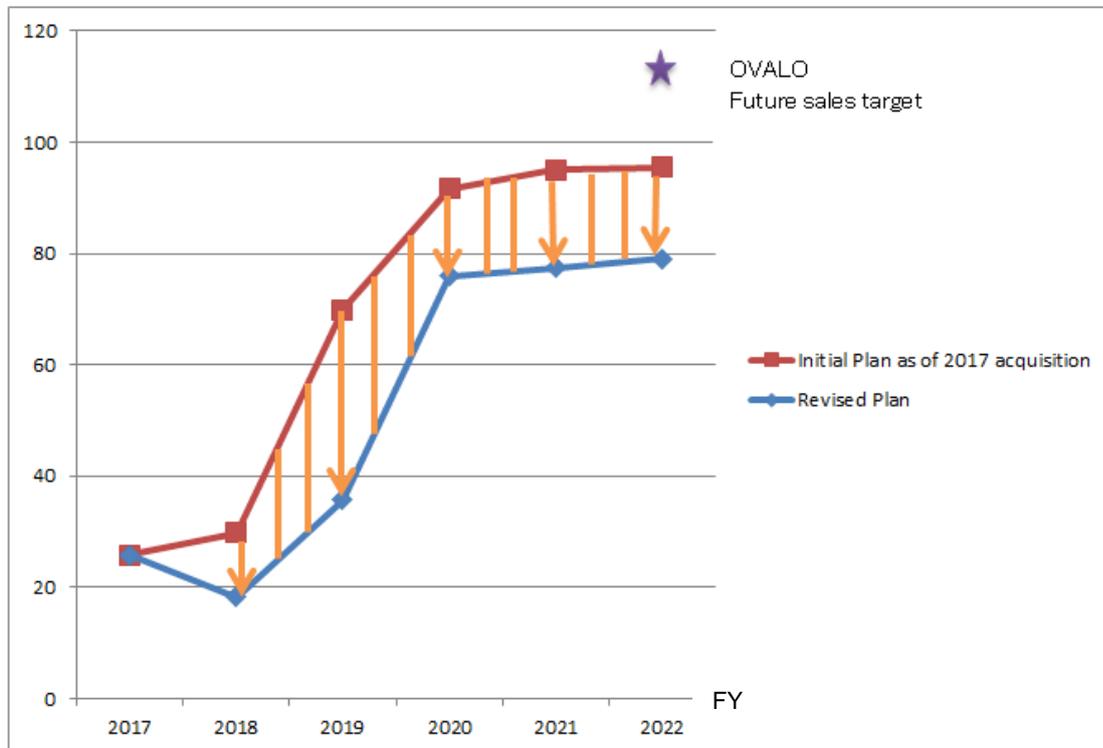
4. Background to the impairment loss

At the timing of second quarter in 2018FY, due to delay in major European car projects, the expected sales of the initial plan (the red line in the chart below) will be moved back one or two years (the blue line in the chart below).

Following on the situation changes surrounding OVALO's business, we tested an impairment test based on IFRS (International Financial Reporting Standards), OVALO has become subject to impairment loss because we found that future return value was under the book value.

The initial plan assumed 2% perpetual growth for 2021 and onward based on 2020 sales when we tested impairment test .

Sales based on the initial plan and revised plan
(€M)



Pretax WACC (Weighted Average Cost of Capital) applied to recovery calculations: 17.7%

[Reference] IFRS's treatment of goodwill

Impairment loss is recognized up to the recoverable value, which is the discounted cash flow, by comparing the carrying amount of each cash-generating unit including goodwill and the recoverable value, which is also the discounted cash flow, in an impairment test carried out when goodwill is not amortized and there are signs of impairment loss, or once every term regardless of the existence of signs of impairment loss.

Remarks : The forecast data presented herein reflects assumed results based on conditions that are subject to change