



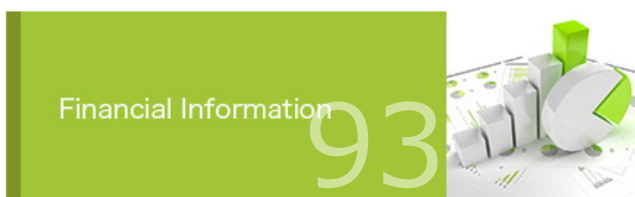
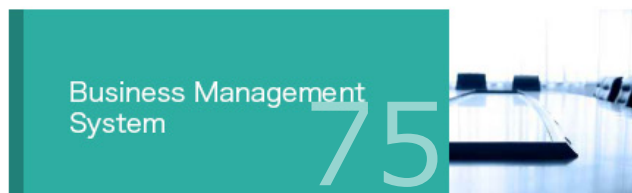
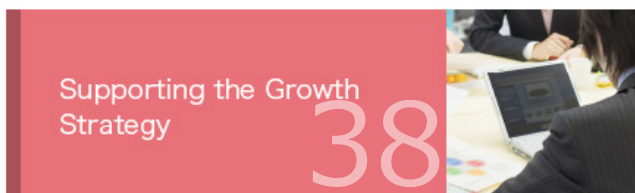
Think Global! Act Local!  
**For the Second Decade**



**Nabtesco**  
moving it. stopping it.

# INDEX

## Think Global! Act Local! For the Second Decade





## Snapshot of Nabtesco

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## Corporate Philosophy

The Nabtesco Group, with our unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any form of transportation.

## Our Promises

1. Value close communications with our customers worldwide
2. Value each individual's spirit of challenge and innovation
3. Continue to expand our business and profit
4. Continue to reinforce our sense of ethics and highly transparent business activities
5. Value the environment and promote harmony with local



### **The Nabtesco Way**

Established in the 21st century  
Aiming to become an honorable company (*Shinise*)  
while evolving together with society

# History of Nabtesco

Nabtesco Corporation was established by two companies with a long history, Teijin Seiki Co., Ltd. and NABCO, Ltd.

Since its foundation, Nabtesco has been conducting businesses across a number of sectors, capitalizing on its motion control technology, and has achieved steady growth in these fields, including the transportation sector (railroad vehicles, aircraft, automobiles, marine vessels, and others) as well as other industrial sectors, livelihood-related fields and the environmental area (industrial robots, construction machinery, automatic doors, packaging machines, and others).

We will continue to develop our business proactively in Japan and abroad to make further progress and become the "Global Partner with Best Solutions," which we uphold as our long-term vision.

2002

Teijin Seiki and NABCO formed business alliance in the hydraulic equipment business and concluded a basic agreement on business integration.

2003

**Nabtesco**  
Nabtesco Corporation  
was established.

Listed on the first section of the Tokyo Stock Exchange.

2004

Established Nabtesco Automotive Products (Thailand) Co., Ltd. in Thailand. (Commercial vehicle equipment)

Nabtesco absorbed Teijin Seiki and NABCO and became an operating holding company.

2008

Established Nabtesco Power Control (Thailand) Co., Ltd. in Thailand. (Hydraulic equipment)



2009

Established Nabtesco Automotive Corporation as a Group company for commercial vehicle equipment.



2011

Established Gilgen Door Systems AG through M&A (Automatic doors, platform doors).



Established Jiangsu Nabtesco Hydraulic Co., Ltd. in China (Hydraulic equipment).

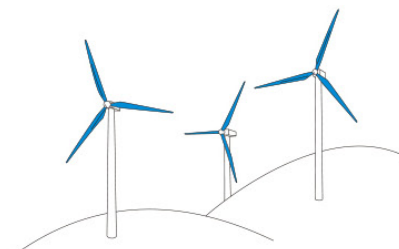
Established Jiangsu Nabtesco KTK Railroad Products Co., Ltd in China (Railroad vehicle equipment).

2013

Established the New Energy Business Development Division.

Established Nabtesco Marine Machinery (Shanghai) Co., Ltd. in China (Marine vessel equipment).

Established Nabtesco Oclap S.r.l in Italy (Railroad vehicle equipment).





## Topics for Fiscal Year 2013

### Received 2013 Boeing Supplier of the Year Award (Leader's Choice Awards - Alliance Category)

Every year, winners of the Boeing Supplier of the Year Awards are selected from among more than about 21,000 suppliers around the world based on their comprehensive supply chain capabilities, including those related to quality, on-time delivery, and post-delivery support. In 2013, awards were given to 16 companies, including Nabtesco.

Nabtesco has been forming a strong business relationship with Boeing for more than 30 years. We have been supplying our flight control actuation systems to Boeing for use in its B777 and B747-8 models and also have received orders for actuators to be used in the latest model, the B737 MAX in 2013. Moreover, we supply our high voltage electric power distribution units for use in the B787 model. We will continue to make every effort to advance our unique manufacturing capabilities and technologies for further growth of the company, and contribute to the safety, security and comfort of air travel in partnership with airlines across the globe.

### Included in the DJSI Asia Pacific Index and the JPX-Nikkei Index 400

Nabtesco was selected to be one of the companies included in the DJSI Asia Pacific Index\*<sup>1</sup>, an international Socially Responsible Investment (SRI) index, in September 2013. Subsequently in January 2014, we were also selected to be included in the JPX-Nikkei Index 400, a new index for which Japan Exchange Group, Inc., Tokyo Stock Exchange, Inc. and Nikkei Inc. have begun making the calculations. One of the features in the criteria for selecting the companies that comprise this index is the fact that they reflect the capital efficiency in the stock market and the importance of corporate governance \*<sup>2</sup>. Toward the goal of becoming a truly global corporation that lives up to the trust of all our stakeholders including shareholders and investors, Nabtesco will continue to conduct business operations in a responsible manner, attributing importance to both profitability (economic aspects) and sustainability (environment, society and governance).

\*1: This index targets companies in the Asia-Pacific region in the family of Dow Jones Sustainability Indexes(DJSI).

\*2: The selection criteria for capital efficiency are composed of the three-year average ROE, three-year cumulative operating profit and market capitalization on the base date for selection, and those for corporate governance are composed of the number of outside directors, adoption of the IFRS, and the disclosure of earnings information in English.

## Joint Research on Power Electronics with the Swiss Federal Institute of Technology in Zurich Launched

In cultivating growth in overseas markets, Nabtesco deems it important to develop unique products that incorporate a range of technologies as well as human resources with world-class technological capabilities. Accordingly, Nabtesco is conducting in-house development activities while also fostering joint research with overseas universities. Following the launch of joint research with the University of Washington in the United States (for actuators) and with the Technical University of Denmark (for drive units for wind turbines), Nabtesco began conducting a joint activity with the Swiss Federal Institute of Technology in Zurich (ETHZ: Eidgenössische Technische Hochschule Zürich) in March 2014, which will be continued for three years. The ETHZ has one of the world's best power electronics laboratories, and by combining our control technologies with the Institute's technologies, we will achieve results and utilize them for our products in a range of fields, including drive units for wind turbines and door operating systems for railroad vehicles. We are also aiming to apply the results to develop new products, such as precision equipment and railroad vehicle equipment.

## Cumulative Production of the RV™ Series Precision Reduction Gears Reached 5 Million Units

Nabtesco's Precision Equipment Company achieved the cumulative production of 5 million units for the VIGO DRIVE RV series precision reduction gears. These gears began to be manufactured in 1985 and now represent one of our major product items.

The gears are highly rigid despite being compact and light, and are also excellent in terms of accelerating performance and positional accuracy. Due to these strengths, they are widely used in industrial robots, machine tools, assembly equipment, transportation equipment and other machines. In the industrial robot field in particular, the gears maintain a world market share of 60%.

Nabtesco has developed the RV N series as the latest leading reduction gear model for industrial robots as well as the RD2 gearhead series and the RS series in recent years. Under the continuous support from our customers, the cumulative production of the RV series has successfully reached 5 million units.

## Our Business and Strengths

Global Partner with Best Solutions for Industrial Leaders

Creating the Value of Safety,

Comfort and a Sense of Security in a Range of Social

Infrastructure-Related Fields with Unique Motion Control Technology

Nabtesco operates in a range of fields related to the industry, people's lives and the environment by using its motion control technology to move and stop objects in a precise manner as the mainstay for its businesses. Most of our products function in a manner not clearly visible to people, but these products display high performance to help them lead their lives with safety, comfort and a sense of security and to support social infrastructure. At present, we are taking top spots in both Japanese and overseas markets with regard to a variety of products, and are further expanding our business range to include new growth fields by making use of our core technology. We will continue fulfilling our corporate mission to support society through the provision of highly reliable products and services.



**INPUT**

**Intellectual capital**

- The Nabtesco Way
- Motion control technology
- Capability to develop markets and technologies

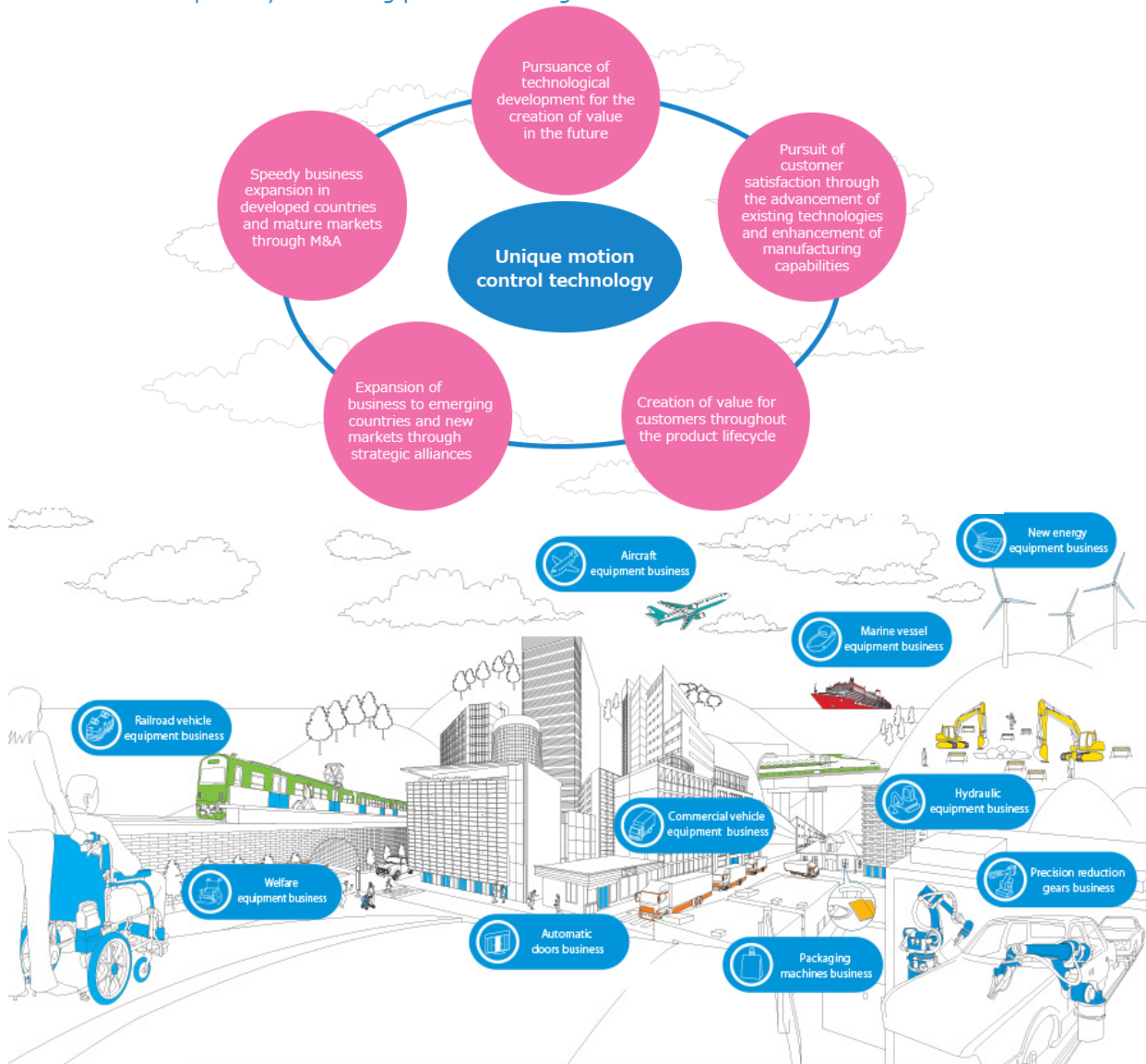
**Human capital**

- Creativity and spirit of challenge
- Advanced skilled engineers and excellent human capitals

**Manufactured capital**

- Domestic and overseas production bases
- Sales networks

Optimally combining portfolio management with a multi-business model



**OUTCOME**

**Natural capital**

- Higher energy efficiency
- Environment-friendly products
- Promotion of the use of renewable energy

**Social and relationship capital**

- Cooperation with business partners
- Relations of trust with customers
- Nabtesco brand

**Financial capital**

- High-standard ROE and ROA
- Cash income to support strategic investments

Creating the value of safety, comfort and a sense of security

Profitable growth

**Pursuance of technological development for the creation of value in the future**

Research and develop technologies with business potential in partnership with research institutions in different countries.

**Research & Development**

- New actuators (with the University of Washington)
- Wind power generation field (with the Technical University of Denmark)
- Power electronics field (with the Swiss Federal Institute of Technology)

**Pursuit of customer satisfaction through the advancement of existing technologies and enhancement of manufacturing capabilities**

Develop high-quality products ahead of others in response to the potential needs of customers, which are advanced companies, identified through relations of trust, thereby increasing customer satisfaction.



**Precision reduction gears business**

Precision reduction gears for industrial robots



**Railroad vehicle equipment business**

Brake system  
Door operating units



**Marine vessel equipment business**

Main engine remote control systems



**Aircraft equipment business**

Flight control actuation systems



**Hydraulic equipment business**

Traveling motors for construction machines, including hydraulic excavators



**Packaging machines business**

Automatic filler/sealers

### Creation of value for customers throughout the product lifecycle

Provide MRO\* service in addition to products to reduce their total lifecycle costs and create value for customers.

\*MRO: Maintenance, Repair, Overhaul

**Operation of the MRO business in major business fields  
(excluding precision reduction gear and hydraulic equipment  
businesses)**

### Expansion of business to emerging countries and new markets through strategic alliances

Establish joint ventures with partners who are versed in local situations to enter new markets in emerging countries, thereby expanding the value chain effectively and efficiently.



#### Precision reduction gears business

Establishment of a joint venture to sell precision reduction gears in China



#### Commercial vehicle equipment business

Establishment of a joint venture to manufacture commercial vehicle equipment in India

### Speedy business expansion in developed countries and mature markets through M&A

Acquire companies with proven records in the mature markets of developed countries and others, thereby gaining accesses to new markets.



#### Railroad vehicle equipment business

Acquisition of OCLAP S.R.L. of Italy



#### Automatic doors business

Acquisition of Gilgen Door Systems AG and American and European automatic door distributors

# Financial & Non-Financial Highlights

## Financial Highlights

(JPY million)

	2010/3	2011/3	2012/3	2013/3	2014/3
Net sales	126,249	169,303	198,527	179,543	202,292
Operating income	7,964	20,212	22,858	15,013	20,092
Net income	4,017	13,387	14,756	13,269	14,978
Operating income margin (%)	6.3	11.9	11.5	8.4	9.9
Return on assets (ROA) (%)	2.7	8.1	7.6	6.5	6.9
Return on equity (ROE) (%)	5.2	15.8	15.6	12.5	12.2
Equity ratio (%)	53.1	49.9	47.6	56.2	56.0

## Non-Financial Highlights

	2010/3	2011/3	2012/3	2013/3	2014/3
<b>Number of employees</b>					
Total number of employees (consolidated)	3,998	4,057	4,995	5,081	5,344
Total number of employees (non-consolidated)*1	2,006	1,989	2,020	2,060	2,092
Male	1,849	1,832	1,858	1,883	1,906
Female	157	157	162	177	186
<b>Turnover rate(%)</b>					
Male	13.3	2.5	1.2	1.7	3.2
Female	13.2	4.9	4.7	6.0	3.8
Voluntary retirees	0.8	0.9	0.5	0.7	0.6
Lost-time injuries frequency rate (%)**2	0.7	0.1	1.4	0.8	0.6
CO <sub>2</sub> emissions(CO <sub>2</sub> -ton/year***4)	40,900	46,100	51,100	49,050	46,745

\*1 Based on Nabtesco human resources data. Past figures have been restated due to changes in the scope of consolidation to match the figures stated in the Securities Report.

\*2 Past figures have been restated to correct errors.

\*3 The policy and standards of the calculation are as per the Act on the Rational Use of Energy and the Act on Promotion of Global Warming Countermeasures. The calculation was made in accordance with Nabtesco's Rules on Environmental Information Management. The CO<sub>2</sub> emission factors used for the calculation are basically in accordance with the Act on Promotion of Global Warming Countermeasures. However, regarding the factor for electricity, either of the following is used: (1) the default value of 0.555 kg-CO<sub>2</sub>/kWh in the case of the fixed factor; (2) the emission factor of each electric power company published by the Ministry of the Environment in the case of the actual emission factor; or (3) the emission factor of each electric power company published by the Ministry of the Environment in the case of the adjusted emission factor.

\*4 The scope of the calculation covers only the business sites located in Japan, which are: Nabtesco Corporation (Gifu Plant, Tarui Plant, Tsu Plant, Kobe Plant, Konan Plant, Seishin Plant, Headquarters [including Kawasaki], Nagoya Office, and Osaka Office), Nabtesco Automotive Corporation (Yamagata Plant, Yokosuka Technical Center, Headquarters), Diavac Ltd. (Head Office and Factory), CMET Inc. (Head Office, Yokohama Resin Development Center), NABCO DOOR Ltd. (Head Office), Nabtesco Service Co., Ltd. (Kobe Techno-Center, Yokohama Techno-Center), Toyo Jidoki Co., Ltd. (Iwakuni Plant), TS Precision Co., Ltd. (Head Office/Plant), Aishin Kiko Co., Ltd. (Head Office/Plant).

# Top Message



## Dear Stakeholders,

Nabtesco celebrates the 11th anniversary of its foundation in 2014. Also, in May 2014 we launched our New Mid-Term Management Plan “Think Global! Act Local! For the Second Decade,” following the end of the previous plan “Global Challenge” formulated in May 2011.

Under the new plan, we aim to build the growth foundation to achieve our Long-Term Vision set for FY2020. Taking advantage of our diversified business portfolio, we will implement measures focusing on expanding our existing businesses and linking them horizontally to create new businesses. Moreover, we will attribute even more importance to capital efficiency in our business management with a view to achieving profitable growth.

## Review of the Previous Mid-Term Management Plan “Global Challenge – Advance to the Next Stage” Formulated in May 2011

The previous Mid-Term Management Plan “Global Challenge” was formulated in 2011, when I became president of the company and began leading the management of the company as its top executive. During the formulation of the plan, the Great East Japan Earthquake occurred and subsequently we faced hardships in our business environment, including the historically high appreciation of yen, debt crisis in Europe, and economic slowdown in China. Mainly due to drops in sales of our railroad vehicle equipment and hydraulic equipment businesses, in particular in China, as well as stagnant sales in the industrial robot market,

we were unable to achieve the numerical targets set in the management plan, including “net sales of 240 billion yen.” In response, in the New Mid-Term Management Plan, we focus on building up a corporate structure that enables us to pursue growth while minimizing the impact caused by changes in the business environment.

The Japanese market is recovering, and climbing out of the long-standing economic depression caused by the high yen. The world economy is also improving, with the United States achieving resurgence and Europe showing signs of recovery, albeit moderate.

At the end of the second quarter of 2014/3, we had once made downward revisions to the numerical targets set at the beginning of the term, but in the end, net sales exceeded the initial target and we were able to leave better than expected results also in terms of profit. Specifically we recorded the following business performance for the term on a consolidated basis: net sales of 202,292 million yen (up 12.7% year on year); operating income of 20,092 million yen (up 33.8%), ordinary income of 24,227 million yen (up 35.4%); and net income of 14,978 million yen (up 12.9%). Both net sales and net income hit a record high in the history of Nabtesco, and it is quite significant that we achieved this in our commemorative 11th anniversary year.

During the previous Mid-Term Management Plan period, we successfully implemented measures to expand our marketing and service system to accelerate the growth of our overseas business despite the severe business environment.

Aiming for the expansion of each business segment, we also proactively enhanced our sales networks. For

example, in China we transformed our sales subsidiary for precision reduction gears into a joint venture company and established a joint venture to sell hydraulic equipment for construction machines. In North America we made a Canadian automatic door sales company a consolidated subsidiary through a Nabtesco Group company, and in the United States we established a local corporation for packaging machines. Moreover, in Europe we acquired OCLAP, an Italian door operating system manufacturer for rolling stocks, in order to expand sales to the Big 3 railroad vehicle manufacturers in the world. We will continue to focus on establishing local sales networks as one of our priorities.

We also established the New Energy Business Development Division to generate synergies across the Group. The division is engaged in the new energy business, which comprises the solar thermal power generation equipment business and the wind power generation equipment business that applies reduction gear technologies. We aim to achieve the profitable growth of the new energy business on a medium- to long-term basis.

### **New Mid-Term Management Plan "Think Global! Act Local! For the Second Decade" -Toward the Achievement of the Long-Term Vision**

The New Mid-Term Management Plan targets a period that is very important for Nabtesco to build up the growth foundation to achieve its Long-Term Vision set for FY2020. In the plan we formulated the following three company-wide strategies: (1) the Market Creation strategy to develop new businesses and to enter new markets; (2) the Technology Innovation strategy to support and accelerate the first strategy, 'Market Creation' ; and (3) the Financial Strategy to ensure that the implementation of the former two essential strategies will lead to the further business growth of the company.

As for Market Creation, we have been achieving growth by meeting our customers' needs and winning their appreciation and trust in our manufacturing activities. There are, however, limitations to the profit-making abilities of this business model. In order to achieve further growth in this aspect, we need to increase our creativity to develop more value-added products, and proactively make proposals to customers in addition

to meeting their needs steadily in our manufacturing activities. Based on this recognition, we aim to release high value-added products to the market by the end of 2017/3, which is the last year of the New Mid-Term Management Plan.

We will also continue to establish local sales networks as we did during the period of the previous Mid-Term Management Plan, to further foster our overseas business expansion, while growing the MRO (Maintenance, Repair and Overhaul) business to secure profits from our after-sale service as part of the company-wide strategy. We conduct the MRO business almost in all our business segments, excluding a small portion of the businesses. In 2014/3, we recorded sales of 35 billion yen in the MRO business as the whole company. In the future we will work to implement more aggressive measures for the MRO business to stabilize our business foundation and post sales of 43 billion yen in 2017/3.

In addition, as a means to build a foundation for our future business expansion, we will proactively make investments in advertisement activities to increase people's awareness and recognition of the Nabtesco brand, with an eye to securing the employment of excellent and capable human capital.

The pursuit of Technology Innovation is critical for Market Creation. To further enhance our existing technologies, which are the source of our competitiveness, and thereby develop new technologies, we will foster internal development activities first of all. We will also implement joint research projects with overseas universities, which will allow us to take broader views than focusing on short-term results. In addition to starting cooperation with the University of Washington and the Technical University of Denmark, we also launched a joint research project in the power electronics technology field with the Swiss Federal Institute of Technology in Zurich in March 2014. We aim to utilize the research results in the development of diverse products, including precision equipment, railroad vehicle equipment, commercial

vehicle equipment and drive units for wind turbines. We believe that these initiatives will help us create innovations and develop globally competitive human capital who will support the foundation of our overseas business expansion.

With regard to the Financial Strategy, we will focus more on capital efficiency in our business management, with a view to creating cash income to sustain strategic investment and realize stable returns for shareholders. In the New Mid-Term Management Plan, we deem earnings per share (EPS) as one of our most important numerical targets along with the ROE and ROA. We aim to increase the EPS to 190 yen by 2017/3, which is the last year of the management plan.

Accordingly we have set a new dividend distribution policy: we will work to maintain stable payment with the consolidated payout ratio of 30% or higher. Moreover, we will not decrease the rate unless it exceeds 40% as our new dividend policy. We are also targeting the continuous increasing of EPS.

	2014/3 Results	2015/3 Plan	2017/3 Plan	2021/3 Long-term Vision (formulated May 2012)	
Net sales (billion yen)	202.2	216	280±5%	400	Further expansion of the business scale and pursuance of profitability
Operating income (billion yen)	20	21.6	34	60	
Operating income margin (%)	9.9	10.0	12.0	15.0	
Net income (billion yen)	14.9	15.5	24	—	
EPS (yen)	117.95	122.49	190	—	
ROA (%)	6.9	6.5	7.5	11.0	Promoting management with the conscious of asset and capital efficiency
ROE (%)	12.2	11.5	15.0	18.0	
Payout ratio (%)	32.2	32.8	30% or higher		Distribution of business earnings with the conscious of corporate growth

**To achieve EPS of 190 yen by the year ending March 31, 2017**



### Value Creation by the Nabtesco Group

Since its foundation, the Nabtesco Group has been continuing growth to create synergies across the Group under the Corporate Philosophy, 'The Nabtesco Group, with unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any form of transportation.' The Group has successfully developed over the decade through the drastic pursuit of customer satisfaction and the incentive of its strong commitment to 'safety, comfort and a sense of security.'

Nabtesco operates a wide range of businesses, including those related to the transportation of people and goods (railroad vehicle equipment, aircraft equipment, marine vessel equipment and commercial vehicle equipment); to manufacture and urban development (precision reduction gears for industrial robots, hydraulic equipment for construction machinery and other devices); to peoples' daily lives, welfare and medical care (automatic doors, welfare equipment, packaging machines and others); and to the environment and energy (equipment for wind power and solar thermal power generation). In all of these businesses, we deliver products that support people's daily lives and social infrastructures. As a component manufacturer, we create high value-added technologies and products that deliver 'safety, comfort and a sense of security' by fostering market creation and product development, hand in hand with our customers. By doing this, we contribute to the development of society and the economy, which we believe creating shared value between Nabtesco and society at large.

For Nabtesco to achieve sustainable development together with society and continue providing value we

deem it important to address the issues of sustainability, mainly by fostering measures regarding the following items:

1. Promotion of quality and safety
2. Cultivation of human capital
3. Consideration for environment
4. Supply chain management
5. Consideration for communities and society

We are also working to enhance our compliance and risk management systems and ensure corporate governance and management transparency across the board, including Group companies outside Japan.

In September 2013, as a result of making continuous efforts for these issues of sustainability, Nabtesco was selected to be one of the companies included in the DJSI Asia Pacific Index. This index targets companies in the Asia-Pacific region in the Dow Jones Sustainability Indexes (DJSI), which is a family of international Socially Responsible Investment (SRI) indexes. Subsequently in April 2014, Nabtesco signed the United Nations Global Compact. We will continue to make progress in CSR related activities.

The Nabtesco Group has made a fresh start toward its second decade. We will strive to achieve our Long-Term Vision, while making a concerted effort across the Group to implement "Challenge & Creation" to build even better relations of trust with our customers and all of our stakeholders and to foster value creation.



## Growth Strategy of Nabtesco

- > Long-Term Vision
- > New Mid-Term Management Plan
- > Growth Strategy by Business
- > R&D Topics
- > Intellectual Property Strategy

# Long-Term Vision

## Long-Term Vision

Status on FY 2020  
(formulated May 2012)

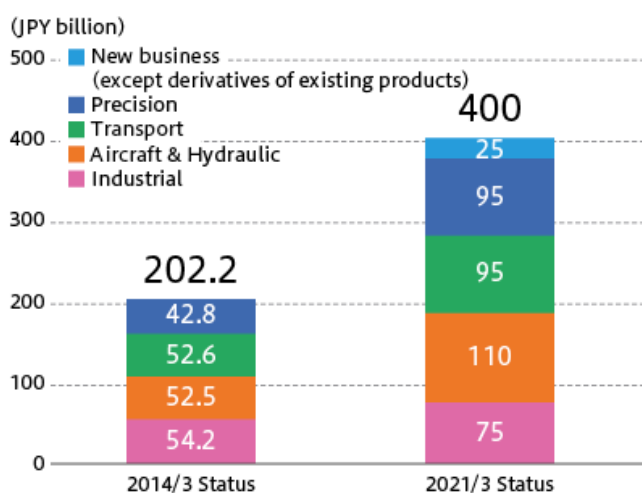
### Global Partner with Best Solutions

- Continue to provide society with new innovative solutions (products, services and business models)
- Pursue excellence through continuous technological innovation, thereby enhancing rapport and trust with customers
- Value open communication and creative thinking regardless of language and cultural differences
- Encourage each employee to proactively take on challenges with the slogan, "Enjoy the Challenge"

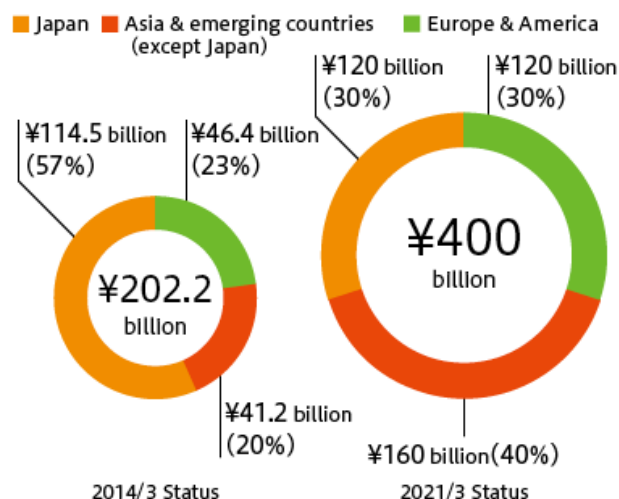
## Main Business Targets

	2014/3 Results	2017/3 Plan	2021/3 Long-Term Vision (formulated May 2012)
Net sales (billion yen)	202.2	280 ±5%	400
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ROA (%)	6.9	7.5	11.0
ROE (%)	12.2	15.0	18.0

## Consolidated Sales by Business Segment



## Consolidated Sales by Geographic Segment



# New Medium-Term Management Plan

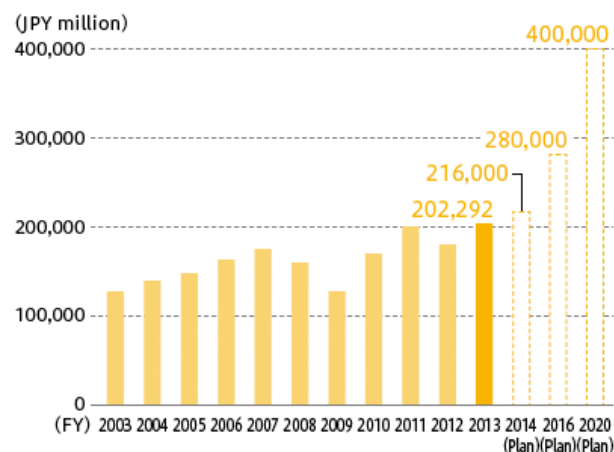
## Targeted Financial Figures (from the year ending March 31, 2015 to the year ending March 31, 2017)

	2014/3 Results	2015/3 Plan	2017/3 Plan	2021/3 Long-term Vision (formulated May 2012)	
Net sales (billion yen)	202.2	216	280±5%	400	Further expansion of the business scale and pursuance of profitability
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ROE (%)	12.2	11.5	15.0	18.0	
Payout ratio (%)	32.2	32.8	30% or higher		Distribution of business earnings with the conscious of corporate growth

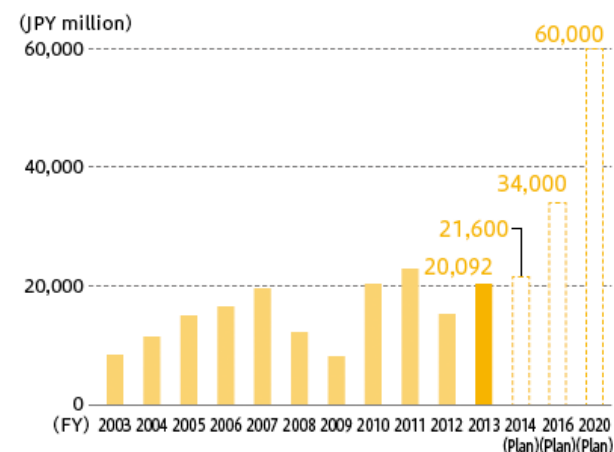
**To achieve EPS of 190 yen by the year ending March 31, 2017**

### Further expansion of the business scale and pursuance of profitability

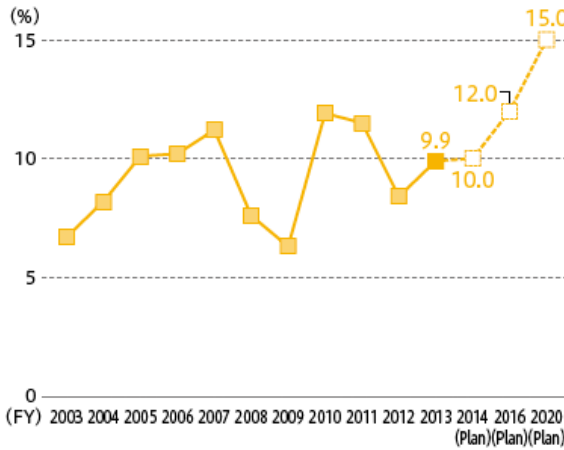
Net Sales



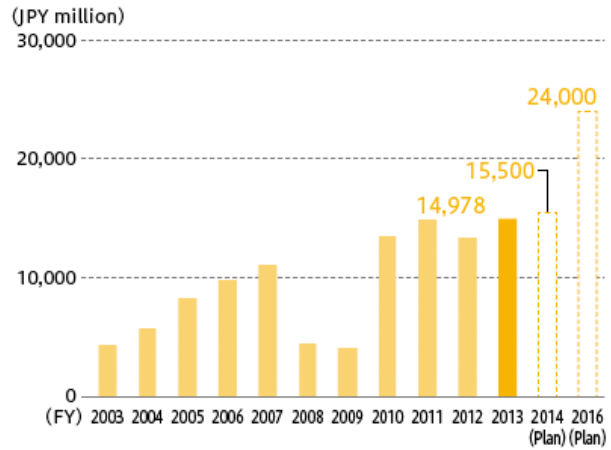
Operating Income



Operating Income Margin

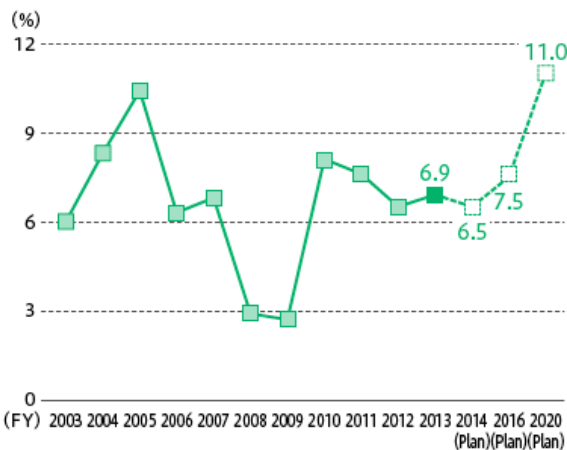


Net Income

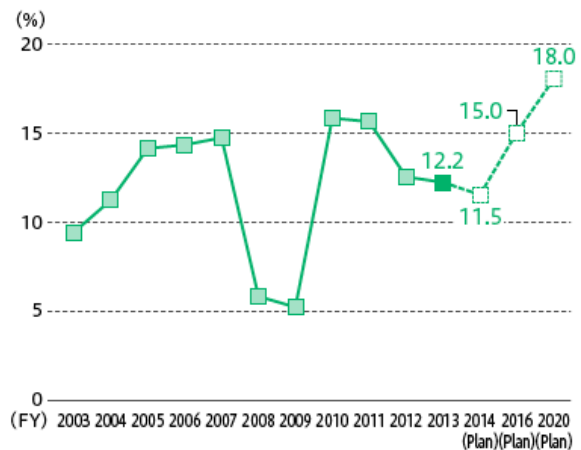


Promoting management with the conscious of asset and capital efficiency

Return on Assets (ROA)



Return on Equity (ROE)

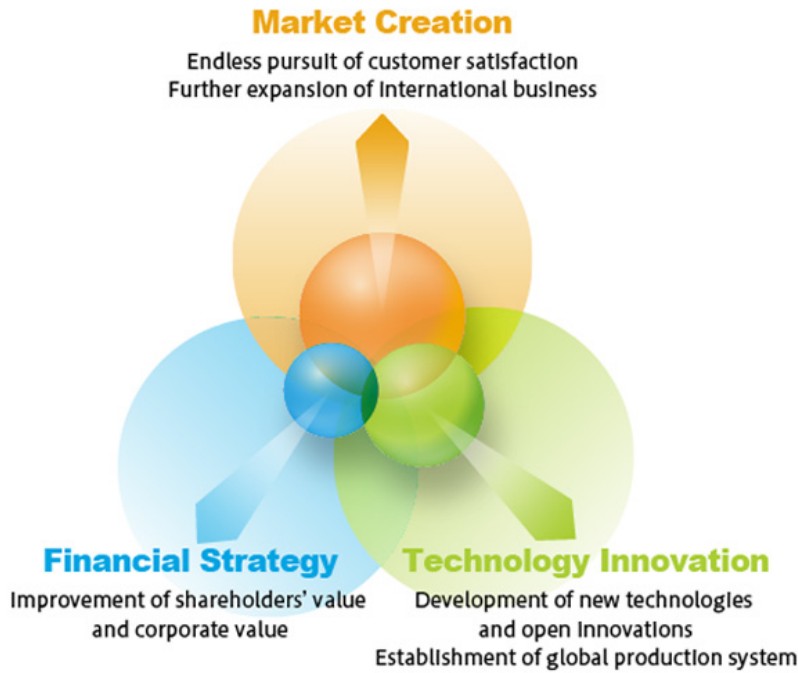


Distribution of business earnings with the conscious of corporate growth

Payout Ratio



## Basic Policies



## Company-Wide Strategies



### Market Creation

- ☑ **Launch of new value-added products**

We will develop more value-added products as a global partner with best solutions to provide "safety, comfort and a sense of security," and will release them into the market by the end of the Mid-Term Management Plan period.
- ☑ **Acceleration of overseas expansion**

We will further foster overseas business expansion by increasing our sales and service bases.
- ☑ **Enhancement of MRO**

We will establish and enhance the MRO\* business in promising markets, thereby ensuring the profitability of our after-sale service.  
\*MRO: Maintenance, Repair, Overhaul
- ☑ **Branding buildup**

We will enhance and increase the awareness of the Nabtesco brand to secure excellent human resources.



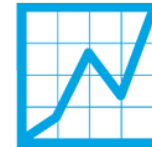
### Technology Innovation

- ☑ **Implementation of technological development**

We will promote internal R&D and joint development (including joint research with overseas universities) to speedily deliver the products that meet diversified customer needs and to make creative proposals in our manufacturing activities.
- ☑ **Acceleration of global production system**

We will establish the global production system that allows "local production for local consumption."
- ☑ **Transformation of domestic production bases into mother factories**

We will modernize our domestic production bases to support the global production system.



### Financial Strategy

- ☑ **Pursuit of asset efficiency**

We will promote business management with a focus on asset and capital efficiency (ROA and ROE) for consistent cash creation.
- ☑ **Utilization of financial leverage**

We will continue to receive credit rating A\* through debt financing (bank loans + straight bonds).  
\* Rating by Japan Credit Rating Agency, Ltd.
- ☑ **Improvement of stakeholder return**

On a consolidated basis, we will maintain the payout ratio at 30% or higher and will not cut dividend unless it exceeds 40% as our new dividend policy, aiming to increase the amount of dividends paid to shareholders through the continuous expansion of net income per share.

# Growth Strategy by Business

## Precision Reduction Gears Business

### Strengths and Competitive Advantages

Nabtesco's high-quality precision reduction gears RV excel in their durability and positional accuracy, while they are also lightweight and compact.

Nabtesco began the mass production of precision reduction gears in 1985 as a follower company and now enjoys a 60% share of the global market for industrial robots. We have maintained this position, although the period of the basic patent expired in 2006. As one of our strengths, we have built relations of trust with our customers, who are mainly industrial robot manufacturers, across the globe by offering advanced technologies and making excellent proposals to them.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

Sales of precision reduction gears decreased only slightly in 2014/3 due to the recovery of demand for industrial robots, despite zero sales of solar tracking equipment, which had been posted in 2013/3.

For 2015/3, we expect an increase in sales due to the expansion of demand for the industrial robot.

### Business Environment

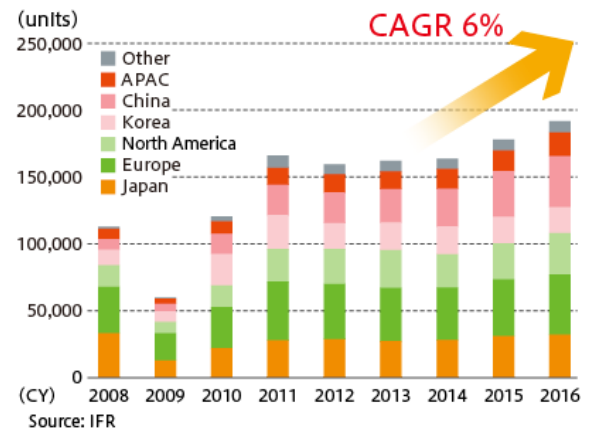
Demand for industrial robots will further increase in the future, due to increases in the needs for automation across the world. According to a prediction made by the International Federation of Robotics (IFR), the world's robot market will grow at CAGR of 6% on a medium- to long-term basis.

The machine tool market, which represents the second largest user of precision reduction gears following the industrial robot industry, is also showing an upward trend in line with the growth of the world economy. Particularly in Europe and China, there are high needs for systemization and it is expected that sales of new actuators that integrate precision reduction gears and servomotors as one unit will expand in the future.

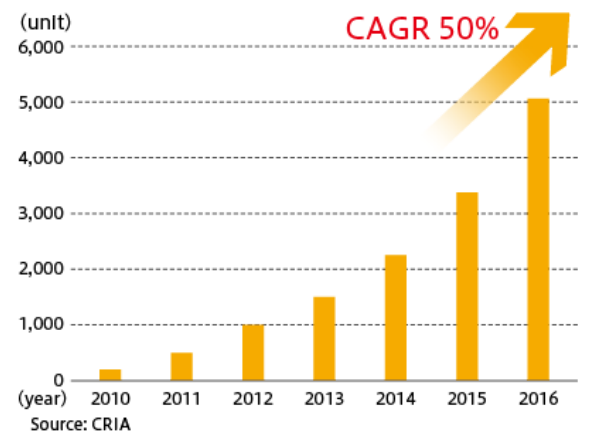
### Mid-Term Strategies

- We will continue to receive orders from existing customers without fail in the industrial robot industry, while further improving the quality of our products and shortening the time required for delivery in order to achieve higher customer satisfaction.
- We will promote the establishment of a global production system based on the "local production for local consumption" policy.
- We will proactively expand our business to new fields and markets by releasing new products.

#### Worldwide Annual Shipment of Industrial Robots



#### Forecast for Sales of Chinese Local Robot Manufacturers



## New Energy Equipment Business

### Strengths and Competitive Advantages

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Nabtesco provides drive units for wind turbines, which respond quickly to changes in wind conditions to control turbine rotation. We have developed the units based on our technologies for reduction gears used in industrial robots. They are highly evaluated in the market because they provide low backlash and excellent rigidity against severe natural conditions, such as gusty winds, while also being light weight and compact.

Our solar tracking equipment for solar thermal power plants can track the sun in an accurate manner, thanks to the application of our technologies used to create highly precise, rigid, and efficient precision reduction gears for the industrial robotics sector. The equipment is highly resistant to shocks and uses only a small amount of electricity. It is also maintenance-free, helping to reduce the life cycle cost of solar thermal power generation.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

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For 2014/3, sales of our drive units for wind turbines increased on a year-on-year basis, thanks to the extension of the federal renewable electricity production tax credit (PTC) period and to the renewable energy introduction policies enhanced by the Obama Administration in the United States. As for solar tracking equipment, we recorded no sales for the fiscal year.

In 2015/3, sales of our drive units for wind turbines will continue to increase, but for solar tracking equipment, we expect no sales due to delays of the expected projects.

### Business Environment

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There are three major markets for our drive units for wind turbines: North America, Europe and China. Market demand is recovering in Europe due to the rapid increase of offshore wind farms, while in China the government is implementing measures to foster the use of renewable energy. We therefore expect that the business will return to the growth path and achieve further development.

For our solar tracking equipment, demand will substantially increase in Africa, the Middle East and Asia. Africa and the Middle East represent the largest market for the equipment.

### Mid-Term Strategies

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- We are targeting new customers for our drive units for wind turbines in the North American and European markets, while enhancing our marketing activities to receive orders from large offshore wind farms, which are expected to grow further in the future.
- As for solar tracking equipment, technological innovations will continue to be made in the market, and in response we will work to increase our competitiveness by combining our capabilities, technology & product development and excellence in manufacturing.

## Railroad Vehicle Equipment Business

### Strengths and Competitive Advantages

Since receiving the first order for our air brake equipment from the former Ministry of Railways in 1925, we have been delivering highly reliable brake systems over nearly a century, with an eye to contributing to higher safety technologies for rail transportation in Japan. Our brake units, which comprise multiple brake mechanisms, contribute to space saving as well.

Moreover, our door operating systems have been installed on all the Shinkansen bullet train N700 series carriages, being recognized for their proven performance and technologies and for the high-quality after-sale service. We are also proactively expanding the business overseas, and our products are being increasingly used on railway lines across the globe, including high-speed trains in China and Taiwan.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

For 2014/3, sales increased from the previous year due to increases in sales for high-speed trains in China and growing demand for repair parts in Japan.

Also for 2015/3, we expect a year-on-year increase in sales, since the Maintenance, Repair and Overhaul (MRO) business will expand in Japan and demand for Chinese high-speed trains will continue to increase, despite a decrease in the number of newly-installed trains.

### Business Environment

We will continue to focus on replacement demand within Japan since the domestic market is mature.

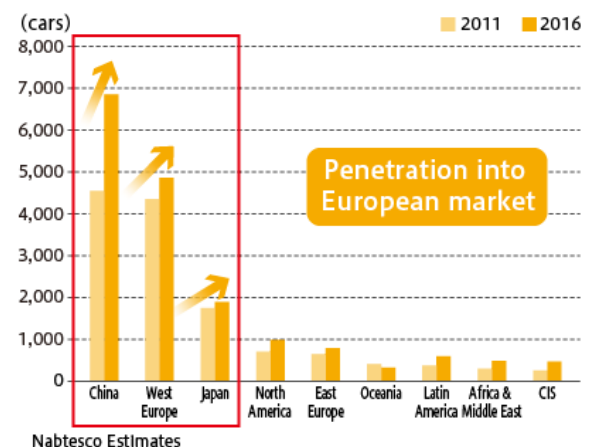
In China, while the demand for high-speed trains will reach a peak in 2015 and then stabilize, the subway market will reliably expand in the future.

European market is expected to achieve stable growth as the world's largest railroad market.

### Mid-Term Strategies

- In Japan, we will work to improve customer satisfaction towards the expansion of the MRO business. In Southeast Asia, we will win orders for our MRO business in the second-hand railroad vehicle market, while endeavoring to increase sales for subway by making full uses of local resources in China.
- We will further expand our business globally by fostering the optimization of our development, procurement and production activities based on the tripolar manufacturing system – Japan, China and Europe.

Comparison of New Car Demand by Region





## Commercial Vehicle Equipment Business

### Strengths and Competitive Advantages

Capitalizing on the know-how and manufacturing technologies we have accumulated as a leading manufacturer of brake systems for commercial vehicles in Japan, we have been developing highly safe and environment-friendly air brakes, hydraulic clutches for automobiles, and other products to contribute to the safety and comfort of our motorized society.

In the domestic market, based on dealings with major truck and bus manufacturers, we have a roughly 85% share for air dryers and about a 70% share for wedge brake chambers. In the future, through our product bases in Southeast Asia and India, we will expand our business to the world market, where we aim to become the No. 1 brake manufacturer in terms of product reliability.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

For 2014/3, we recorded a year-on-year sales increase due to the expansion of reconstruction demand within Japan. Also for 2015/3, we expect that sales will increase thanks to steady demand for trucks in Japan.

### Business Environment

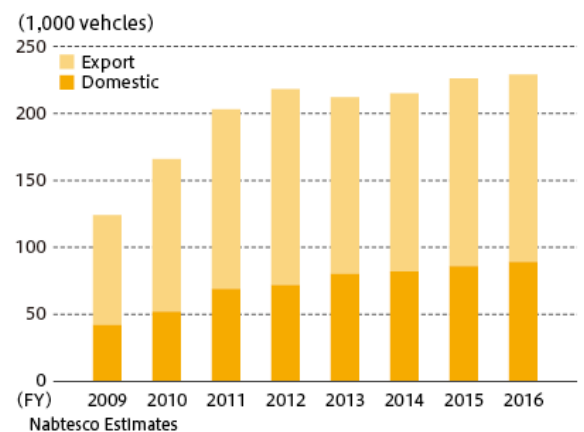
Demand for commercial vehicles in Japan has been steady, which is driven by the reconstruction demand and also supported by the 10 year-cycle replacement demand.

Japan-made trucks are mainly exported to ASEAN countries, and Thailand represents the largest market. Emerging markets are expected to grow at an annual rate of 5%, however, in the ASEAN market, Japanese truck manufacturers will face more intense competition with the ones from Europe and emerging countries.

### Mid-Term Strategies

- In the Japanese market, we will maintain our current market share and also strive to receive orders from new customers.
- We will expand our overseas sales by improving our ability to make new product proposals and by utilizing our Thai and Indian bases.

#### Japan's 4mt+ Truck Sales



## Marine Vessel Equipment Business

### Strengths and Competitive Advantages

Nabtesco supplies main engine remote control systems which are mounted on medium- to large-sized marine vessels. Diesel engines represent the core component of vessels, and we focus on the development of electronic control systems for engines, which will become mainstream in the future, in addition to supplying conventional mechanical control systems. Our electronically controlled high-speed hydraulic valves optimize fuel injection and exhaust valve control for higher fuel efficiency and a lower environmental impact.

In addition to engineers stationed at our major bases in Japan, Singapore, the Netherlands, China, and South Korea, we also have a global network of service engineers with excellent technical skills to support the safe navigation of vessels.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

For 2014/3, sales increased from the previous year thanks to recovery of orders for new shipbuilding. Sales will continue to increase through 2015/3, driven by orders for new shipbuilding, including the existing backlog.

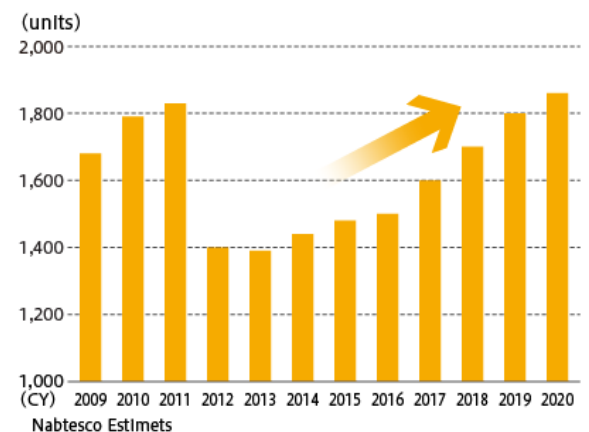
### Business Environment

Due to the recovery of the world's new shipbuilding market, demand for new shipbuilding and for engines will remain high until the middle of 2017/3. Demand for electronically controlled engines will also expand due to the enforcement of Tier 3 Vehicle Emission and Fuel Standards globally.

### Mid-Term Strategies

- In order to flexibly response to the market needs, we will create new technologies and products, including those for electronically controlled engines and exhaust gas emission treatment systems.
- Based on the concept of "local production for local consumption," we will put our global tripolar (Japan, China and South Korea) manufacturing system into gear, thereby improving our quality, cost and delivery (QCD).
- We will offer services with even higher quality by making proposals for preventive maintenance and expanding our service network.

Global Production of 2-stroke Engines for Marine Vessels



## Aircraft Equipment Business

### Strengths and Competitive Advantages

We are conducting the aircraft equipment business widely, targeting both Japan's national defense field and the global civil aviation field. Specifically we supply flight control actuation systems, the core component to control the flight attitude of aircraft, and various other equipment to the world's leading aircraft manufacturers. We also provide them with parts as aftermarket support.

In the world of aviation, where safety must come first, we have accumulated the world's best production technologies and know-how. The expertise is incorporated into our products including the high voltage electric power distribution unit, which is adopted for the leading-edge Boeing 787 aircraft, along with other aircraft equipment. We will accelerate the development of systems for new aircraft models to be operated in the future, thereby supporting aircraft safety and security.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

For 2014/3, sales increased from the previous year due to the expansion of demand for civil aircraft and the foreign exchange effect.

In 2015/3, demand from the Japanese Ministry of Defense will remain on the same level, while the civil aviation market will enter a period of change toward the next phase of growth. Accordingly, sales will remain on the same level as the previous year.

### Business Environment

In the national defense field, the business will remain stable.

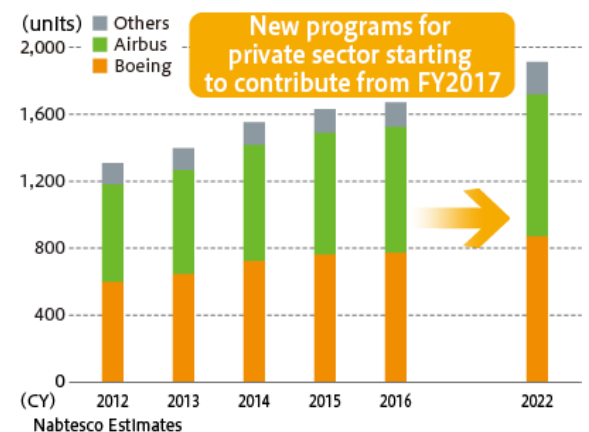
In the civil aviation field, aircraft production will increase only slightly during the current mid-term management plan period, although aircraft operation is expected to double over the next two decades. From FY2017 we will start supplying our products fully in progress under the new civil aircraft programs, for the Boeing 737 MAX and for MRJ of Mitsubishi Aircraft Corporation.

We also expect for the recovery of the Maintenance, Repair and Overhaul (MRO) market.

### Mid-Term Strategies

- We will maintain our business with the Japanese Ministry of Defense, while working on more proposals for new civil aircraft projects.
- We will establish and enhance our MRO system through a customer-oriented approach. Moreover, improvement of profitability through cost reduction and productivity enhancement is targeted as well.
- We will increase our production capacity for the new programs for Boeing and Mitsubishi Aircraft Corporation, which will be implemented on a full scale in and after FY2017.

#### Transition of Delivery of Aircrafts



## Hydraulic Equipment Business

### Strengths and Competitive Advantages

Nabtesco's traveling motor, a unit composed of a reduction gear, hydraulic motor, parking brake, and other components, is capable of generating tremendous amounts of power in an efficient manner, energy-saving performance, durability, and reliability even under extremely challenging conditions. The traveling motors have been widely recognized and adopted by leading construction machinery manufacturers, and we have a high market share for traveling motors used in excavators.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

For 2014/3, sales increased from the previous year, thanks to the expansion of last-minute demand fueled by the exhaust gas emissions regulations in Japan, to moderate recovery of demand in the Chinese market due to a decrease in the stock of complete construction machines, and to the foreign exchange effect.

Likewise, there will be steady reconstruction demand in Japan in 2015/3, but demand for construction machinery will continue decreasing in China, which will lead to stagnant sales in the hydraulic equipment business.

### Business Environment

The domestic Japanese market will show steady growth driven by construction and reconstruction demand.

In China, which represents the largest market for Nabtesco, economic growth is showing a downward tendency and resource development-related demand is diminishing. Accordingly, it will take some time for the construction machinery market to recover.

The U.S. market is expected to make recovery on a medium- to long-term basis, supported by the expanded construction of new houses and by the steady demand for the improvement of infrastructures.

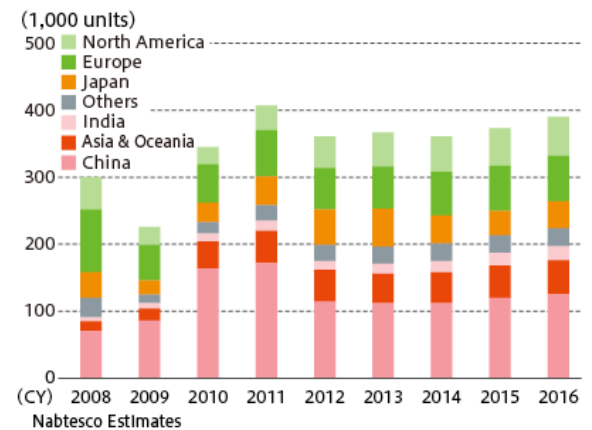
In Europe, the recession caused by the financial crisis has bottomed out and demand for construction machines is recovering.

In the Southeast Asian market, demand from the coal mining industry has been stagnant, while personal consumption and infrastructure investment are robust.

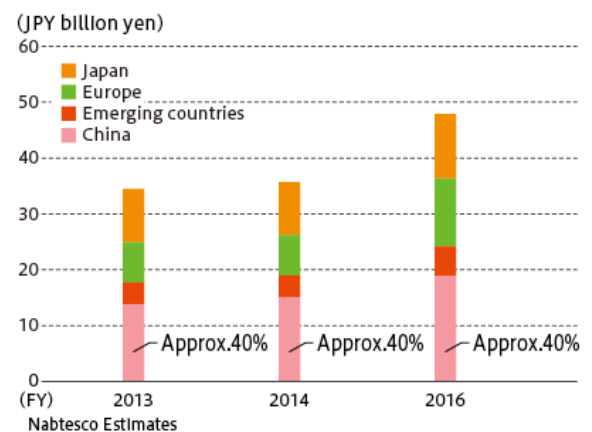
### Mid-Term Strategies

- In order to make a shift from dependency on one single market in the global business, we will foster business in growth markets other than China and promote, for example, the sales of products for applications other than use in excavators in the European and U.S. markets.
- Also to mitigate dependency on the specific product items, we will expand the product lineup of our hydraulic equipment beyond our current mainstay products for excavators.
- We will advance our global production system based on our bases in Japan, China and Southeast Asia (Thailand), while also enhancing our ability to respond to changes by shortening lead-time and fostering automation and higher efficiency. We will maintain and expand our market share through a customer-oriented marketing approach.

World Demand for Excavators



Sales by Geographic Segment



## Automatic Doors Business

### Strengths and Competitive Advantages

Since becoming the first company to release Japan-made automatic doors to the market in 1956, we have kept NABCO doors' niche as the top automatic door brand in Japan with about a 50% market share. Also in the world market, we are one of the leading automatic door manufacturers with about a 20% share, operating the business under the GILGEN brand in Switzerland and other European countries and under the GYRO TECH brand in North America.

We supply a range of products in addition to automatic doors for buildings, such as automatic doors for special applications and for industrial use. We also offer entire value chain services integrating supply, installation, maintenance and management. For the automatic door business, a 'cash cow' business for the company, we have established a system that can greatly withstand economic changes.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

For 2014/3, sales increased from the previous year due to the robust demand in Japanese and overseas markets and the foreign exchange effect.

For 2015/3, we expect a slight increase in sales in light of the fact that Japan and Switzerland, which are the main markets for our automatic door business, have already matured.

### Business Environment

The Japanese and European markets are not vulnerable to economic changes, while we don't expect their quantitative expansion. The significance of the maintenance, service and replacement businesses is increasing in these markets and they provide us with a stable revenue source. We therefore regard them as the most important markets.

In the United States, the real property market is showing more stability toward recovery after the Financial Crisis. Automatic door market is expanding, albeit at a moderate pace.

In China, there might be setbacks as economic growth slows down, in particular the adverse effect of excessive investments in the real property market. Actual demand, including demand for automatic doors, however, will continue to expand at a steady pace.

The automatic door market is expected to grow on a long-term basis not only in China but also in other emerging countries, including India and other Asian countries, the Middle East, and Russia.

### Mid-Term Strategies

- We will expand the business scale through M&A of overseas sales companies.
- In addition to promoting the sales of automatic doors, we will win more orders in the maintenance and repair business and enhance our business foundation through value chain management.
- We will expand the product lineup according to the market and regional characteristics and globally conduct business operations in the world's four regions (Japan, Europe, North America and China).
- We will offer reliable after-sale service to improve customer satisfaction, which will in turn increase our profitability.

#### GDP Growth Rate

	2008	2009	2010	2011	2012	2013	2014	2015	2018
Japan	-1.0	-5.5	4.7	-0.6	1.4	1.7	1.7	1.0	1.1
Switzerland	2.2	-1.9	3.0	1.8	1.0	1.7	1.8	1.9	1.9
USA	-0.3	-2.8	2.5	1.8	2.8	1.9	2.8	3.0	3.1
Euro Area	0.4	-4.4	2.0	1.5	-0.7	-0.4	1.0	1.4	1.6
UK	-0.8	-5.2	1.7	1.1	0.3	1.7	1.7	1.0	2.3

Source: IMF World Economic Outlook

Expansion of market through M&A in developed countries being vital for future growth

## Packaging Machines Business

### Strengths and Competitive Advantages

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Nabtesco has long years of experience in the manufacture of automated weighing equipment, packaging machines, packaging-related systems, and even entire packaging plants, which are essential for filling and packaging processes. Our automatic fillers/sealers for retort pouch foods, which show high performance in a compact space and provide high sealing tightness to protect the safety and hygiene of food, make up the largest share in the Japanese market and have garnered a high level of trust from food manufacturers.

In Japan, following the enforcement of the Act on the Promotion of Sorted Collection and Recycling of Containers and Packaging in 1995, demand for packaging machines for refills, including those for chemical products, has been rapidly expanding. Demand for spout pouches has also increased recently. Further, more and more food plants are introducing X-ray or infrared camera testing equipment to ensure food safety. In response to these contemporary needs, we are constantly working to innovate and develop more advanced technologies.

### Results for the Year Ended March 31, 2014 and the Plan for the Year Ending March 31, 2015

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For 2014/3, sales decreased from the previous year following the end of the special demand from the Japanese sugar industry since 2013/3 and due to a decrease in sales to overseas customers.

For 2015/3, however, we expect an increase in sales due to an increase in overseas sales.

### Business Environment

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The domestic market for packaging machines for retort pouch products has matured as a whole, but demand for machines for retort pouch foods will steadily increase in accordance with the increased tendency of the home meal replacement and solitary meal and the growth of so-called 'private brand' food products.

Outside Japan, the retort pouch packaging machine market is growing, and the demand for the machines is expected to increase in North America and other regions, where more products will be sold in retort pouches. Also in emerging economies including China, retort pouch packaging machines will grow in use, first in the field that gives priority to quality.

### Mid-Term Strategies

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- In North America and China where the mass production market will rapidly grow, we will utilize our local bases and enhance our sales networks to promote sales and increase our shares in overseas markets.
- We will establish a community-based service system to develop the Maintenance, Repair and Overhaul (MRO) business and increase profitability.

# Financial Information by Business Segment

## Precision Equipment Segment

Precision Reduction Gears Business

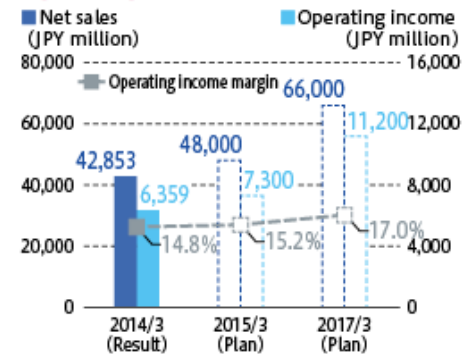
New Energy Equipment Business

Net sales for precision equipment segment rose from the previous year by 3.1% to 42,853 million yen, while operating income grew by 18.8% to 6,359 million yen in 2014/3. For 2015/3, it is expected that demand for precision reduction gears for industrial robots will increase, and an increase in income is forecast.

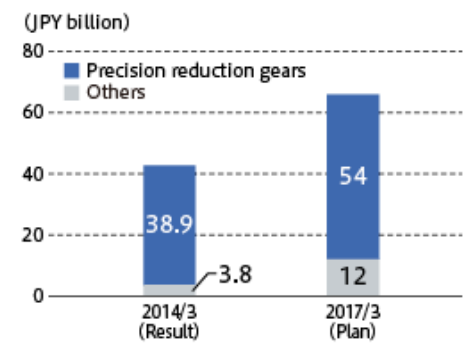


(Result of 2014/3)

### Result for 2014/3 and Mid-Term Plan



### Results for 2014/3 and Mid-Term Plan by business



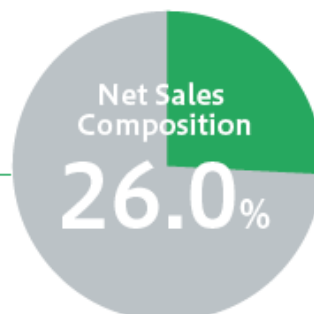
## Transport Equipment Segment

Railroad Vehicle Equipment Business

Commercial Vehicle Equipment Business

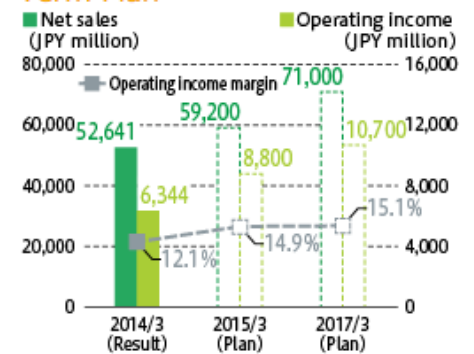
Marine Vessel Equipment Business

Net sales for transport equipment segment rose from the previous year by 18.9% to 52,641 million yen, while operating income grew from the previous year by 50.5% to 6,344 million yen in 2014/3. For t2015/3, sales of railroad vehicle equipment will be firm due to demand from the high-speed rail project in China. Marine vessel equipment business is expected to benefit from orders for new shipbuilding, while commercial vehicle equipment business is forecast to see increased income on the back of firm demand for trucks in Japan.

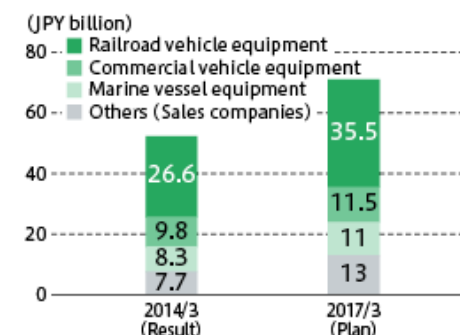


(Result of 2014/3)

### Result for 2014/3 and Mid-Term Plan



### Results for 2014/3 and Mid-Term Plan by business

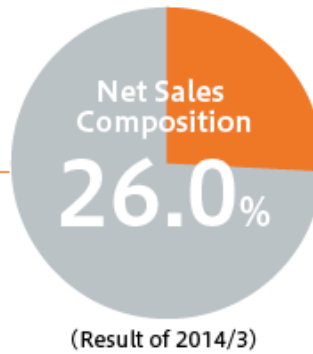


## Aircraft and Hydraulic Equipment Segment

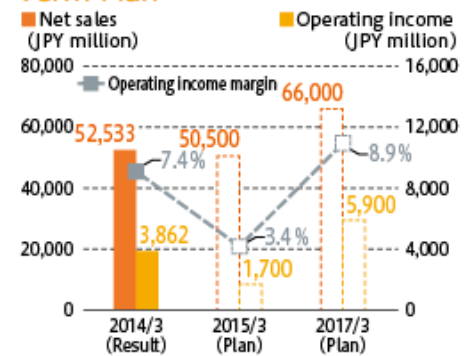
### Aircraft Equipment Business

### Hydraulic Equipment Business

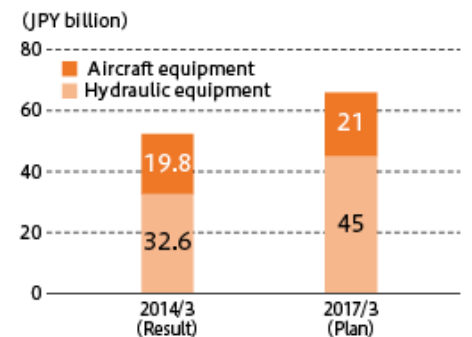
Net sales for aircraft and hydraulic equipment segment rose from the previous year by 14.8% to 52,533 million yen, and operating income grew from the previous year by 2.1 times to 3,862 million yen in 2014/3. For 2015/3 in the aircraft business, it is expected that demand from the Japanese Ministry of Defense will remain on the same level, while the civil aviation market will enter a period of change toward the next phase of growth. In the hydraulic equipment business, it is expected that there will be steady reconstruction demand in Japan during 2015/3, while the demand for construction machinery will continue decreasing in China, which will lead to stagnant sales..



### Result for 2014/3 and Mid-Term Plan



### Results for 2014/3 and Mid-Term Plan by business

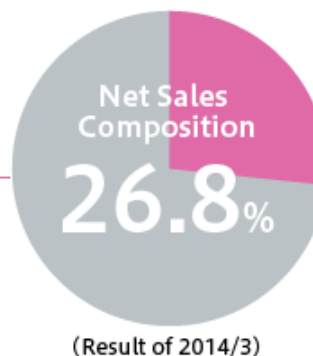


## Industrial Equipment Segment

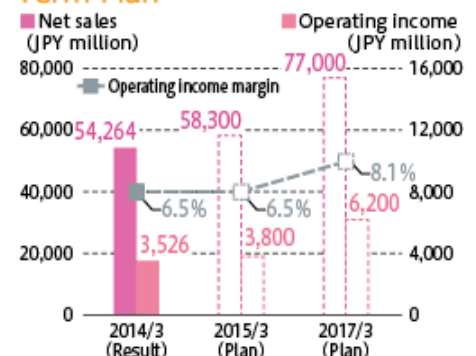
### Automatic Doors Business

### Packaging Machines Business

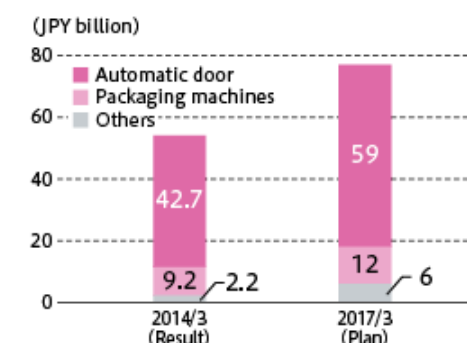
Net sales for industrial equipment segment rose from the previous year by 13.2% to 54,264 million yen, but operating income shrunk from the previous year by 2.3% to 3,526 million yen in FY 2013. With regard to 2015/3, sales of automatic doors are expected to grow owing to robust demand both domestically and internationally, while the revenue from the packaging machines business is forecast to grow on the back of buoyant overseas sales.



### Result for 2014/3 and Mid-Term Plan



### Results for 2014/3 and Mid-Term Plan by business





# R&D Topics

## Endless Pursuit of Customer Satisfaction

### Utilization of CAE, DE and 3D Models in Research and Development

Nabtesco is implementing a project to foster the uniform management of all the processes from development to production by the use of three-dimensional (3D) data ("company-wide 3D data utilization project"), with a view to dramatically increasing the efficiency of design and development.

We are thus increasing our manufacturing efficiency by introducing advanced technologies for innovative product development, in order to become a "Global Partner with Best Solutions" required by customers in the manufacturing field.

## World's Top-class CAE Analysis Technology

Nabtesco has been focusing on computer aided engineering (CAE) and CAE analysis technology. We had divided into the four groups: the CAE development group, CAE analysis group, digital engineering (DE) group, and materials technology group, and currently we set up the CAE & Materials Department.

CAE represents computer software to support the development and design of industrial products. Using this tool, we make calculations for the strength, heat resistance and other features of the product models designed by using a 3D computer aided design (CAD) system, and also make simulations to check the product functions and performance.

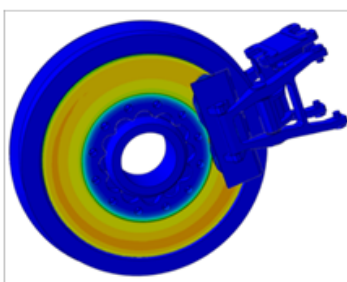
In the traditional development process, trial production and tests are conducted in a repeated manner to check and give feedback on how the functions, performance and behavior of products will be changed when they are actually put into use. CAE, however, makes it possible to simulate such trial productions and tests to some extent on computers, which helps reduce the time and cost required for product development.

Recently, we have been making fluid analyses to analyze the flows of air and oil and also highly advanced fluid-structure coupled analyses for high-speed electromagnetic valves. Moreover, we are applying these highly advanced analysis technologies to make technical explanations to customers, aiming to help them understand the features of our products more deeply.

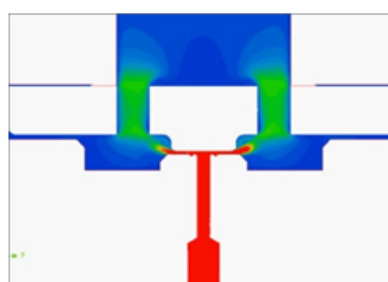
At present, Nabtesco is in the global top class in terms of CAE analysis technologies, and we are continuing to advance these technologies through such efforts as conducting joint research with overseas research institutes.



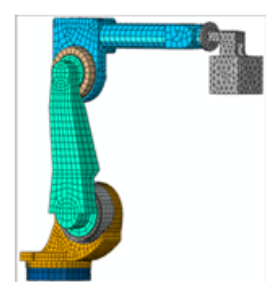
Meeting held at the Technical University of Denmark



Disc brake thermal analysis



Fluid-structure coupled analysis for high-speed electromagnetic valve (example)



Robot motion simulation (example)

## Utilization of 3D Models

At present, the Precision Equipment Company (precision reduction gears business) is conducting product design by using 3D-CAD. Based on the know-how gained at this in-house company, we will sequentially introduce 3D-CAD also to other seven group companies. In November 2013, the Nabtesco Digital Engineering Center (NDEC) was established within the premises of the Kobe Plant, where the stereo lithography equipment (3D printer) developed by CMET Inc., a Nabtesco Group company, is installed. Using this equipment, we will mold mockups (prototypes) to check the product shapes and images at the initial development stage. In addition, in the future we will introduce a metal 3D printer to check the strength and other basic functions of products under development..



Stereo lithography equipment (3D printer)

By showing mockups, which are transparent and can be actually assembled and operated, to customers, we can help them understand the features of our products including those under development more deeply.

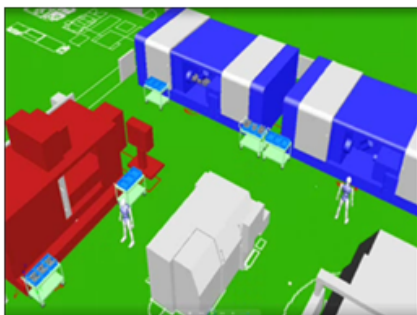
Further, in order to accelerate the utilization of 3D models (digital data created by using 3D-CAD), we are creating 3D libraries for the past products, parts, jigs and tools, and also for standard items such as bolts. We will foster the shared use of 3D models for design under the “company-wide 3D utilization project,” thereby establishing a function to evaluate prototypes in a prompt manner.



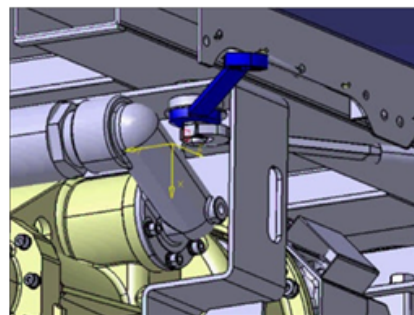
Examination meeting using mockups

## Improvement of Development and Production Efficiency by the Utilization of Digital Engineering (DE)

DE represents a technology to simulate a manufacturing process by using IT tools and helps prevent the materialization of potential defects and check the feasibility of the targeted cost. DE contributes to shortening the time and cost required for the development of a new product and also helps improve the productivity of the manufacturing process. Recently we have also been using CAE for manufacturing process simulation. Nabtesco can now make simulations for most parts of the manufacturing process, including simulations of feasibility of a product assembly, workability of a part within the targeted cost and time range, and for the cycle time and optimal layout of the production and processing lines.



Processing line simulation to be made when receiving a large order



Assembly simulation for the development of a new model

## To Become a “Global Partner with Best Solutions” Required by Customers in the Manufacturing Field

In line with the New Mid-Term Management Plan, which we have launched this fiscal year, we will make proactive investments in the introduction and use of IT tools to increase our development efficiency and build up the foundation for the achievement and enhancement of the Long-Term Vision.

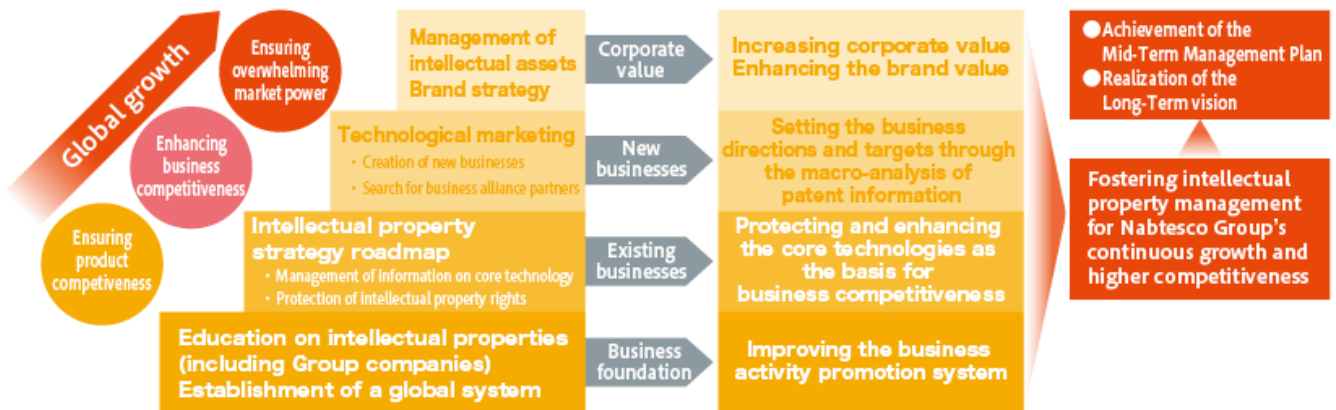
Nabtesco takes a basic approach to discuss deeply with customers when implementing a large project with them. We are committed to enhancing customer value by utilizing CAE, DE and 3D models not only in the development and design processes but also in the manufacturing process and repeating discussions with the customers.

# Intellectual Property Strategy

Implementing Intellectual Property Strategy to Lead the Business Strategy

## Intellectual Property Action Plan to Achieve the Nabtesco Group's Long-Term Vision

Nabtesco has been fostering intellectual property activities in line with the business strategy set for the achievement of the Long-Term vision. In particular, for the businesses conducted by in-house companies, we have set the Intellectual Property Strategy Roadmaps for each in-house company to implement a strategy to enhance our core technologies as the basis for our competitiveness as well as a strategy to protect our intellectual properties on a global level. We are steadily conducting activities according to these roadmaps. Also, we are fostering technological marketing to analyze global patent information in a systematic manner for the creation of new businesses and new markets. Moreover, we are protecting the rights related to our brand, which is a core of our corporate reliability, fostering the appropriate use of the brand and eliminating counterfeit products to increase our corporate value.



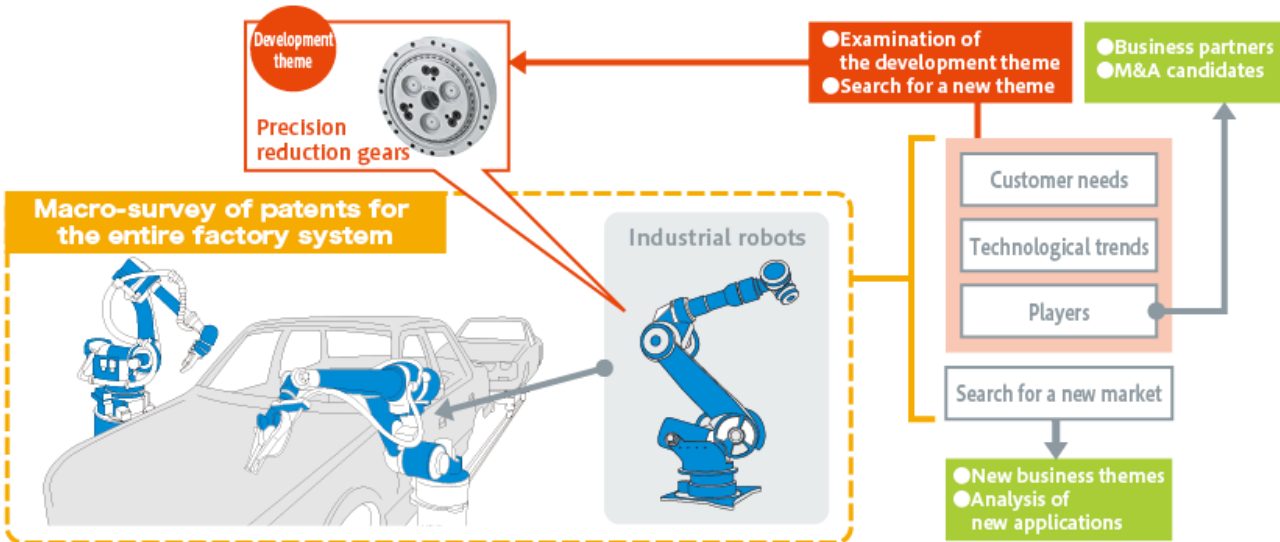
## Management of Confidential Information and Strategic Protection of Intellectual Properties

We are preventing the external leakage of information related to our product design, software and manufacturing know-how through the strict management of confidential information, thereby maintaining our competitive advantages. On the other hand, for our technologies incorporated in the products that could be analyzed and used by purchasers, we obtain patent rights and other rights in market countries for the technologies to protect our products.



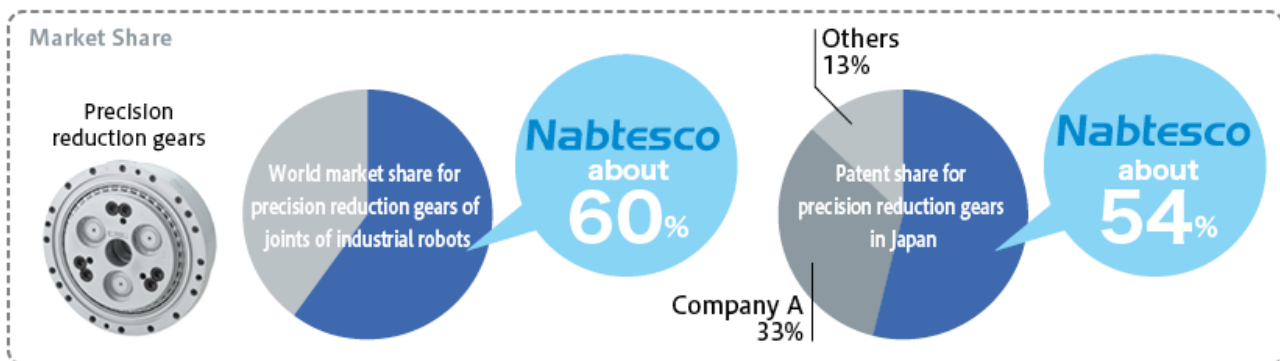
## Creation of New Businesses through Technological Marketing

We are globally conducting patent surveys in relation to the equipment and systems in which our products are used. Based on the surveys, we make macro-analyses of the needs of customers and technological trends. We use the analysis results to set our future business policies and foster collaboration with other companies, including searching for new business themes and markets, examining development themes, and finding new business partners.

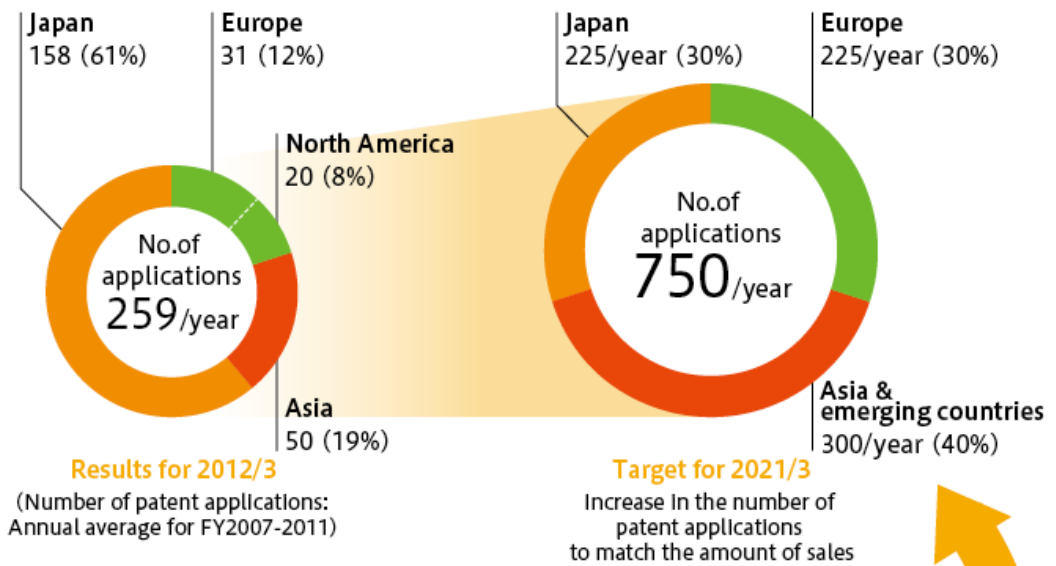


## Intellectual Property Activities to Support “Market Share No. 1” Fostering Global Intellectual Property Activities also to Ensure “Patent Share No. 1”

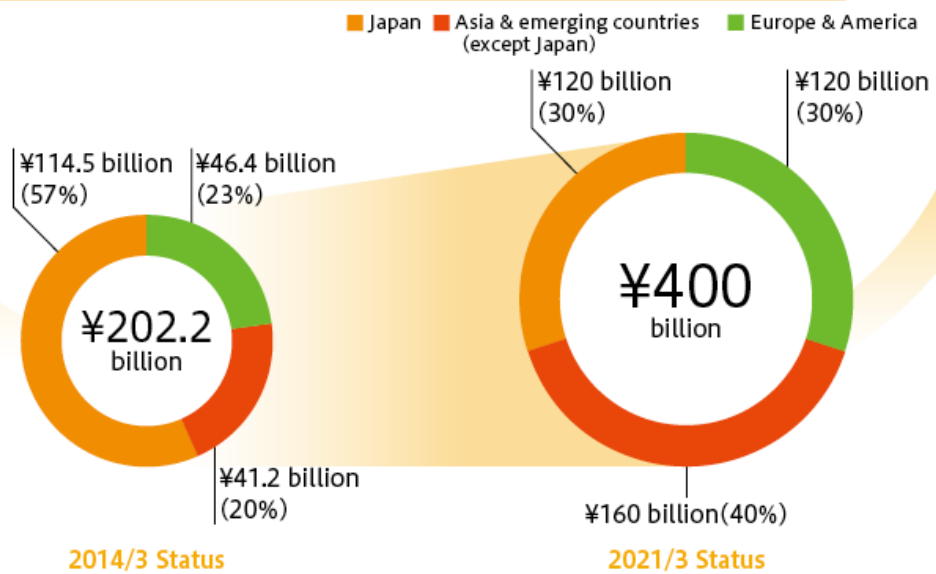
For our products that are taking the top market spot, including precision reduction gears, we are No. 1 also in terms of the patent share in Japan, as a result of continuing intellectual property-related activities. We are increasing our overseas sales share according to our Long-Term vision, and are aiming to become the No. 1 company in the patent share outside Japan as well. To this end, we are conducting intellectual property-related activities in a planned manner globally, which will in turn help us further increase our market share across the world.




Number of patent applications by region



Consolidated Sales by Geographic Segment





## Supporting the Growth Strategy

> Quality and Safety

> Human Capital

> Environment

> Supply Chain Management

> Community and Society

> Third-Party Verification Report

# Quality and Safety

## Quality and PL management

### **| Incorporating Safety, Comfort and a Sense of Security into Products**

The Nabtesco Group has long been creating new markets, developing products and ensuring the safety of our products with our customers who have trustworthy relationships with us. Besides to achieve 'safety, comfort and a sense of security' of products, we also ensure 'safety, comfort and a sense of security' for customers who purchase our products as well as for end users by collecting and analyzing information on the actual conditions and environment in which products are used. We then utilize and reflect the information in manufacturing our products to achieve the safety, reliability and stability requirements, as well as the high function and performance necessary for realizing maximum comfort.

As a result, we have received positive evaluations from corporate customers in various technologically demanding fields and can now offer products and services—many of which command the top market shares—with high value based on our unique motion control technology.

In the future, we will continue making maximum efforts to ensure safety, comfort and a sense of security throughout the life cycles of our products.

### **| Nabtesco Group Quality and PL (Product Liability) Policy**

Recognizing one of our most important missions in CSR is to provide products with safety, comfort and a sense of security throughout the world, the Nabtesco Group has established the Nabtesco Group Quality & PL (Product Liability) Policy which ensures highly technical products to a wide range of fields and markets. It is also to deliver products with maximum safety and security, as well as with maximum comfort resulting from the functionality and performance of products.

#### **Nabtesco Group Quality and PL Policy**

To fulfill our corporate social responsibility (CSR) by delivering products with maximum safety, comfort, security and reliability, we will:

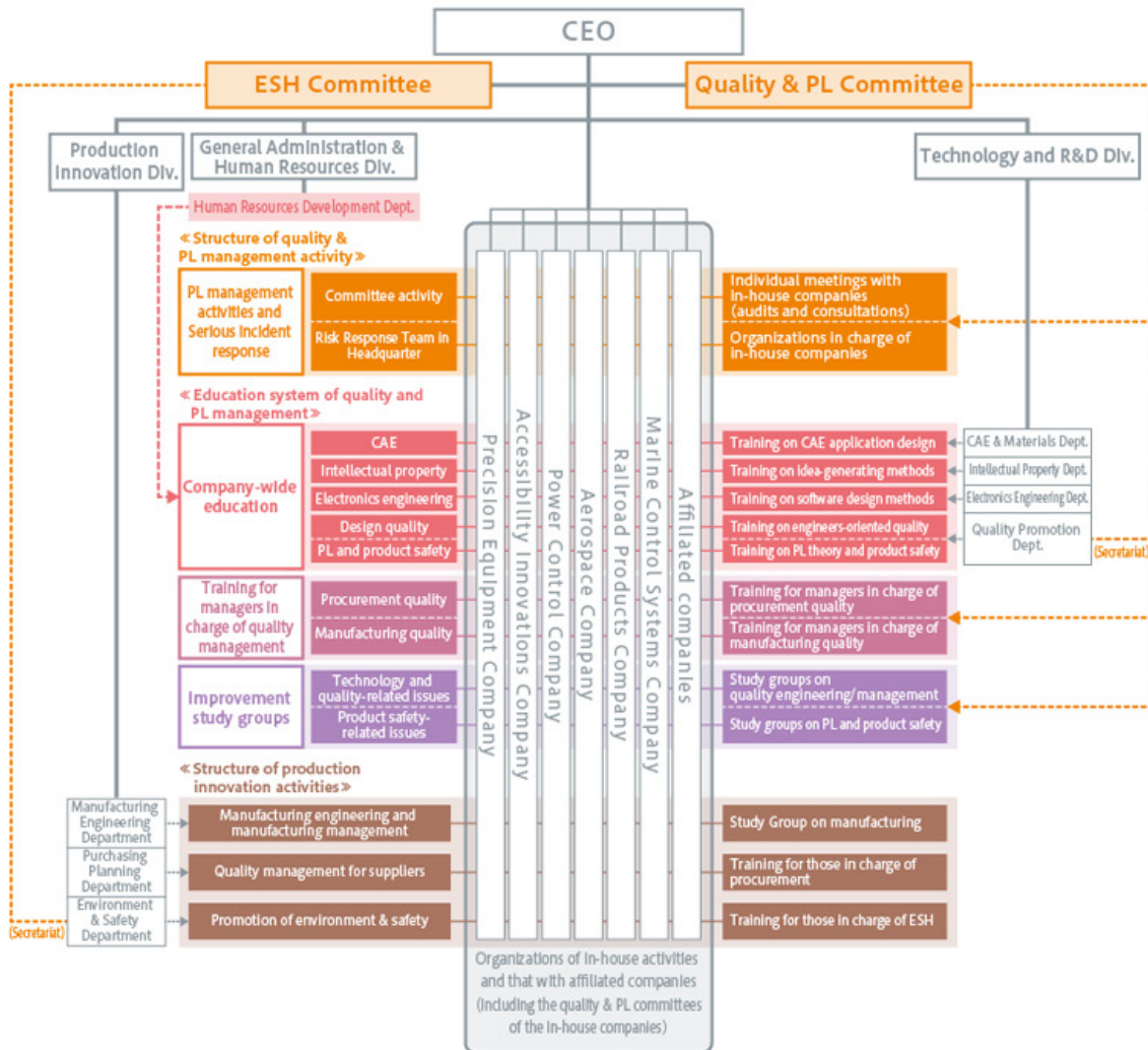
1. Give priority to safety over anything else, based on the principle of respect for people;
2. Meet safety and other quality needs of products through the integration of business activities and quality and PL activities; and
3. Realize product quality that satisfies market demand by conducting safety and other quality evaluations prior to the release of products to the market.



## Promotion Framework by the Quality & PL (Product Liability) Committee

The Quality & PL Committee promotes the manufacturing procedure by incorporating quality engineering, and quality control and PL management processes (including those for product safety management) through listening to the opinions of customers and end users to meet the ever changing needs of society.

### Structure of Quality and PL Management & Production Innovation Activities and Education System of R&D and High Manufacturing Quality



### Promotion of Quality and PL Management Activities

The Quality & PL Committee holds an annual meeting to decide on activity policies for the coming annual year by identifying what problems and issues have arisen in the Group. Based on the decisions made at this meeting, our in-house companies conduct specific activities as a part of their daily operations.

However, since each in-house company deals with different products and customers, it is difficult to audit the activities of all the our in-house companies according to the common rules and criteria. Therefore, being a headquarter organization, we hold meetings constantly with each individual in-house company to understand their unique situations, give tailor-made advice and consider what kind of support we can offer in order to make improvements and to implement more effective measures.

### Systematized and Standardized Activities of the Quality & PL (Product Liability) Committee

1. The Quality & PL Committee has been established within the company.(Secretariat: Quality Promotion Department)
2. The objective of the committee is to formulate the criteria for quality control and product liability and safety management over the Nabtesco Group, to establish standard processes to prevent any instances of compromised quality, such as safety defects, and to respond appropriately to any quality or product liability problem should it occur, so as to maintain and improve the quality and safety of products. The committee contributes to the group's sustainable growth through building trust with our customers.
3. According to the operating rules, the committee also reviews activities implemented throughout the previous fiscal year in each company and discusses matters such as annual policies and main issues to be tackled in the upcoming year, which will be promoted through the whole company after approved.



The Quality & PL (Product Liability) Committee



Special audit carried out (on the engineering department of the Precision Equipment Company) by the chairperson

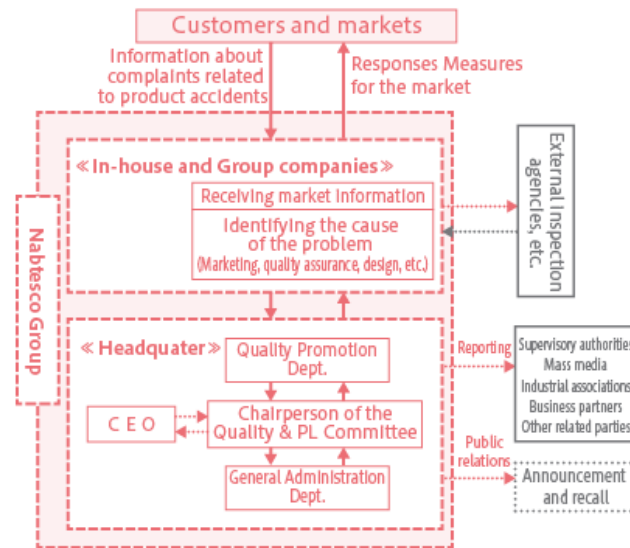
## Measures against Product Accidents

### Prevention System

Included in our product line-up are such products as aircraft flight control actuation systems, brake components for railroad vehicles, remote control systems for marine vessels, and doors for railroad vehicles, platforms and buildings. Due to their very nature, such products could pose serious risks to human life in the event of a malfunction-related worst case scenario. Based on this recognition, we have established a fail-safe system to enable us to respond appropriately to any contingency. In particular, with customers who use our component products to manufacture finished goods, we foster close communications and cooperation to help them ensure the quality and safety of their products and thus prevent any product-related accidents. Also through the above practice, we have gained a high rating over the reliability of products. We also welcome inquiries about our products 24 hours a day through the following website:

<http://www.nabtesco.com/en/inquiry/index.html>

### Response System for Product Accidents and Quality Problems



### Achievements

Up to now, we have never been liable for causing any serious physical injury due to our products.

### Certification for Quality Management System

All the production bases of Nabtesco Corporation as well as major Nabtesco Group companies in Japan and major overseas Group companies have obtained certification for their quality management system according to the corresponding local industrial standards. In terms of the amount of sales, over 90% of the Group's products are manufactured under certified quality management systems. The number of certifications obtained amounts to 14 in Japan and 9 overseas right now.

## Quality and PL Activities Conducted in FY2013

### Enhancing the Manufacturing Quality of Suppliers

To be responsible for quality of products sold to our customers, Nabtesco internally manufactures and processes most of the key parts of our finished products. However, at the same time, we also outsource processing and procure products from suppliers, and it is essential for us to help these suppliers maintain and improve their manufacturing quality.

Accordingly, we put emphasis on the activity of the enhancement of suppliers' manufacturing quality as our main task during FY2013. We have held lectures on quality and offered them instructions individually by considering their manufacturing conditions. Up to now, a total of 573 employees of 292 suppliers have attended our lectures.



Lecture on quality during the roundtable meeting for suppliers of the Precision Equipment Company



Instruction meeting on the management of production process quality for suppliers of the Accessibility Innovations Company

### Enhancing the Manufacturing Quality of Overseas Bases

To enhance the manufacturing quality of our overseas bases, the quality assurance department in each in-house company cooperates with the Quality Promotion Department of the Technology and R&D Division at the headquarter to conduct quality audits and provide the employees there with trainings and education focusing on their own issues. In addition to the theories of quality management methods, we also aim at conveying the knowledge about onsite control points and methods to manage in a specific and easy-to-understand manner to participants. There are a total of 30 employees of two companies who have participated in our lectures during the year.



Quality and process audit at NBD, an overseas Group company

## Education and Training (R&D and Manufacturing Quality)

### Group-wide Quality and PL Management Activities and the Educational System

Under the medium- to long-term strategy of developing human capital, the Human Resources Development Department of the General Administration & Human Resources Division cooperates with the Technology and R&D Division to provide employees with education on quality and PL as part of the quality and PL management activities. (Please refer to the "Promotion Framework by the Quality & PL (Product Liability) Committee" section and the diagram "Structure of Quality and PL Management & Production Innovation Activities and Education System of R&D and High Manufacturing Quality".)

In the company-wide technical training, employees learn that they should give first priority to safety and define the safety of the company's products in line with the international safety standards so that the products are accepted in the market and society. Moreover, we tell our employees, by combining with our high technology and high manufacturing quality we can provide society with 'safety, comfort and a sense of security' as added value.

As the technology development competition is intensifying not only with existing competitors but also with new companies of emerging economies both in Japan and abroad, we are urged to expand our markets by solving technological problems and developing new applications of our current technology. To this end, we provide employees with technical trainings on front loading design based on the high-precision use of CAE, sophistication of the motion control technology by motorization, digitization and systematization, and on the methodology to hit upon new ideas more promptly and efficiently.

### Company-wide Training

#### Quality Management Training for Young Leaders

With a view to nurture the sense of high quality of engineers in the medium-to long-term strategy, we have started the internal Quality Management Training Program since May 2007 every year. The program especially targets at those who are expected to play important roles in the next generation, ranging from young to mid-career design engineers.



Design for high-quality functions  
(Quality Management Training for young employees)

#### Technical Training Seminars on Product Liability and Product Safety

We have been holding Group-wide training seminars since 2007 to raise the product liability awareness and to encourage every employees engaging in aspects of designing, manufacturing, marketing and servicing to apply the concepts into their daily jobs in order to deliver 'safety, comfort and a sense of security' not only to our customers but also to all the end users of our products.



PL/PS education  
(Risk Assessment Workshop by using an electric kettle)

## Development of Human Capital for the Development of CAE Analysis and 3D Designing Technologies

We are fostering the utilization of CAE analysis based on the 3D data among the in-house companies and Group companies to shorten the lead time for design and development as well as for early troubleshooting. We hold practical training seminars on basic CAE skills, in which participants discuss, for further understanding, the decisions to be made on the results of CAE analysis.

### TRIZ Training

As a manufacturer, we must continue to create original products contributing to the society by providing the added values of 'safety, comfort and security of society'. So far, we have already commercialized a range of ideas into products, earning a lot of satisfaction from our customers. However, we must continue transforming our ideas into products and deliver them to customers promptly and efficiently. Therefore we have been conducting Trainings on the TRIZ Theory about inventive problem solving since FY2010, and during the training, we also promote the wise use of this method so that fresh engineers can widen the applications of the method to solve technological problems and develop new applications.



Training on the TRIZ Theory about inventive problem solving

### Training on Software Design Quality

In response to an increase in the importance of software applied in products, we have begun to provide training for high design quality and the substantial demonstration of reliability for software in FY2013.

In line with the software development process, we provide training by the following three steps: requirement analysis, software design, and software verification.



Training on High Quality Software Design

## Training for Managers in Charge of Manufacturing Quality

Since Fiscal Year 2012, we have been holding a full-scale program to give practical trainings on quality improvement methods, mainly targeting at the managers who are responsible for giving instructions on quality at our manufacturing bases. This program sharpens their abilities to analyze problems and provide education on quality issues at their workplaces. Besides, we also enhance our quality education at our overseas manufacturing bases, especially those in China and Thailand.



Product Quality Manager Training (production process analysis) in our overseas Group company

## Improvement Study Group

### Responding to the Demand for a Higher Quality

In line with the diversification and globalization of the economy and society, we receive a broader range of requests regarding our products.

It is no longer enough to provide products that meet the needs of customers in terms of functions and performance. We must also ensure that the products can demonstrate the necessary functions and performance stably under various using conditions.

In response, in addition to the ordinary performance test, we conduct the test to examine the behaviors of our products under various foreseeable environments by considering all the possible usages of our customers from data. Thereby we continuously make further technical and quality improvements on our products so that customers can use the products safely.



Research on quality improvement conducted at CMET Inc. Optimization of the stereo lithography conditions by quality engineering

### Product Safety

With regard to product safety, our in-house companies have long been implementing all the safety measures required by the standards of related industries and for sure, now we have already established a satisfactory level of product safety.

In the market, however, product safety has been attracting even more public attention, as evidenced by the establishment of the Consumer Affairs Agency in Japan. Currently there is a growing recognition that the manufacturers should be responsible for product stewardship as one of their CSR activities.

In response to this trend, the Nabtesco Group is committed to ensuring even greater safety and security of our products. Not only promoting the importance to build up a systematic framework in line with international safety standards, we also engage in implementing necessary measures in business operations while simultaneously raising the awareness of our employees.



Research on product safety conducted at Diavac Ltd. Risk assessment of an actual machine.

# Human Capital

## Efforts to Protect Human Rights

### Policy Regarding Human Rights

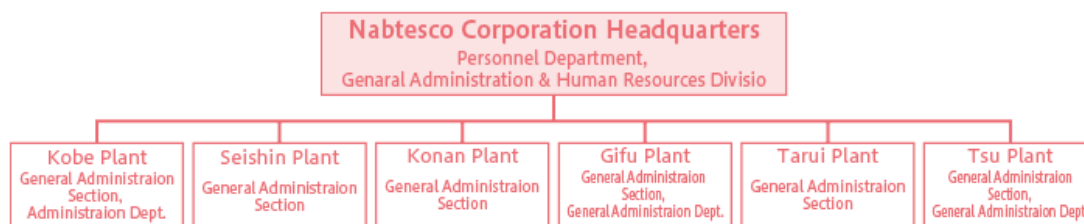
Respecting human rights in all corporate activities is the basis of corporate social responsibility. The Nabtesco Group Code of Conduct provides guidelines on basic human rights that all executives, employees and other workers across the Group are encouraged to observe.

From FY2014 onwards, Nabtesco will further foster its CSR-oriented management as a signatory of the United Nations Global Compact and a supporter of the Universal Declaration of Human Rights.

We respect basic human rights, and make sure that no discrimination based on race, beliefs, sex, age, social status, nationality, ethnic origin, religion, or disability; sexual and other forms of harassment; or any act that may insult personal dignity is conducted, allowed to be conducted, or overlooked.

### Human Right Monitoring System

In order to ensure that the recruitment of employees is carried out fairly, seven Human Rights Promotion Officers are appointed at the Headquarters and each site. We also conduct trainings for job interviewers every year to educate them on human right-related issues that they should consider, including questions to be asked of candidates and tips for evaluating international graduates. We have never received a complaint regarding human rights as of FY2013.





## Management of Occupational Health and Safety

### Management of Occupational Health and Safety

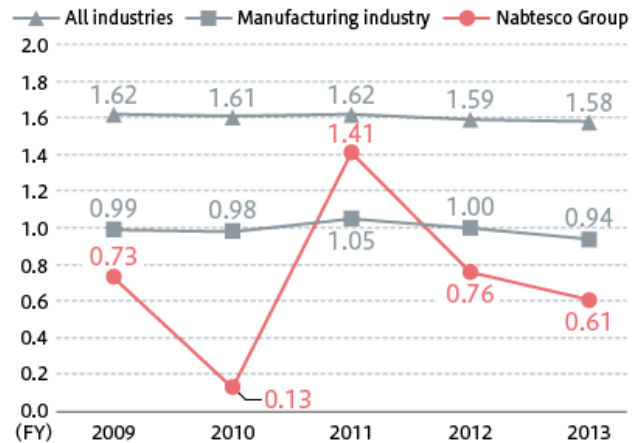
The Nabtesco Group is committed to creating a workplace where maximum attention is paid to employee safety, disaster protection and health, and where every employee can fully display their personality and strengths.

In FY2013, in addition to continuing eager initiatives towards preventive measures of close call incidents, hazard prediction training and risk assessment, we conducted education to increase safety for first and first-in-a-while activities, changes and handoffs, while also enhancing safety patrols in terms of frequency and quality.

As a result, the number of Lost-time injuries decreased slightly over the previous year and the frequency rate came to 0.61.

We will continue to pursue preventive safety management through risk assessments and to increase safety awareness at each workplace. Moreover, we will improve the education of new employees, reinforce efforts to raise perception of dangers, and promote the creation of workplaces without accidents.

Lost-time Injuries Frequency Rate



## Health Management

### Efforts to Eliminate Mental Health Problems

It is important that our employees, who are our management resources, maintain their physical and mental health so that the organization is invigorated. Mental health problems are addressed across the Nabtesco Group. Even if only one employee experiences a mental health problem, it can seriously hinder the work flow depending on the size of the Group company. To prevent mental health problems before they occur, it is important to build a framework to notice any signs among staff in each workplace, to control the workload, and to follow up the condition of the person. We therefore organize various seminars and lectures, and invite the company's industrial physician or experts from other organizations to give presentations. Furthermore, our two nurses—one in charge of the sites in the Kanto and Tokai regions and the other in charge of those in the Kansai region—are on stand-by to take care of employees experiencing mental health problems, offer counseling whenever necessary and help them return to work. For employees whose workload may be considered high, each site and the industrial physician cooperate with each other to conduct an interview regularly to protect the employees' mental health.

In order to promote the mental health of employees more proactively, we introduced an Employee Assistance Program (EAP) in FY2011. Since then, employees who are to be transferred overseas and their families can use the program to seek advice if they have any concerns or problems in relation to the transfer.



Joint meeting held by the Personnel Dept., nurses and the Health Insurance Society

### Countermeasures against Metabolic Syndrome

Improving the lifestyles of employees who are suffering or at risk of suffering from metabolic syndrome, one of the causes of lifestyle-related diseases, is important not only for safeguarding the health of those employees but also for reducing future medical costs.

At Nabtesco, employees who are identified with the need to improve their lifestyles are encouraged to receive health guidance from a public health nurse or a registered dietitian from the institution designated by the Nabtesco Group Health Insurance Society.

We also support all employees who need to improve their lifestyles in their efforts to achieve their goals in cooperation with a registered dietitian who conducts dietary checks and offers advice and an instructor who sincerely encourages each employee, as well as by delivering to each such employee a report called "Healthy Support," which specifies their numerical goals and actions to be taken. Through these efforts, we are aiming to reduce the number of employees

## Work-Life Balance

Well-balanced fulfilling work and a satisfying private life provide a source of new values and conceptions, and will help each employee to perform high-quality work. Based on this belief, we have a wide spectrum of schemes in place to promote a healthy work-life balance.

In October 2012, we introduced a program to subsidize childcare fees and in April 2013 increased the number of days off that employees can take for their children during the illness, thereby providing support for employees with children. In FY2013, the parental leave system was used by 100% of qualified female employees and also by a male employee as in the previous fiscal year.

In line with an increase in the elderly population in need of nursing care, employees tend to take longer leave for the care. In response, we revised the rules on the leave system on April 1, 2013 to make it easier for employees to use the system.



Eisuke Tazo, a male employee of the Seishin Plant who took parental leave

### Support for Childcare and Nursing Care

1. Parental leave: Up to two years. This leave can be taken even when the spouse is devoted to full-time child-rearing.
2. Nursing care leave: Up to a total of two years per family member who needs nursing care, but if the number of days off taken by an employee under the system does not exceed 93 days during the two-year period, the employee can take the leave also after the end of the period.(revised in April 2013)
3. Shorter working hours for childcare: Working hours can be reduced by two hours per day until the beginning of the child's fourth grade of elementary school.
4. Sick/injured childcare leave: This leave is available until the beginning of the child's fourth grade of elementary school. Ten days (unpaid) or any necessary number of days that can be covered by the accumulated expired paid leave system (paid)
5. Paternity leave: This leave can be taken when the employee's wife gives birth to a child. Five days (paid)
6. Shorter working hours for nursing care: Working hours can be reduced by two hours per day.
7. Financing by the Kyosaikai employee cooperative society to support employees taking childcare/nursing care leave
8. Consideration for employees who are engaged in childcare/nursing care when transferred (avoiding change of workplace, etc.)
9. Childcare fee subsidy program: Employees can receive a payment of 1,700 yen per household per day for up to 240 days (number of operating days) per year for childcare services for children who have not yet reached the fourth grade of elementary school.

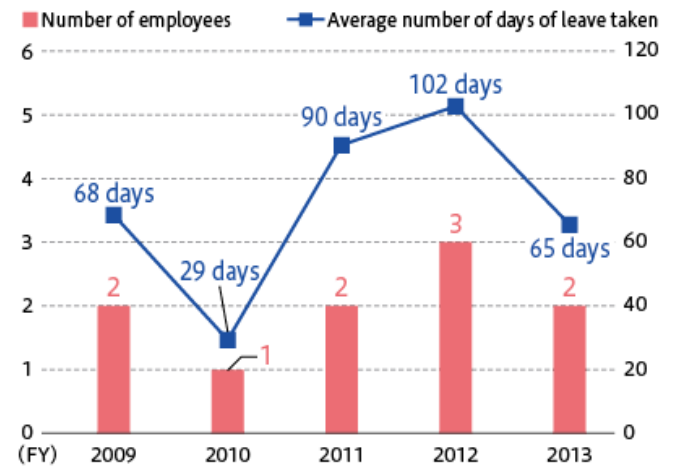
### Other Support

1. Integrated benefits program
2. Nabtesco corresponding education program
3. Qualification support program
4. English/Chinese lessons at each site
5. Support for club activities

### Parental Leave—the Number of Employees who Took Parental Leave (Unit: persons)

	FY2009	FY2010	FY2011	FY2012	FY2013
Women	8	6	3	1	7
Men	0	0	0	1	1
Total	8	6	3	2	8
Percentage	100%	100%	100%	100%	100%

### Nursing Care Leave—the Number of Employees who Took Nursing Care Leave and the Number of Days of Leave Taken



## Fostering Workplace Diversity

### Active Employment of Non-Japanese Nationals Including Foreign Students Studying in Japan

Due to the maturity of the economy and the fact that the Japanese population is decreasing as a result of the declining birthrate, we can no longer expect significant economic growth to take place in the domestic market, and therefore need to promote further globalization.

Non-Japanese employees have a different way of looking at things and an active attitude toward work, and are expected to have a positive effect on other personnel.

As a result of implementing such measures as holding meetings to provide information on our company targeted specifically at foreign students studying in Japan and conducting recruiting activities at overseas colleges, as of April 1, 2014, Nabtesco employs foreign nationals from nine countries.

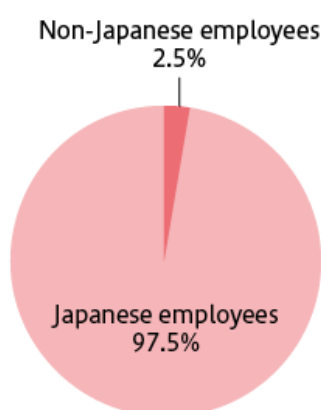
Of the 30 main career track employees newly recruited in FY2014, eight are foreign nationals and they account for 26.7% of the total although it is slightly below our goal of increasing the proportion of non-Japanese nationals to 30% of all newly recruited main career track employees.

#### Total Number of Newly Recruited Main Career Track Employees (New Graduates) and Percentage of Non-Japanese Nationals

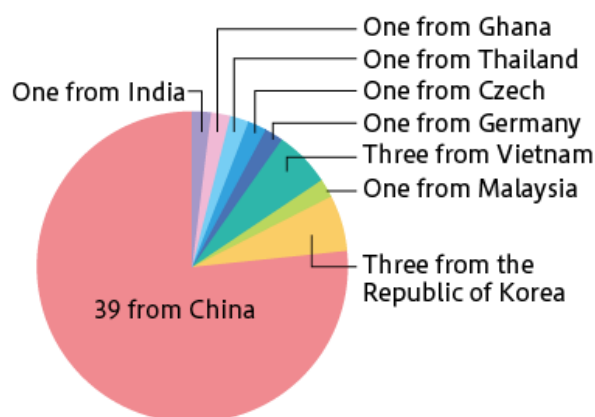
(Unit: persons)

	2010	2011	2012	2013	2014
Total number of newly recruited main career track employees	19	19	28	41	30
Number of non-Japanese nationals	2	2	4	16	8
Percentage of non-Japanese nationals	10.5%	10.5%	14.3%	39.0%	26.7%

#### Non-Japanese Employees as a Percentage of Total Number of Employees



#### Breakdown of Non-Japanese Employees

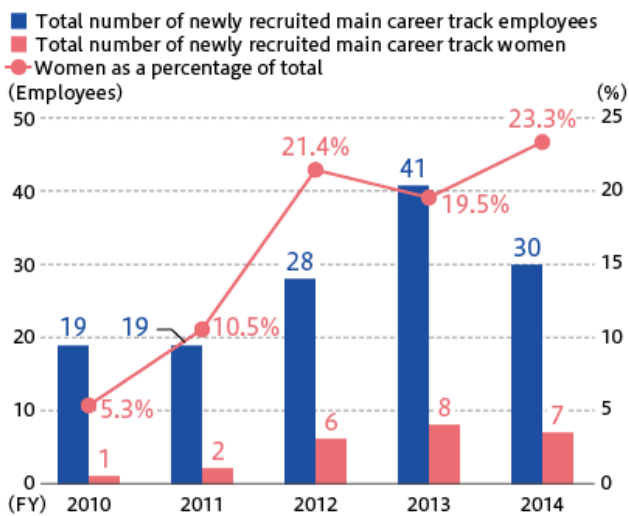


## Proactive Employment of Women

As a machinery manufacturer, traditionally Nabtesco has employed few new female graduates. To promote the employment of female graduates, we began to hold meetings specifically for female college student seeking a job, from FY2011 as part of our new graduate recruitment campaign.

In these meetings, our female employees are responsible for explaining the company's businesses and answering students' questions. These meetings thus provide the students with an opportunity to directly listen to female employees' experiences regarding available childcare schemes and work-life balance. As a result, we have been achieving the goal of maintaining the number of women as a proportion of the total number of new recruits at no less than 20% since the FY2012 recruitment activities.

### Total Number of Newly Recruited Main Career Track Employees (New Graduates) and Percentage of Women



## Promotion of Senior Employment

Upon enforcement of the revised Act on Stabilization of Employment of Elderly Persons, we introduced a continuous employment system and have since been working to provide experienced employees with supportive workplaces that allow them to demonstrate their full potential, including the establishment of a system to provide special treatment to those with advanced expertise.

In the future, due to the revision of the National Pension Act, the rate at which Nabtesco re-employs retired employees will further increase.

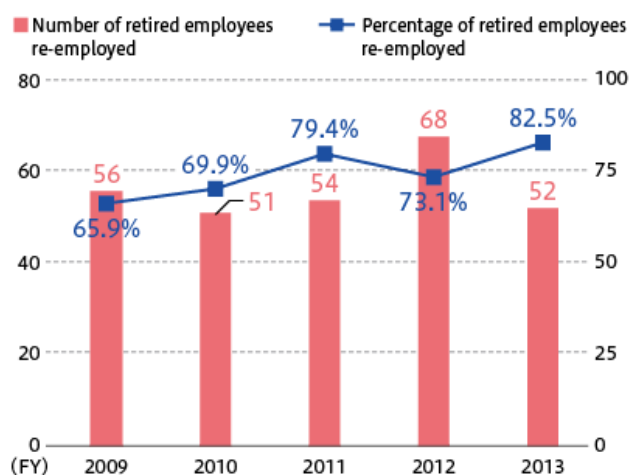
Experienced workers have expertise, knowledge and skills built up over many years, and are encouraged to fully display their abilities even after retirement. At each production site, we encourage experienced workers to share their skills with their successors and promote activities to turn their tacit knowledge into explicit knowledge. These activities have become an intellectual asset to support our current technical capabilities.

### Breakdown of Regular Employees (as of March 31, 2014)

(Unit: persons)

	(1) Number of regular employees	Number of managers among (1)	(2) Number of newly recruited employees	Number of new graduates among (2)
Male	1,781	275	84	49
Female	188	1	13	9
Total	1,969	276	97	58

### Re-employment Rate of Retired Personnel



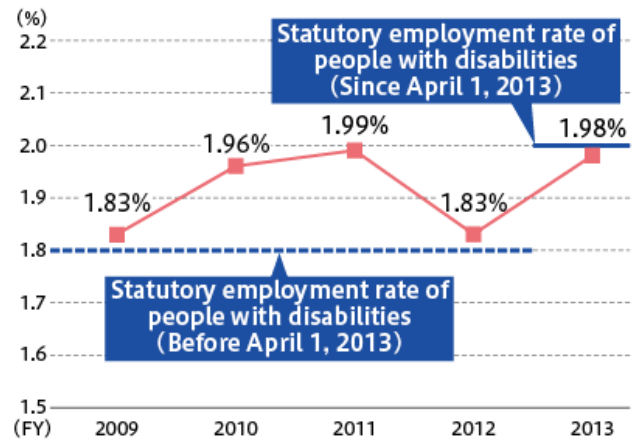
## Employment Promotion of People with Disabilities

Nabtesco has been committed to employing people with disabilities.

The statutory employment rate of people with disabilities was raised from 1.8% to 2% in FY2013, and our employment rate was slightly less than the revised rate. We will work to employ people with disabilities even more proactively in and after FY2014.

At some sites, we cooperated with local special needs schools and developed communication with their students through such activities as the display and sales of works created by the students, internship programs for the students and invitations to events organized at the sites.

## Employment Rate of People with Disabilities

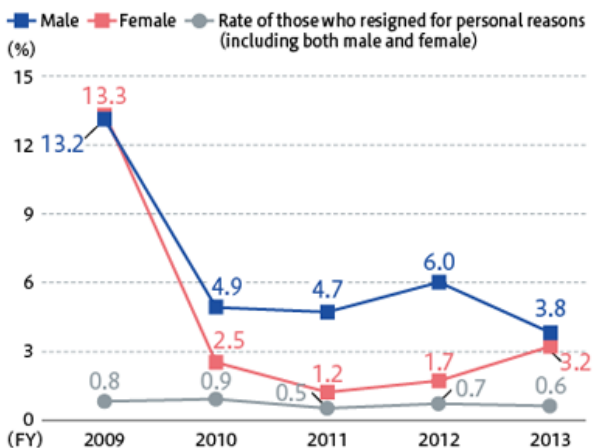


## Stability of the Workforce

Nabtesco promotes a labor management and related measures based on data on employee turnover by the reasons for leaving the company.

The graph below shows the rates of retired and resigned employees by gender at Nabtesco. It also shows the rate of employees who resigned for personal reasons, which has remained below 1% for the past five years, proofs that Nabtesco provides its employees with a good work environment.

## Breakdown of Employees who Retired or Resigned by Gender



## Breakdown of Employees who Resigned or Retired (FY2013)

(Unit: persons)

	(1) Total number	Retirees among (1)	Those who resigned for reasons related to the company among (1)	Those who resigned for personal reasons among (1)
Managers	22	21	0	1
General employees	53	42	0	11
Total	75	63	0	12

## Labor Management Relations

Nabtesco Corporation was established following the integration of Teijin Seiki Co., Ltd. and NABCO Ltd. in October 2004, and the labor unions of the two companies were united on October 30, 2010. The union is a union shop system and currently has about 1,700 members.

The labor and management of Nabtesco maintains good relations with the union by jointly discussing ways to improve the company's various systems and programs, as well as salaries and bonuses, and by meeting regularly to exchange opinions regarding business management. The written agreement between the company and the union includes a clear statement on management's obligations to make efforts to implement the no overtime day system and encourage employees to take planned annual paid leaves. The labor and management cooperates with the union to help maintain the work-life balance of its employees.

# Human Capital Development

## Basic Policy on Human Capital Development

In order to share its ideal image of the human capital that the company would like its employees to develop into based on the idea that people make the company, and to define the direction that all employees should follow, the Nabtesco Group established the Basic Policy on Human Capital Development and have been providing a range of educational opportunities in line with the policy since then.

**Basic Policy on Human Capital Development**  
Develop personnel who can think and learn on their own at all times as members of a global corporate group, and create a culture that values and supports learning.

## FY2013 Education Scheme (Training Provided by the Human Resources Development Department)

\* Training to build specialized skills and knowledge in technological, legal, compliance-related and other areas is provided separately by relevant divisions.

		Mandatory	Recommendation	Open application	Recommendation & open application	
		Stratified Training	Training for Specific Purposes	Leader Development Training	Globalization Training	Self-development
Managers	General Managers	Training for Newly Appointed General Managers	Training for Employee Performance Evaluation	Studying at domestic/overseas business schools	English Presentation Training (Intermediate Level) (Advanced Level)	TOEIC examination (provided by the Human Resources Development Dept.)
	Managers	Training for Newly Appointed Managers				
General employees	Grade 7		Diversity Training	Basic Management Program	Intensive Study Camp for English Conversation	Training Before Overseas Posting
	Grade 6	Upper-level Problem-solving Training (Training for employees promoted to Grade 6)	OJT Staff Training			
	Grade 5		Training for Newly Employed Mid-career -hire Employees	Training for Candidate Foremen	English Presentation Training (Intermediate Level) (Advanced Level)	Language course (provided by each base)
	Grade 4	Entry-level Problem-solving Training (Training for employees promoted to Grade 4)				
	Grade 3	Training for New Employees	Second-year Research Report & Presentation	Training for Candidate Foremen	Overseas Language Study (Overseas Trainee Program)	Language course (provided by each base)
	Grade 2		Training for Second-year Employees			
	Grade 1		Training for Third-year Employees	Training for Candidate Foremen	Overseas Language Study (Overseas Trainee Program)	Language course (provided by each base)
			Training for Third-year Employees			
		Training for Third-year Employees	Training for Candidate Foremen	Overseas Language Study (Overseas Trainee Program)	Language course (provided by each base)	
		Training for Third-year Employees				Training for Candidate Foremen
		Training for Third-year Employees	Training for Candidate Foremen	Overseas Language Study (Overseas Trainee Program)	Language course (provided by each base)	
		Training for Third-year Employees				Training for Candidate Foremen
		Training for Third-year Employees	Training for Candidate Foremen	Overseas Language Study (Overseas Trainee Program)	Language course (provided by each base)	

## Number of Trainees (FY2013 Training Provided by the Human Resources Development Department)

Training for New Employees	60	Training for Third-year Employees	45
Entry-level Problem-solving Training	45	OJT Staff Training	39
Upper-level Problem-solving Training	39	Training for Employee Performance Evaluation	35
Training for Newly Appointed General Managers	11	Basic Management Program	16
Training for Newly Appointed Managers	30	Studying at domestic business schools	14
Training for Candidate Foremen	16	Studying at overseas business schools	2
Training for Newly Employed Mid-career -hire Employees	112	English Writing Training	24
Second-year Research Report & Presentation	31	Intensive Study Camp for English Conversation	1
Training for Second-year Employees	35	English Presentation Training	16

FY2013 Education Scheme (Training Provided by the Human Resources Development Department)



## Education

### Development of Globally Competitive Human Capital

As overseas business is expected to continue to expand, it is becoming increasingly important to develop globally competitive human capital. In order to enhance the global competitiveness of the entire Nabtesco Group, we introduced a system to register employees slated to work overseas in advance so that we can provide them with essential trainings in a planned manner.

In addition, we regularly organize trainings on English writing and presentation skills to provide employees with opportunities to acquire the basic skills required for global business operations. In FY2012, we introduced the "Overseas Trainee Program" to provide employees with opportunities to study and work abroad, and sent three employees to overseas under this program in FY2013.



English Writing Training provided in FY2013



Training for New Employees provided in FY2013

### Improvement of Basic Skills of Young Employees to Become an Effective Workforce Immediately

We provide new employees with intensive trainings in a planned and systematic manner during their first three years with the company, the time deemed most optimum for enhancing their basic skills. Specifically, we provide them with the Training for New Employees, the Second-year Research Report & Presentation and the Training for Second-year Employees followed by the Training for Third-year Employees, thereby helping them to improve year by year.

In addition to these off-the-job training opportunities, we also provide new employees with on-the-job (OJT) trainings, by assigning an OJT staff member to mentor each new employee on an individual basis in order to improve their performance.

### Activity to Increase Employees' Awareness of The Nabtesco Way

In 2013, which was the second year from the establishment of The Nabtesco Way, we continued briefings on The Nabtesco Way at our bases in Japan and at our Group companies in and outside the country. We also established "The Nabtesco Way Month" to raise employees' awareness of The Nabtesco Way, during which meetings were held at 177 workplaces of Nabtesco bases with the participation of a total of 1,856 employees. Participants discussed and shared how they should apply The Nabtesco Way to their own business operations.

We also began holding The Nabtesco Way workshop in order to provide employees with opportunities to know its background and objectives and adapt its direction and value to their own work, along with the Stratified Training, in which 367 employees participated as of the end of March 2014 from Nabtesco bases and Group companies in Japan.



Workshop on The Nabtesco Way

# Environment

## Environmental Management

### Environmental Policy

The Nabtesco Group formulated the Environmental Philosophy and Environmental Action Plan in May 2005 to promote activities reflecting our strong sense of social responsibility and to help realize a sustainable society.

#### Nabtesco Group Environmental Philosophy

At all times, we acknowledge the impact of our business activities on the global environment; we strive to create products and an environment which are both people-friendly and nature-friendly; and we aim to achieve a future society which is enriched and comfortable.

#### Nabtesco Group Environmental Action Plan

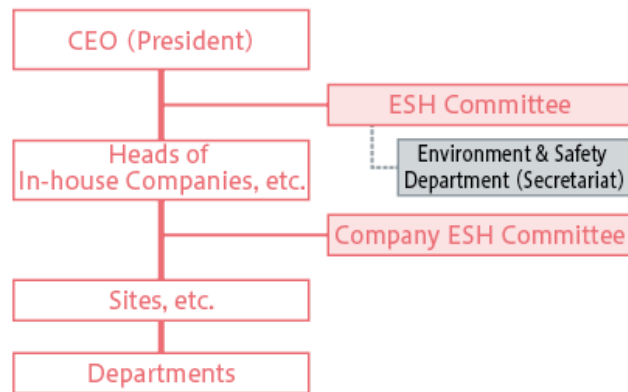
1. We acknowledge that the preservation of the global environment is a crucial issue that is common to humankind. With participation by all employees, we will actively promote the establishment of targets which aim to improve the results of our environmental preservation activities, and we will actively promote initiatives for sustainable improvements.
2. We will strive to improve energy, resource and recycling efficiency during the planning, development and design stages of each product by understanding the impact on the environment throughout the life cycle of the product.
3. We will strive to reduce the burden on the environment during the production, sales, distribution and servicing of each product by actively employing or engineering advanced environmental technology, such as for the conservation of energy, the effective use of resources and meeting the challenge of zero emissions.
4. We are committed to voluntary activities designed to realize environmental targets. We will comply with environment-related laws and regulations, as well as with social norms, and we will set independent control standards as necessary.
5. We will actively promote exchange and links with society, and strive to gain wider understanding and trust through such action as the disclosure of environment-related information and participation in social activities.

## ESH Promotion Framework

The Nabtesco Group works toward environmental preservation under the combined efforts of the individual ESH\* systems of each in-house company and Group company (see the chart on the right). The ESH Committee establishes basic policies on environmental protection, safety, disaster prevention, health and hygiene in connection with all business activities conducted by the Group, and formulates the criteria for cross-company management matters. It also aims to assure the environmental protection of local communities, maintain the safety and health of our employees, achieve symbiosis with the environment, and fulfill our corporate social responsibility.

\* ESH: Environment, Safety & Health

## ESH Management Organization



## ESH Audits

The chairperson of the Nabtesco Group's ESH Committee visits each site to carry out an audit that includes checking the results of ESH-related activities. Instructions are then given based on the result of the audit. At the end of each fiscal year, the Group's management team reviews the ESH management system based on the report about the results of the ESH activities, including the audit results and follow-up surveys.

## Results of FY2013 ESH Audits

Type of audit	Outline	Auditor	Audited organizations
ESH audit I	On-site audit: Check the results of activities conducted in the previous fiscal year and the activity plan for the current fiscal year; check the responses to accidents/disasters and their appropriateness	Chairperson of the ESH Committee President of the in-house company Manager of the Environment & Safety Dept.	Nabtesco: Six plants Group companies: Six companies
Follow-up audit	On-site audit: Check the measures implemented in response to the issues pointed out in the ESH audit	Environment & Safety Dept. (ESH secretariat)	Nabtesco: Six plants Group companies: Six companies
ESH audit II	Documentary examination: On-site examination will also be carried out as necessary. Check the achievements (to be made by the end of the fiscal year) of the ESH activities	Environment & Safety Dept. (ESH secretariat)	Nabtesco: Six plants Group companies: Eight companies

## Environmental Management System

The Nabtesco Group acknowledges that the ISO 14001 international standard is an effective tool for environmental management and uses it in the building and operation of our environmental management system. Since the Konan Plant (the Accessibility Innovation Company) first obtained ISO 14001 certification in October 1999, all Nabtesco plants, as well as five plants operated by major Group companies, have become certified according to ISO 14001. The Nabtesco Group is also working hard to maintain consistency in our environmental activities across the entire Group by promoting alignment, information sharing and collaboration between our sites, in order to realize effective environmental performance. We are also aiming to establish a sustainable system that integrates ecology and economy.

### Situation Regarding Certification of ISO 14001

	Date of first certification	Last updated	Certification agency
Konan Plant (Hyogo Pref.)	October 22, 1999	March 5, 2012	LRQA
Tsu Plant (Mie Pref.)	March 28, 2000	March 28, 2012	ISC
Gifu Plant (Gifu Pref.)	June 1, 2001	July 1, 2013	LRQA
Tarui Plant (Gifu Pref.)	June 1, 2001	July 1, 2013	LRQA
Seishin Plant (Hyogo Pref.)	November 30, 2003	November 30, 2012	LRQA
Kobe Plant (Hyogo Pref.)	March 26, 2004	March 26, 2013	JQA

### Environmental Education

The Nabtesco Group provides its employees with diverse environmental education to raise their awareness about environmental protection, safety and health. For the environmental education to new employees, we explain the company's environmental activities and achievements, and emphasize that every small step made by each employee will eventually result in a great stride in the reduction of our environmental impact.

We also organize ESH trainings and energy saving committees for ESH managers and those in charge of ESH at each site to share such information as the latest ESH trends and revisions of important laws and regulations.



Meeting for energy conservation committees

### Topics

In FY2013, we held a tour of an energy-efficient factory for managers and employees engaged in energy conservation initiatives. Participants visited Azbil Corporation's Fujisawa Technology Center to learn more about energy conservation.

### Violation of Environmental Regulations

The Nabtesco Group identified laws and regulations applied to our business and compiled the list to prevent the occurrence of legal violations, as well as confirmed the company's compliance with them in FY 2013. There were no penalties or sanctions against the Group for the violation of any environmental regulation during the FY2013.

## Combating Climate Change

### Reduction of CO<sub>2</sub> Emissions

Prevention of global warming (Energy conservation)

< Group long-term target (for FY2014) >

Reduce energy consumption (unit energy consumption) by at least 10% from the FY2004 level

The Nabtesco Group is fostering the efficient use of energy resources across the board as a means to mitigate global warming. Specifically, we set the theme for improvement of energy conservation in the maintenance, management and operation of our equipment, and quantitatively evaluate the effectiveness of the implemented measures to conserve more energy.

In FY2013, we reduced our total CO<sub>2</sub> emissions by about 5% over the previous year as a result of repairing and updating our equipment and conducting energy conservation activities, despite the fact that sales increased due to the recovery of the economy. We also reduced CO<sub>2</sub> emissions per unit of sales by 15.4%, and as for the long-term target for CO<sub>2</sub> emissions per unit of sales, we decreased emissions by 34.4% from the FY2004 level, far exceeding the target of 9% in FY2013. We thus achieved both the annual and long-term targets for the fiscal year. To achieve the Group long-term target, we will further foster energy conservation by making proactive use of renewable energy and the energy monitoring system.

#### Results of FY2013

CO <sub>2</sub> emissions	Target	Actual results*	Status
Per unit of sales in FY2013	Reduce by at least 1% over the previous year	Reduced by 15.4%	Achieved
Per unit of sales in the long term	Reduce by at least 9% over FY2004	Reduced by 34.4%	Achieved

\* The CO<sub>2</sub> conversion factors used to calculate actual results are the FY2008 factors, except the factor for electricity, for which the default value of 0.555 kg-CO<sub>2</sub>/kWh is used.

## CO<sub>2</sub> Emissions in FY2013

46,745 ton-CO<sub>2</sub> \*1\*2\*3

( 49,050 ton-CO<sub>2</sub> in FY2012 )

The Nabtesco Group has been making a concerted effort to update facilities and equipment and to improve processes in order to reduce the amount of electricity used by the Group. As a result, we have reduced our CO<sub>2</sub> emissions by 5.0%\*2 over the previous year.

Regarding electricity, the CO<sub>2</sub> emissions calculated using the actual and adjusted CO<sub>2</sub> conversion factors published by each electric power company are as follows:

44,826 CO<sub>2</sub>-tons \*1\*2\*3(based on the actual emission factor)

36,420 CO<sub>2</sub>-tons \*1\*2\*3(based on the adjusted emission factor)

\*1: The period subject to calculation is from April 2013 to March 2014.

\*2: The policy and standards of the calculation are as per the Act on the Rational Use of Energy and the Act on Promotion of Global Warming Countermeasures. The calculation was made in accordance with Nabtesco's Rules on Environmental Information Management. The CO<sub>2</sub> emission factors used for the calculation are basically in accordance with the Act on Promotion of Global Warming Countermeasures. However, regarding the factor for electricity, either of the following is used: (1) the default value of 0.555 kg-CO<sub>2</sub>/kWh in the case of the fixed factor; (2) the emission factor of each electric power company published by the Ministry of the Environment in the case of the actual emission factor; or (3) the emission factor of each electric power company published by the Ministry of the Environment in the case of the adjusted emission factor.

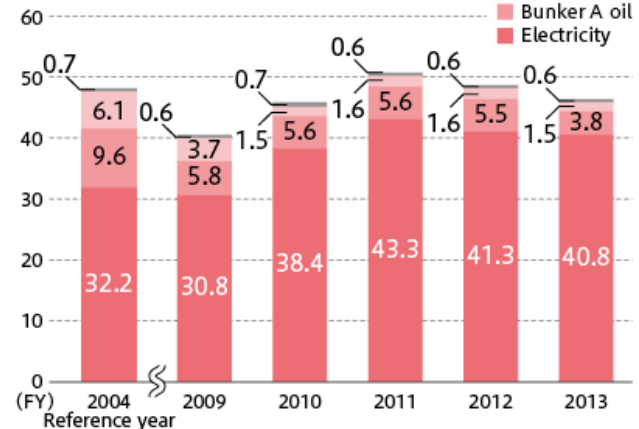
\*3: The scope of the calculation covers only the business sites located in Japan, which are: Nabtesco Corporation (Gifu Plant, Tarui Plant, Tsu Plant, Kobe Plant, Konan Plant, Seishin Plant, Headquarters [including Kawasaki], Nagoya Office, and Osaka Office), Nabtesco Automotive Corporation (Yamagata Plant, Yokosuka Technical Center, Headquarters), Diavac Ltd. (Head Office and Factory), CMET Inc. (Head Office, Yokohama Resin Development Center), NABCO DOOR Ltd. (Head Office), Nabtesco Service Co., Ltd. (Kobe Techno-Center, Yokohama Techno-Center), Toyo Jidoki Co., Ltd. (Iwakuni Plant), TS Precision Co., Ltd. (Head Office/Plant), Aishin Kiko Co., Ltd. (Head Office/Plant).

## Per-unit CO<sub>2</sub> Emissions (Sales Base)

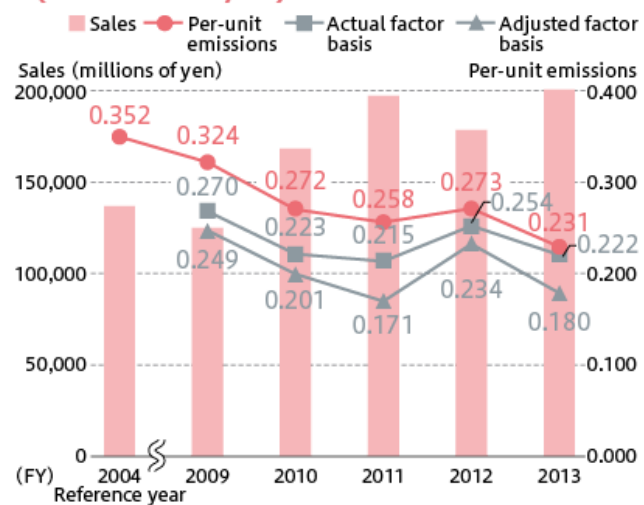
In FY2013, we reduced our per-unit CO<sub>2</sub> emissions substantially over the previous year through the activity conducted at the Tsu Plant to reduce energy use. We also decreased our total CO<sub>2</sub> emissions by 5% through the activity, though sales increased by 13% over the previous year. The Nabtesco Group will continue to conduct activities to reduce CO<sub>2</sub> emissions across the Group.

## CO<sub>2</sub> Emissions

(Thousand CO<sub>2</sub>-tons)



## CO<sub>2</sub> Emissions per unit of Sales (one million yen)



## Calculation of Scope 3 Emissions

The Nabtesco Group began to calculate greenhouse gas emissions from the entire supply chain in FY2013, with a view to identifying and effectively reducing the environmental impact of our business activities as a whole. The following table shows the calculation results.

Classification	Emissions (t-CO <sub>2</sub> )	Rate (%)
Direct emissions (Scope1) *4*5	6,015	0.8
Indirect emissions through the use of electricity and others (Scope2) *4*5	38,811	5.0
Emissions from the supply chain (Scope3) *6	727,764	94.2

\*4: Scope of calculation: Nabtesco (unconsolidated) and Group companies in Japan (Refer to annotation\*3).

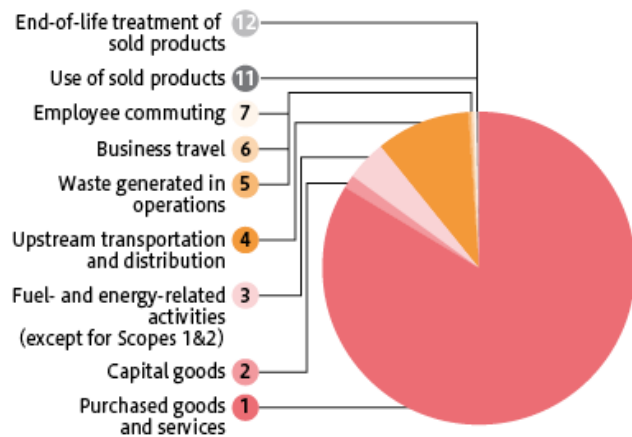
\*5: For Scopes 1 and 2, we used the actual CO<sub>2</sub> emission factor of each electric power company published by the Ministry of the Environment.

\*6: Scope of calculation: Nabtesco (unconsolidated)

The following table shows the breakdown of our Scope 3 greenhouse gas emissions. The “Purchased goods and services” (category 1) accounts for the largest percentage (83.8% of the total), followed by “Upstream transportation and distribution” (category 4, 9.7%).

Based on the calculation results, we will continue to identify and reduce greenhouse gas emissions from our entire supply chain. In order to ensure the reliability of the calculation results, we had them verified by Bureau Veritas Japan.

Category	Description	Emissions (t-CO <sub>2</sub> )	Rate (%)
1	Purchased goods and services	609,922	83.8
2	Capital goods	8,748	1.2
3	Fuel- and energy-related activities (except for Scopes 1 and 2 activities)	31,327	4.3
4	Upstream transportation and distribution	70,548	9.7
5	Waste generated in operations	1,318	0.2
6	Business travel	2,987	0.4
7	Employee commuting	1,141	0.2
8	Upstream leased assets	N/A (No corresponding leased assets)	
9	Downstream transportation and distribution	N/A (Completed products transported on consignment are included in Category 4)	
10	Processing of sold products	N/A (Nabtesco products are completed products and not processed after being sold)	
11	Use of sold products	1,073	0.1
12	End-of-life treatment of sold products	700	0.1
13	Downstream leased assets	N/A (No corresponding leased assets)	
14	Franchises	N/A (No corresponding franchises)	
15	Investments	N/A (No corresponding investments)	



The Scope 3 calculations for FY2013 were made by the following method and for the following period and scope.

- Calculation method: As shown in the basic guidelines on the calculation of greenhouse gas emissions from supply chains set by the Ministry of the Environment and the Ministry of Economy, Trade and Industry
- Targeted period: April 1, 2013 to March 31, 2014

## Renewable Energy

Nabtesco installed 400 kW solar panels on the roof of the Tarui Plant and launched operations in August 1, 2012. In FY2013, the system generated 507 MWh of electricity. As a result, CO<sub>2</sub> emissions from the plant decreased by 281 tons.



## Energy Conservation of Transportation

The transportation volume of Nabtesco (unconsolidated) decreased by 5% over the previous year to 15.69 million ton-kilometers. Although the volume has not reached a level that would allow us to be designated as a specified consigner under law, we will continue working hard to improve logistics efficiency by enhancing storage efficiency, minimizing the transportation frequency, reviewing transportation routes, and making effective use of return trips after deliveries.

## Commendation System for Energy Conservation Activities

The Nabtesco Group established guidelines on the internal commendation of energy conservation activities in September 2012 with a view to fostering energy conservation at each Group site. Based on the guidelines, commendations are given to Group sites according to a comprehensive evaluation of the extent to which they have cut CO2 emissions (absolute quantity), improved unit consumption and the results of their energy-saving activities. Sites that have achieved outstanding results are rewarded under the system. This commendation system targets the six plants and six affiliates of Nabtesco Corporation. In FY2013, Toyo Jidoki Co., Ltd., CMET Inc., Nabtesco Automotive Corporation and the Konan Plant received commendations under the system. All of the plants were positively evaluated for the way they had cut CO2 emissions over the year despite the rise in sales.

**Gold prize: Toyo Jidoki Co., Ltd. and CMET Inc.**

**Silver prize: Konan Plant and Nabtesco Automotive Corporation**



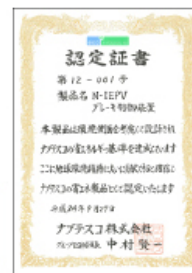
Commendation ceremony held at the Headquarters

## Certification System for Energy-saving Products

We established this certification system to foster the design and the development of energy-saving products in order to promote environmental protection and the development of a sustainable society. Through this system we are contributing to the mitigation of global warming while increasing the environmental awareness of our employees. For products that have obtained the certification, we issue certificates, approve the use of the certification mark and make announcements about the certification in our in-house magazine.



Certification mark (Nabtesco's eco label)



### Certification Criteria

We evaluate products to be released on the market based on the following criteria.

Under conditions they meet one or more criteria, as well as at least on par with previous models for all criteria items, we shortlist them for internal certification as energy-saving products.

**Downsizing and weight reduction**  
By 15% or more compared with previous models

**Higher efficiency and less energy use**  
By 15% or more compared with previous models

**Longer life**  
By 20% or longer compared with previous models

**Non-use of hazardous substances**  
Not contained



## Energy-saving products certified in FY2013

In FY 2013, the Diavac Limited products below were certified

Product name	Evaluation criteria			
	Downsizing and weight reduction	Higher efficiency and less energy loss	Longer life	No-use of hazardous substances
Hot cathode ionization vacuum gauge Transducer TRI-10	Reduction in volume/reduction in weight	Reduction in electricity consumption	On par with previous models	No use of hazardous substances
Cold cathode gauge (CGC) Transducer TRC-10	Reduction in volume/reduction in weight	Reduction in electricity consumption	On par with previous models	No use of hazardous substances
Piezoelectric diaphragm vacuum gauge Transducer TRD-10	Reduction in volume/reduction in weight	Reduction in electricity consumption	On par with previous models	No use of hazardous substances

\* Transducers input data directly into PCs, making it unnecessary to equip vacuum gauges with indicators in addition to sensors.



### Hot-Cathode Ionization Vacuum Gauge

This transducer-type vacuum gauge integrates a metal sensor, control circuit and display panel. As a standard feature, it is equipped with the 16-type gas sensitivity correction function to deal with a range of gas conditions.



### Piezoelectric Diaphragm Vacuum Gauge

In this device, piezoelectric elements are used to detect pressure and corrosive-resistant SUS316L is adopted for the gas contact part. This transducer-compatible diaphragm vacuum gauge has better thermal property (compared with the previous model).



### Cold-cathode Vacuum Gauge (CGC)

This transducer-type vacuum gauge, which has a rigid metal body, is to be used exclusively for the high vacuum range. As a standard feature, it is equipped with the "automatic measurement off" function to avoid possible sensor deterioration in the upper limit zone for pressure measurement.

We have integrated a detector and an indicator in each of these vacuum gauges, thereby making them smaller and lighter than conventional models, while also making them more energy-efficient.

## Our Initiatives Regarding the Carbon Disclosure Project (CDP)

The CDP is an international Non-Profit Organization that requests the world's top companies (in terms of market capitalization) to disclose information about their anti-climate change strategies and greenhouse gas emissions and then globally announces the results of evaluating these companies based on the disclosed data. The CDP represents 722 institutional investors with combined assets of 87 trillion US dollars and evaluates about 6,000 leading companies across the world, including 500 in Japan.

Nabtesco has been disclosing its anti-climate change strategies and greenhouse gas emissions to the CDP since 2010.

We have received high recognition and been placed in the top 10% of Japanese companies both in 2012 and 2013.

We will continue to contribute to the prevention of global warming by further developing our motion control technology.

# Management of Waste and Other Emissions

## Waste reduction

### Activity to Reduce Landfill Waste

Zero emissions

< Group long-term target (for FY2014) >

Zero emissions rate of 1% or less(percentage of landfill waste vs. total emissions)

The Nabtesco Group is fostering the activities to reduce landfill waste to zero based on the approach of 3Rs (reduce, reuse, recycle) - the basic practice for establishing a recycling-based society - for all types of emissions generated in the course of our business.

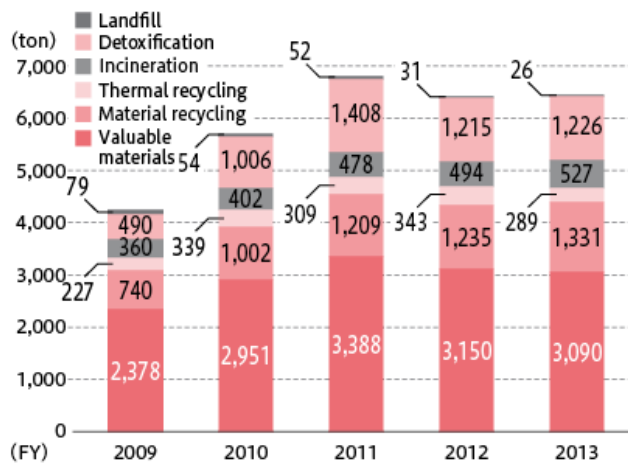
Our emissions started decreasing with a fall in production after FY2008 due to the impact of the Lehman collapse, the subsequent global recession. However, since FY2010, our production has been recovering, leading to an increase in total emissions.

As regards landfill waste, we have undertaken various efforts including the 100% recycling of incinerated ash of brake shoes for railroad equipment into roadbed materials as well as the recycling of end-of-life computers and OA machines and various other types of waste materials. These efforts resulted in the reduction of landfill waste by 15% over the previous fiscal year. The percentage of landfill waste to total emissions thereby decreased to 0.41% (FY2012: 0.48%), meaning that we achieved the FY2014 target of 1% or less for four consecutive years. We will make further efforts to reduce landfill waste, and to recover valuable materials from waste.

### Activity to Reduce Landfill Waste

Target for FY2014	Results of FY2013	Status
1.0% or less of total emissions	0.41% of total emissions	Long-term target achieved

### Volume of Waste Generated



Breakdown of emissions

[Valuable materials]: metal, oil, cardboard, etc.

[Thermal recycling]: packaging, general waste, plastic, etc.

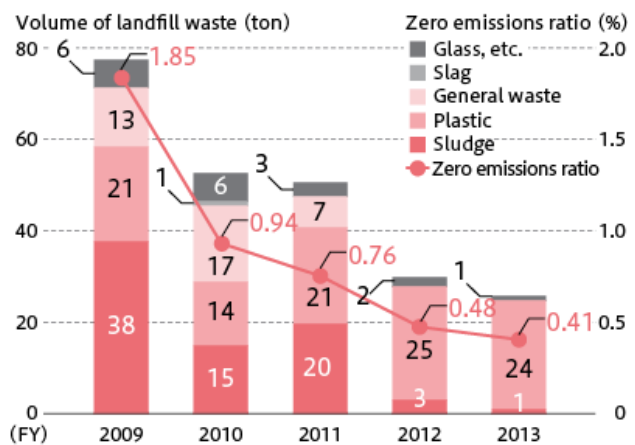
[Detoxification]: water-soluble oil, alkalis, etc.

[Material recycling]: oil, sludge, wood, liquid, plastic, etc.

[Incineration]: general waste, plastic, etc.

[Landfill]: sludge, plastic, glass

### Volume of Landfill Waste and Zero Emissions Ratios



## Control of Chemical Substances

### PRTR Substances

The Nabtesco Group is promoting such activities as the identification of amounts of Pollutant Release and Transfer Register (PRTR) substances handled, as well as the appropriate management and reduction of use of such substances, in accordance with the PRTR law\* enforced in March 2003. The total amount of PRTR substances used at Nabtesco in FY2013 was 70.3 tons, down 5% over the previous year.

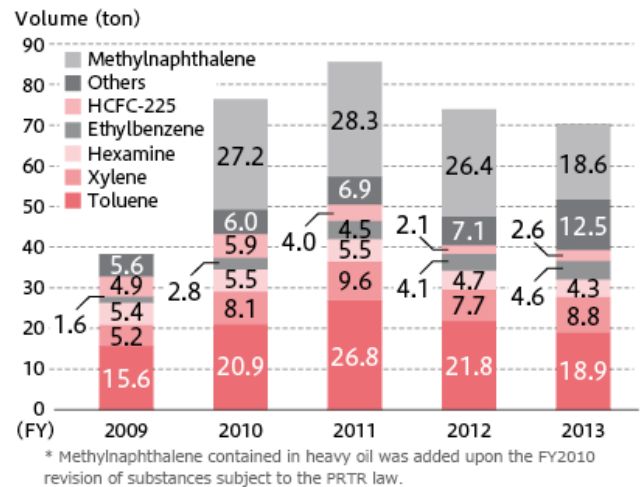
Among these substances, we have been mainly focusing on reducing the use of toluene, xylene and hydrochlorofluorocarbon-225 (HCFC-225).

Most of these substances are contained in diluents and cleaning solvents used in coating processes.

In order to help reduce environmental impact, we are working in close cooperation with paint manufacturers and customers to promote a switch to alternative eco-friendly paints, water-based cleaning solvents, and one-coat processes. In FY2013, we used a total of 30.3 tons of toluene, xylene and HCFC-225, down 1.3 tons over the previous year. We will continue to make efforts to reduce the use of toluene and xylene and to completely discontinue the use of HCFC-225.

\* Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof

### Volume of Major PRTR Substances Used



### Waste Containing PCBs (electrical facilities)

The Nabtesco Group reports all PCB-containing transformers, capacitors, etc. to the authorities and stores them appropriately in accordance with the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes promulgated in June 2001.

With regard to PCB waste still stored at three plants (Gifu, Tarui and Seishin Plants), we will have it treated as soon as JESCO and the designated company have made the necessary preparations for the treatment. The PCB wastes stored at TS Precision, our Group company, have been treated and disposed of in FY2013.

### Soil Contamination

Based on the understanding that harmful substances accumulated in soil are a great threat to society, the Nabtesco Group is working hard to prevent contamination of soil and groundwater as one of its most important CSR tasks.

A survey on the soil and groundwater conducted in May 2005 at the site of the former Yokosuka Plant revealed that the site was contaminated by volatile organic solvents and other harmful substances. We reported it to the authorities in accordance with the law, and engaged in soil melioration and groundwater purification in close collaboration with the authorities. The works for soil remediation and groundwater purification were completed in April 2011 and March 2012, respectively. After the end of the two-year groundwater monitoring period, we made a final report to Yokosuka City and completed all the necessary procedures for the issue.

## Asbestos

The Nabtesco Group has performed extensive investigations on present and past use of asbestos in products, processes, facilities and constructions within the Group, and is implementing appropriate measures based on the results in accordance with the relevant laws and regulations.

At the Nabtesco Group, workers in some workplaces have had some previous contact with asbestos. We notified and recommended all ex-employees to undergo health checkups in FY2006, and in response to the revision of the Act on Asbestos Health Damage Relief, sent a health checkup notice to ex-employees again in FY2009. We have the asbestos health checkups continued to be offered at medical institutions, and also support ex-employees for whom any abnormality is found during the checkup in their procedure to receive a personal health handbook on asbestos from the authorities.

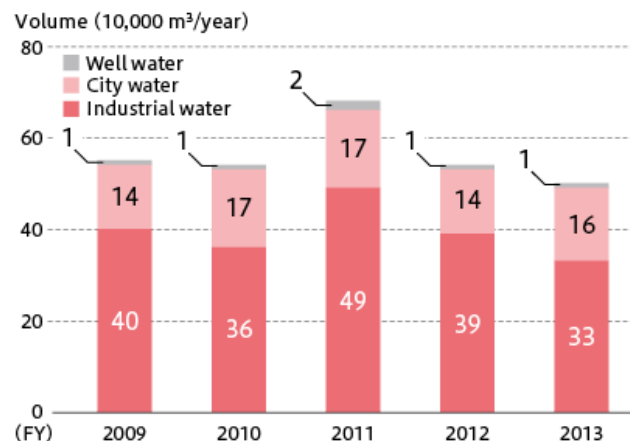
## Conservation of Water Resources

### Evaluation of Water-related Risks

Water-related risks in the areas where the Nabtesco Group's seven plants (Yamagata, Gifu, Tarui, Tsu, Kobe, Seishin and Konan Plants) are located, were evaluated by using the Aqueduct tool provided by the World Resources Institute and with reference to the "water vision" announced by the local municipalities. The results confirmed that our Group has no water-related risks.

### Water consumption

In the Nabtesco Group, water is mainly used for the purpose of cooling test stands and other devices and melting snow in snowy areas (around Yamagata and Gifu Plants). The total volume of water used by the Nabtesco Group in FY2013 came to 500,000 m<sup>3</sup>, reduced over the previous year by 6% (30,000 m<sup>3</sup>).



\*1: The period of tabulation is from Apr. 2013 to Mar. 2014.

\*2: The scope of the tabulation covers Japan only. Nabtesco and the 16 places of business of its 8 consolidated companies.

\*3: Revised due to the discovery of a partial incompleteness in the data for FY 2009.

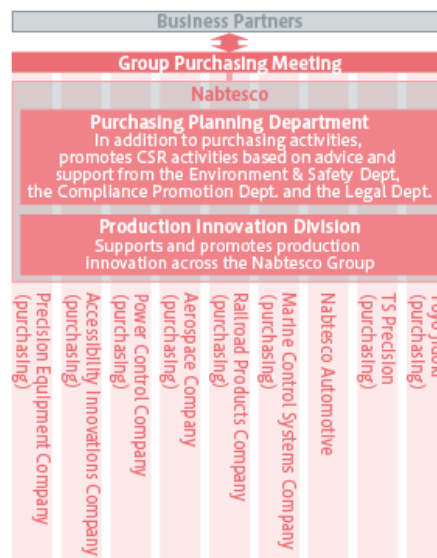
# Supply Chain Management

## Fundamental Approach for Fair and Proper Business Activities

We are well aware of the importance of meeting the demands of society. By developing mutual trust with business partners through fair, proper and transparent transactions, we are committed to meeting our social responsibilities not just through the efforts of the Nabtesco Group alone but with the cooperation of the entire supply chain.

## Promotion Framework

The Purchasing Planning Department of the Production Innovation Division, in collaboration with the Environment & Safety Department, the Compliance Promotion Department and the Legal Department, plays a central role in promoting activities to fulfill Nabtesco's social responsibilities across the entire supply chain by gaining the consensus of the Nabtesco Group Purchasing Meeting members and also by receiving support from business partners through in-house companies.



## CSR Measures Implemented across the Supply Chain

Nabtesco Corporation established the Nabtesco Group CSR-Oriented Procurement Policy in April 1, 2014, with a view to further fostering CSR activities across the supply chain.

<http://www.nabtesco.com/en/csr/2014.html>

Based on the Policy, we will promote CSR-oriented procurement across the Group to meet the expectations of a range of stakeholders, including customers, while enhancing partnerships with suppliers.

In accordance with the globalization of our business,

we need even more than before to respond to demands related to the environment and human rights issues in our supply chain.

Accordingly, in the latter half of FY2014, we will start visiting China, and then Thailand and South Korea to brief local suppliers on the CSR-Oriented Procurement Policy and eventually to permeate the policy across the Group on a global scale.



A great many of our suppliers assembled at the explanatory meeting of our CSR procurement guidelines

### Nabtesco Group's CSR-Oriented Procurement Policy

1. Compliance with Laws and Regulations and the Establishment of Corporate Ethics
  - (1) Compliance with the laws, regulations and social norms implemented in the countries and regions where the company conducts business activities
  - (2) Transparent transactions, which are based on fair and free competition and in compliance with the antimonopoly-related laws and regulations
  - (3) Appropriate export and import control based on the related laws and regulations
  - (4) Prohibition of the inappropriate transfer of money and other benefits and of illegal political contribution and donation
  - (5) Prohibition of the inappropriate treatment of confidential information, personal information and intellectual property rights in relation to business activities
  - (6) Assurance of accountability and transparency to society through proactive disclosure of information
  
2. Respect for Human Rights
  - (1) Prohibition of inhumane labor, including forced labor and child labor
  - (2) Elimination of all forms of discrimination based on race, nationality, religion, age, gender and others
  
3. Consideration to Employees
  - (1) Respect for workers' rights, including the payment of appropriate salaries and proper management of working hours
  - (2) Provision of safe and clean workplaces where employees can work healthily and with ease of mind
  
4. Provision of Valuable Products and Services
  - (1) Establishment of a business process to ensure the provision of safe and comfortable products and services that people can use with a sense of security
  - (2) Establishment of a system to ensure the stable supply of products and services that are competitive in the market in terms of quality, pricing and delivery deadlines
  
5. Consideration to the Environment
  - (1) Establishment of an environmental management system to foster sustainable business activities
  - (2) Reduction of environmental impact through the development of environmentally friendly products, contribution to the mitigation of climate change, reduction of waste and strict management of chemical substances
  
6. Consideration to Local Communities and Society
  - (1) Respect for cultures and customs of the regions and society where the company conducts business activities
  - (2) Harmony with local communities and society and contribution to the communities

## **Measures for Conflict Minerals**

The term “conflict minerals” refers to four minerals (gold, tantalum, tin and tungsten) which are mined and it is feared that they may be partially used to fund armed groups and exacerbate conflicts in the Democratic Republic of the Congo and surrounding countries. In the United States, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act established in 2010, companies using these minerals are required to report such use to the Securities and Exchange Commission.

As neither Nabtesco Corporation nor its Group companies are listed on US stock markets, none are subject to the law or the reporting obligations. The Nabtesco Group, however, is committed to establish responsible supply chain management framework and avoid becoming complicit in the activities of armed groups and conflicts.

We have started to implement the RCOI(Reasonable Country of Origin Inquiry) with the cooperation from our suppliers since FY2013.

# Community and Society

## Donation of Assist Wheel® Electric Wheelchairs

We developed the Assist Wheel® (AW) to help ease the physical burden of caretakers of wheelchair-bound people in moving their chargers from place to place. The AW is an electric wheelchair equipped with a sensor that automatically switches on the motor and brake and delivers superior performance, especially on both ascending and descending slopes, irregular ground and other places where moving ordinary wheelchairs is difficult.

Since 2008 we have been donating AW wheelchairs to local governments in areas in which the Nabtesco Group has bases or where many of its employees reside. In FY2011, we also began donating the AW wheelchairs to areas afflicted by the Great East Japan Earthquake, where the superior performance of the wheelchairs on irregular ground is particularly useful. We have so far donated 200 AW wheelchairs in total.

We hope to be able to contribute to improving the lives of more people through the provision of the AW wheelchairs.



Mayor Fukuda of Iwakuni City and President Hokazono of TS Precision Co., Ltd

Site/Region	Local government	2008	2009	2010	2011	2012	2013	2014	Total number
Headquarters in Tokyo	Tokyo Kanagawa Pref.	2	2	2	2	2	2	2	14
Tarui and Gifu Plants	Gifu Pref.	3	1	1	2	2	2	2	13
Tsu Plant	Mie Pref.h	2	2	2	2	2	2	2	14
Kobe, Konan and Seishin Plants	Hyogo Pref.	4	4	4	4	4	3	3	26
NAM Yamagata Plant	Yamagata Pref.	2	2	2	2	2	2	2	14
TSP and Toyo Jidoki	Yamaguchi Pref.		2	2	2	2	2	2	12
TSP Matsuyama Plant (former Aishin Kiko)	Ehime Pref.	2	1	1	1	1	2	2	10
3 Prefectures in Tohoku	Iwate Pref.				16	5	5	5	31
	Miyagi Pref.				17	7	5	5	34
	Fukushima Pref.				17	5	5	5	32
<b>Total number of WA wheelchairs donated</b>		<b>15</b>	<b>14</b>	<b>14</b>	<b>65</b>	<b>32</b>	<b>30</b>	<b>30</b>	<b>200</b>

NAM: Nabtesco Automotive Corporation  
TSP: TS Precision Co., Ltd.

## Exchange with Local Educational Facilities

In FY2013, the Nabtesco Group hosted 158 groups, in total of 1,033 people including students and teachers from elementary, junior high, high school and university, and the general public in the internship programs and its plant tours. In the future, we will increase the number of visits from elementary and junior high school students by fostering exchanges and communications with students and teachers of these schools.



### NABCO Group in Japan to Gather Mt. Fuji (for CSR Activity)

Nabtesco's Accessibility Innovations Company is conducting the automatic door business in Japan by forming the NABCO Group with three sales distributors: Nabco Systems Co., Ltd., NABCO DOOR Ltd. , Orient Industries Co., Ltd and dealers. On April 18 and 19, 2014, the NABCO Group Exchange Session was held to promote communication among future generation within the group.

Held at Lake Kawaguchiko area in Yamanashi Prefecture, the session brought 72 young group employees together to engage in discussions around the theme of "The future of NABCO." Heated discussions took place about how each member contributed to enhancing the brand value through day-to-day activities, as well as what should be done over the coming period for further promotion.

On the afternoon of the second day, participants moved to a district located in the southeastern foot of Mt. Fuji to plant 190 young trees to reforest the land, which had been deforested by a large volcanic eruption in 1707. Unfortunately they could not see Mt. Fuji during the two-day event because of bad weather, but this event provided them with a good opportunity to build mutual relationship through discussions and working activities, which will definitely give them great power and bring about a lot of benefits to the NABCO Group in the future.



72 participants from the NABCO Group Companies



Planting tree activity in Mt. Fuji

# Third-Party Verification Report

## Social Performance Data (Frequency of Work Related Accidents)

### Nabtesco Group INTEGRATED REPORT 2014 Independent Verification Report

To: Nabtesco Corporation



June 30, 2014



Bureau Veritas Japan Co., Ltd.  
System Certification Services Headquarters

Bureau Veritas Japan Co., Ltd. (Bureau Veritas) has been engaged by Nabtesco Corporation (Nabtesco) to conduct an independent verification of its social performance data selected for inclusion in the Nabtesco Group CSR Report 2014 (the Report), issued under the responsibility of Nabtesco. The aim of this verification is to consider the accuracy of social performance data detailed in the Report and to provide verification opinion based on objective evidence.

#### 1. Verification Outline

🚩 Social performance data in FY2013 (April-1, 2013 through March 31, 2014)

Scope of Verification	Site Visited	Verification Methodology
Frequency of work related accidents at Nabtesco and its 8 consolidated subsidiaries	- Nabtesco's head office	- Review of documentary evidence produced by Nabtesco's head office - Interviews with relevant personnel of Nabtesco's head office - Comparison between the reported data and supporting documentary evidence

This verification was conducted using Bureau Veritas' standard procedures and guidelines for external verification of non-financial reporting, based on current best practice. Bureau Veritas refers to the International Standard on Assurance Engagements (ISAE) 3000 in providing a limited assurance for the scope of work stated herein.

#### 2. Findings

🚩 Social performance data in FY2013

- According to the social performance data verified, the information stated in the Report is consistent with the data collected and consolidated by Nabtesco's head office.
- No significant errors were detected in the social performance data reported by sites visited to Nabtesco's head office.

Bureau Veritas has implemented a code of ethics across its business which is intended to ensure that all our staff maintain high standards in their day to day business activities. We are particularly vigilant in the prevention of conflicts of interest. Bureau Veritas activities for Nabtesco are for social reporting verification only and we believe our verification assignment did not raise any conflicts of interest.

## Environmental Impact Data Generated through Business Operations

### Nabtesco Group INTEGRATED REPORT 2014 Independent Verification Report

To: Nabtesco Corporation



June 30, 2014



Bureau Veritas Japan Co., Ltd.  
System Certification Services Headquarters

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#### 1. Verification Outline

Environmental Impact data generated through business operations in FY2013 (April 1, 2013 through March 31, 2014)

Scope of Verification	Site Visited	Verification Methodology
CO2 emissions from energy use through business operations of 20 sites in Japan of Nabtesco and its 8 consolidated subsidiaries	- Nabtesco's head office - Nabtesco Konan Plant - Nabtesco Seishin Plant - Toyo Jidoki Co., Ltd. - Iwakuni Plant	- Review of documentary evidence produced by Nabtesco's head office and the sites visited - Interviews with relevant personnel of Nabtesco's head office and the sites visited - Site inspection and review of data monitoring procedures - Comparison between the reported data and supporting documentary evidence
Water consumption through business operations of 16 sites in Japan of Nabtesco and its 8 consolidated subsidiaries		
Waste generated and landfill waste through business operations of 17 sites in Japan of Nabtesco and its 8 consolidated subsidiaries		
Chemical substances covered by PRTR Law used through business operations of 13 sites in Japan of Nabtesco and its 8 consolidated subsidiaries		
Categories 1, 2, 3, 4, 5, 6, 7, 11 and 12 of Scope 3 GHG emissions accounted in line with the GHG Protocol's 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard'	- Nabtesco's head office	- Review of documentary evidence produced by Nabtesco's head office - Interviews with relevant personnel of Nabtesco's head office - Comparison between the reported data and supporting documentary evidence

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#### 2. Findings

Environmental Impact data generated through business operations in FY2013

- According to the environmental impact data verified, the information stated in the Report is consistent with the data collected and consolidated by Nabtesco's head office.
- No significant errors were detected in the environmental data reported by sites visited to Nabtesco's head office.

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## Business Management System

> Corporate Governance

> Risk Management & Compliance

> Ensuring Management Transparency

> Management

# Corporate Governance

## Corporate Governance

Given the content and characteristics of business operations covered by our Group, we have adopted an executive officer system and an in-house company system as a means of expediting decision-making and clarifying the responsibility for executing certain business operations. As a means of controlling these systems, we have established corporate governance under which the Board of Directors, (the Board of) Corporate Auditors, Accounting Auditors, and the Management Committee—an organization tasked with carrying out the deliberation of important issues relating to executing business operations—have been set up to clearly divide the functions of decision-making, the control and execution of business, and the monitoring and supervision of management.

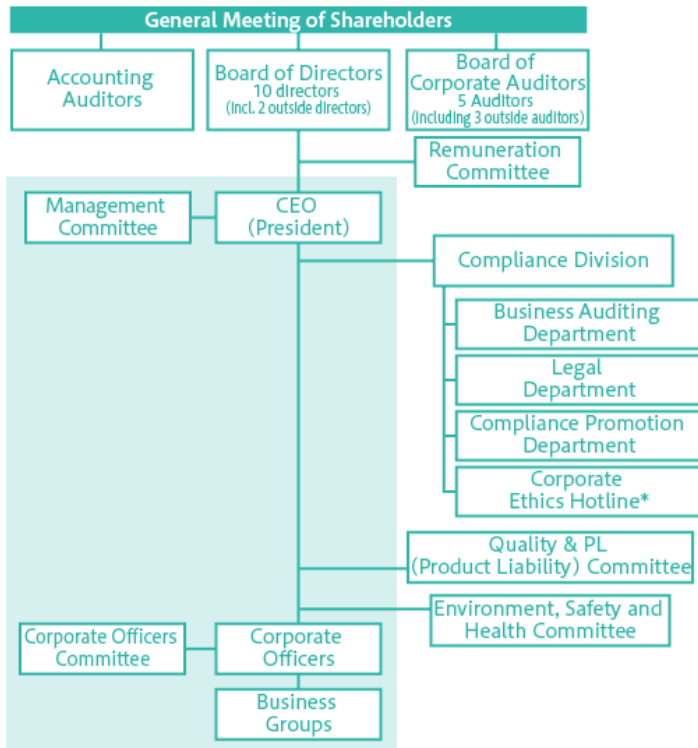
Corporate Auditors are supposed to attend a meeting sponsored by the Management Committee. This Committee will deliberate over important issues to be discussed at the Board of Directors and clarify focal points, before presenting these issues to the Board. The prior deliberations are meant to enhance the appropriateness and the efficiency of decision-making at the Board of Directors.

At present, our company's Board of Directors is composed of ten persons, including two outside directors. The articles of incorporation stipulate that board directors are not allowed to sit on the Board for more than one year, a rule designed to clarify the management responsibility of board directors. Furthermore, the company has set up the Remuneration Committee, which serves as a consultative body of the Board of Directors. That committee, consisting of three persons including two outside directors, is supposed to discuss the outline and operation of the policy regarding to the treatment of full-time directors and corporate officers and contribute to their reasonable setting.

The Board of Corporate Auditors of our company is composed of five persons including three outside auditors. Moreover, the Board of Group corporate auditors, whose members include corporate auditors at Group companies, has been established as a way of strengthening auditing across the Group.

By improving and reinforcing this corporate governance system, we will speed up and maintain flexibility in business execution, as well as strengthen our overall corporate governance and clarify where responsibility lies. Thus, we will realize efficient and transparent business management, which is considered helpful in enhancing the corporate value of the Nabtesco Group, in the future.

Corporate Governance System



\* regardless of the regular ladder-line, we can now directly report to the Compliance Division

Explanation of Company's Organizations

Organization Name	Outline
Board of Directors	The Board of Directors is composed of ten persons including two outside directors. As the organization that formulates the Group's basic policies and strategies, makes decisions about the execution of important business matters and audits the way business is carried out, it meets in principle once a month. It met 19 times during FY2013.
Corporate Officers Committee	The Corporate Officers Committee is the body devoted to the execution of business pursuant to the policies and strategies of the Board of Directors under the supervision of the Board. It is composed of 21 people including the corporate officers of the Group's five main companies, and hold regular meetings which were held five times during FY2013.
Board of Corporate Auditors	The Board of Corporate Auditors consists of five people including three outside auditors. The Board of Group Corporate Auditors, whose members include corporate auditors at Group companies, has also been established as a way of strengthening auditing across the Group. During FY2013 the Board of Corporate Auditors met 13 times and the Board of Group Corporate Auditors twice. Moreover, the members have meetings to exchange information twice a year, with an eye to enhancing cooperation between the internal control, accounting and finance, and compliance and risk management departments for better internal control.
Management Committee	In line with the policies decided by the Board of Directors, the Management Committee serves as the body that discusses important matters relating to execution of the Group's business, reports on results and the execution of business. It is composed of full-time directors and corporate officers and meets twice a month in principle. It held 28 meetings during FY2013.
Business Auditing Department	With the aim of contributing to sound management control and in an attempt to improve the effective operation and quality of Group management activities, the eight-member Business Auditing Department was established to strengthen internal business auditing. During FY2013 it has conducted internal business audits of headquarter divisions, in-house companies and consolidated subsidiaries.
Remuneration Committee	The Remuneration Committee was established as a consultative body of the Board of Directors, and discusses the outline and operation of the policy regarding to the treatment of directors and corporate officers and contributes to their reasonable setting. The committee is composed of three people including two outside directors.

## Remuneration for Directors and Auditors

The Board of Directors makes decisions on the remuneration and other payments to be made to directors, based on the results of deliberation made by the Remuneration Committee, which is composed of one director and two outside directors.

The remuneration system for directors is basically designed to give them incentives to strive to improve the business performance of the company on a continual and medium- to long-term basis, thereby meeting the expectations of shareholders in line with the management policies. The system is thus expected to contribute to increasing the corporate value of the entire Nabtesco Group. To this end, the Remuneration Committee sets the policies on the remuneration and other payments to be made to individual directors, deliberates on these issue, and then reports the results to the Board of Directors.

### Total Amount of Remuneration and Other Payments Made to Directors, Auditors and Outside Directors during FY2013

	Total Amount (Millions of yen)	Number of Eligible Persons
Directors (Excluding outside directors)	278	9
Auditors (Excluding outside auditors)	51	2
Outside directors	40	6

- For directors, the number of eligible persons include two directors who resigned during FY2013.
- For outside directors, the number of eligible persons excludes one unpaid director.
- The total amount paid to each director is not shown because none of the directors has received the amount totaling 100 million yen or more.

## Current Status of Internal Control System

Based on its Basic Polices for the Construction of an Internal Control System, the Nabtesco Group is working to enhance all the areas associated with internal control—such as increased efficiency of management, compliance, information management, risk management and collaboration with the Board of Corporate Auditors—under consistent principles, and integrate them to construct an internal control system.

### Outline of Basic Policies for the Construction of an Internal Control System

Internal control for the Nabtesco Group shall be based on making the Corporate Philosophy, Group Code of Corporate Ethics and Group Code of Conduct the cornerstones of proper and fair business activities, and ensuring compliance with these by directors, corporate auditors and all Group employees.

The Chief Executive Officer (CEO) shall be the top executive responsible for the promotion of internal control, and a Compliance Division shall be responsible for assisting the CEO in this regard. The Board of Directors shall examine the maintenance of internal control systems on a continual basis in line with changes in the business environment and social needs, revisions to laws and regulations, risk diversification and other factors, and shall conduct a review yearly and whenever else necessary.

# Risk Management

## Risk Management

Nabtesco Group has a system in place to ensure that profits and losses, capital efficiency, quality issues, extraordinary accidents and other matters concerning the execution of business operations are reported to the Board of Directors in a suitable and timely manner. The system is also designed in such a way that when any potential hazard that may cause serious damages to the entire Group is detected, it will be reported to the (Board of) Directors promptly and precisely. We have been thus making efforts to discover risks early and to minimize losses. More specifically, we have been proceeding the placement of cross-group organizations and the maintenance of related regulations while managing the following types of risks and preventing losses:

- (1) Risks concerning economic and market trends
- (2) Risks concerning overseas business expansion
- (3) Risks concerning major natural disasters
- (4) Risks concerning the electricity supply
- (5) Risks concerning fluctuating exchange rates
- (6) Risks concerning procurement
- (7) Risks concerning product quality
- (8) Risks concerning competition
- (9) Risks concerning information security

We also ensure the suitability and legality of decision-making and manage risks through compliance with, and thoroughgoing implementation of, Group regulations for responsibility and authority. We have also established company regulations that set forth reporting requirements that must be observed in the event of accidents, disasters or critical quality problems, and have introduced a system to ensure that information is conveyed promptly and suitably in accordance with these regulations to facilitate the immediate taking of appropriate contingency measures. With regard to monitoring, expert members of the Headquarters, such as Business Auditing Department, conduct cross-organizational audits of operational risk management, and offer necessary and appropriate advice with regard to operational improvements.

## Business Continuity Plan (BCP) activities

To prepare for major natural disasters and other contingencies, Nabtesco has been fostering activities to create BCPs at each of its in-house companies since FY2010. As of the end of FY2012, all of the in-house companies had completed formulation of BCP. Since FY2013, we have been expanding such BCP activities to domestic Group companies.

For the simulation training conducted in FY2014 for the third consecutive year, a scenario, which was more detailed than those created in the past training sessions, was prepared to simulate possible disaster damage. We will continue conducting this training to identify any issues related to our crisis management system and making any possible improvements.



Disaster countermeasures simulation



# Compliance

## Implementation and Fostering of Compliance

We formulated the Nabtesco Group Code of Corporate Ethics and the Nabtesco Group Code of Conduct in April 2005 to ensure that corporate activities are conducted in accordance with even higher standards of ethics across the Group and since then, based on these Codes, have been working hard to strictly implement corporate ethics.

The Compliance Promotion Department, an organization of the Headquarters in charge of compliance issues, fulfills a central role in promoting the employees' compliance with the higher corporate ethics, as well as with laws and regulations, to help the enhancement of Group's corporate value over the medium- to long-term.

## Nabtesco Group Code of Corporate Ethics

This Code provides principles regarding how to behave during business activities and what we need to pay attention to when pursuing the company's goals across the Group.

### Nabtesco Group Code of Corporate

1. Socially beneficial products and services
2. Ensuring management transparency
3. Implementation of fair and proper business
4. Consideration of community and society
5. Striving for harmony with global environment
6. Focusing on employees' growth and development
7. Pledge

## Nabtesco Group Code of Conduct

This Nabtesco Group code provides judgment standards that need to be observed by all executives and employees from the viewpoints of corporate ethics and legal compliance.

### Nabtesco Group Code of Conduct

1. Objective of the Code and scope of application
2. General provisions
3. Business activities
  - (1) Pursuit of safety, security and comfort
  - (2) To protect the environment
  - (3) To maintain and promote fair and liberalized dealing
  - (4) Dealing with transactions with suppliers and partners
  - (5) Export and import transactions
4. Relationship with shareholders and investors
  - (1) Disclosure of corporate information
  - (2) Prohibition of insider trading
5. Moral and Honest acts
6. Appropriate management of information
  - (1) To properly manage and utilize information
  - (2) Protection of intellectual property rights
7. Pledge

## Corporate Ethics Month

Since FY2011, we have been designating every October as “Corporate Ethics Month” and conducting an intensive campaign, led by top management, to raise awareness of compliance among employees of Nabtesco Group companies in Japan.

In FY2013, as in the previous year, the CEO offered a message for the month-long campaign. Moreover, a compliance self-check activity was introduced, in which employees quantitatively score the level of compliance and weak points identified at their workplaces. A total of 3,758 employees participated in the campaign activities.

### Examples of Activities Conducted in the FY2013 Corporate Ethics Month

- (1) Announcement of a message from CEO
- (2) Announcement of a message from General Manager of Compliance Division
- (3) Putting up campaign posters (in A1 and A2 sizes)
- (4) Holding workplace meetings and making a compliance declaration or conducting the compliance self-check activity
- (5) Provision of training to develop people who could chair and foster compliance meetings

## Compliance Training and Education and for Employees

### (1) Training for each level of employees

We incorporated compliance education into the training given by the Human Resources Development Department to employees at each level in FY2013.

#### Breakdown of the Training for Each Level of Employees

- Training for Newly Appointed Managers
- Entry-level Problem-solving Training
- Upper-level Problem-solving Training
- Training for Newly Employed Mid-career-hire Employees
- Training for Candidate Foremen
- Training for Second-year Employees

### (2) Launch of training for all Group managers

In addition to the training provided for each level of employees by the Human Resources Development Department, we started providing all Group managers with training, including raising of awareness on human rights in the latter half of 2013, which will be continued in 2014.

### (3) Compliance education through e-learning

We continued the e-learning program launched in FY2011 and offered courses on security export control (basics).

(Number of targeted employees: 152; those who completed the courses: 127; completion rate: 83.6%)



Compliance meeting

## Compliance Awareness Survey

We have been conducting a biennial survey on compliance awareness of Nabtesco Group employees (in Japan) since FY2006.

We reported the results of the survey conducted in FY2012 in the CSR Report 2013.

We will conduct the next survey in FY2014 and continue this activity to further increase employees' compliance awareness.

## Awareness Raising Activities through the Group's Portal Website

To increase employees' compliance awareness, we dispatched relevant information through the Group's portal website "Nice."

In response to the expansion of the website to Group companies, we will proceed the dispatch of information in local languages.

### Examples of Activities Conducted in FY2013

- Dispatch of news, quizzes and essays on compliance and risk management
- Provision of a newsletter on compliance (to employees in Japan)

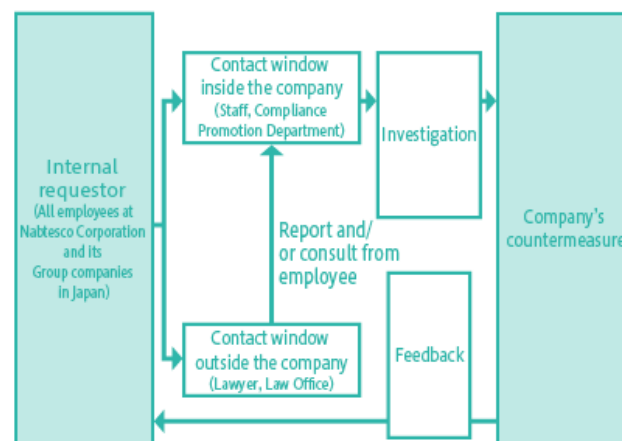
## Internal Hotline System for Reporting

We have established a "hotline" system for the purpose of preventing and discovering legal violations, illegal acts and scandals at an early stage, enhancing our "self-cleansing" function, controlling reputational risk and maintaining internal mutual trust.

This hotline system, which offers a contact point not only within the company but also outside the company (a lawyer), is available to all employees (directors, regular, non-regular, part-time and temporary employees) at Nabtesco Corporation and its Group companies in Japan. Contact can be made via the dedicated telephone number/e-mail address or written letter.

In FY2013, we received 19 reports/inquiries through the system, which were all handled successfully.

### Flow of "hotline"



## Activities at Overseas Group Companies

### Promotion of Compliance at Overseas Group Companies

#### (1) China

In FY2013, as in FY2012, we provided compliance training in China, and some 400 employees from 12 Group companies in the country participated in it.

In the training, participants learned about the compliance issues that they should understand as Nabtesco Group employees, and increased their awareness of human rights.

We will continue conducting similar awareness-raising activities to ensure compliance across the Group. Moreover, we publish a bi-monthly newsletter on compliance for China, and are making every effort to foster the employees' awareness of compliance.



Compliance training provided at a Group company in China

#### (2) United States

We had compliance meetings with local members of our major bases in the United States, with a view to deepening our understanding of the local situations and exchanging opinions with the members on the issue of compliance in FY2013.

### Risk Management Activities at Overseas Group Companies

In response to the globalization of our business, we have been conducting activities to identify potential risks and prevent the occurrence of serious risks at Group companies outside Japan.

In FY2013, we conducted research into potential risks at some Group companies in Europe and the United States, following surveys conducted at Group companies in China in FY2011 and at those in other Asian regions in FY2012.

In FY2014, we will review the risks faced by Group companies in Asia, including China, and implement more risk management measures globally.

# Ensuring Management Transparency

## Fundamental Approach (Policy on the Disclosure of Information)

We pledge that we will 'continue to reinforce our sense of ethics and highly transparent business activities' as stated in Our Promises and take actions in a highly transparent manner in line with the basic policy of 'open, fair and honest' information disclosure. Based on this policy, we commit in our guidelines on the disclosure of PR and IR information that we will make broad efforts to help our stakeholders, including individual investors, shareholders, creditors, institutional investors, securities analysts, media organizations and governmental agencies, to understand the details of our business, business performance and growth strategies.

In order to gain the understanding of and receive the appropriate evaluation by our stakeholders both within and outside Japan, such as shareholders and investors there, we disclose management and financial information that we believe to be relevant to their investment decision-making. We make such disclosures in line with laws, regulations and the timely disclosure rules set by the stock exchanges. Moreover, we also disclose non-financial information regarding our environmental and social activities (CSR-related information) in a proactive manner.

## Facilitating Participation in the General Meeting of Shareholders and Execution of Voting Rights

Nabtesco regards the General Meeting of Shareholders as a precious opportunity to meet shareholders and takes the following measures to encourage as many shareholders as possible to attend the Meeting.

Item	Outline
1 Selection of a date on which few other companies hold their shareholders' meetings	We hold the General Meeting on a date on which few other companies hold their shareholders' meetings so as to facilitate the participation of a greater number of shareholders.
2 Introduction of an online voting system	We have been operating an online voting system for our shareholders since 2006.
3 Early dispatch of the notice of convocation	We have been sending the notice of convocation to shareholders three weeks prior to the Meeting since 2007.
4 Participation in the ICJ platform*	We have participated in the ICJ platform in 2007 to enable institutional investors and others in Japan and abroad who cannot attend the Meeting to execute their voting rights via the Internet.
5 Organization of a meeting to explain the Group's business activities	Since 2009, following the General Meeting of Shareholders, we have been holding a further meeting to explain our business activities to shareholders and deepen their understanding of the Nabtesco Group.
6 Provision of an English summary of the notice of convocation	We have been translating the summary of the notice of convocation and posting it on our website since 2011.
7 Posting of the materials used in the General Meeting of Shareholders on the website	We post the notice of convocation for the General Meeting of Shareholders, visual materials used in the Meeting, notice of the resolutions to be proposed at the Meeting, our <i>Kabunushi Tsushin</i> shareholder newsletter and the results of the resolutions on our website. With regard to the notice of convocation for the Meeting held in 2014, we posted it on the website one day before sending it to shareholders.
8 Materials containing visual representations of data used in the General Meeting of Shareholders	In order to create easy-to-understand reports and proposals for use at the General Meeting, we are promoting the visual representation of data used in business reports and other materials. In the Meeting held in 2014, we also used narration to increase the intelligibility of reports made to participants.

\* ICJ platform: Infrastructure to facilitate the disclosure of information concerning the agenda of shareholders' meetings, execution of shareholders' voting rights and tabulation of voting results. The platform was established by ICJ, a joint venture launched by three companies including the Tokyo Stock Exchange, and has been in operation since 2005.

## Investor Relations (IR) Activities for Institutional and Individual investors

We have been conducting a range of IR activities to help both institutional and individual investors deepen their understanding of our business.

In FY2013, we expanded our overseas IR activities. Specifically, we conducted IR activities in Abu Dhabi (United Arab Emirates) in addition to the conventional activities in Europe, the United States, Singapore, Hong Kong and mainland China. In the future, we will foster the engagement of our business sectors in our IR activities and enhance communication between these sectors and investors by such measures as holding more factory tours at our production bases in Japan and abroad.

IR Activities for Institutional Investors	
Briefings on financial results	We organize a meeting following the end of the second and fourth quarters in which the CEO reports the financial results to participants.
Participation in IR conferences and implementation of overseas roadshows	In order to foster communication with institutional investors both in Japan and abroad, we participated in four IR conferences in Japan and three overseas, as well as holding five overseas roadshows in FY2013.
Organization of one-on-one interviews and small meetings	We proactively share information with securities analysts and institutional investors to gain their understanding and help them to make appropriate evaluations. In FY2013, we accepted over 600 requests from analysts and investors for one-on-one interviews including telephone inquiries.
Factory tours	We organize factory tours at our production bases in Japan and abroad as often as deemed appropriate.
Overseas IR activities	In FY2013, we conducted IR activities in Abu Dhabi (United Arab Emirates) in addition to the conventional activities in Europe, the United States, Singapore, Hong Kong and mainland China.
IR Activities for Individual Investors	
Briefing on the company	In addition to holding IR briefings across Japan, we conducted a survey on individual investors' awareness of Nabtesco and a questionnaire survey targeting our shareholders, with an eye to fostering communication with individual investors through new approaches.
Posting of IR information on the website	We post financial information, securities reports, <i>Kabunushi Tsushin</i> shareholder newsletter, annual reports and various other IR documents on our website and also provide streaming video of meetings held to announce our financial results.

## Dividend Policy (Returns to Shareholders)

We are committed to distributing corporate earnings in an appropriate manner based on the performance of the entire Nabtesco Group and in consideration of providing a stable dividend and creating a balance among strategic investment for supporting business growth; securing a sound financial position; and return of profits to shareholders.

The annual dividend paid in line with this policy in FY2013 totaled 38 yen per share (interim dividend of 18 yen and year-end dividend of 20 yen).

In our New Mid-Term Management Plan "Think Global! Act Local! For the Second Decade," Nabtesco has set the consolidated payout ratio at 30% or higher, and decided not to decrease it unless it exceeds 40%.

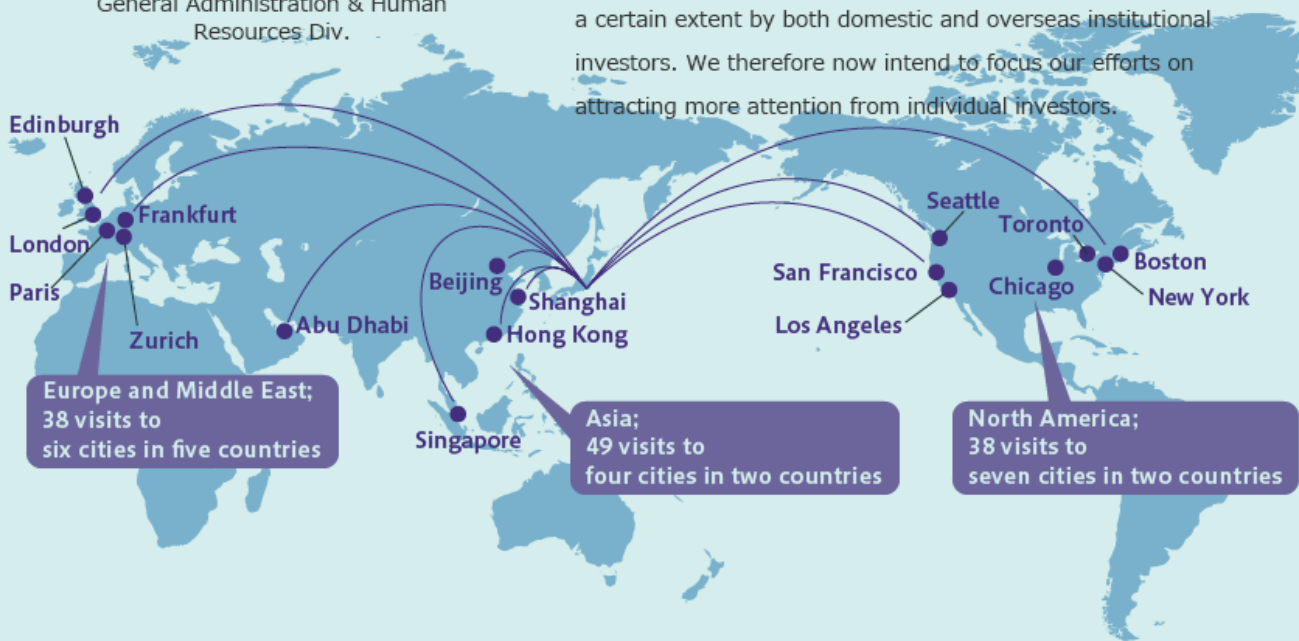
**Global IR Activities**



Toshihiro Matsumoto  
 General Manager  
 General Administration Dept.  
 General Administration & Human  
 Resources Div.

Nabtesco is proactively conducting overseas IR activities to keep in touch with overseas investors and shareholders, who account for as much as about 62% (as of March 31, 2014) ownership of the company’s outstanding shares.

Outside Japan, we held a total of 137 IR meetings in FY2012 and a total of 125 in FY2013. We are working to disclose information promptly in English, with a vision of our shares to be held by investors who have a long-term perspective as possible. We contact overseas pension funds and governmental funds and investors in Southeast Asia in addition to having meetings with asset management companies and investment trust companies, in our effort to foster communication with investors across the world. We have already succeeded in making our company recognized to a certain extent by both domestic and overseas institutional investors. We therefore now intend to focus our efforts on attracting more attention from individual investors.





## Recognition of our IR Activities

<b>Institutional Investor Best IR Professional (machinery sector, buy side)</b>	<i>Institutional Investor</i> , a world-famous financial magazine published in the United States, selected Toshihiro Matsumoto, General Manager of the General Administration Department of Nabtesco as the No. 1 IR professional in the machinery sector (buy side) in its 2014 CEO, CFO and IR ranking of Japanese listed companies. For FY2013, Nabtesco was placed in the second place in the best CEO ranking (buy side) as well as in the best IR company ranking (sell side) by the magazine.
<b>Internet IR awards by Daiwa Investor Relations</b>	Daiwa Investor Relations Co., Ltd. evaluates the IR websites of listed companies in Japan based on its own criteria. Nabtesco has been receiving IR awards from the company for eight years in a row, including an excellent award won in 2013.
<b>Listed Company Website Quality Ranking by Nikko Investor Relations</b>	Nikko Investor Relations Co., Ltd. evaluates the website quality of all listed company in Japan in terms of its intelligibility, usability and information quantity. Nabtesco has been receiving a high placing for eight years in a row since 2006.
<b>MSCI Japan Index</b>	The MSCI Japan Index is an index developed by U.S. organization, MSCI Inc. It is composed of shares listed on Japanese securities exchanges and is globally used as a leading investment benchmark for Japanese shares. Nabtesco has been continuously included in the index since November 2009.
<b>JPX-Nikkei Index 400</b>	Nabtesco was selected to be included in this new index for which Japan Exchange Group, Inc., Tokyo Stock Exchange, Inc. and Nikkei Inc. have begun making the calculations in January 2014. One of the features in the criteria for selecting the companies is the fact that they reflect the capital efficiency in the stock market and the importance of corporate governance

## Active Communication with Socially Responsible Investors

In addition to financial information, we also proactively disclose non-financial information as a part of our IR activities. Furthermore, we eagerly respond to requests for interviews focusing on our CSR efforts from stock analysts and institutional investors.

As part of this effort, we provide sincere responses to questionnaire surveys conducted by research institutions for the world's leading SRI indexes, such as the FTSE4Good Japan Index, Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Project (CDP).

As a result, Nabtesco has been included in the FTSE4Good Index Series for ten consecutive half-year periods since September 2009. Moreover in September 2013, the company was included for the first time in the DJSI Asia Pacific Index.

In the CDP survey conducted in 2013, Nabtesco scored 93 points in the top level for Japanese companies for its information disclosure on greenhouse gas emissions and climate change-related business risks

and opportunities, and received a Performance Band "B" evaluation for its CO<sub>2</sub> emissions reduction measures.



## Providing Information in an Easy-to-Understand and Friendly Format

As Nabtesco is a typical B-to-B company, general consumers are not particularly familiar with many of our businesses and products (mainly components). Based on this recognition, we provide a range of friendly and easy-to-understand information about the company on our website for a general audience.

With regard to IR information, we provide streaming video of meetings held for institutional investors and post downloadable materials to ensure equality of access for all stakeholders. We also send out our Kabunushi Tsushin shareholder newsletter twice a year. Packed with photos, illustrations and figures, this easy-to-understand newsletter helps readers deepen their understanding of our businesses.

To broaden the level of general public recognition of our company, including among individual investors, we also run on-board commercials on trains in the Kanto (East Japan) and Kansai (West Japan) regions and television commercials in the Chubu (Central Japan) region.

# Management



**Kazuaki Kotani** Representative Director, President & CEO

- Sep. 2003 Vice President of P.T. Pamindo Tiga T
- May. 2008 General Manager, Sales Department, Power Control Company of Nabtesco Corporation
- Jun. 2009 Executive Officer of Nabtesco Corporation
- Jun. 2010 Director of Nabtesco Corporation and General Manager, Corporate Planning Division
- Jun. 2011 Representative Director, President & CEO of Nabtesco Corporation (to present)



**Yosuke Mishiro** Representative Director, President of Accessibility Innovations Company

- Oct. 2004 General Manager, Planning Department, Power Control Company of Nabtesco Corporation
- Jun. 2006 Executive Officer of Nabtesco Corporation
- Jun. 2007 General Manager, Corporate Planning Department
- Jun. 2008 Director of Nabtesco Corporation and Deputy General Manager, Corporate Planning Division
- Jun. 2009 General Manager, Corporate Planning Division
- Jun. 2010 President, Accessibility Innovations Company of Nabtesco Corporation (to present)
- Jun. 2011 Managing Director of Nabtesco Corporation
- Jun. 2013 Director and Senior Managing Executive Officer of Nabtesco Corporation (to present)



**Tsutomu Sakamoto** Representative Director, General Manager of Corporate Planning Division

- Oct. 2004 Deputy General Manager, Kobe Plant of Railway Products Company of Nabtesco Corporation
- Jun. 2006 Representative Director, President & CEO of Nabtesco Service Co., Ltd.
- Jun. 2008 Executive Officer of Nabtesco Corporation and General Manager, Planning Department, Railroad Products Company
- Jun. 2009 Director of Nabtesco Corporation and President, Railroad Products Company of Nabtesco Corporation
- Jun. 2013 Director and Executive Officer of Nabtesco Corporation (to present) and General Manager, Corporate Planning Division (to present)



**Hiroyuki Aoi** Director, General Manager of Compliance Division

- Jun. 2004 General Manager of Legal Department of Nabtesco Corporation
- Oct. 2004 General Manager, Legal Department, and General Manager, Compliance Promotion Department
- Jun. 2007 Executive Officer of Nabtesco Corporation
- Jun. 2008 Director of Nabtesco Corporation and General Manager, Compliance Division (to present)
- Jun. 2013 Director and Managing Executive Officer of Nabtesco Corporation (to present)


**Nobutaka Osada** Director, President of Aerospace Company

- Feb. 2005 President of Nabtesco Aerospace Inc.
- Jun. 2007 General Manager, Gifu Plant, Aerospace Company of Nabtesco Corporation
- Jun. 2009 Executive Officer of Nabtesco Corporation
- Jun. 2010 President, Aerospace Company of Nabtesco Corporation (to present)
- Jun. 2011 Director of Nabtesco Corporation
- Jun. 2013 Director and Managing Executive Officer of Nabtesco Corporation (to present)


**Kenichi Nakamura** Director, General Manager of General Administration & Human Resources Division

- Jun. 2006 General Manager, Personnel Department, General Administration & Human Resources Division of Nabtesco Corporation
- Jun. 2010 General Manager, General Administration Department, and General Manager, Human Resources Development, General Administration & Human Resources Division of Nabtesco Corporation
- Jun. 2012 Executive Officer of Nabtesco Corporation and General Manager, General Administration & Human Resources Division (to present)
- Jun. 2013 Director and Executive Officer of Nabtesco Corporation (to present)


**Hiroaki Sakai** Director, President of Power Control Company

- Oct. 2004 General Manager, Manufacturing Department, Seishin Plant, Power Control Company of Nabtesco Corporation
- Jun. 2006 General Manager, Seishin Plant, Power Control Company of Nabtesco Corporation
- Jun. 2008 General Manager, Tarui Plant, Power Control Company of Nabtesco Corporation
- Jan. 2011 General Manager, Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd.
- Jun. 2011 Executive Officer of Nabtesco Corporation
- Jun. 2013 Managing Executive Officer of Nabtesco Corporation (to present) and President of Power Control Company of Nabtesco Corporation (to present)


**Toshio Yoshikawa** Director, General Manager of Technology and R&D Division

- Oct. 2004 General Manager, Sales Department No. 2, Precision Equipment Company of Nabtesco Corporation
- Jun. 2007 General Manager, Planning Department, Precision Equipment Company of Nabtesco Corporation
- Aug. 2009 General Manager, General Administration Department of Nabtesco Corporation
- Jun. 2010 President of Precision Equipment Company of Nabtesco Corporation (to present)
- Jun. 2011 Executive Officer of Nabtesco Corporation (to present)


**Nobuyoshi Yamanaka** Outside Director

- Apr. 1966 Joined Tateisi Electric Co., Ltd. (current Omron Corporation)
- Oct. 1986 General Manager, Operations Department for Information Systems (EFTS) Business of Tateisi Electric Co., Ltd.
- Feb. 1987 Joined General Electric Japan; Manager-Business Development
- Oct. 1995 Joined Auto Suture Japan, Inc. (current Covidien Japan, Inc.); President & Representative Director of Auto Suture Japan, Inc.
- Jun. 1998 Joined General Electric Company; President and Representative Director of GE-Hitachi Lighting, Ltd.
- Feb. 2000 Joined Emerson Japan, Ltd.; President & Representative Director of Emerson Japan, Ltd. and Officer of Emerson Electric Co.
- Nov. 2006 Joined Bain Capital Asia, LLC; Senior Executive of Bain Capital Asia, LLC and Chairman & Representative Director of Nippon Conlux Co., Ltd
- Jul. 2008 Vice Chairman of Bain Capital Asia, LLC
- Dec. 2010 Joined Diversey Co., Ltd.; President & Representative Director and Member of Operating Committee of Diversey, Inc.
- Jul. 2011 Advisor of Nabtesco Corporation
- Jun. 2012 Director of Nabtesco Corporation (to present)


**Yutaka Fujiwara** Outside Director

- Apr. 1974 Joined MODEC, Inc.
- Apr. 1987 Joined The Yasuda Trust & Banking Co., Ltd. (current Mizuho Trust & Banking Co., Ltd.)
- Aug. 1994 Deputy General Manager, New York Branch of Yasuda Trust & Banking Co., Ltd.
- Jun. 1996 General Manager, Chicago Branch of Yasuda Trust & Banking Co., Ltd.
- Nov. 1997 General Manager in charge of Credit Examination, Overseas Credit Department of Yasuda Trust & Banking Co., Ltd.
- Aug. 1998 Joined OMRON Corporation
- Jul. 2001 General Manager, Corporate Planning Department, Corporate Strategic Planning Group, Kyoto Head Office of OMRON Corporation
- Oct. 2002 General Manager, Corporate IR Department, Corporate Planning Division of OMRON Corporation
- Jun. 2005 Executive Officer and General Manager, Financial IR Department of OMRON Corporation
- Mar. 2007 Executive Officer and General Manager, Group Strategy Department of OMRON Corporation
- Dec. 2008 Managing Officer and General Manager, IR & Corporate Information Department of OMRON Corporation
- Aug. 2011 President & CEO of Cross-Border Bridge Corporation (to present)
- Jun. 2013 Director of Nabtesco Corporation (to present)

## Board of Corporate Auditors

Corporate Auditor	Nobuhiko Takahashi	
Corporate Auditor	Masao Imamura	
Outside Corporate Auditor	Tetsuya Ishimaru	(Part-time)
Outside Corporate Auditor	Masahiko Yamada	(Part-time)
Outside Corporate Auditor	Hiroshi Mitani	(Part-time)

## Executive Officers

Chief Executive Officer	Kazuaki Kotani	
Senior Managing Executive Officer	Yosuke Mishiro	President, Accessibility Innovations Company
Managing Executive Officer	Tsutomu Sakamoto	General Manager, Corporate Planning Division
Managing Executive Officer	Hiroyuki Aoi	General Manager, Compliance Division
Managing Executive Officer	Nobutaka Osada	President, Aerospace Company
Managing Executive Officer	Kenichi Nakamura	General Manager, General Administration & Human Resources Division
Managing Executive Officer	Hiroaki Sakai	President, Power Control Company
Executive Officer	Toshio Yoshikawa	General Manager, Technology and R&D Division
Executive Officer	Masataka Hashimoto	President, NABTEC Co., Ltd.
Executive Officer	Shigeto Kunii	General Manager, New Energy Business Development Division
Executive Officer	Kiyoo Amako	Deputy General Manager, Technology and R&D Division
Executive Officer	Yukihiro Imuta	President, Railroad Products Company
Executive Officer	Katsuhiko Teramoto	Deputy General Manager, Corporate Planning Division
Executive Officer	Shinji Jyuman	President, Precision Equipment Company
Executive Officer	Hirokazu Matsuoka	President, Toyo Jidoki Co., Ltd.
Executive Officer	Taizo Tsuru	President, Marine Control Systems Company
Executive Officer	Kensuke Ioku	General Manager, Production Innovation Division
Executive Officer	Tomoyuki Horiguchi	President, Nabtesco Automotive Corporation
Executive Officer	Koji Kaminaka	Vice President, Accessibility Innovations Company
Executive Officer	Daisuke Hakoda	President, Shanghai Nabtesco Hydraulic Co., Ltd.
Executive Officer	Jakob Gilgen	President, Gilgen Door Systems AG
Executive Officer	Shigeru Naoki	Plant Manager, Tsu Plant at Precision Equipment Company

# Financial Information

## 10-Year Financial Summary

(JPY Million)

	2005/3	2006/3	2007/3	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3
Net sales	137,960	147,427	161,444	174,254	158,170	126,249	169,303	198,527	179,543	202,292
Cost of sales	105,227	111,541	123,639	132,641	124,040	97,817	127,712	148,184	134,859	148,321
Selling, general and administrative expenses (SG&A)	21,446	21,057	21,377	22,182	22,117	20,467	21,379	27,484	29,670	33,877
Operating income	11,287	14,828	16,427	19,429	12,012	7,964	20,212	22,858	15,013	20,092
Income before income taxes and minority interests	9,225	14,288	16,691	18,432	7,931	8,011	21,954	24,847	18,997	23,522
Income taxes	3,337	5,721	6,215	6,369	2,777	3,270	7,486	8,872	5,597	8,140
Minority interests	262	355	691	1,037	728	722	1,080	1,217	129	404
Net income	5,625	8,211	9,783	11,025	4,425	4,017	13,387	14,756	13,269	14,978

**At year-end**

Current assets	75,161	82,501	95,625	99,237	84,306	89,893	119,003	123,929	112,048	134,159
Tangible fixed assets	41,949	41,934	43,610	43,346	45,206	44,102	44,442	51,509	54,475	55,225
Total assets	133,602	146,894	163,223	163,317	144,685	149,480	180,729	208,092	203,056	233,984
Current liabilities	54,232	60,137	57,098	58,182	41,209	43,610	74,891	70,897	52,322	73,161
Interest-bearing debt	25,038	19,188	26,927	23,115	19,160	19,920	20,158	31,695	26,389	26,203
Net assets	-	-	77,109	82,492	81,716	85,167	96,531	107,466	120,857	139,471
Retained earning	23,172	30,387	38,304	47,412	49,668	52,662	64,263	74,815	83,606	94,225

**Cash flows**

Cash flow from operating activities	11,102	16,405	8,293	18,249	14,055	14,892	27,997	15,104	12,952	27,597
Cash flow from investing activities	-4,569	-4,896	-6,941	-8,969	-9,329	-6,155	-4,419	-27,464	-13,693	-8,064
Cash flow from financing activities	-7,808	-7,273	6,134	-5,748	-6,189	-684	-1,849	6,035	-10,090	-8,175

**Per share of common stock (Yen)**

Net income per share	43.70	64.05	77.10	86.77	34.82	31.70	105.91	116.74	104.57	117.95
Net assets per share	412.75	505.59	575.19	609.08	601.75	628.29	713.77	784.12	894.86	1035.68
Cash dividends per share	7.00	12.00	14.00	16.00	13.00	9.00	25.00	34.00	34.00	38.0

**Ratio (%)**

Operating income margin	8.2	10.1	10.2	11.2	7.6	6.3	11.9	11.5	8.4	9.9
Return on assets (ROA)	8.3	10.4	6.3	6.8	2.9	2.7	8.1	7.6	6.5	6.9
Return on equity (ROE)	11.2	14.1	14.3	14.7	5.8	5.2	15.8	15.6	12.5	12.2
Payout ratio	48.7	18.7	18.2	18.4	37.3	28.4	23.6	29.1	32.5	32.2
Equity ratio	39.3	43.7	44.8	47.4	52.9	53.1	49.9	47.6	56.2	56.0

## Financial Performance

### Operating Results

Despite the moderate rebound of the European economy in addition to the recovery trend in the U.S. economy, the outlook for business conditions surrounding Nabtesco of the year ended March 31, 2014 remained uncertain due to a slowdown in the Chinese economy and a downward economic trend reflecting the currency depreciation in Southeast Asia, among other factors.

Meanwhile, the Japanese economy saw signs of a moderate pickup on the back of an upward trend in equipment spending by companies resulting from the cheaper yen and higher stock prices, which were boosted by the economic policies of the Japanese government as well as the monetary measures adopted by the Bank of Japan.

Under these circumstances, although sales declined for packaging machines and precision reduction gears, net sales increased from the previous year, reflecting the growth in sales of railroad vehicle equipment, commercial vehicle equipment, and marine vessel equipment. In addition, there were benefits from the depreciation in the yen's value against major currencies in automatic doors, hydraulic equipment, and aircraft equipment businesses. As a result, consolidated net sales increased by 22,748 million yen (12.7%) to 202,292 million yen.

Operating income rose 5,079 million yen (up 33.8%) to 20,092 million yen. At the same time, the operating margin ended up 1.5 percentage points to 9.9%.

Non-operating income came to 4,642 million yen, while non-operating expenses stood at 508 million yen. As a result, ordinary income grew 6,337 million yen (up 35.4%) on a year-on-year basis to 24,227 million yen. At the same time, non-operating income rose 1,300 million yen to 4,642 million yen, reflecting an increase in investment gains from equity-method affiliates and the posting of gains on foreign exchange translations.

Extraordinary gains decreased 947 million yen from the previous year to 342 million yen, primarily attributable to the disappearance of negative goodwill posted in the same period a year earlier after the conversion of a group company into a wholly owned subsidiary via a stock transfer. At the same time, extraordinary losses rose 865 million yen to 1,048 million yen, mainly reflecting a loss on revisions to the retirement benefit plan.

As a result, net income for the consolidated fiscal year under review increased 1,708 million yen from the previous year to 14,978 million yen. Net income per share came to 117.95 yen, while the rate of return on equity decreased 0.3 point year on year to 12.2%

## Financial Position

### Assets

Total assets as of 2014/3 were 233,984 million yen, an increase of 30,928 million yen from the previous year, reflecting increases of 11,821million yen in cash and time deposits, 7,708 million yen in notes and accounts receivable, 1,704million yen in inventory assets and 4,282 million yen in investment securities. Current assets and fixed assets came to 134,159 million yen and 99,824 million yen, respectively.

### Liabilities

Total liabilities as of 2014/3 were 94,513 million yen, an increase of 12,314 million yen from the previous year, reflecting a rise of 7,239 million yen in trade notes and accounts payable. Current liabilities and long-term liabilities came to 73,161million yen and 21,351 million yen, respectively.

### Net Assets

Total net assets as of 2014/3 stood at 139,471 million yen, including shareholders' equity of 131,043million yen, an increase of 17,004 million yen from the previous year. The increase was mainly attributable to increases in earned surplus arising from net income of 14,978 million yen, 8,470 million yen in translation adjustments due to changes in foreign exchange at overseas subsidiaries, and 1,606 million yen in minority interests. Primary negative contributing factors included a decrease of 4,356 million yen in earned surplus due to dividend payments and an increase of 2,247 million yen in treasury stock. As a result, shareholders' equity ratio decreased 0.2 point year on year to 56.0% and net assets per share came to 1,035.68 yen. ROE dropped 0.3 point to 12.2% while ROA increased 0.4 point to 6.9%.

## Cash Flows

Cash and cash equivalents as of 2014/3 were 53,052 million yen, an increase of 12,852 million yen from the previous year, as a result of having applied 27,597 million yen generated from operating activities, mainly to capital expenditure and dividend payments.

### Cash Flow from Operating Activities

Net cash generated from operating activities for the current consolidated fiscal year totaled 27,597 million yen. Principal positive factors included increases in income before income taxes and accounts payable. Negative factors consisted mainly of an increase in notes and accounts receivable and income tax payments.

### Cash Flow from Investing Activities

Net cash used in investing activities for 2014/3 amounted to 8,064 million yen, mainly due to the acquisition of tangible fixed assets.

### Cash Flow from Financing Activities

Net cash used in financing activities for 2014/3 stood at 8,175 million yen, mainly reflecting the negative factors of dividend payments and payments for purchases of treasury stock.

### Capital Expenditure

We made investments to introduce new equipment to increase our productivity, including automation systems and the updating of existing equipment in Japan, and also launched a new factory in China and implemented other measures outside Japan, mainly targeting the Asian market. As a result, our capital expenditure (investments in tangible and intangible fixed assets) totaled 6,760 million yen.

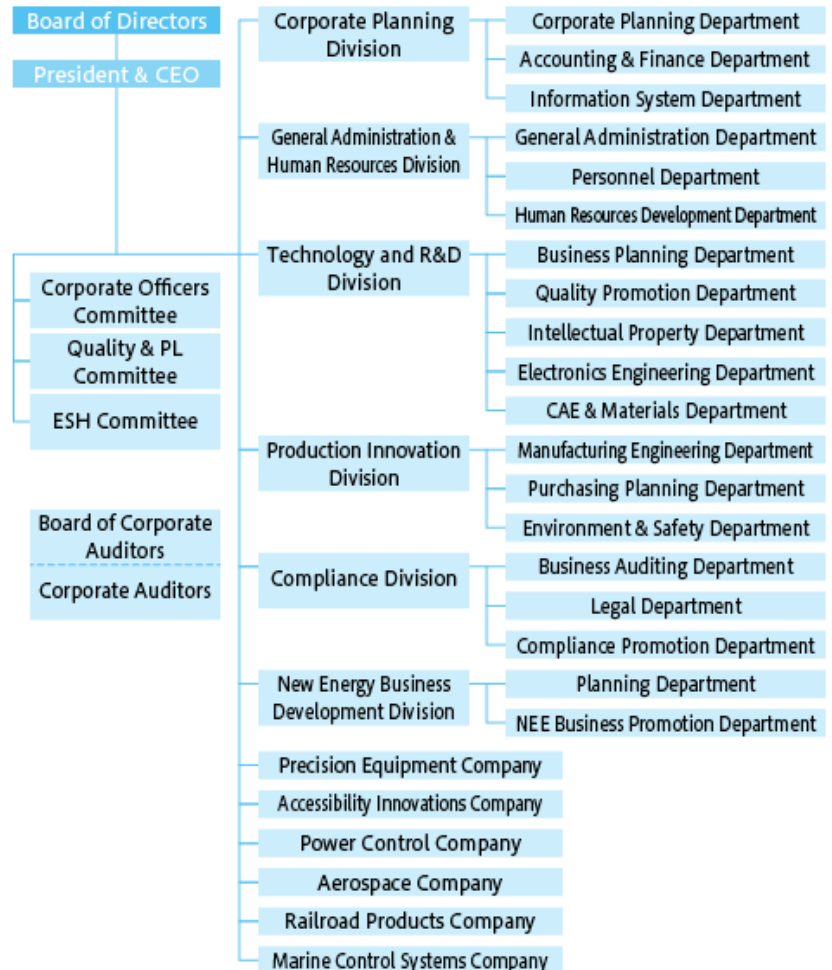


# Corporate Information

## Corporate Profile

<b>Company Name</b>	Nabtesco Corporation
<b>Established</b>	September 29, 2003
<b>Address</b>	7-9, Hirakawa-cho 2-chome, Chiyoda-ku, Tokyo 102-0093, Japan
<b>TEL</b>	+81-3-5213-1133
<b>FAX</b>	+81-3-5213-1171
<b>Capital</b>	10 billion yen
<b>Number of issued shares</b>	128, 265,799 (as of March 31, 2014)
<b>Employees</b>	Non-consolidated: 2,092 Consolidated: 5,344 (as of March 31, 2014)
<b>Consolidated companies</b>	
<b>In Japan:</b>	11 (plus 6 companies accounted for using the equity method)
<b>Overseas:</b>	36 (plus 4 companies accounted for using the equity method)

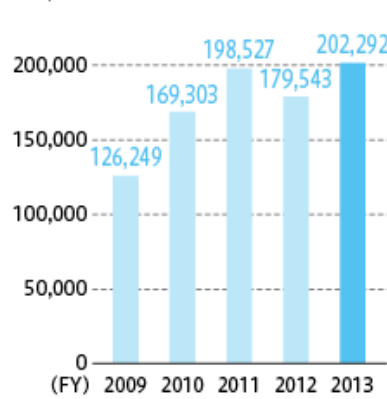
## Management Structure



## Business Performance Data (Consolidated)

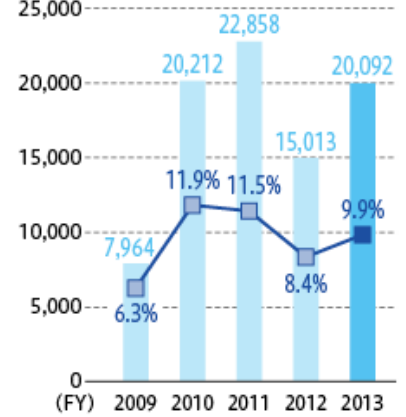
### Net Sales

(JPY million)



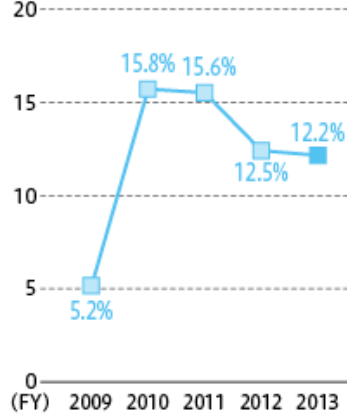
### Operating Income

(JPY million)



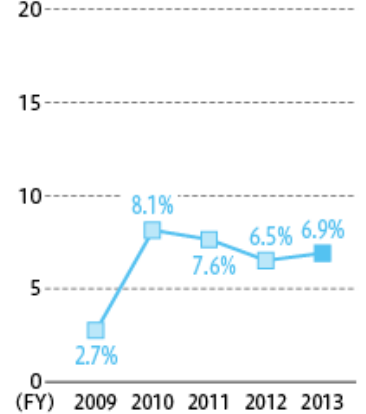
### Return on Equity (ROE)

(%)

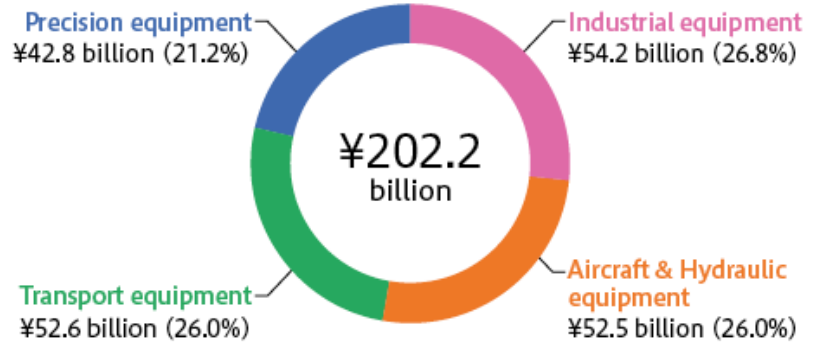


### Return on Assets (ROA)

(%)



### Consolidated Sales by Business Segment (FY2013)



## Stock Information

Authorized Number of Shares 128,265,799 shares  
(of which 1,076, 531 are treasury shares)

Number of Shareholders 10,878

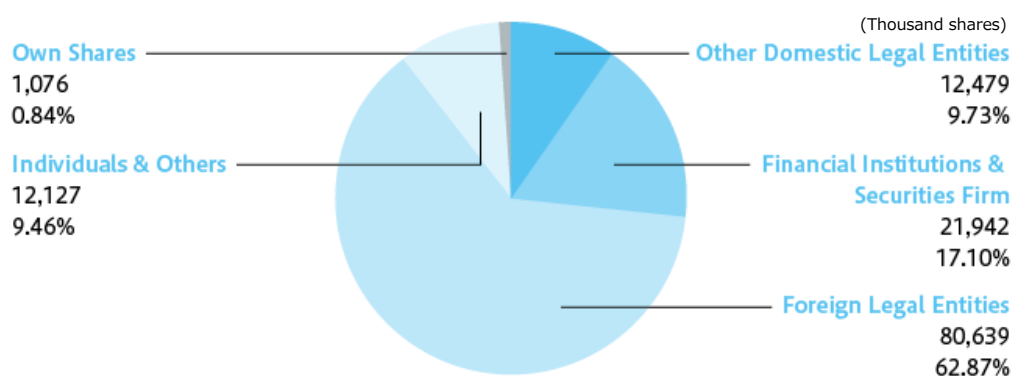
	No. of shares held	Stockholding ratio
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account)	5,308	4.17%
Central Japan Railway Company	5,171	4.07%
JP MORGAN CHASE BANK 380072	4,657	3.66%
BNP PARIBAS SEC SERVICES LUXEMBOURG/ JASDEC/ ABERDEEN GLOBAL CLIENT ASSETS	4,017	3.16%
RBC IST 15 PCT LENDING ACCOUNT	3,579	2.81%
Japan Trustee Services Bank, Ltd. (trust account)	3,517	2.77%
Harmonic Drive Systems Inc.	3,265	2.57%
BNYM TREATY DTT 15	2,947	2.32%
JP MORGAN CHASE BANK 385632	2,642	2.08%
SAJAP	2,302	1.81%

(Note)

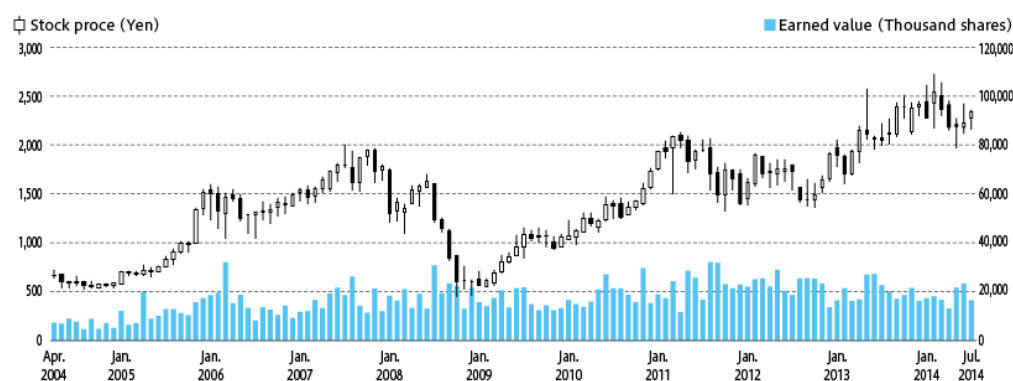
1. For the number of shares held, fractions less than 1,000 are rounded off.

2. For the stockholding ratio, calculations were made by excluding treasury shares (1,076,531 shares).

## Component ratio of shareholders (as of March 31, 2014)

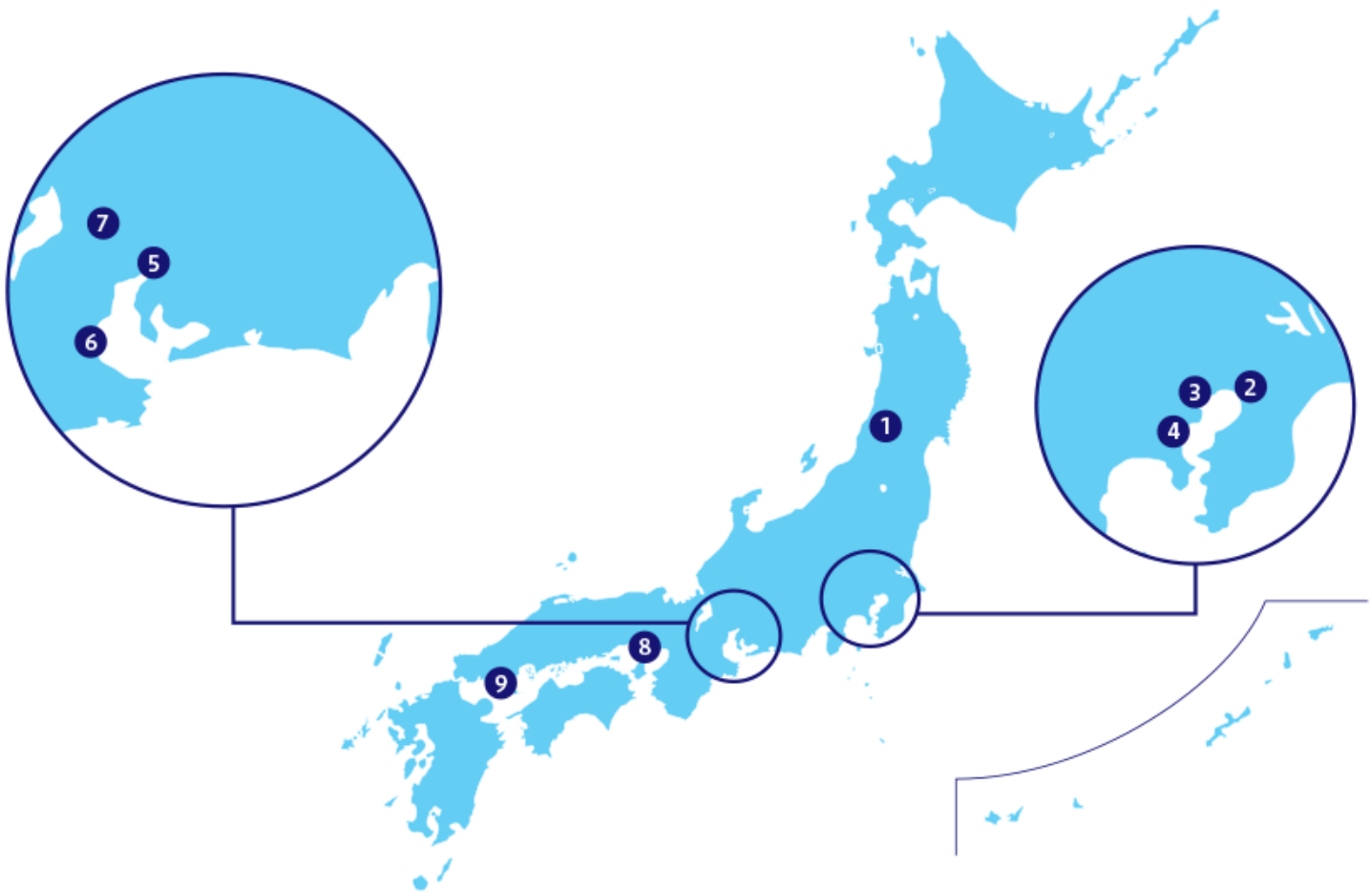


## Stock Price Transition



## Domestic & Global Network

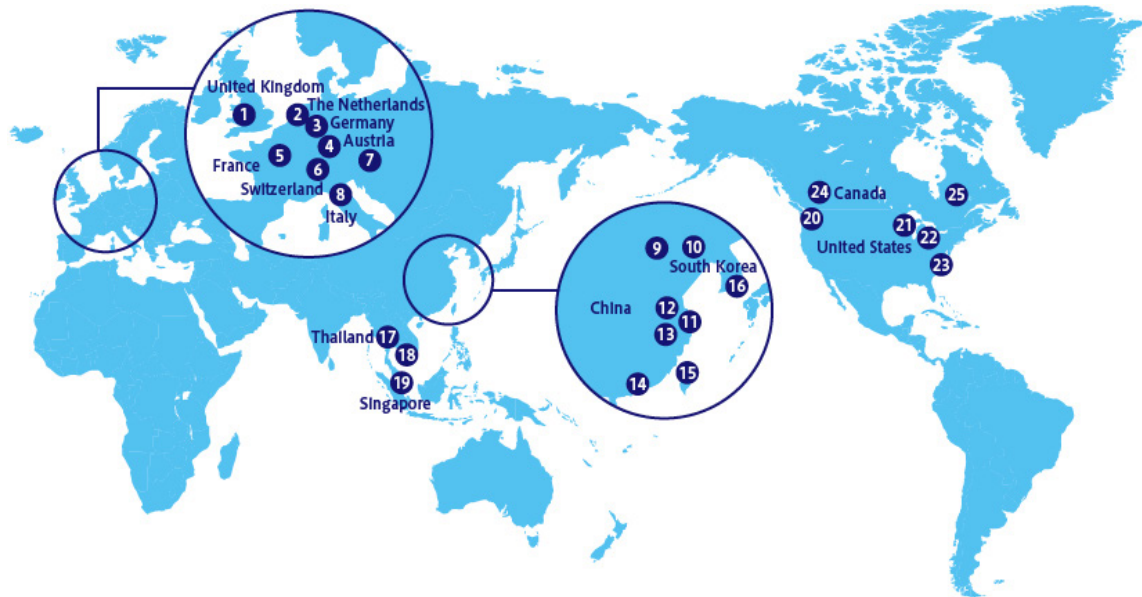
### Domestic Bases (Offices and Manufacturing Plants)



- ① Yamagata    Nabtesco Automotive Corporation  
Yamagata Plant
- ② Chiba        Diavac Limited
- ③ Tokyo        Nabtesco Corporation Head Office  
Toyo Jidoki Co., Ltd.  
Nabtesco Service Co., Ltd.  
Nabtesco Automotive Corporation
- ④ Kanagawa    CMET Inc.
- ⑤ Aichi        Nagoya Office
- ⑥ Mie          Tsu Plant

- ⑦ Gifu         Gifu Plant  
Tarui Plant
- ⑧ Hyogo       Kobe Plant  
Seishin Plant  
Konan Plant
- ⑨ Yamaguchi    Toyo Jidoki Co., Ltd. Iwakuni Plant  
TS Precision Co., Ltd.

## Overseas Bases (Offices and Plants)



①	Hampshire	Gilgen Door Systems UK Limited
②	Ridderkerk	NABMIC B.V.
③	Düsseldorf	Nabtesco Precision Europe GmbH
④	Groß-Gerau	Nabtesco Aerospace Europe GmbH
⑤	Antony	Gilgen Door Systems Germany GmbH
⑥	Schwarzenburg	Gilgen Door Systems France S.A.S.
⑦	Schwechat	Gilgen Door Systems AG
⑧	Castel Maggiore	Gilgen Door Systems Austria GmbH
	Piscina	Gilgen Door Systems Italy srl
⑨	Beijing	Nabtesco Oclap S.r.l.
		Nabtesco Railroad Products (Beijing) Co., Ltd.
⑩	Dalian	NABCO Auto Door (Beijing) Co., Ltd.
⑪	Shanghai	Dalian Toyo Jidoki Co., Ltd.
		Nabtesco Marine Machinery (Shanghai) Co., Ltd.
		Shanghai Nabtesco Hydraulic Co., Ltd.
		Nabtesco Marine Control Systems (Shanghai) Co., Ltd.
		Shanghai Nabtesco Business Management Co., Ltd.
⑫	Changzhou	Jiangsu Nabtesco KTK Railroad Products Co., Ltd.
		Jiangsu Nabtesco Hydraulic Co., Ltd.
		Changzhou Nabtesco Kusaka Precision Machinery Co., Ltd.
⑬	Suzhou	Gilgen Door Systems (Suzhou) Co., Ltd.
⑭	Hong Kong	Gilgen Nabtesco Hong Kong Limited
⑮	Taiwan	Taiwan Nabtesco Service Co., Ltd.
⑯	Busan	Nabtesco Marinotec Co., Ltd.
⑰	Samutprakarn	Nabtesco Automotive Products (Thailand) Co., Ltd.
⑱	Chonburi	Nabtesco Power Control (Thailand) Co., Ltd.
⑲	Singapore	Nabtesco Marine Service Singapore Pte Ltd.
		Nabtesco Aerospace Singapore Pte. Ltd.
⑳	Washington	Nabtesco Aerospace, Inc.
㉑	Wisconsin	NABCO Entrances, Inc.
		Toyo Jidoki America Corporation
㉒	Michigan	Nabtesco Motion Control, Inc.
㉓	Delaware	Nabtesco USA, Inc.
㉔	Alberta	Nabco Entrances of Western Canada Inc.
㉕	Quebec	Porta Service Inc.

## Disclosure Policy

### Publication of the Integrated Report

This report represents the first Integrated Report of the Nabtesco Group, which we have created by integrating our conventional Annual Report and CSR Report.

This report outlines the Nabtesco Group's management strategies, business situation, management system and financial performance, and also CSR initiatives, with a view to introducing the activities of the Group, which aims to achieve sustainable development, to our stakeholders in a multifaceted manner.

### Scope of the Report

Nabtesco Corporation and its consolidated subsidiaries

- This report covers non-financial data of Nabtesco Corporation in principle, but for some activities, it covers also Group companies in and outside Japan.
- The scopes, boundaries and measurement methods applied in this report have not been substantially changed from those applied in the previous reports (both Annual Report and CSR Report).

### Period Covered

April 1, 2013 to March 31, 2014 (FY2013)

Some activities not conducted during the above period are also introduced in this report.

### Date of Publication

Published in September 2014(Published annually; previous report published in August 2013)

### Note about the Forecasts

Forecasts made in this report about numerical figures and measures for the future are based on currently available information and on certain judgments and assumptions that Nabtesco considers reasonable. Actual results may vary significantly from such forecasts due to a variety of important factors, including the economic situations of the company's major markets in and outside Japan and changes in the foreign exchange market.

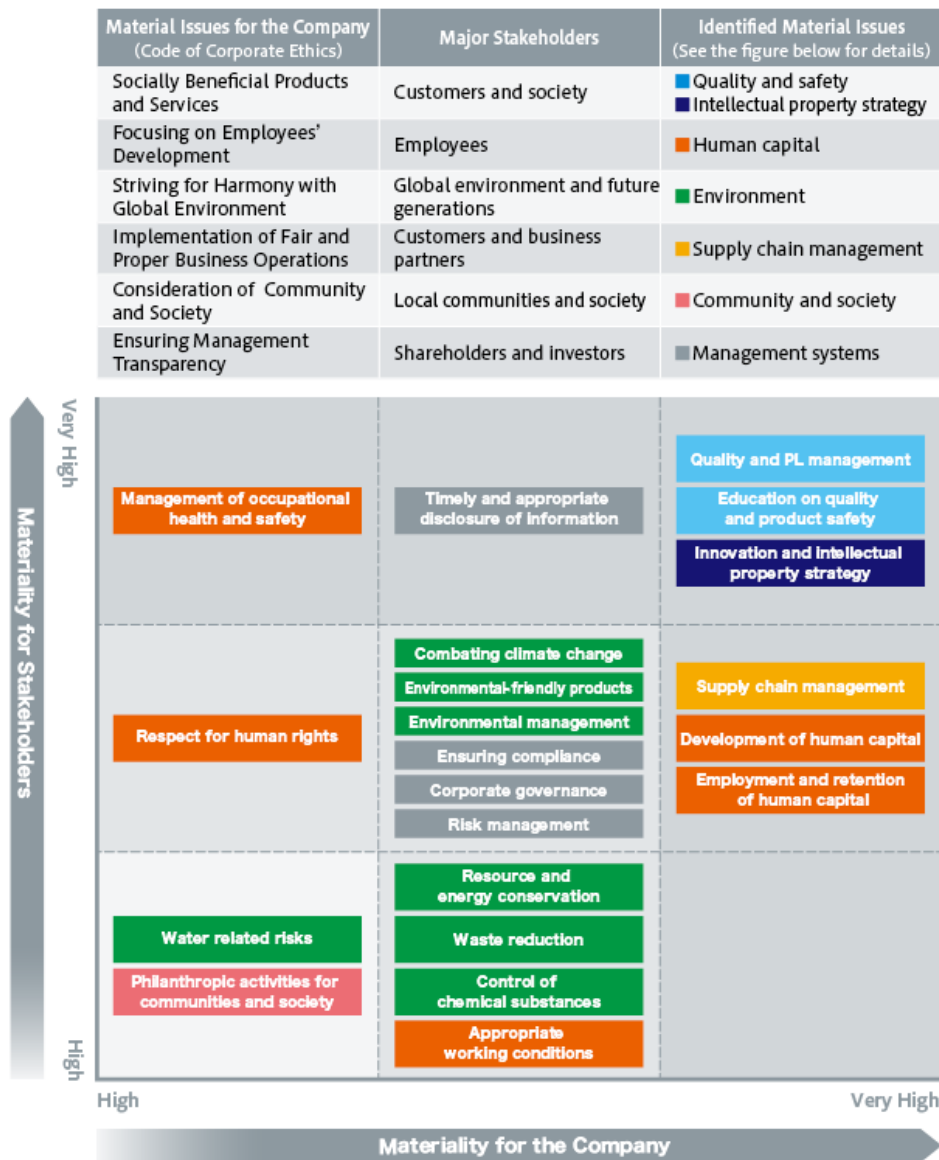
### Disclosure of Sustainability Information

The Nabtesco Group formulated the Nabtesco Group Code of Corporate Ethics in 2005, which shows the Group's basic rules and guidelines on compliance to be adhered to by all Group directors, employees and other workers inside the Group in conducting their business activities.

We have prioritized CSR-related issues by examining the materiality of these issues for our organization and stakeholders based on the Code of Corporate Ethics, and describe the identified important issues in this report.

Guidelines referenced

- G4 Guidelines published by the Global Reporting Initiative (GRI)
- ISO26000(international standard on the social responsibilities of organizations)



The Nabtesco Group announced it will support and participate in the United Nations Global Compact in April 2014, thereby further fostering its CSR-oriented management.



## External Evaluation

The Nabtesco Group's CSR initiatives are highly appreciated on an international level, which is proven by the fact that Nabtesco is included in the Dow Jones Sustainability Asia/Pacific Index and FTSE4Good. Also in January 2014, the company was selected to be included in the JPX-Nikkei Index 400.







**Nabtesco Corporation and Consolidated Subsidiaries**

**Consolidated Financial Statements**

**March 31, 2014 and 2013**

**(With Independent Auditors' Report)**



## Consolidated Balance Sheets

Nabtesco Corporation and Consolidated Subsidiaries

March 31, 2014 and 2013

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	<b>2014</b>	<b>2013</b>	<b>2014</b>
<b>Assets</b>			
Current assets:			
Cash and deposits (Note 4)	¥25,726	¥13,905	\$249,961
Notes and accounts receivable-trade	52,840	45,132	513,408
Less allowance for doubtful receivables	(209)	(118)	(2,031)
Short-term investment securities (Note 6)	27,999	26,998	272,046
Inventories (Note 7)	22,234	20,530	216,032
Deferred tax assets (Note 10)	2,905	2,607	28,226
Other current assets	2,665	2,994	25,895
Total current assets	<b>134,160</b>	112,048	<b>1,303,537</b>
Property, plant and equipment (Note 9)			
Land	14,635	14,592	142,198
Buildings and structures	47,048	44,042	457,132
Machinery and equipment	88,394	81,420	858,861
Construction in progress	938	2,447	9,114
Sub-total	<b>151,015</b>	142,501	<b>1,467,305</b>
Less accumulated depreciation	<b>(95,789)</b>	(88,025)	<b>(930,713)</b>
Property, plant and equipment, net	<b>55,226</b>	54,476	<b>536,592</b>
Investments and other assets			
Investment securities (Note 6)	21,185	16,902	205,839
Deferred tax assets (Note 10)	557	483	5,412
Goodwill (Note 20)	18,539	15,808	180,130
Other intangible assets (Note 9)	2,854	1,772	27,730
Other assets	1,657	1,716	16,101
Less allowance for doubtful receivables	(193)	(148)	(1,875)
Total investments and other assets	<b>44,599</b>	36,533	<b>433,337</b>
<b>Total assets</b>	<b>¥233,985</b>	¥203,057	<b>\$2,273,466</b>

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2014	2013	2014
<b>Liabilities and Net assets</b>			
Current liabilities:			
Short-term loans payable (Note 8)	¥5,826	¥6,098	\$56,607
Current portion of long-term loans payable	10,119	71	98,319
Notes and accounts payable-trade	35,266	28,026	342,654
Income taxes payable (Note 10)	5,862	3,222	56,957
Provision for product warranties	1,087	1,106	10,562
Provision for loss on order received	-	15	-
Other current liabilities	15,002	13,784	145,764
Total current liabilities	73,162	52,322	710,863
Long-term liabilities:			
Bonds payable (Note 8)	10,000	10,000	97,163
Long-term loans payable	259	10,220	2,517
Accrued severance and retirement benefits:			
Employees (Note 12)	-	7,022	-
Directors and corporate statutory auditors	208	187	2,021
Liability for retirement benefit	7,112	-	69,102
Deferred tax liabilities (Note 10)	1,476	1,377	14,341
Other long-term liabilities	2,297	1,071	22,318
Total long-term liabilities	21,352	29,877	207,462
Net assets (Note 11)			
Common stock:			
Authorized: 400,000,000 shares, Issued: 128,265,799 shares	10,000	10,000	97,163
Capital surplus	19,011	19,027	184,716
Retained earnings	94,225	83,607	915,517
Treasury stock, at cost 1,736,737 shares in 2014, 828,516 shares in 2013	(2,987)	(740)	(29,023)
Total shareholders' equity	120,249	111,894	1,168,373
Accumulated other comprehensive income			
Valuation difference on other securities	1,784	1,294	17,334
Deferred gains or losses on hedges	(2)	(0)	(20)
Foreign currency translation adjustments	9,322	851	90,575
Remeasurements of defined benefit plans	(309)	-	(3,002)
Total accumulated other comprehensive income	10,795	2,145	104,887
Subscription rights to shares	306	304	2,974
Minority interests	8,121	6,515	78,906
Total net assets	139,471	120,858	1,355,140
Total liabilities and net assets	¥233,985	¥203,057	\$2,273,465

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2014	2013	2014
Net sales (Note 20)	¥202,292	¥179,544	\$1,965,527
Cost of sales (Notes 13 and 20)	148,322	134,860	1,441,139
Gross profit	53,970	44,684	524,388
Selling, general and administrative expenses (Notes 13 and 20)	33,877	29,670	329,159
Operating income	20,093	15,014	195,229
Other income (expenses):			
Interest and dividend income	228	197	2,215
Interest expenses	(225)	(237)	(2,186)
Foreign exchange gain (loss), net	529	392	5,140
Equity in earnings of affiliates	3,226	2,148	31,345
Gain on sales of property, plant and equipment	200	47	1,943
Gain on negative goodwill	-	1,027	-
Loss on disposal of property, plant and equipment	(112)	(121)	(1,088)
Share exchange expenses	-	(53)	-
Gain on step acquisitions	104	-	1,010
Gain on sales of investments in capital	38	-	369
Loss on revision of retirement benefit plan (Note 12)	(837)	-	(8,133)
Environmental expenses	(65)	-	(632)
Loss on change in equity	(34)	-	(330)
Other, net	377	584	3,664
Total	3,429	3,984	33,317
Income before income taxes and minority interests	23,522	18,998	228,546
Income taxes (Note 10):			
Current	8,552	5,166	83,094
Deferred	(412)	433	(4,004)
	8,140	5,599	79,090
Income before minority interests	15,382	13,399	149,456
Minority interests	404	129	3,925
Net income	¥14,978	¥13,270	\$145,531

	(Yen)		(U.S. dollars) (Note 1)
	2014	2013	2014
Earnings per share of common stock			
Basic net income per share	¥117.95	¥104.57	\$1.15
Diluted net income per share	117.78	104.39	1.14
Net assets per share	1,035.68	894.86	10.06
Cash dividends applicable to the year per share	38.00	34.00	0.37

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Nabtesco Corporation and Consolidated Subsidiaries

Years ended March 31, 2014 and 2013

	(Millions of Yen)		(Thousands of U.S. dollars) (Note 1)
	2014	2013	2014
Income before minority interests	¥15,382	¥13,399	\$149,456
Other comprehensive income			
Valuation difference on other securities	450	253	4,372
Deferred gains or losses on hedges	(1)	(0)	(10)
Foreign currency translation adjustments	9,839	4,892	95,599
Remeasurements of defined benefit plans, net of tax	(309)	-	(3,002)
Share of other comprehensive income of associates accounted for using equity method	242	112	2,351
Total other comprehensive income	10,221	5,257	99,310
Comprehensive income	25,603	18,656	248,766
Comprehensive income attributable to:			
Owners of the parent	23,628	17,829	229,576
Minority interests	1,975	827	19,190

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

Nabtesco Corporation and Consolidated Subsidiaries

Year ended March 31, 2013

*(Millions of yen)*

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2012</b>	127,212,607	¥10,000	¥17,446	¥74,816	¥(754)	¥101,508
Increase by share exchanges	1,053,192	-	1,583	-	-	1,583
Cash dividends	-	-	-	(4,466)	-	(4,466)
Net income	-	-	-	13,270	-	13,270
Purchase of treasury stock	-	-	-	-	(3)	(3)
Disposal of treasury stock	-	-	(2)	-	14	12
Retirement of treasury stock	-	-	-	-	3	3
Staff and workers bonuses and welfare fund	-	-	-	(13)	-	(13)
Net changes of items other than shareholders' equity	-	-	-	-	-	-
<b>Balance at March 31, 2013</b>	128,265,799	¥10,000	¥19,027	¥83,607	¥(740)	¥111,894

*(Millions of yen)*

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2013</b>	128,265,799	¥10,000	¥19,027	¥83,607	¥(740)	¥111,894
Cash dividends	-	-	-	(4,357)	-	(4,357)
Net income	-	-	-	14,978	-	14,978
Purchase of treasury stock	-	-	-	-	(2,383)	(2,383)
Disposal of treasury stock	-	-	(16)	-	136	120
Staff and workers bonuses and welfare fund	-	-	-	(3)	-	(3)
Net changes of items other than shareholders' equity	-	-	-	-	-	-
<b>Balance at March 31, 2014</b>	128,265,799	¥10,000	¥19,011	¥94,225	¥(2,987)	¥120,249

(Millions of yen)

	Valuation difference on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total Accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
<b>Balance at April 1, 2012</b>	¥1,023	¥(0)	¥(3,438)	¥(2,415)	¥209	¥8,165	¥107,467
Increase by share exchanges	-	-	-	-	-	-	1,583
Cash dividends	-	-	-	-	-	-	(4,466)
Net income	-	-	-	-	-	-	13,270
Purchase of treasury stock	-	-	-	-	-	-	(3)
Disposal of treasury stock	-	-	-	-	-	-	12
Retirement of treasury stock	-	-	-	-	-	-	3
Staff and workers bonuses and welfare fund	-	-	-	-	-	-	(13)
Net changes of items other than shareholders' equity	271	-	4,289	4,560	95	(1,650)	3,005
<b>Balance at March 31, 2013</b>	¥1,294	¥(0)	¥851	¥2,145	¥304	¥6,515	¥120,858

(Millions of yen)

	Valuation difference on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasur- ements of defined benefit plans	Total Accumulated other comprehensiv e income	Subscription rights to shares	Minority interests	Total net assets
<b>Balance at April 1, 2013</b>	¥1,294	¥(0)	¥851	-	¥2,145	¥304	¥6,515	¥120,858
Cash dividends	-	-	-	-	-	-	-	(4,357)
Net income	-	-	-	-	-	-	-	14,978
Purchase of treasury stock	-	-	-	-	-	-	-	(2,383)
Disposal of treasury stock	-	-	-	-	-	-	-	120
Staff and workers bonuses and welfare fund	-	-	-	-	-	-	-	(3)
Net changes of items other than shareholders' equity	490	(2)	8,471	(309)	8,650	2	1,606	10,258
<b>Balance at March 31, 2014</b>	¥1,784	¥(2)	¥9,322	¥(309)	¥10,795	¥306	¥8,121	¥139,471

See accompanying notes to consolidated financial statements.



(Thousands of U.S. dollars)  
(Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2013</b>	<b>\$97,163</b>	<b>\$184,872</b>	<b>\$812,349</b>	<b>\$(7,190)</b>	<b>\$1,087,194</b>
Cash dividends	-	-	(42,334)	-	(42,334)
Net income	-	-	145,531	-	145,531
Purchase of treasury stock	-	-	-	(23,154)	(23,154)
Disposal of treasury stock	-	(156)	-	1,321	1,165
Staff and workers bonuses and welfare fund	-	-	(29)	-	(29)
Net changes of items other than shareholders' equity	-	-	-	-	-
<b>Balance at March 31, 2014</b>	<b>\$97,163</b>	<b>\$184,716</b>	<b>\$915,517</b>	<b>\$(29,023)</b>	<b>\$1,168,373</b>

(Thousands of U.S. dollars)  
(Note 1)

	Valuation difference on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
<b>Balance at April 1, 2013</b>	<b>\$12,573</b>	-	<b>\$ 8,269</b>	-	<b>\$ 20,841</b>	<b>\$2,954</b>	<b>\$63,302</b>	<b>\$1,174,291</b>
Cash dividends	-	-	-	-	-	-	-	(42,334)
Net income	-	-	-	-	-	-	-	145,531
Purchase of treasury stock	-	-	-	-	-	-	-	(23,154)
Disposal of treasury stock	-	-	-	-	-	-	-	1,165
Staff and workers bonuses and welfare fund	-	-	-	-	-	-	-	(29)
Net changes of items other than shareholders' equity	4,761	(19)	82,306	(3,002)	84,046	20	15,604	99,670
<b>Balance at March 31, 2014</b>	<b>\$17,334</b>	<b>\$(19)</b>	<b>\$90,575</b>	<b>\$(3,002)</b>	<b>\$104,887</b>	<b>\$2,974</b>	<b>\$78,906</b>	<b>\$1,355,140</b>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**  
Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2014	2013	2014
<b>Operating activities:</b>			
Income before income taxes and minority interests	¥23,522	¥18,998	\$228,546
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,601	7,924	73,853
Amortization of goodwill	1,501	966	14,584
Gain on negative goodwill	-	(1,027)	-
Share-based compensation expenses	122	108	1,185
Reversal of accrued severance and retirement benefits	(411)	(299)	(3,993)
Reversal of allowance for doubtful receivables	60	(86)	583
Equity in earnings of affiliates	(3,226)	(2,148)	(31,345)
Interest and dividend income	(228)	(197)	(2,215)
Interest expenses	225	237	2,186
Gain on sales of property, plant and equipment	(200)	(47)	(1,943)
Loss on disposal of property, plant and equipment	112	121	1,088
Gain on sales and valuation of investments in capital	(38)	-	(369)
Gain on step acquisitions	(104)	-	(1,010)
Loss on change in equity	34	-	330
Changes in notes and accounts receivable - trade	(5,026)	2,920	(48,834)
Changes in inventories	701	626	6,811
Changes in other assets	920	260	8,939
Changes in notes and accounts payable - trade	5,440	(7,570)	52,857
Changes in consumption tax payable	(15)	143	(146)
Changes in other liabilities	2,255	(1,674)	21,911
Others, net	(0)	(209)	(0)
Sub-total	33,245	19,046	323,018
Interest and dividends received	650	641	6,316
Interest paid	(238)	(243)	(2,313)
Income taxes paid	(6,059)	(6,492)	(58,871)
Net cash provided by operating activities	27,598	12,952	268,150
<b>Investing activities:</b>			
Deposit in time deposits	¥(145)	¥(130)	\$(1,409)
Proceeds from withdraw of time deposits	311	-	3,022
Purchases of property, plant and equipment	(6,331)	(12,874)	(61,514)
Proceeds from sales of property, plant and equipment	365	84	3,546
Purchases of intangible assets	(1,291)	(1,068)	(12,544)
Proceeds from sales of intangible assets	16	0	156
Purchases of investment securities	(135)	(14)	(1,312)
Proceeds from sales of investment securities	10	501	97
Proceeds from sales of golf club memberships	-	14	-
Purchases of investments in affiliates	(77)	(64)	(748)
Proceeds from sales of investments in capital	145	-	1,409
Purchases of investments in capital of subsidiaries	(393)	-	(3,818)
Purchases of investments in capital of subsidiaries resulting in change in scope of consolidation	(464)	(82)	(4,508)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	3	-	29
Collection of loans receivable	0	3	0
Others, net	(78)	(64)	(758)

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2014	2013	2014
<b>Financing activities:</b>			
Net decrease in short-term loans payable	(1,255)	(5,649)	(12,194)
Repayments of long-term loans payable	(122)	(68)	(1,185)
Proceeds from stock issuance to minority shareholders	53	706	515
Purchases of treasury stock	(2,384)	(2)	(23,164)
Proceeds from sales of treasury stock	0	1	0
Dividends paid	(4,468)	(5,078)	(43,412)
Net cash used in financing activities	(8,176)	(10,090)	(79,440)
Effect of exchange rate changes on cash and cash equivalents	1,967	1,009	19,112
Increase (decrease) in cash and cash equivalents	13,325	(9,823)	129,470
Cash and cash equivalents at the beginning of the year (Note 4)	40,200	50,023	390,594
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(472)	-	(4,586)
Cash and cash equivalents at the end of the year (Note 4)	¥53,053	¥40,200	\$515,478

*See accompanying notes to consolidated financial statements.*

## Notes to Consolidated Financial Statements

Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

### 1. Description of Business and Basis of Presenting Consolidated Financial Statements

#### (1) Description of business

Nabtesco Corporation (the “Company”), a Japanese corporation, was established as a holding company on September 29, 2003, through a stock transfer process, by TS Corporation (formerly Teijin Seiki Co., Ltd.) and NABCO Ltd. As a result of the stock transfer, both TS Corporation and NABCO Ltd. became wholly owned subsidiaries of the Company.

The Company completed its business integration through the acquisition of the two wholly owned subsidiaries on October 1, 2004.

The main products of the Company and its consolidated subsidiaries (the “Companies”) include precision equipment, transport equipment, aircraft and oil hydraulic equipment, and industrial equipment.

#### (2) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted principles prevailing in the respective countries of domicile. The accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standard or U.S. generally accepted accounting principles, with adjustment for the specific five items as applicable.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which is ¥102.92 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

### (1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 47 subsidiaries. All significant inter-company transactions, account balances and unrealized profits are eliminated in consolidation.

Investments in 10 affiliated companies (generally 20% to 50% owned), over which the Company has the ability to exercise significant influence over operating and financial policy, are accounted for by the equity method.

### (2) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand and short-term investments which are readily convertible to cash subject to an insignificant risk of changes in value and which are purchased with an original maturity of three months or less. See Note 5 as to reconciliation to cash and deposits on the balance sheets.

### (3) Allowance for doubtful receivables

The allowance for doubtful receivables is provided in amounts management considers sufficient to cover possible losses on collection. The allowance is based on past collection experience and management estimate of the collectability of individual receivables.

### (4) Provision for loss on order received

To cover the future losses relating to order received, the provision is recorded when the future losses are anticipated and the losses are reasonably estimated.

### (5) Securities

The Companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity, (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "other securities") The Companies have no trading securities at March 31, 2014 and 2013.

Held-to-maturity debt securities are expected to be held to maturity and are recognized at amortized cost computed based on the straight-line method. Other securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of Net assets. Realized gains

and losses on sale of such securities are computed using the moving-average cost method. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies, and other securities declines significantly, such securities are written down to their fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. For equity securities with no available fair market value, if the net asset amount of the investee declines significantly, such securities are written down to the net asset amount in the income statement in the period of decline. In these cases, such fair market value or net asset amount will be the carrying amount of the securities at the beginning of the next year.

### (6) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at the lower of the cost or net realizable value, while inventories of its consolidated foreign subsidiaries are principally stated at the lower of cost or market.

The evaluation methods for the cost of inventories are as follows:

Inventories	Evaluation method
Finished goods and Work in process	Mainly weighted average method (however certain finished goods and work in process are determined by the specific identification method)
Raw materials and Supplies	Mainly weighted average method (however certain raw materials and supplies are determined by moving average method)

### (7) Property, plant and equipment

Property, plant and equipment are stated at cost. The Company and its consolidated domestic subsidiaries calculate depreciation mainly by the declining-balance method over the estimated useful lives of the respective assets, except for the buildings acquired on or after April 1, 1998, and owned by the Company, which are depreciated by the straight-line method over the estimated useful lives of the respective assets. In addition, the Company and its consolidated domestic subsidiaries depreciate Machinery and equipment, whose acquisition cost is ¥100 thousand or more but less than ¥200 thousand, over a period of three years on a straight-line basis. The consolidated foreign subsidiaries calculate depreciation mainly by the straight-line method over the estimated useful lives of the respective assets.

Depreciation of assets acquired by the domestic companies after March 31, 2007 is calculated mainly by the straight-line method under the amended tax code for building, not including building fixtures and by the declining-balance method under the amended tax code for the remaining assets.

**(8) Lease assets**

Property, plant and equipment capitalized under finance lease arrangements are depreciated over the lease term of the respective assets. Finance leases which do not transfer ownership of the leased property to the lessee commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain “as if capitalized” information.

**(9) Derivative financial instruments and hedging transactions**

The Companies use derivative financial instruments only for the purpose of mitigating fluctuation risk of interest rates with respect to loans payable and future risk of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and payables.

The basic policies for executing the derivative transactions are managed by the Board of Directors of the Company. Based on such policies, the finance departments of each company establish the internal regulations which prescribe the specified limits and procedures on the derivative transactions. After execution, each finance department has to report certain information on derivative transactions to the Board of Directors of the Company.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments	Hedged items
Interest rate swap contracts:	Loans payable
Forward foreign exchange contracts:	Foreign currency trade receivables and trade payables

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in fair value of the hedging derivative instruments.

The Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments meet the criteria for hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

If forward foreign exchange contracts are used as hedges and meet certain hedging criteria, hedging instruments and hedged items are accounted for in the following manner:

- 1) When a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
  - (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
  - (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract
- 2) When a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract or the forward foreign currency options are recognized.

**(10) Amortization**

Goodwill is amortized using straight-line method over a period within twenty years. However, if the amount is insignificant, it is expensed as incurred.

Software is amortized using the straight-line method over the estimated useful lives (five years).

**(11) Research and development costs**

Research and development costs are expensed as incurred.

**(12) Income taxes**

The Companies recognize tax effects of timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax reporting purpose. Income taxes comprise of corporation tax, enterprise tax and prefectural and municipal inhabitants taxes.

**(13) Provision for product warranties**

Provision for product warranties is provided to cover the estimated cost for customers' claims relating to after sales repairs.



**(14) Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Financial statements of consolidated foreign subsidiaries are translated into Japanese yen at the year-end rates, except that shareholders' equity are translated at historical rates and income statement items resulting from transactions with the Company are translated at the rates used by the Company when the transactions occurred. Foreign currency transaction adjustment is reported in net assets.

**(15) Appropriation of retained earnings**

Under the Japanese Corporate law, the appropriation of retained earnings with respect to a given financial period is made by a resolution of the shareholders at a general meeting held subsequent to the close of such financial period. Therefore, the accounts for that period do not reflect such appropriations. (See Note 22)

**(16) Retirement benefits**

The Company and certain of its consolidated subsidiaries provide two types of retirement and severance benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and certain of its consolidated subsidiaries provide allowance for employees' severance and retirement benefits at the end of year based on estimated amounts of projected benefit obligations, actuarially calculated using certain assumptions and the fair value of the plan assets at the date. Past service costs are recognized as expense when incurred, and actuarial gains and losses are recognized as expense from the following fiscal year using the declining-balance method over a certain period (10 years) not exceeding the average of estimated remaining service period.

**(Change in accounting policy)**

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No.26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No.25")) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and actuarial gains and losses that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits.

In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, a liability for retirement benefits in the amount of ¥7,112 million (\$69,102 thousand) has been recognized and accumulated other comprehensive income has decreased by ¥309 million (\$3,002 thousand), at the end of the current fiscal year.

The effects of this change on earnings per share are described in the related note.

(Additional information)

The Company amended its retirement benefit plan on July 1, 2013. The purpose of this amendment is to raise the proportion of defined contributions in the overall retirement benefit plan from the 30% to 60% by terminating the defined-benefit pension plan and to transfer the entire amount to the defined-contribution pension plan. Following this amendment to the pension plan, an extraordinary loss of ¥837million (\$8,133 thousand) has been recognized at the current fiscal year end.

### **(17) Earnings per share**

The computation of basic net income per share is calculated based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is calculated based on the weighted average number of shares of common stock after consideration of dilution that securities or other contracts to issue common stock are exercised or converted into common stock, or resulted into issuance of common stock.

Amounts per share of net assets are calculated based on the number of shares of common stock outstanding at the year-end.

Cash dividends per share include interim dividends of the Company proposed by the Board of Directors in addition to year-end dividends approved by shareholders at the annual meeting held subsequent to the end of fiscal year.

### **(18) Recognition of significant revenues and expenses**

Accounting for construction of completions

When the construction work is in progress at year end and the progress rate of construction work up to that time is deemed certain, the percentage-of-completion method is applied. The progress rate is estimated using cost-to-cost method.

When the above condition is not met, the completed-contract method is applied.

## **3. Accounting standards issued but not yet applied**

- Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)
- Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(Please also refer to the ASBJ homepage , which has a summary in English of the accounting standard.)

#### 1) Summary

From the viewpoint of improvements to financial reporting and international convergence, accounting treatment for actuarial gains and losses and past service costs that are yet to be recognized in profit or loss, determination of retirement benefit obligations and current service costs, and enhanced disclosures have been amended.

2) Effective dates

Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

3) Effect of application of the standard

As a result of applying the above accounting standard and guidance, operating income, and income before income taxes and minority interests for the year ending March 31, 2015 would be decreased by ¥11 million (\$107 thousand), respectively.

#### 4. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents to the amounts shown in the consolidated balance sheets

Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2014 and 2013 is as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Cash and deposits in the consolidated balance sheets	¥25,726	¥13,905	\$249,961
Time deposits with maturities extending over three months	(672)	(703)	(6,529)
Short-term investment securities	27,999	26,998	272,046
Cash and cash equivalents in the consolidated statements of cash flows	¥53,053	¥40,200	\$515,478

#### 5. Financial Instruments

##### (1) Qualitative information on financial instruments

1) Policies for using financial instruments

The Company raises fund that required under its business primarily from loans payable and bond issues. And the Company manages surplus funds using financial instruments that carry little or no risk. The Company uses derivatives to mitigate the risk that are described below, and as a matter of policy does not use derivatives for speculative transactions.

2) Details of financial instruments used and the exposures to risk and how they arise

Trade notes and accounts receivable are exposed to customer credit risk. In addition, the Company is exposed to foreign currency exchange risk arising from receivables

denominated in foreign currencies. The Company uses a derivative transaction including forward foreign exchange contracts to hedge the risk of exchange fluctuations associated with receivables denominated in foreign currencies. Short-term investment securities and other securities are mainly consist of held-to-maturity debt securities and securities for strengthening of the relationship with counterparty and exposed to market price risk.

Loans payable and bonds payable are taken out principally for the purpose of making capital investments. The repayment dates of long term loans payable extend up to five years beyond the date of the closing of accounts.

The Company uses foreign exchange forward contracts to reduce the risk of foreign exchange rate fluctuation that arise from receivables and payables denominated in foreign currencies.

### 3) Policies and processes for managing the risk

#### (a) Credit risk management (counterparty risk)

The Company has prepared regulations for managing its credit exposure and business receivables. The Company manages amounts and settlement dates by counterparty and works to early identify and mitigate payment risk that may result from situations including deterioration of the financial condition of counterparties. Consolidated subsidiaries are subject to the same risk management rules.

Held-to-maturity debts securities carry little credit risk because are intended highly-rated company under the fund management.

The Company conducts only with highly credit financial institution under the risk management policy when using derivatives.

#### (b) Market risk management

The Company and some consolidated subsidiaries use a derivative transaction including forward foreign exchange contract to hedge the risk of exchange fluctuations associated with receivables denominated in foreign currencies.

For short-term investment securities, the Company examines fair value and the financial condition of the issuing entities. In addition, for all securities other than those classified as held-to-maturity debt securities the Company regularly revises its portfolio based on its relationships with issuing entities, and interest rate swap transactions to hedge against interest rate risks on long-term loans payable.

For derivative transactions, the basic policies for executing the derivative transactions are managed by the Board of Directors of the Company. Based on such policies, the finance departments of each company establish the internal policies which prescribe the specified limits and procedures on the derivative transactions. After execution, each finance department has to report certain information on derivative transactions to the Board of Directors of the Company.

## (c) Liquidity risk management

The Accounting Department manages liquidity risk for the company by making and updating a capital deployment plan based on reports from each division. In addition, the Company manages liquidity risk by keeping high leveled liquidity on hand due to the unstable financial market.

## 4) Supplemental information on fair values

The fair value of financial instruments is based on market prices, or a reasonable estimate of fair value for instruments for which market prices are not available. Estimates of fair value are subject to fluctuation due to the variable factors and assumption. In addition, the contractual amounts of the derivatives transactions discussed in “Derivative Financial Instruments” below are not an indicator of the market risk associated with derivatives transactions.

## (2) Fair value of financial instruments

Fair value and difference compared to the book value reported in the balance sheets as of March 31, 2014 and 2013 are as follows. Please note that for those items of which obtaining an estimates fair value is deemed to be extremely difficult, such differences are not shown (Please refer to Note 2).

	<i>(Millions of yen)</i>		
	<b>2014</b>		
	<b>Book value reported in the balance sheet</b>	<b>Fair value</b>	<b>Difference</b>
(1)Cash and deposits	¥25,726	¥25,726	¥-
(2)Trade notes and accounts receivable	52,840	52,840	-
(3)Short-term and long-term investment securities			
1) Held-to-maturity debt securities	27,999	27,999	-
2) Other securities	5,669	5,669	-
3) Securities issued by affiliates companies	4,182	19,023	14,841
Assets	<b>116,416</b>	<b>131,257</b>	<b>14,841</b>
(1)Trade notes and accounts payable	35,266	35,266	-
(2)Short-term loans payable	5,826	5,826	-
(3)Current portion of long-term debt	10,119	10,119	-
(4)Bonds payable	10,000	10,078	78
(5)Long-term loans payable	259	261	2
Liabilities	<b>61,470</b>	<b>61,550</b>	<b>80</b>
Derivatives	(3)	(3)	-

<i>(Millions of yen)</i>			
<b>2013</b>			
	<b>Book value reported in the balance sheet</b>	<b>Fair value</b>	<b>Difference</b>
(1)Cash and deposits	¥13,905	¥13,905	¥-
(2)Trade notes and accounts receivable	45,132	45,132	-
(3)Short-term and long-term investment securities			
1) Held-to-maturity debt securities	26,998	26,998	-
2) Other securities	4,843	4,843	-
3) Securities issued by affiliates companies	3,703	10,320	6,617
Assets	94,581	101,198	6,617
(1)Trade notes and accounts payable	28,026	28,026	-
(2)Short-term loans payable	6,098	6,098	-
(3)Current portion of long-term debt	71	71	-
(4)Bonds payable	10,000	10,101	101
(5)Long-term loans payable	10,220	10,243	23
Liabilities	54,415	54,539	124
Derivatives	0	0	-

(Thousands of U.S. dollars)

	<b>2014</b>		
	<b>Book value reported in the balance sheet</b>	<b>Fair value</b>	<b>Difference</b>
(1)Cash and deposits	\$249,961	\$249,961	\$ -
(2)Trade notes and accounts receivable	513,408	513,408	-
(3)Short-term and long-term investment securities			
1) Held-to-maturity debt securities	272,046	272,046	-
2) Other securities	55,082	55,082	-
3) Securities issued by affiliates companies	40,634	184,833	144,199
<b>Assets</b>	<b>1,131,131</b>	<b>1,275,330</b>	<b>144,199</b>
(1)Trade notes and accounts payable	342,654	342,654	-
(2)Short-term loans payable	56,607	56,607	-
(3)Current portion of long-term debt	98,319	98,319	-
(4)Bonds payable	97,163	97,921	758
(5)Long-term loans payable	2,517	2,536	19
<b>Liabilities</b>	<b>597,260</b>	<b>598,037</b>	<b>777</b>
Derivatives	(29)	(29)	-

Note: The value of assets and liabilities arising from derivatives is shown at net value.

Note1: Methods for computing the estimated fair value of financial instruments and securities and derivative transactions

#### Assets

- (1) Cash and deposits and (2)Trade notes and account receivable

Since these items are settled in a short period of time and have estimated values that are virtually the same as book value, the book value is used.

- (3) Short-term and long-term investment securities

Stocks are valued at the exchange trading price. Bonds are valued at the exchange trading price or at the price provided by the financial institutions. For information on securities classified as purpose of holding, please refer to the “Securities” section of the notes to the financial statement.

#### Liabilities

- (1) Trade notes and accounts payable, (2) Short-term loans payable and (3) Current portion of long-term debt

Since these items are settled in a short period of time and have estimated fair values that are virtually the same as the book value, the book value is used.

(4) Bonds payable

Bonds payable is valued at the exchange trading price or at the price provided by the financial institutions.

(5) Long-term loans payable

The fair values of long-term bank loans are calculated by the total sum of the principal discounted by the interest rates that would apply if similar borrowings were conducted anew. The fair values of long-term bank loans for which the special accounting method for interest-rate swaps is applied are calculated by the total sum of the principal (accounted for together with the interest-rate swaps) discounted by interest rates that would apply if similar borrowings were conducted anew.

Derivatives

Please refer to the “Derivatives” section of the notes to the financial statement.

Note2: Items for which obtaining an estimated fair value is deemed to be extremely difficult

Items	(Millions of yen)	(Thousands of U.S. dollars)
	<b>2014</b>	
	<b>Book value</b>	
Unlisted stocks	¥122	\$1,186
Securities issued by affiliate companies	11,211	108,929

Items	(Millions of yen)	(Thousands of U.S. dollars)
	<b>2013</b>	
	<b>Book value</b>	
Unlisted stocks	¥122	\$1,297
Securities issued by affiliate companies	8,233	87,539

The unlisted stocks and securities issued by affiliate companies in the below table are not included in the above table because there is no fair value available.



Note3: Scheduled redemption of monetary claims and short-term and long-term investment securities at March 31, 2014 and 2013.

(Millions of yen)

	<b>2014</b>			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
(1)Cash and deposits	¥25,726	¥-	¥-	¥-
(2)Trade notes and account receivables	52,840	-	-	-
(3)Short-term and long-term investment securities				
①Held-to-maturity debt securities				
Certificate of deposit	15,000	-	-	-
Commercial paper	13,000	-	-	-

(Millions of yen)

	<b>2013</b>			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
(1)Cash and deposits	¥13,905	¥-	¥-	¥-
(2)Trade notes and account receivables	45,132	-	-	-
(3)Short-term and long-term investment securities				
①Held-to-maturity debt securities				
Certificate of deposit	20,000	-	-	-
Commercial paper	7,000	-	-	-

(Thousands of U.S. dollars)

	<b>2014</b>			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
(1)Cash and deposits	\$249,961	\$-	\$-	\$-
(2)Trade notes and account receivables	513,408	-	-	-
(3)Short-term and long term investment securities				
①Held-to-maturity debt securities				
Certificate of deposit	145,744	-	-	-
Commercial paper	126,302	-	-	-

Note4: Maturities of bonds payable and long-term loans payable at March 31, 2014 and 2013.

*(Millions of yen)*

<b>2014</b>						
	<b>Within 1 year</b>	<b>Over 1 year but within 2 years</b>	<b>Over 2 years but within 3 years</b>	<b>Over 3 years but within 4 years</b>	<b>Over 4 years but within 5 years</b>	<b>Over 5 years</b>
Bonds payable	¥-	¥-	¥10,000	¥-	¥-	¥-
Long-term loans payable	10,119	120	110	29	-	-
Total	¥10,119	¥120	¥10,110	¥29	¥-	¥-

*(Millions of yen)*

<b>2013</b>						
	<b>Within 1 year</b>	<b>Over 1 year but within 2 years</b>	<b>Over 2 years but within 3 years</b>	<b>Over 3 years but within 4 years</b>	<b>Over 4 years but within 5 years</b>	<b>Over 5 years</b>
Bonds payable	¥-	¥-	¥-	¥10,000	¥-	¥-
Long-term loans payable	71	10,071	71	71	7	-
Total	¥71	¥10,071	¥71	¥10,071	¥7	¥-

*(Thousands of U.S. dollars)*

<b>2014</b>						
	<b>Within 1 year</b>	<b>Over 1 year but within 2 years</b>	<b>Over 2 years but within 3 years</b>	<b>Over 3 years but within 4 years</b>	<b>Over 4 years but within 5 years</b>	<b>Over 5 years</b>
Bonds payable	\$-	\$-	\$97,163	\$-	\$-	\$-
Long-term loans payable	98,319	1,166	1,069	282	-	-
Total	\$98,319	\$1,166	\$98,232	\$282	\$-	\$-

## 6. Securities

Information on securities at March 31, 2014 and 2013 are shown below.

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2014 and 2013:

(Other securities)

(1) Securities with book values exceeding acquisition costs:

*(Millions of yen)*

Type	2014		
	Acquisition cost	Book value	Difference
Equity securities	¥2,419	¥5,272	¥2,853
Total	¥2,419	¥5,272	¥2,853

*(Millions of yen)*

Type	2013		
	Acquisition cost	Book value	Difference
Equity securities	¥2,297	¥4,445	¥2,148
Total	¥2,297	¥4,445	¥2,148

*(Thousands of U.S. dollars)*

Type	2014		
	Acquisition cost	Book value	Difference
Equity securities	\$23,504	\$51,224	\$27,720
Total	\$23,504	\$51,224	\$27,720

(2) Securities with book values not exceeding acquisition costs:

*(Millions of yen)*

Type	2014		
	Acquisition cost	Book value	Difference
Equity securities	¥440	¥397	¥(43)
Total	¥440	¥397	¥(43)

*(Millions of yen)*

Type	2013		
	Acquisition cost	Book value	Difference
Equity securities	¥441	¥398	¥(43)
Total	¥441	¥398	¥(43)

*(Thousands of U.S. dollars)*

Type	2014		
	Acquisition cost	Book value	Difference
Equity securities	\$4,275	\$3,857	\$(418)
Total	\$4,275	\$3,857	\$(418)

The Companies recognize impairment loss on the securities, whose available fair values decline more than 50% of the carrying amount, based on the Japanese accounting standard for financial instruments and guidelines concerning the accounting for financial instruments.

The following tables summarize book values of securities without market prices as of March 31, 2014 and 2013:

(Other securities)

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2014	2013	2014
Unlisted equity securities	¥122	¥122	\$1,186
Total	¥122	¥122	\$1,186

(Held-to-maturity debt securities)

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2014	2013	2014
Certificate of deposit	¥15,000	¥20,000	\$145,744
Commercial paper	12,999	6,998	126,302

Total sales of other securities and the related gain and loss in the years ended March 31, 2014 and 2013 are as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Sales of other securities	¥-	¥509	\$-
Gain on sales of other securities	-	207	-
Loss on sales of other securities	-	6	-

## 7. Inventories

Inventories at March 31, 2014 and 2013 consisted of the followings:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Finished goods	¥5,366	¥3,957	\$52,138
Works in process	7,906	7,808	76,817
Raw materials and supplies	8,962	8,765	87,077
Total inventories	¥22,234	¥20,530	\$216,032

## 8. Short-term Loans Payable and Long-term Debt

Short-term loans payable at March 31, 2014 and 2013 represented bank notes with interest rates ranging from 0.35% to 14.0% and from 0.36% to 6.30% per annum, respectively.

Long-term debt at March 31, 2014 and 2013 consist of the followings:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Loans, principally from banks			
due July 2014 (with interest rate of 0.45%)	¥10,000	¥10,000	\$97,163
due October 2016 (with interest rate of 4.18%)	221	259	2,147
due April 2017 (with interest rate of 3.00%)	25	32	243
due October 2017 (with interest rate of 3.00%)	100	-	972
due March 2016 (with interest rate of 2.57%)	32	-	311
Straight bonds			
due December 2016 (with interest rate of 0.64%)	10,000	10,000	97,163
Total	¥20,378	¥20,291	\$197,999
Less current portion	(10,119)	(71)	(98,319)
Long-term debt, net	¥10,259	¥20,220	\$99,680

Maturities of long-term debt at year end are shown in “Note 6 Financial Instruments”.

## 9. Leases

Finance leases, which do not transfer ownership of the leased property to the lessee commenced prior to April 1, 2008 and were accounted for as operating leases, continue to be accounted for as operating leases.

The following pro forma amounts present the acquisition costs, accumulated depreciation and the net book value of the above operating leases as of March 31, 2014 and 2013.

*(Millions of yen)*

	<b>2014</b>		
	<b>Acquisition costs</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Machinery and equipment	¥-	¥-	¥-
Intangible assets	-	-	-
Total	¥-	¥-	¥-

*(Millions of yen)*

	<b>2013</b>		
	<b>Acquisition costs</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Machinery and equipment	¥42	¥41	¥1
Intangible assets	36	36	-
Total	¥78	¥77	¥1

*(Thousands of U.S. dollars)*

	<b>2014</b>		
	<b>Acquisition costs</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Machinery and equipment	\$-	\$-	\$-
Intangible assets	-	-	-
Total	\$-	\$-	\$-

Finance lease expenses for the year ended March 31, 2014 and 2013 are as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Lease expenses	¥1	¥11	\$10

The expenses above are also equivalent to depreciation expense.

Pro forma depreciation expense equivalents are computed by the straight-line method over the respective lease periods assuming no residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 and 2013 under finance leases other than those which transfer the ownership of the leased property to the Companies and operating leases are summarized as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Under finance leases:			
Payments due within one year	¥-	¥1	\$-
Total	¥-	¥1	\$-
Under operating leases:			
Payments due within one year	¥131	¥105	\$1,273
Payments due after one year	165	113	1,603
Total	¥296	¥218	\$2,876

## 10. Income Taxes and Deferred Income Taxes

The following table summarizes the significant differences between the statutory tax rates and the actual tax rates for financial statements for the years ended March 31, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Effective tax rate	<b>38.0%</b>	38.0%
Equity in earnings of affiliates	<b>(5.2)</b>	(4.3)
Permanent non-deductible expenses	<b>0.3</b>	0.3
Others	<b>1.5</b>	(4.5)
Actual tax rate	<b>34.6%</b>	29.5%

The tax effects of temporary differences, which give rise to a significant portion of the deferred tax assets and liabilities at March 31, 2014 and 2013, are summarized as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
<b>Deferred tax assets:</b>			
Net operating loss carry forwards	<b>¥1,051</b>	¥734	<b>\$10,212</b>
Accrued severance and retirement benefits	<b>2,603</b>	2,568	<b>25,292</b>
Accrued employees' bonuses	<b>1,332</b>	1,262	<b>12,942</b>
Other accrued expenses	<b>998</b>	469	<b>9,697</b>
Loss on devaluation of inventories	<b>141</b>	185	<b>1,370</b>
Loss on devaluation of investments in securities	<b>23</b>	31	<b>223</b>
Loss on devaluation of investments in affiliates	<b>192</b>	192	<b>1,866</b>
Loss on devaluation of golf club membership rights	<b>80</b>	88	<b>777</b>
Allowance for doubtful receivables	<b>20</b>	12	<b>194</b>
Provision for product warranties	<b>344</b>	378	<b>3,342</b>
Provision for loss on order received	<b>-</b>	6	<b>-</b>
Impairment loss	<b>117</b>	117	<b>1,137</b>
Others	<b>664</b>	668	<b>6,452</b>
	<b>7,565</b>	6,710	<b>73,504</b>
Less valuation allowance	<b>(1,603)</b>	(1,368)	<b>(15,575)</b>
Total deferred tax assets	<b>5,962</b>	5,342	<b>57,929</b>
<b>Deferred tax liabilities:</b>			
Deferred taxation on government contributions for acquisition of property, plant and equipment	<b>(1,607)</b>	(1,691)	<b>(15,614)</b>
Effect of differences between tax rates in Japan and other countries on undistributed earnings of foreign subsidiaries	<b>(1,218)</b>	(1,065)	<b>(11,834)</b>
Valuation difference on other securities	<b>(1,084)</b>	(844)	<b>(10,533)</b>
Others	<b>(554)</b>	(493)	<b>(5,383)</b>
Total deferred tax liabilities	<b>(4,463)</b>	(4,093)	<b>(43,364)</b>
Deferred tax assets, net	<b>¥1,499</b>	¥1,249	<b>\$14,565</b>



Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

In accordance with the promulgation of Act on Partial Revision of the income Tax Act on March 31, 2014, special corporate tax for reconstruction shall cease to impose on the Company from the year beginning on or after April 1, 2014. Due to this, in calculation of deferred tax assets and deferred tax liabilities for the year ended March 31, 2014, the effective tax rate was changed from 38.0% of the previous year to 35.6% for temporary difference that are expected to be eliminated in the period beginning from April 1, 2014. As a result, deferred tax assets less deferred tax liabilities have decreased by ¥155 million (\$1,506 thousand), and income taxes (deferred) have increased by ¥155 million (\$1,506 thousand) for the year ended March 31, 2014, respectively.

## 11. Net Assets

Under the Japanese Corporate Law, upon issuance of common stock, the entire amount of the issue price is required to be accounted for as common stock, although companies may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Japanese Corporate Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Japanese Corporate Law, however, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese Corporate Law.

## 12. Employee's Severance and Retirement Benefits

The liabilities for severance and retirement benefits include in the liability section of the consolidated balance sheets as of March 31, 2014 are consisted of the followings:

### Retirement benefit obligations

#### (1) Movement in retirement benefit obligations, except for the plan applied simplified method

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2014</b>
Balance at April 1, 2013	¥21,712	\$210,960
Service cost	1,145	11,125
Interest cost	281	2,730
Actuarial loss (gain)	(920)	(8,939)
Benefits paid	(1,890)	(18,363)
Past service cost	(233)	(2,264)
Decrease from termination of a plan	(4,558)	(44,287)
The effect of changes in foreign exchange rates	2,216	21,531
Balance at March 31, 2014	¥17,753	\$172,493

#### (2) Movement in plan assets, except for the plan applied simplified method

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2014</b>
Balance at April 1, 2013	¥13,706	\$133,171
Expected return on plan assets	195	1,895
Actuarial loss (gain)	659	6,403
Contributions by the employer	505	4,907
Contributions by the employee	319	3,099
Benefits paid	(1,282)	(12,456)
Decrease from termination of a plan	(3,279)	(31,860)
The effect of changes in foreign exchange rates	2,229	21,658
Balance at March 31, 2014	¥13,052	\$126,817

#### (3) Movement in liability for retirement benefits plan applying simplified method

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2014</b>
Balance at April 1, 2013	¥911	\$8,851
Retirement benefit costs	101	981
Benefits paid	(63)	(612)
Contributions to the plans	-	-
The effect of changes in foreign exchange rates	1	10
Balance at March 31, 2014	¥950	\$9,230

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2014</b>
Funded retirement benefit obligations	¥11,540	\$112,126
Plan assets	(13,052)	(126,817)
	(1,512)	(14,691)
Unfunded retirement benefit obligations	7,164	69,598
The effect of limiting a net defined asset to the asset ceiling	1,461	14,195
Total Net liability (asset) for retirement benefits at March 31, 2014	7,112	69,102
Liability for retirement benefits	7,112	69,102
Asset for retirement benefits	-	-
Total Net liability (asset) for retirement benefits at March 31, 2014	7,112	69,102

(5) Retirement benefit costs

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2014</b>
Service cost, excluding contributions by the employee	¥826	\$8,026
Interest cost	280	2,721
Expected return on plan assets	(195)	(1,895)
Net actuarial loss amortization	633	6,150
Past service costs amortization	(233)	(2,264)
Retirement benefit costs calculated by the simplified method	101	981
Others	4	39
Total retirement benefit costs for the fiscal year ended March 31, 2014	¥1,416	\$13,758

(6) Remeasurements of defined benefit plans

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2014</b>
Actuarial gains and losses that are yet to be recognized	¥(1,027)	\$(9,979)
The effect of limiting a net defined asset to the asset ceiling	1,456	14,147
Total	¥429	\$4,168

(7) Plan assets

1. Plan assets comprise:

	<b>2014</b>
Bonds	47%
Equity securities	29%
Cash and deposits	10%
Others	14%
<b>Total</b>	<b>100%</b>

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) are as follows:

	<b>2014</b>
Discount rate:	1.0%~2.1%
Long-term expected rate of return:	0.0%~2.1%

Defined contribution plan

(1) Retirement benefit costs

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2014</b>
Contributions to a defined contribution plan	<b>¥855</b>	<b>\$8,307</b>

The liabilities for severance and retirement benefits include in the liability section of the consolidated balance sheets as of March 31, 2013 are consisted of the followings:

	<i>(Millions of yen)</i>
	<b>2013</b>
Retirement benefit obligations	¥(22,626)
Plan assets	13,706
Unfunded retirement benefit obligations	(8,920)
Less unrecognized actuarial gains	2,444
Net accrued severance and retirement benefits for employees	(6,476)
The effect of limiting a net defined benefit asset to the asset ceiling	52
Prepaid pension cost	495
Accrued severance and retirement benefits for employees	¥(7,023)

Retirement benefit costs, included in the consolidated statements of income for the year ended March 31, 2013 are comprised of the followings:

	<i>(Millions of yen)</i>
	<b>2013</b>
Service costs	¥899
Interest cost	418
Expected return on plan assets	(258)
Amortization of actuarial losses	305
Contribution to defined contribution pension plan	250
Retirement benefit costs	¥1,614

Assumptions used for the year ended March 31, 2013 are set forth as follows:

	<b>2013</b>
Discount rate:	
Domestic and overseas companies	1.0% ~ 1.9%
Expected rate of return:	
Domestic and overseas companies	0.0% ~ 2.5%
Amortization of actuarial losses	10 years
Amortization period of past service cost	1 year

### 13. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2014 and 2013, in the aggregate, amount to ¥6,401 million (\$62,194 thousand) and ¥5,536 million, respectively.

### 14. Impairment Loss

The Companies base their grouping for assessing the impairment loss on fixed assets on its business segment. However, the Companies determine whether an asset is impaired on an individual assets basis if the asset is considered idle.

## 15. Comprehensive Income

Amounts reclassified to net income in the current period that are recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Valuation difference on other securities Increase(decrease) during the year	<b>¥698</b>	¥588	<b>\$6,782</b>
Reclassification adjustments	-	(199)	-
Sub-total, before tax	<b>698</b>	389	<b>6,782</b>
Tax effect	<b>(248)</b>	(136)	<b>(2,410)</b>
Sub-total, net of tax	<b>450</b>	253	<b>4,372</b>
Deferred gains or losses on hedges Increase(decrease) during the year	<b>(3)</b>	0	<b>(29)</b>
Reclassification adjustments	<b>0</b>	0	<b>0</b>
Sub-total, before tax	<b>(3)</b>	0	<b>(29)</b>
Tax effect	<b>2</b>	(0)	<b>19</b>
Sub-total, net of tax	<b>(1)</b>	(0)	<b>(10)</b>
Foreign currency translation adjustments			
Increase(decrease) during the year	<b>9,839</b>	4,892	<b>95,599</b>
Remeasurements of defined benefit plans			
Adjustments arising during the year	<b>(472)</b>	-	<b>(4,586)</b>
Reclassification adjustments to profit or loss	-	-	-
Amount before income tax effect	<b>(472)</b>	-	<b>(4,586)</b>
Tax effect	<b>163</b>	-	<b>1,584</b>
Total	<b>(309)</b>	-	<b>(3,002)</b>
Share of other comprehensive income of associates accounted for using equity method			
Increase(decrease) during the year	<b>242</b>	112	<b>2,351</b>
Total other comprehensive income	<b>¥10,221</b>	¥5,257	<b>\$99,310</b>

## 16. Derivative Financial Instruments

According to the accounting standard for derivative financial instruments, forward foreign exchange contracts and interest rate swap contracts which qualify for hedge accounting and such amounts of which are assigned to hedged assets or liabilities and are recorded on the balance sheets at March 31, 2014 and 2013, are not subject to disclosure of market value information.

There is no derivative financial instrument, for which hedge accounting is not applied, and therefore there is no derivative financial instruments subject to disclosure of market value information as of March 31, 2014 and 2013.

### (1) Foreign exchange forward contracts

Derivative financial instruments for which hedge accounting are applied as of March 31, 2014 are as follows:

Hedge accounting method	Type of derivative, etc	Main hedged items	(Millions of yen)		
			Contract amount	Portion over 1 year	Fair value
Deferral hedge method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	¥441	¥-	¥1
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	989	-	Note2

Hedge accounting method	Type of derivative, etc	Main hedged items	(Thousands of U.S. dollars)		
			Contract amount	Portion over 1 year	Fair value
Deferral hedge method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	\$4,285	\$-	\$10
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	9,609	-	Note2

Note1: Fair values are stated at the price provided by financial institutions etc.

Note2: Since amounts in foreign currency forward contracts treated by the allocation method are handled together with accounts receivable that are subject to hedging, the estimated fair value of such accounts receivable is shown as the estimated fair value in the table above.

Derivative financial instruments for which hedge accounting are applied as of March 31, 2013 are as follows:

<i>(Millions of yen)</i>					
Hedge accounting method	Type of derivative, etc	Main hedged items	Contract amount	Portion over 1 year	Fair value
Deferral hedge method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	¥155	¥-	¥ 1
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	848	-	Note2

Note1: Fair values are stated at the price provided by financial institutions etc.

Note2: Since amounts in foreign currency forward contracts treated by the allocation method are handled together with accounts receivable that are subject to hedging, the estimated fair value of such accounts receivable is shown as the estimated fair value in the table above.

(2) Interest rate swap contracts

Derivative financial instruments for which hedge accounting are applied as of March 31, 2014 are as follows:

<i>(Millions of yen)</i>					
Hedge accounting method	Type of derivative, etc	Main hedged items	Contract amount	Portion over 1 year	Fair value
Exceptional method for interest rate swap	Interest rate swap Receive floating, pay fixed	Current portion of long-term loans payable	¥10,000	-	Note

<i>(Thousands of U.S. dollars)</i>					
Hedge accounting method	Type of derivative, etc	Main hedged items	Contract amount	Portion over 1 year	Fair value
Exceptional method for interest rate swap	Interest rate swap Receive floating, pay fixed	Current portion of long-term loans payable	\$97,163	-	Note



Note: Interest rate swaps for which special treatment is applied are accounted for together with long-term debt designated as a hedged item. Therefore, their fair values are included in the fair value of long-term debt.

Derivative financial instruments for which hedge accounting are applied as of March 31, 2013 are as follows:

Hedge accounting method	Type of derivative, etc	Main hedged items	(Millions of yen)		
			Contract amount	Portion over 1 year	Fair value
Exceptional method for interest rate swap	Interest rate swap Receive floating, pay fixed	Long-term loans payable	¥10,000	¥10,000	Note

Note: Interest rate swaps for which special treatment is applied are accounted for together with long-term debt designated as a hedged item. Therefore, their fair values are included in the fair value of long-term debt.

## 17. Earnings per Share

Earnings per share for the year ended March 31, 2014 and 2013 are as follows.

	(yen)		(U.S. dollars)
	2014	2013	2014
Net income per share-basic			
Net income	¥14,978	¥13,270	\$145,531
Weighted average number of shares issued(thousands)	126,983	126,906	126,983

	(yen)		(U.S. dollars)
	2014	2013	2014
Net income per share-basic	¥117.95	¥104.57	\$1.15

	(yen)		(U.S. dollars)
	2014	2013	2014
Net income per share-fully diluted			
Increase in common shares (thousands)			
Stock option rights	189	212	189

	(yen)		(U.S. dollars)
	2014	2013	2014
Net income per share-fully diluted	¥117.78	¥104.39	\$1.14

## 18. Stock Based Compensation Plan

(1) Stock based compensation plans as of March 31, 2014 are as follows.

	Share subscription rights-1	Share subscription rights-2	Share subscription rights-3	Share subscription rights-4	Share subscription rights-5
Date of grant	July 30, 2009	July 30, 2010	July 29, 2011	July 31, 2012	July 31, 2013
Number of shares granted	Common stock 99,000	Common stock 70,000	Common stock 70,000	Common stock 77,700	Common stock 64,500
Grantee	Directors and corporate officer of the Companies	Directors and corporate officer of the Companies	Directors and corporate officer of the Companies	Directors and corporate officer of the Companies	Directors and corporate officer of the Companies
Exercisable period	August 22, 2009 through August 21, 2034	August 21, 2010 through August 20, 2035	August 20, 2011 through August 19, 2036	August 21, 2012 through August 20, 2037	August 21, 2013 through August 20, 2038
Outstanding at the end of the fiscal year	32,000	24,000	46,800	56,200	64,500

### Price information

Date of grant	July 30, 2009	July 30, 2010	July 29, 2011	July 31, 2012	July 31, 2013
Exercise price	¥1	¥1	¥1	¥1	¥1
Average stock price upon exercise	¥2,025	¥2,025	¥2,025	¥2,025	-
Fair value at grant date	¥1,026	¥1,285	¥1,529	¥1,393	¥1,978

(2) Valuation technique used for valuation fair value of stock option granted in the fiscal year

Valuation technique: Black-Scholes option-pricing model

Principal parameters used in the option-pricing model:

Expected volatility	37.53 %	Calculated based on the actual stock prices from May 31, 2010 to August 20, 2013.
Average expected period	3.223 years	It is estimated assuming that the options were exercised at the midpoint of the exercise period.
Expected dividends	¥34 per share	Expected dividends are based on the actual dividends for the fiscal year ended March 31, 2014.
Risk-free interest rate	0.164%	Japanese government bond yield corresponding to the average expected period

(3) Method of estimating number of stock option vested

Only the actual number of forfeited stock option is reflected because it is difficult to rationally.

## 19. Investment and Rental Property

Information about fair value of investment and rental property included in the consolidated financial statements at March 31, 2014 and 2013 are as follows:

The Company owns a portion of office building and lands in Tokyo and other area.

*(Millions of yen)*

	Book value as of April 1, 2013	Increase / (decrease)	Book value as of March 31, 2014	Fair value as of March 31, 2014
Purpose of use				
Rental property	¥3,997	¥ (29)	¥3,968	¥4,159
Idle property	¥321	¥-	¥321	¥2,616
Total	¥4,318	¥ (29)	¥4,289	¥6,775

*(Millions of yen)*

	Book value as of April 1, 2012	Increase / (decrease)	Book value as of March 31, 2013	Fair value as of March 31, 2013
Purpose of use				
Rental property	¥4,051	¥ (54)	¥3,997	¥4,188
Idle property	¥321	¥ -	¥321	¥2,647
Total	¥4,372	¥ (54)	¥4,318	¥6,835

*(Thousands of U.S. dollars)*

	Book value as of April 1, 2013	Increase / (decrease)	Book value as of March 31, 2014	Fair value as of March 31, 2014
Purpose of use				
Rental property	\$38,836	\$ (282)	\$38,554	\$40,410
Idle property	\$3,119	\$ -	\$3,119	\$25,418
Total	\$41,955	\$ (282)	\$41,673	\$65,828

Note1: The book value of each property on the balance sheet is its acquisition cost less cumulative depreciated expenses.

2: Main rental properties are land in Kobe, rental building in Tokyo and land and building in Ehime prefecture.

3: Main idle properties are vacant land of the old Yokosuka factory in Kanagawa prefecture, and land in Tokyo (under redevelopment).

4: Decrease is mainly depreciation.

5: Fair value of property as of March 31, 2014 and 2013 is primarily calculated based on real estate appraisal standards provided by the external licensed appraiser.

Revenue and expense related to investment and rental property are as follows:

*(Millions of yen)*

<b>2014</b>			
<b>Rental revenues</b>	<b>Rental expenses</b>	<b>Net</b>	<b>Other expenses</b>
<b>¥296</b>	<b>¥97</b>	<b>¥199</b>	<b>¥13</b>

*(Millions of yen)*

<b>2013</b>			
<b>Rental revenues</b>	<b>Rental expenses</b>	<b>Net</b>	<b>Other expenses</b>
¥294	¥90	¥204	¥11

*(Thousands of U.S. dollars)*

<b>2014</b>			
<b>Rental revenues</b>	<b>Rental expenses</b>	<b>Net</b>	<b>Other expenses</b>
<b>\$2,876</b>	<b>\$942</b>	<b>\$1,934</b>	<b>\$126</b>

Note 1: Rental expenses are mainly depreciation, repair, insurance, tax and dues related to the rental properties.

2: Other expenses are mainly depreciation, repair, insurance, tax and dues related to the idle properties and loss on provision for environmental measures.

## 20. Segment Information

(1) General information about reportable segments

Reportable segments are intended to discuss periodically for the board of directors' decision of operating resources' allocation and evaluation of financial result and which are available of financial reports separately among constitutional units.

The companies manufacture and sale products based on motion control technology and divided into four reportable segments, "Precision Equipment", "Transport Equipment", "Aircraft and Oil Hydraulic Equipment" and "Industrial Equipment".

Operations of the Companies are classified into four business segments as follows:

<b>Segment</b>	<b>Main products</b>	<b>Main customers and industries</b>
<b>Precision Equipment</b>	High precision reducers and actuators, wafer transfer unit, vacuum pumps, vacuum valves, vacuum devices, rapid prototyping systems, solar tracking equipments and actuation units for wind turbine	Industrial robots, machine tools, factory automation systems, electronic devices, semiconductor manufacturing equipment automobiles and home electronic appliances
<b>Transport Equipment</b>	Automatic door drive unit, automobile air brake system, automatic testing and training equipment, remote control systems for marine vessels.	Railway vehicle, automobile and marine vessels
<b>Aircraft and Oil Hydraulic Equipment</b>	Flight control systems, various types of actuators, oil hydraulic drive motors, and various types of motors for winches	Aircraft, space, construction equipment, agricultural and other vehicles
<b>Industrial Equipment</b>	Automatic door systems, prosthetic products, automatic measuring and packing machines, multi-forming machines and constant velocity joint processing machines	Building and general industry, welfare, food, medicine, cleaning material, chemicals, precision equipment, automobiles, and home electronic appliances

(2) Basis of measurement about reportable segments profit or loss, segment assets, segment liabilities and other material items

The basis of measurement about reportable segments profit or loss, segment assets, segment liabilities and other material items is basically consistent with the description in "Summary of significant accounting policies". Intersegment transactions are based on current market prices.

(3) Information about reportable segments profit or loss, segment assets, segment liabilities and other material items

Reportable segments information as of and for the fiscal year ended March 31, 2014 and 2013 is as follows:

(Millions of yen)

2014							
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	¥42,853	¥52,641	¥52,533	¥54,265	¥202,292	¥ -	¥202,292
Intersegment sales	56	156	1,188	224	1,624	(1,624)	-
Total sales	42,909	52,797	53,721	54,489	203,916	(1,624)	202,292
<b>Operating income</b>	6,359	6,344	3,863	3,527	20,093	-	20,093
<b>Total assets</b>	32,677	38,160	50,258	62,695	183,790	50,195	233,985
<b>Total liabilities</b>	14,179	15,844	16,256	17,773	64,052	30,461	94,513
<b>Depreciation</b>	1,896	1,457	2,921	858	7,132	468	7,600
<b>Amortization of goodwill</b>	-	410	16	1,075	1,501	-	1,501
<b>Capital expenditures</b>	918	1,703	2,323	1,229	6,173	587	6,760

(Millions of yen)

2013							
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	¥41,578	¥44,263	¥45,747	¥47,956	¥179,544	¥ -	¥179,544
Intersegment sales	26	190	908	145	1,269	(1,269)	-
Total sales	41,604	44,453	46,655	48,101	180,813	(1,269)	179,544
<b>Operating income</b>	5,355	4,215	1,836	3,608	15,014	-	15,014
<b>Total assets</b>	31,428	32,841	43,539	54,565	162,373	40,684	203,057
<b>Total liabilities</b>	11,719	12,450	14,000	16,042	54,211	27,987	82,198
<b>Depreciation</b>	2,585	1,403	2,611	773	7,372	552	7,924
<b>Amortization of goodwill</b>	-	-	-	966	966	-	966
<b>Capital expenditures</b>	2,269	1,962	4,675	952	9,858	331	10,189

(Thousands of U.S. dollars)

2014							
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	\$416,372	\$511,475	\$510,426	\$527,254	\$1,965,527	\$-	\$1,965,527
Intersegment sales	544	1,516	11,543	2,177	15,780	(15,780)	-
Total sales	416,916	512,991	521,969	529,431	1,981,307	(15,780)	1,965,527
<b>Operating income</b>	61,786	61,640	37,534	34,269	195,229	-	195,229
<b>Total assets</b>	317,499	370,773	488,321	609,162	1,785,755	487,711	2,273,466
<b>Total liabilities</b>	137,767	153,945	157,948	172,688	622,348	295,968	918,316
<b>Depreciation</b>	18,422	14,157	28,381	8,337	69,297	4,547	73,844
<b>Amortization of goodwill</b>	-	3,984	155	10,445	14,584	-	14,584
<b>Capital expenditures</b>	8,920	16,547	22,571	11,941	59,979	5,703	65,682

Note: Adjustment is referred to below:

- (1) Adjustment of intersegment sales represents elimination of intersegment transactions.
- (2) Adjustment of total assets primarily represents corporate assets.
- (3) Adjustment of total liabilities primarily represents corporate liabilities.
- (4) Adjustment of capital expenditures represents capital expenditures of corporate assets.

(Related information)

(1) Information about product and service

Since the segments of products and services are the same as the reportable segments, information by products or services is omitted.

(2) Information by geographical area

Information by geographical area for the fiscal year ended March 31, 2014 and 2013 is as follows:

(Millions of yen)

2014						
	Japan	Asia	North America	Europe	Other areas	Total
Sales	¥114,527	¥41,291	¥15,560	¥30,364	¥550	¥202,292
Property, Plant and equipment	41,292	10,535	1,466	1,933	-	55,226

(Millions of yen)

2013						
	Japan	Asia	North America	Europe	Other areas	Total
Sales	¥107,016	¥29,917	¥13,868	¥28,222	¥521	¥179,544
Property, Plant and equipment	43,068	8,698	1,301	1,409	-	54,476

(Thousands of U.S. dollars)

2014						
	Japan	Asia	North America	Europe	Other areas	Total
Sales	\$1,112,777	\$401,195	\$151,186	\$295,025	\$5,344	\$1,965,527
Property, Plant and equipment	401,205	102,361	14,244	18,782	-	536,592

(Note) Sales are divided into country and region based on the locations of the customers.

(3) Information about major customers

Information about major customers is omitted, since there is no major customer that makes up more than 10% of consolidated net sales.

(Information about goodwill in reportable segments)

Information on amortization goodwill and unamortized balance in reportable segments for the fiscal year ended March 31, 2014 and 2013 is as follows:

(Millions of yen)

2014						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	Total
<b>Goodwill</b>						
Amortization	¥-	¥410	¥16	¥1,075	¥-	¥1,501
Balance at year-end	-	-	-	18,539	-	18,539

(Millions of yen)

2013						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	Total
<b>Goodwill</b>						
Amortization	¥-	¥-	¥-	¥966	¥-	¥966
Balance at year-end	-	-	-	15,808	-	15,808

(Thousands of U.S. dollars)

2014						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	Total
<b>Goodwill</b>						
Amortization	\$-	\$3,984	\$155	\$10,445	\$-	\$14,584
Balance at year-end	-	-	-	180,130	-	180,130



## 21. Related party transactions

Summarized financial information of TMT Machinery, Inc for the fiscal year ended March 31, 2014 and 2013 is as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>2014</b>	<b>2013</b>	<b>2014</b>
Total current assets	¥34,721	¥27,117	\$337,359
Total non-current assets	6,504	5,905	63,195
Total current liabilities	17,926	15,825	174,174
Total long-term liabilities	1,117	1,264	10,853
Total shareholders' equity	22,182	15,933	215,527
Net sales	55,170	51,155	536,047
Income before income taxes	9,976	7,184	96,930
Net income	6,694	4,439	65,041

## 22. Appropriation of retained earnings

The following appropriation of retained earnings on a non-consolidated basis, which has not been reflected in accompanying consolidated financial statements, is approved at the shareholders' meeting held on June 24, 2014:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash dividends (¥20= \$0.19 per share)	¥2,544	\$24,718

The following appropriation of retained earnings on a non-consolidated basis, which is not reflected in accompanying consolidated financial statements, is approved at the shareholders' meeting held on June 25, 2013:

	<i>(Millions of yen)</i>
Cash dividends (¥16 per share)	¥2,050



## Independent Auditor's Report

To the Board of Directors of Nabtesco Corporation:

We have audited the accompanying consolidated financial statements of Nabtesco Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nabtesco Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 24, 2014  
Tokyo, Japan