

**Nabtesco**  
moving it. stopping it.

# **NABTESCO GROUP INTEGRATED REPORT**

**FY Ended December 31, 2015**

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



# NABTESCO GROUP INTEGRATED REPORT FY Ended December 31, 2015

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### Earnings Results for FY 2015/12

Nabtesco has changed the closing date of fiscal year from March 31 to December 31 since FY2015. In this report, the results for FY2015 is calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries. In order to make year on year comparison with the next fiscal year '2016/12 Plan', "2015/12 [referential]" is calculated on a basis of 12 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan and overseas. Please refer to P.118 Disclosure Policy for this report.



## The Nabtesco Way

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

### THE NABTESCO WAY

We have established The Nabtesco Way in October 2012. The Nabtesco Way is a collective term that means our Corporate Philosophy, Our Promises, and Action Guidelines. We have set these Guidelines by examining the uniqueness of the Nabtesco Group, borne by our predecessors from their efforts and wisdom in developing the Group, and also by incorporating new values to be implemented by Group members toward the future, in order to clearly show the management approach to be taken by our top executives and general managers as well as our strong commitment to quality manufacturing.

### 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 communities and cultures



## ABOUT

# Nabtesco Group

Nabtesco Corporation was established by two companies with a long history, Teijin Seiki Co., Ltd. and NABCO, Ltd. Nabtesco operates a wide range of businesses by capitalizing on its motion control technology, which moves and stops objects in a precise manner. It has achieved steady growth in numerous fields, including in the transportation sectors (railroad vehicles, aircrafts, commercial vehicles, marine vessels, and others) and other industrial sectors, livelihood-related fields and the environmental areas (industrial robots, construction machineries, automatic doors, packaging machines, and others).





Established in 1944



Established in 2003



Established in 1925

2002

2004

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

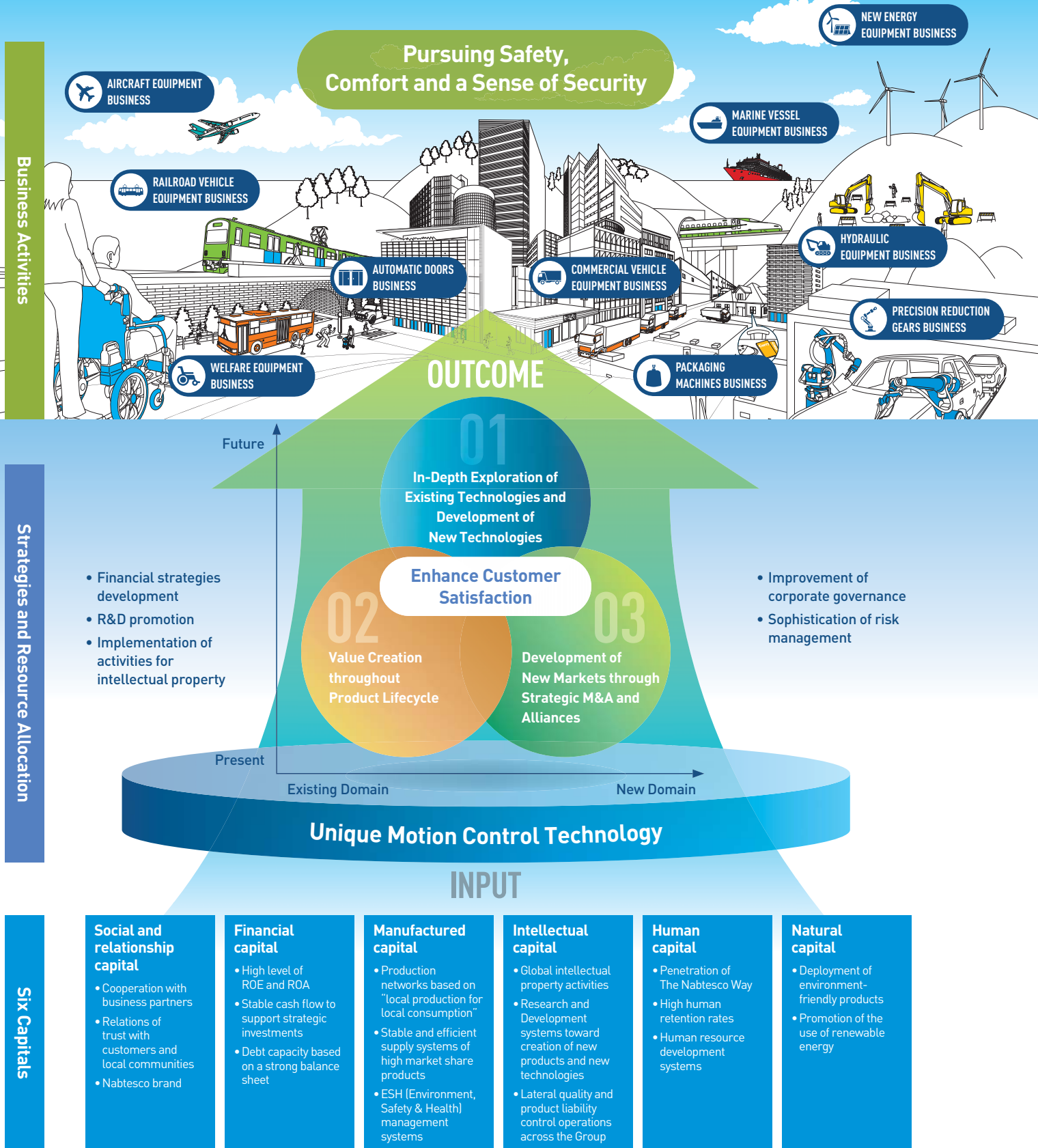
Nabtesco Corporation was established. Listed on the first section of the Tokyo Stock Exchange.

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



# Value Creation of Nabtesco Group

As a Global Partner with Best Solutions, We Create 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 a wide range of businesses in the industrial, daily life-related, and environmental fields, capitalizing on its motion control technology, which moves and stops objects in a precise manner.

Although most of our products are not immediately visible, they are hard at work behind the scenes, fulfilling high-performance functions to enhance the safety and comfort of individuals as well as supporting the infrastructure that societies all over the world depend upon. At present, we are taking top spots in both Japanese and overseas markets with regard to a variety of products, and are 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.

## 01 Pursuing Customer Satisfaction through In-Depth Exploration of Existing Technologies and Development of New Technologies

Based on the trust relationship with our customers at the highest level in each industry, we are exploring the existing technologies while being aware of highly-demanding customers' needs, and pursuing development of new technologies and new businesses through open innovation approach and business-academia joint research.

Existing Technologies		New Technologies
 <p><b>Precision Reduction Gears Business</b></p> <ul style="list-style-type: none"> <li>Precision reduction gears for industrial robots</li> </ul>	 <p><b>Aircraft Equipment Business</b></p> <ul style="list-style-type: none"> <li>Flight control actuation systems (FCAS)</li> </ul>	<p><b>Joint Research with Overseas Universities</b></p> <ul style="list-style-type: none"> <li>R&amp;D in the field of wind power generation related business (Technical University of Denmark)</li> <li>Development of Power Electronics Technologies (Eidgenössische Technische Hochschule Zürich)</li> </ul> <p><b>Nabtesco Digital Engineering Center</b></p> <ul style="list-style-type: none"> <li>Creation of new businesses through open innovation approach</li> </ul>
 <p><b>New Energy Equipment Business</b></p> <ul style="list-style-type: none"> <li>Drive units for wind turbines</li> <li>Solar tracking equipment for solar thermal power plant</li> </ul>	 <p><b>Hydraulic Equipment Business</b></p> <ul style="list-style-type: none"> <li>Traveling and swing units for hydraulic excavators and other construction machineries</li> </ul>	
 <p><b>Railroad Vehicle Equipment Business</b></p> <ul style="list-style-type: none"> <li>Brake operating units</li> <li>Door operators</li> </ul>	 <p><b>Automatic Doors Business</b></p> <ul style="list-style-type: none"> <li>Automatic doors for buildings</li> <li>Platform doors</li> </ul>	
 <p><b>Commercial Vehicle Equipment Business</b></p> <ul style="list-style-type: none"> <li>Air dryers for commercial vehicles</li> <li>Wedge brake chambers for commercial vehicles</li> </ul>	 <p><b>Welfare Equipment Business</b></p> <ul style="list-style-type: none"> <li>Electric wheelchairs</li> <li>Rollators with a speed control system</li> <li>Stairs lift with a wheelchair</li> <li>Intelligent prosthetic knee joints</li> </ul>	
 <p><b>Marine Vessel Equipment Business</b></p> <ul style="list-style-type: none"> <li>Main engine remote control systems</li> <li>Electronically controlled high-speed hydraulic valves</li> </ul>	 <p><b>Packaging Machines Business</b></p> <ul style="list-style-type: none"> <li>Automatic fillers/sealers</li> </ul>	





## 02 Value Creation throughout Product Lifecycle

We promote MRO (Maintenance, Repair, Overhaul) business in our major businesses excluding Precision Reduction Gears and Hydraulic Equipment Businesses.

-  **Railroad Vehicle Equipment Business**
-  **Commercial Vehicle Equipment Business**
-  **Marine Vessel Equipment Business**
-  **Aircraft Equipment Business**
-  **Automatic Doors Business**
-  **Packaging Machines Business**

## 03 Development of New Markets through Strategic M&A and Alliances

We proactively take in external resources, aiming to accelerate the growth through “acquiring the market” and “expanding the technologies and product lineups.”

Major Records of M&A	Major Records of Alliances
 <p><b>Railroad Vehicle Equipment Business</b></p> <ul style="list-style-type: none"> <li>Acquisition of Oclap, Italy</li> </ul>	<p><b>Precision Reduction Gears Business</b></p> <ul style="list-style-type: none"> <li>Establishment of a joint venture sales company and a manufacturing base (subsidiary) in China</li> </ul> <p><b>Commercial Vehicle Equipment Business</b></p> <ul style="list-style-type: none"> <li>Establishment of a joint venture manufacturing base in India</li> </ul>
 <p><b>Commercial Vehicle Equipment Business</b></p> <ul style="list-style-type: none"> <li>Acquisition of ITG-S and ITG-K, Germany</li> </ul>	
 <p><b>Hydraulic Equipment Business</b></p> <ul style="list-style-type: none"> <li>Acquisition and Absorption of Hyst Corporation, Japan</li> </ul>	
 <p><b>Automatic Doors Business</b></p> <ul style="list-style-type: none"> <li>Acquisition of Gilgen Door Systems, Switzerland and sales companies in Europe and North America</li> <li>Acquisition of shares in a mega domestic sales company (to convert into a consolidated subsidiary)</li> </ul>	

# Long-Term Vision/ Medium-Term Management Plan

## Long-Term Vision (FY2013/3—2021/3)

(formulated May 2012)

Status on FY 2020

## Global Partner with Best Solutions

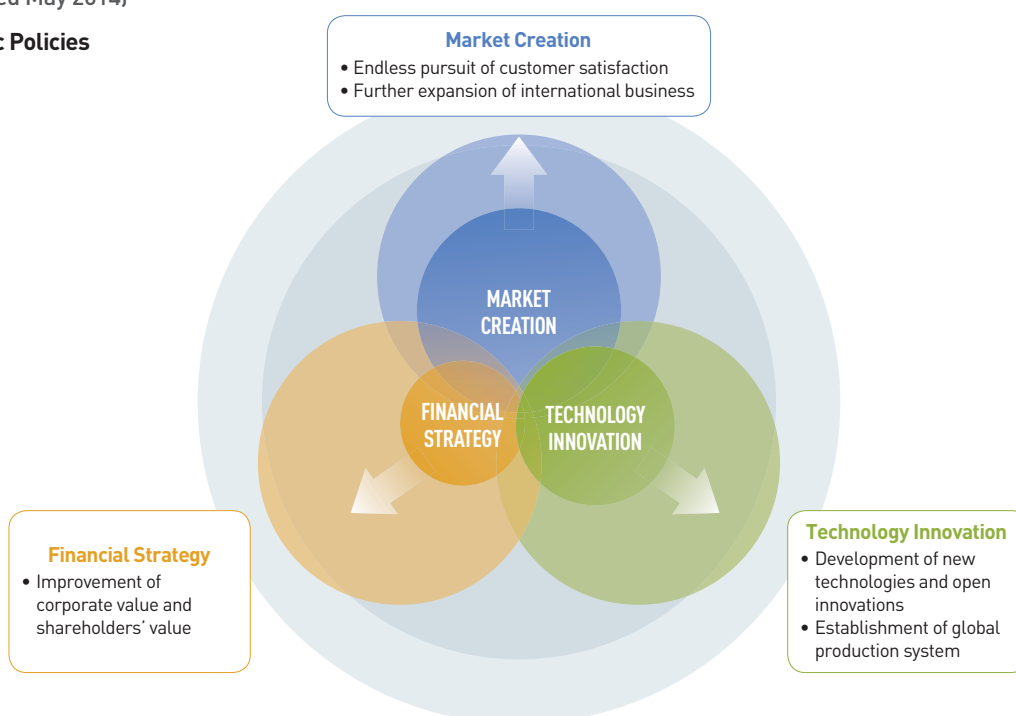
- Continue to provide society with new innovative solutions (products, services and business models)
- Pursue excellence through continuous technological innovation, thereby enhancing rapport and trust with customers
- Value open communication and creative thinking regardless of language and cultural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

## Medium-Term Management Plan (FY2015/3—2017/3)

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

(formulated May 2014)

#### > 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.



# Financial and Non-Financial Highlights

## Financial Highlights

	2015/3	2015/12	2015/12 (referential)	2016/12 Plan	2017/12 Mid-Term Plan	2021/3 Long-Term Vision
<b>Further expansion of the business scale and pursuance of profitability</b>						
Net sales (billion yen)	219.6	187.0	228.9	250.0	280.0 ±5%	400.0
Operating income (billion yen)	23.6	15.2	21.3	25.5	34.0	60.0
Operating income margin (%)	10.8	8.2	9.3	10.2	12.0	15.0
Net income (billion yen)	17.7	11.0	14.7	18.9	24.0	—
EPS (yen)	140.24	88.85	118.41	153.04	190.00	—
<b>Promoting management with the conscious of asset and capital efficiency</b>						
ROA (%)	7.4	4.6	6.2	7.6	7.5	11.0
ROE (%)	12.6	7.6	10.1	12.5	15.0	18.0
<b>Distribution of business earnings with the conscious of corporate growth</b>						
Dividend per share (yen)	44	44	44	50	—	—
Payout ratio (%)	31.4	49.5	—	32.7	30% or higher	

\* Nabtesco has changed the closing date of fiscal year from March 31 to December 31 since FY2015. In this report, the results for FY2015 is calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries. In order to make year on year comparison with the next fiscal year "2016/12 Plan", "2015/12 (referential)" is calculated on a basis of 12 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan and overseas.

## Progress Status of Medium-Term Management Plan

### Sales and Operating Profit Targets in the Last Fiscal Year of the Mid-Term Plan (2017/3) and FY2016/12

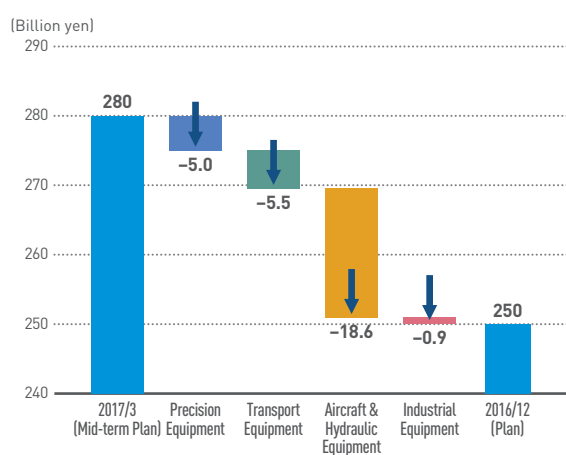
- Businesses primarily operated in developed countries are likely to achieve expected growths.
- Businesses in emerging markets are unlikely to achieve expected growths.

#### REFERENCE

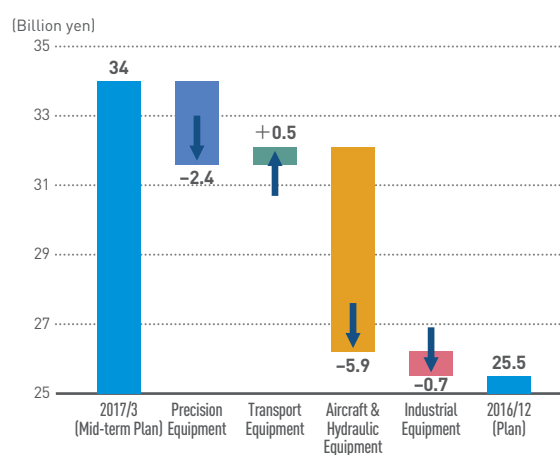
Conversations with CEO  
"About the Mid-Term  
Management Plan"

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### Net sales



### Operating profit



# Financial and Non-Financial Highlights

## Non-Financial Highlights\*1

	2012/3	2013/3	2014/3	2015/3	2015/12
CO <sub>2</sub> Emissions per Unit of Sales [Global] *2 *3	—	0.327	0.288	0.265	<b>0.253</b>
CO <sub>2</sub> emissions [Japan] [CO <sub>2</sub> -ton/year] *2 *4	51,100	49,050	46,745	48,162	<b>49,154</b>
Number of employees					
Total number of employees (consolidated)	4,995	5,081	5,344	5,552	<b>5,839</b>
Total number of employees (non-consolidated) *5	2,020	2,060	2,092	2,102	<b>2,133</b>
Male	1,858	1,883	1,906	1,911	<b>1,936</b>
Female	162	177	186	191	<b>197</b>
Turnover rate [%] *6					
Male	1.2	1.7	3.2	2.9	<b>1.8</b>
Female	4.7	6.0	3.8	5.7	<b>3.1</b>
Voluntary retirees (%)	0.5	0.7	0.6	1.1	<b>0.7</b>
Lost-work time injury frequency rate [%] *6	1.4	0.8	0.6	0.4	<b>0.5</b>
Affirmative Vote Rate of Selected Directors and Corporate Auditors *7	96.08	97.55	97.95	99.29	<b>99.42</b>

\*1 Period covered for Non-financial data : January 1, 2015 to December 31, 2015

\*2 The calculation policies and standards comply with the Act on the Regional Use of Energy and the Act on the Promotion of Global Warming Countermeasures, and are aligned with the internal Guidelines on the Management of Environmental Information. The management of the results for the total CO<sub>2</sub> emissions is based on the number derived from the internal management index.

\*3 The calculation scope includes Nabtesco Corporation, domestic Group companies (10 companies and 24 sites), and overseas Group companies (20 companies and 20 sites), which are listed at "Scope of Environment and Other Data", P.89.

\*4 The calculation scope includes Nabtesco Corporation and domestic Group Companies (10 companies and 24 sites), which are listed at "Scope of Environment and Other Data", P.89.

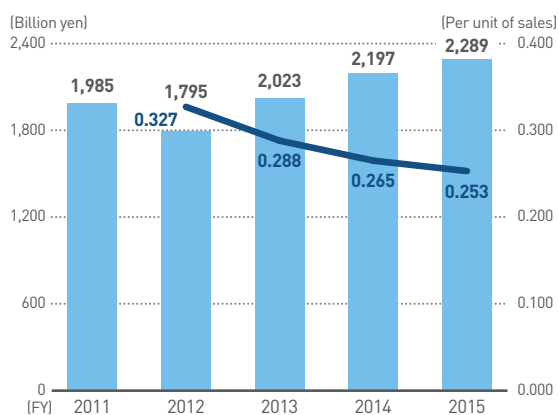
\*5 Based on Nabtesco human resources data.

\*6 The calculation scope covers only Nabtesco Corporation.

\*7 Average rate of affirmative vote of selected Directors and Corporate Auditors at every annual general meeting of shareholders

### CO<sub>2</sub> Emissions per Unit of Sales [Global] (Amount of CO<sub>2</sub> emissions/sales)

■ Sales — Per unit of sales

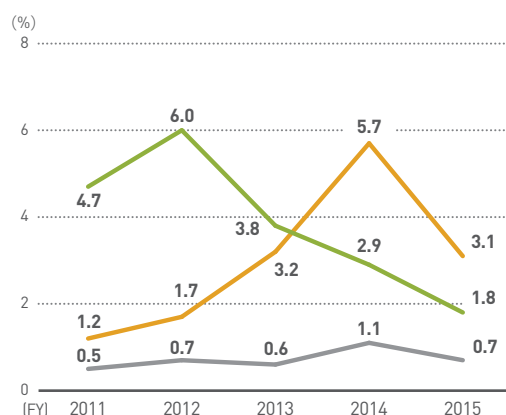


CO<sub>2</sub> emissions have steadily improved toward the Long-term target for FY2020\* and the FY2015 target was achieved.

\* The FY 2020 target for CO<sub>2</sub> emissions per unit of sales is set at 20% less than the FY 2012 level.

### Breakdown of Employees who Retired or Resigned by Gender

— Male — Female — Rate of those who resigned for personal reasons (including both male and female)



The ratio of employees who resigned for personal reasons have remained within the 1% range over the past five years.

## TOPICS

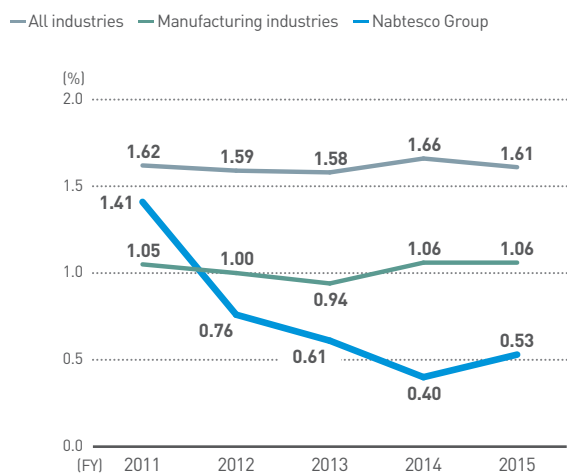
### 01 Establishment of the Nabtesco Corporate Governance Basic Policy

Nabtesco has been working on strengthening its corporate governance system aiming to increase the efficiency and transparency of its corporate management necessary for the enhancement of the Group's corporate value. Following the enforcement of Japan's Corporate Governance Code in June 2015, Nabtesco revised its previous policies and approaches to formulate the Nabtesco Corporate Governance Basic Policy, established on October 30, 2015. Moreover, Nabtesco newly established the Nomination Committee, which includes several outside directors, to further enhance the management supervision function, and on March 24, 2016 appointed Ms. Naoko Yamazaki, a former astronaut as an outside director. As a result, Nabtesco now has three outside directors on the 10-member Board of Directors. Nabtesco will continue to enhance its corporate governance to earn even more trust from stakeholders. [For details, please refer to the "Corporate Governance" section of this report.]

### 02 Selected to be a Yearbook Member in the RobecoSAM Sustainability Yearbook 2016

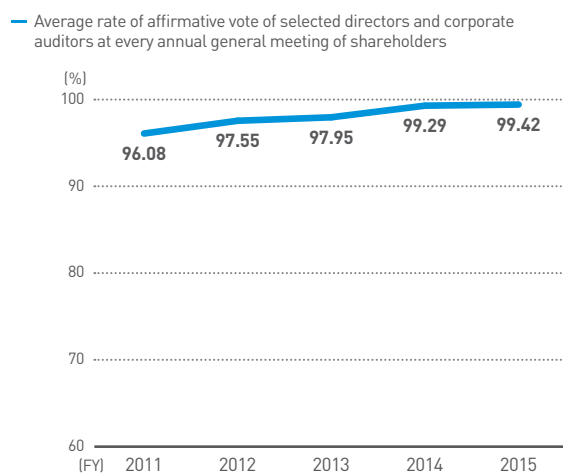
Nabtesco has been selected for the inclusion in the FTSE4Good from 2009 as well as Dow Jones Sustainability Asia/Pacific Indices (DJSI Asia Pacific) from 2013 both of which are internationally known as socially responsible investment indices. Furthermore, in January 2016, RobecoSAM, a research firm that coordinates the development of the DJSI, for the first time selected Nabtesco as a Yearbook Member of its Sustainability Yearbook 2016, which lists companies demonstrating excellence in economic, environmental and social performances, as well as in the disclosure of related information. For the Yearbook 2016, 464 out of 2,126 companies in 59 industrial sectors were selected as Yearbook Members. Nabtesco is listed as one of the 18 companies selected from 124 candidates in the Machinery and Electrical Equipment Sector.

#### Lost-Work time Injuries Frequency Rate



Lost-work time injury frequency rate has been below the average of the manufacturing industry over the past four years.

#### Affirmative Vote Rate of Selected Directors and Corporate Auditors



The affirmative vote rate of selected directors and corporate auditors is maintained above 95 %.

## GROWTH STRATEGY OF NABTESCO GROUP

# GLOBAL PARTNER WITH BEST SOLUTIONS

Nabtesco operates a wide range of businesses related to the industry, people's lives and the environment by capitalizing on its motion control technology, which moves and stops objects in a precise manner.

We provide highly reliable products, gain the industry leaders' trust and take top spots in both Japanese and overseas markets. Furthermore we are expanding our business range to include new growth fields by making use of our core technology.



# FOR THE SUSTAINABILITY OF “PROFITABLE GROWTH”

In the following conversation, Nabtesco President and CEO Kazuaki Kotani spoke with an investor and an analyst, both of whom have been monitoring the company for many years. The president talked about the progress in the current Mid-Term Management Plan, the direction of the next Mid-Term Management Plan, which is still under development, the company’s non-financial initiatives, and other issues. The two invitees, shared their frank expectations of the company and provided some recommendations.

(Held in a conference room at the head office on April, 2016)



**Mr. Hiroshi Watanabe**

Portfolio Manager  
T. ROWE PRICE INTERNATIONAL LTD



**Kazuaki Kotani**

President and CEO  
Nabtesco Corporation



**Mr. Hirosuke Tai**

Chief Analyst, Equity Research Department  
Daiwa Securities Co., Ltd.

Hereinafter, names will be shown without titles.

## > About the Mid-Term Management Plan

### Progress in and outlook for the current Mid-Term Management Plan

**Kotani:** Regarding the progress we have made under the current Mid-Term Management Plan [hereinafter, the “Mid-Term Plan”], for which fiscal 2016 marks the final year, unfortunately we will not be able to attain our predefined targets either for sales or for profit. This is mainly due to the impact felt in the hydraulic equipment business by a sharp drop in demand for construction machinery in China. We recorded an operating loss in this business in fiscal 2015. In response, we consolidated two plants in China into one, reduced our production capacity, and recorded an impairment loss as part of our efforts to foster structural reforms. As the result, given that sales volume in the Chinese construction machinery market remains at the same level as in the previous year, we will be able to improve operating profit at least to break even level. **We have thus already completed the implementation of the necessary remedies.**

Moreover, in general we expect that during the whole period starting from the final year of the previous Mid-Term Plan until the end of the current Mid-Term Plan, both our sales and profits will keep increasing. We expect to reach our numerical targets for the businesses located in developed countries, as well as for the businesses, whose clients are mostly represented by those countries.

Specifically, we will achieve growth as planned in the precision reduction gear, marine vessel equipment, aircraft equipment, and automatic door businesses. For other businesses, we will be unable to achieve the predefined targets due to environmental changes in the emerging markets (China and Southeast Asia), for which we had especially high expectations of growth. In terms of growth, our business activities have indeed produced contrasting results in developed and emerging markets.

#### Outlook for the current Mid-Term Management Plan by businesses

- Businesses in which we will achieve the growth targets set in the Mid-Term Management Plan driven by the growth in developed countries:  
Precision reduction gear, marine vessel equipment, aircraft equipment, and automatic door businesses
- Businesses that will experience slower growth than previously expected due to changes in the emerging market countries:  
Railroad vehicle equipment, commercial vehicle equipment, hydraulic equipment, and packaging machine businesses
- Business in which we will not achieve the predefined targets due to the delayed launch of the solar thermal power generation market, where we expected to find new customers:  
New energy business

**Tai:** As a component manufacturer, how will you minimize the impact of changes in your customers' production activities?

**Kotani:** We will expand the maintenance, repair and overhaul (MRO) business. We used to passively wait for customer requests but in around 2014, particularly for the transport equipment segment, we began to promote the MRO business more aggressively, which has contributed to the increase in both sales and profit. On the other hand, in the Precision Reduction Gears and Hydraulic Equipment businesses, the effect of economic fluctuations significantly affect because customers take over MRO services.

In the Precision Reduction Gears Business, we have been looking for new markets, apart from industrial robot, and have been promoting the sales of actuators, which are the new products combining precision reduction gears and servomotors, mainly outside Japan since the latter half of 2015. Also, in the hydraulic equipment business, we are striving to expand to new markets in addition to the excavator market.

#### About the financial strategies initiatives

**Watanabe:** I think the efficient use of the balance sheet is one of the targets set in the Mid-Term Plan. Could you talk about your financial strategies?

**Kotani:** As regards our financial strategies, let me first talk about the use of our capital. First of all, we will use earnings to make growth investments. We think that it is the best way to use the capital, and, as followed from the discussions, many investors agree with us. As for the breakdown of growth investments, the amount invested in M&A is relatively small except from the automatic door business.

We will make growth investments not only in capital expenditure but also in our technologies and products. If we can add new technologies and products to our existing key components for value creation, we will be able to further improve our capital efficiency. Our present financial foundation is not bad at all, but ROE has not been improving in the proportion to profit increases. We recognize that investors might take this as related to the tendency of Nabtesco to keep its retained earnings and not fully utilize its assets.

**Watanabe:** Regarding M&A, I think investors need to be well aware of the fact that in many cases large-scale M&As, in particular those in which the acquisition amount exceeds 10% of the market value of the purchaser, are not very successful. This is because it is often difficult to integrate the two companies after the acquisition. Nabtesco has not become involved in such large M&As and has not experienced any big failures in its M&A projects. Still, please keep in mind the risks posed by large acquisitions when you are making big M&A plans in the future.

## > Non-financial Initiatives

### About R&D

**Tai:** It seems that Nabtesco has been fostering cooperation with overseas research institutes and promoting workforce diversity for the past 5 to 10 years. In regard to this, what were your achievements in R&D so far?

**Kotani:** I believe that, as a component manufacturer, we have the ability to meet the needs of end product manufacturers in terms of quality, cost and delivery (QCD). However, we must make more efforts to expand trade with overseas customers. Our Japanese customers process the purchased components into subsystems by themselves in order to differentiate their products, while most of our overseas customers purchase standard products that have already been processed into subsystems and differentiate their applications to add more value to their products. I think we can learn about these different approaches and obtain related advice from overseas research institutions with whom we have formed partnerships, which will help us to develop the next generation of products.

### Consideration for the environment

**Tai:** Let me ask one more question. Recently ESG, which stands for the environment, society and governance, has often been referred to as a theme to be tackled by the corporate sector. What initiatives are you implementing for ESG, in particular for the environment?

**Kotani:** It is critical to reduce CO<sub>2</sub> emissions to curb climate change, and we have been discussing this issue inside the company since the adoption of the Kyoto Protocol by the international community. Nabtesco is a manufacturer and, as such, uses more machinery the more it grows, which inevitably leads to an increase in its CO<sub>2</sub> emissions.

In response, the former CEO of Nabtesco set the policy of reducing CO<sub>2</sub> emissions by 1% annually while pursuing the growth of the company. Further, in 2015, in order to execute a PDCA cycle continuously for energy conservation, we set energy conservation guidelines for equipment investment. Since the establishment of the guidelines, we have been approving the construction of new plants on the precondition that energy consumption at each new plant is reduced by at least 40% compared to our conventional production facilities. For example, energy consumption is about 40% less at our new production base for precision reduction gears in China, than at the existing Tsu Plant. Also, at the new building under construction within the premises of the Gifu Plant (aircraft equipment plant) to enhance its production capacity, energy consumption will be reduced by more than 50% relative to our conventional facilities. We will thus reduce our energy use while increasing production by operating new plants.

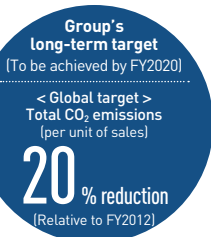
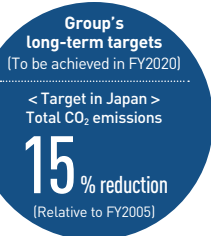
Furthermore, as established in our Mid-Term Plan, we continue the modernization of our plants in Japan by replacing, old equipment with new energy-saving and more productive equipment, based on the energy conservation guidelines, thereby reducing energy consumption at our existing plants. Furthermore, we are introducing solar-electric power generation, installed at Tarui, Tsu, and Kobe Plants.

As mentioned, we regard environmental protection as an integral part of our corporate activities and strive to reduce our CO<sub>2</sub> emissions by reducing our energy consumption.

### Corporate governance

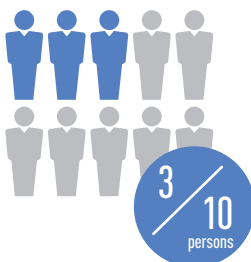
**Watanabe:** As the result of the introduction of Japan's Corporate Governance Code and Stewardship Code for investors, the public is paying even more attention to corporate governance. What measures are you implementing in response to this trend?

**Kotani:** We did not implement any extra measures to comply with the Corporate Governance Code. By talking with investors, including foreign investors, about issues such as corporate governance as part of our IR activities, both the former CEO and I have become well aware that company needs to have independent outside directors. Therefore, independent outside directors are appointed every time new Nabtesco directors are selected, and the company had already appointed two outside directors before the Corporate Governance Code was introduced. Since around that time we have held numerous discussions on the composition of the Board of Directors and have decided on a Board of 10 directors, of which three would be independent outside directors.



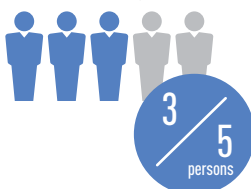
#### Outside directors on the Board of Directors

(as of March 24, 2016)



#### Outside auditors on the Board of Corporate Auditors

(as of March 24, 2016)





As a result, we appointed the third outside director this year to arrive at three outside directors in total. Regarding in-house directors, we will continue our discussions on the best composition of the administrative and business departments. Moreover, we established a **Nomination Committee** in addition to the existing **Remuneration Committee**. Nonetheless, I think there is still room to improve our corporate governance, and we will therefore continue to work towards enhancing it.

## > For Long-Term Improvement of the Corporate Value

“ Managers of both the administrative and business departments should be strongly committed to making profit in the existing business ”

“ Determined to emphatically and unequivocally make necessary growth investments ”



### About the next Mid-Term Management Plan

**Tai:** What messages do you plan to send in the new Mid-Term Management Plan to be launched in the next fiscal year?

**Kotani:** Our products are taking top spots in their respective markets, but we are facing difficulties in releasing new products. Although we have developed new products to meet the needs of our customers, we find it really difficult to release new value-added products.

The next Mid-Term Plan will be set for a period of four years, lasting until the final year of our Long-Term Vision (FY2020). During the first two years or so, we will mainly pursue organic growth. Then, for the last two years, we will pursue the creation of new value and promote the sales of so-called subsystems as new products. We have three years including this one until 2019, while it will take about two years for our customers to evaluate our new products. Therefore, if we can release new products within the next two years or so, receiving inspiration, for example, from our collaborations with external organizations, this will drive our future growth. Thus, we will pursue organic growth first, and then try to introduce new valued-added products into the market to ensure profitability.

**Watanabe:** Will you set any specific targets for capital efficiency and shareholder returns in the next Mid-Term Plan?

**Kotani:** In order to gain more understanding from investors, I think we need to create and implement a total shareholder return plan.

Our basic approach to finance is to make growth investments by debt and not by capital increase, in principle. If we really need to increase capital for a large M&A project to drive our growth, we will do so after making the necessary explanations. We can basically make capital expenditure using our own capital, and if we need more capital we will obtain it by debt procurement. It is estimated that we can potentially procure debt of about 80 billion yen based on our current financial situation, on the precondition that we continue to receive a credit rating of A. To maintain this, managers of both the administrative and business departments should be strongly committed to making profit in the existing businesses while also being determined to emphatically and unequivocally make necessary growth investments despite economic fluctuations. Based on this, we will discuss a total shareholder return plan at the Board of Director's meetings in 2016 and disclose its results in the next Mid-Term Plan.

At present, however, I am hesitating about the extent to which our numerical targets should be disclosed in the next Mid-Term Plan. It is certainly necessary for us to disclose the direction in which Nabtesco needs to move with a focus on growth, but is it also necessary to disclose our detailed numerical targets outside the company? Internally we will allocate human and other resources as well as funding based on the numerical targets. However, we might not be able to attain the targets as planned if the preconditions change due to economic shifts, which tend to occur in a shorter span of time and on a larger scale. Under these circumstances, we must consider whether it is beneficial to disclose detailed numerical targets to the public.

#### Potential debt procurement capacity

##### ■ Balance sheet as of the end of Dec. 2015

- Liquidity on hand: About 35 billion yen
- Shareholders' equity: About 140 billion yen
- Equity ratio: 60.9%
- No equity financing in principle



Based on the precondition that a credit rating of A is maintained, the equity ratio could be lowered to **around 45%** (meaning that Nabtesco has the potential to procure debt of **80 billion yen**)

#### Expectations toward and recommendations for Nabtesco

**Tai:** On a medium- to long-term basis, I have two main expectations for Nabtesco. First, I expect the company to increase the number of its customers. I know that Nabtesco's customers include top global brands and these companies have long served as the company's driving force. I am now paying attention to the question of whether Nabtesco can gain more customers other than these large ones and if so, how many.

Second, as the president has mentioned regarding actuators, I expect to see Nabtesco processing components into systems as much as possible or making better use of data by adopting the concept of the IoT, which has been a hot topic recently, to expand the MRO business. In short, Nabtesco could implement measures to add value to its products for higher profitability. I hope that the company will increase the number of customers on the vertical axis and expand the avenues of profit-making on the horizontal axis.

**Kotani:** In fact, we regard what you have said as a new theme for the company. Among the slogans set in the Long-Term Vision, I like "Enjoy the Challenge" the most. I think we need to "play," more or less, in our development activities to come up with new and quite innovative solutions, even if there is a risk that our customers will not accept them. I want employees to adopt such a proactive attitude to create more value-added products. Our balance sheet shows that Nabtesco can take that level of risk, and by taking on a series of challenges employees will be able to make great contributions to the next Mid-Term Plan. As for the development of new products, some of the seeds are starting to sprout, and we are also beginning to make measurable progress in our efforts to find new customers, including the challenge that we are taking in the European railroad market. However, I do not think that we will be able to achieve results as soon as in fiscal 2017 or fiscal 2018. We will have to patiently continue our efforts in order to achieve outcomes in subsequent years.

**Tai:** Probably, the world we will see in 2020 or so will be very different.

**Kotani:** Yes, indeed.

**Watanabe:** In my opinion, many of the investors who pay attention to medium- to long-term increases in your company's profits are very interested in how you are keeping a good balance between growth investments and shareholder returns. Nabtesco is engaged in a broad spectrum of businesses, including the businesses that are expected to achieve growth on a long-term basis,





such as precision reduction gears for industrial robots, and also those businesses that are unstable in terms of profitability due to their market business cycles. It is therefore difficult for outsiders to analyze the investments made by the company. Also, Nabtesco is conducting a range of businesses in China, which forced some investors to depend heavily on macroeconomic information about the Chinese market when evaluating the company, and as a result they sometimes felt uneasy about holding Nabtesco shares. It is important to disclose related information in more clearly in response to such investors' concerns. I know you are proactively conducting IR activities, but please be more aware of the fact that investors frequently feel uneasy due to the lack of informa-

tion. It would indeed help us investors make appropriate decisions if you disclose your medium- to long-term ideas about the company.

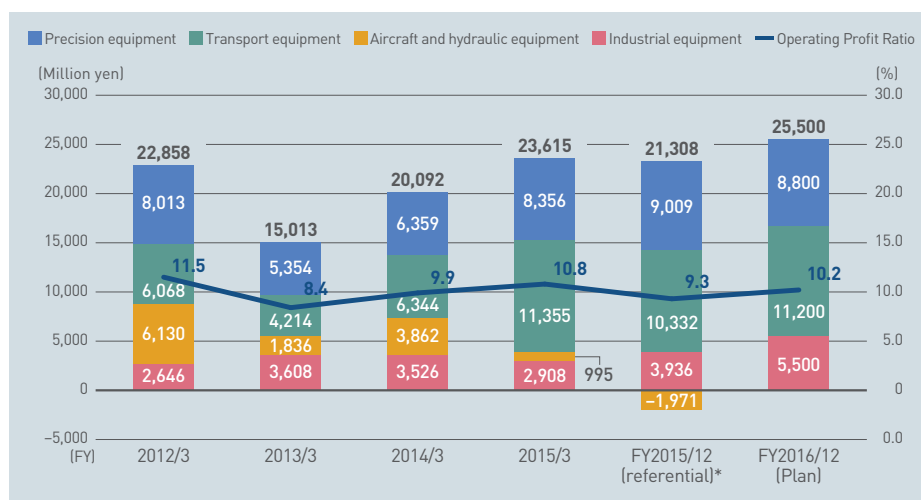
**Kotani:** We will continue to actively disclose information, although it is not always possible to disclose it in a perfect manner. I am telling people at the company to foster the disclosure of data that we can show to the public. We are always working to achieve ambitious targets to increase our sales and profit, and I think it is necessary for us to disclose, as openly as possible, the preconditions that we need to meet to attain the targets. While we disclose the breakdown of our operating income by segment—and in no finer detail—we disclose the breakdown of sales by individual business. I think investors will be able to predict Nabtesco's profitability in reference to the breakdown of operating income by segment and based on the results of the analyses they have made regarding the company.

**Watanabe:** Last year, you repurchased your own shares for the first time to increase shareholder returns. I think that the buyback has given a strong message to investors because it implies that the company has confidence in its own growth and thinks that its stock price is at an appropriate level. I would like to see that the company makes use of the repurchase of its own shares as a means of returning more profits to shareholders and thereby mitigates the concerns of investors about shareholder returns.

**Kotani:** Regarding the repurchase of our own shares, we will formulate a total shareholder return plan, as I have already mentioned. When we talk to investors about shareholder returns as part of our IR activities, many of them expect stable dividend payments and make comments along the lines of "I don't want Nabtesco to reduce its dividends." Or they say, "Even if the company's profit has decreased due to outside changes, it has the ability to continue paying dividends for at least a year because it has a sound balance sheet." There might be ups and downs in our businesses and if we continue to pay dividends too proactively and in a stable manner, it might have an adverse effect on our balance sheet. Based on this recognition, I think it would be better for us to propose a total shareholder return plan spanning around five years that combines increasing dividends with repurchases of our own shares as the chosen methods of returning more profits to shareholders.

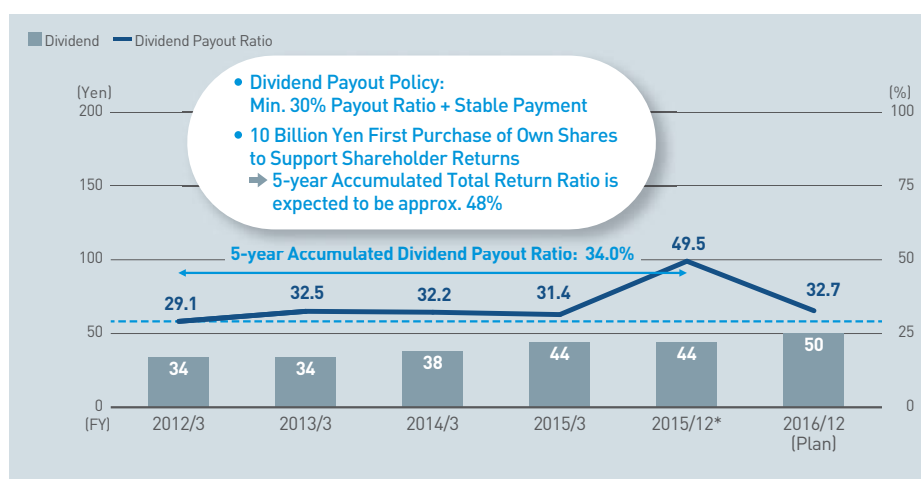
The former CEO aimed to increase the dividend payout ratio to 30% in his shareholder return plan, and I took over this idea and achieved the targeted ratio during the previous Mid-Term Plan period. At present, we have a policy of a dividend payout ratio of 30% or higher and stable payment of dividends. For the past five years, our profit has fluctuated. But we have never cut our dividends during that period.

## Operating Profit & Operating Profit Ratio



\* Nabtesco has changed the closing date of fiscal year from March 31 to December 31 since FY2015. In this report, the results for FY2015 is calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries. In order to make year on year comparison with the next fiscal year '2016/12 Plan', '2015/12 (referential)' is calculated on a basis of 12 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan and overseas.

## Shareholder Returns



\* Covers 9 months for Nabtesco Corporation and its consolidated subsidiaries in Japan and 12 months for overseas consolidated subsidiaries.

Whether to describe the results of the past five years as “pure coincidences” or the “fruits of our management decisions” could be a matter of different expression styles. I would like to make more investors aware of our shareholder return plan by fostering the dialogue, hoping that they will evaluate our shares in consideration of the plan.

Finally, let me say one more thing regarding last year’s repurchase of our own shares. We repurchased the shares when the prices were relatively high, and some investors have pointed out that the buyback helped maintain the stock prices. The period during which we were able to make a resolution on the repurchase of our own shares was limited, due to which it was difficult for us to choose the best timing for the buyback. At any rate, I think there were some learning points from this buyback process for the future. Generally, however, we earned good marks for the repurchase of our own shares, and I have once again recognized the importance of taking measures proactively to receive a higher evaluation from our stakeholders.

Thank you very much for today.

We will incorporate your valuable feedback into our management decisions and work to meet the expectations of all of our stakeholders.

## PURSuing CAPITAL EFFICIENCY WHILE ACHIEVING BOTH GROWTH INVESTMENTS AND SHAREHOLDER RETURNS

Based on a strong balance sheet and the capacity to generate stable cash flow, the Nabtesco Group pursues an optimal distribution of revenue and retained earnings with a view to maintaining an appropriate balance with strategic growth investments, a sound financial position, and shareholder returns. Going forward, we will employ financial leverage in consideration of the optimal level of debt, and seek further enhancement of capital efficiency while sustaining and improving profitability.

### Katsuhiko Teramoto

Representative Director  
 Managing Executive Officer  
 General Manager of Corporate Planning Division

### Strategic growth investments

The capital we have earned through our business activities will be allocated to growth investments in the first priority aimed at expanding our corporate value over the medium and long term.

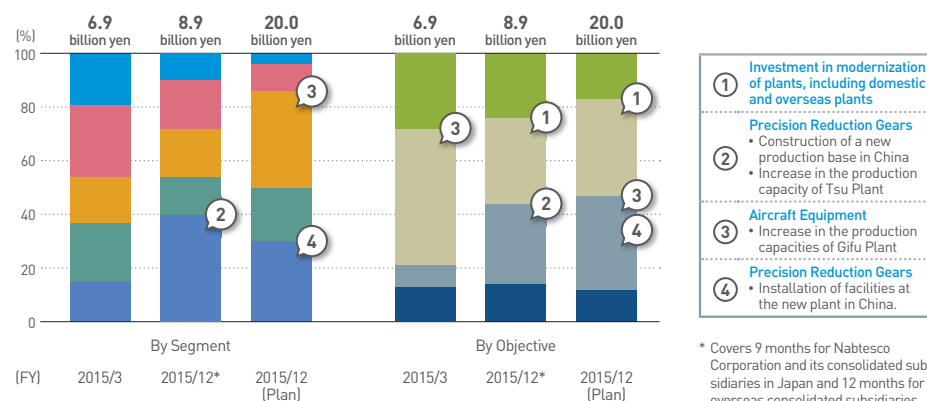
Under the current Medium-Term Management Plan, we are steadily making upfront investments aiming at further reinforcement of our business foundation. This has been somewhat pushing up selling, general and administrative expenses and capital expenditure, a cost increase that will temporarily decrease our profitability, but we are convinced that the upfront investments will contribute to building a more solid business foundation.

With respect to capital expenditure, by boosting production capacity in business areas anticipated to grow over the medium and long term and making investments in the “modernization of our domestic mother plants” in each business, we are endeavoring to enhance production and environmental efficiencies to strengthen competitiveness. In the fiscal year ended December 2015, we made bold investments in growth businesses, while endeavoring to invest efficiently by keeping abreast of changes in demand. We intend to continue along this upward trajectory in investments during the current fiscal year ending December 2016.

Let me move on to discuss developments by business segment. In our precision reduction gear business targeting the industrial robot market, we increased production capacity at our Tsu Plant and launched production at a new production base in China<sup>1</sup> starting January 2016.

### Breakdown of Capital Expenditure

By Segment: Precision equipment, Transport equipment, Aircraft and hydraulic equipment, Industrial equipment, Head Office  
 By Objective: Launch of new products, Increase production, Increase productivity, Others (renovation, safety, Environment)



Investments for boosting production at the new Chinese production base will be continued during this fiscal year. We presume that a rapid increase in demand for industrial robots will continue in China over the medium term due to rising needs for automation and policy support provided by the Chinese government. As the world's leading supplier of precision reduction gears, Nabtesco will make flexible investments while closely monitoring demand to secure an enduring and stable supply system and fortify its production system that allows "local production for local consumption."

In the aircraft equipment business, we are planning to boost our production capacity in and after the fiscal year ending December 2016. Orders have been received for equipment to be used for new aircraft models: products for the Boeing 737 MAX and 777X, and Mitsubishi Aircraft MRJ<sup>2</sup>. In preparation for mass production of the equipment, we are stepping up the production capacity of the Gifu Plant, investing a total of about 10 billion yen by 2019, when the plant expansion work will be completed. Production and environmental efficiencies will be increased twofold to secure a long-term competitive advantage.

The current Medium-Term Management Plan upholds the "modernization of domestic mother plants" as a key strategy. We are therefore planning to allocate around 50% of our capital expenditure this fiscal year toward enhancing productivity, renovating deteriorated facilities, ensuring safety, and implementing environmental measures. Through these initiatives, we intend to improve our production system to underpin the organic growth of our businesses.

1 Nabtesco (China) Precision Equipment Co., Ltd.: Jointly established with the Shanghai Electric Group in Changzhou, Jiangsu Province in China

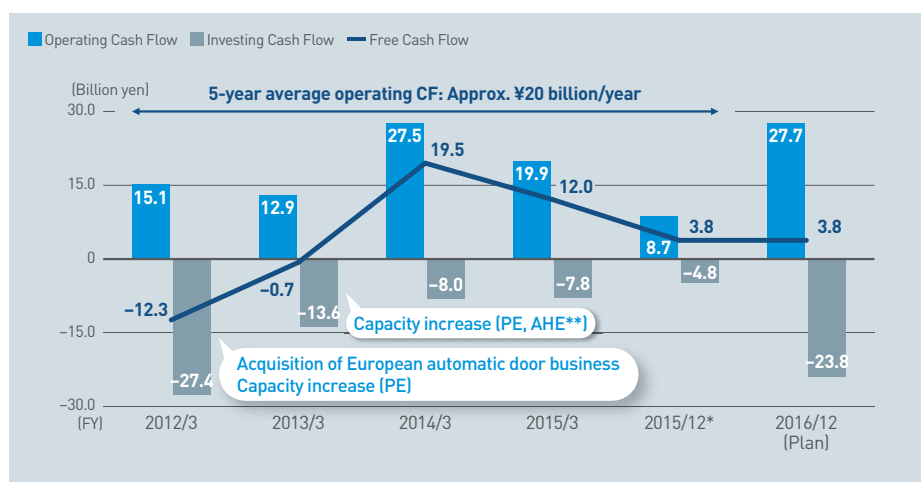
2 Mitsubishi Regional Jet

## Harnessing M&As

Nabtesco is proceeding with M&As for the purpose of absorbing outside resources to swiftly advance into new markets and expand lineups of technologies and products. The profitability of each M&A project, including synergy effects, is scrupulously assessed by the Board of Directors, and risk mitigation measures are developed, as necessary.

As part of our endeavor to advance into new markets, we acquired an automatic door manufacturer boasting the largest market share in Switzerland, establishing a global business management system. We also acquired US and European distribution companies to expand overseas automatic doors market share and bring our value chain management to the next level. In addition, in April 2016, we converted a major domestic automatic doors sales company from an equity-method affiliate into a consolidated subsidiary with the aim to accelerate the integration of production and sales activities. In our railroad vehicle equipment business, we acquired an Italian railroad vehicle door manufacturer to accelerate our expansion in Europe, the world's largest railroad vehicle market.

## Cash Flow



\* Covers 9 months for Nabtesco Corporation and its consolidated subsidiaries in Japan and 12 months for overseas consolidated subsidiaries.

\*\* PE: Precision Equipment Business

AHE: Aircraft and Hydraulic Equipment Business

In our effort to expand the lineups of technologies and products, we acquired a domestic hydraulic equipment manufacturer in our hydraulic equipment business and a German compressor manufacturer in our commercial vehicle equipment business in April 2015 and May 2016, respectively, to expand our customer base and speed up development of systemized products.

## Enhancing shareholder returns

To return profits to our shareholders, we basically try to pay out stable dividends. Our basic dividend policy under the current Medium-Term Management Plan is to “maintain the payout ratio at 30% or higher and not cut the dividend unless the ratio exceeds 40%.” However, the payout ratio increased to 49.5% in the previous fiscal year ended December 2015 as a result of maintaining the amount of dividend per share at the same level as in the fiscal year ended March 2015, and owing to the transitional period for changing the accounting term. In addition, we repurchased our own shares for the first time as part of measures to return profits to shareholders, acquiring 2.4% of the total number of outstanding shares and cancelling them all as of December 28, 2015. As a result, our total return ratio over the past cumulative five years amounted to approximately 48%.

The annual dividend for the fiscal year ending December 2016 will be increased by 6 yen to 50 yen per share. To meet the expectations of our shareholders, we intend to continue paying out stable dividends while looking out for possible maneuvers to repurchase our own shares.

### Shareholder returns

#### ■ Share repurchase (FY ended 12/2015)

- Number of shares acquired:  
3,132,000
- Proportion of total number of outstanding shares\*:  
2.46%
- Total value of shares repurchased:  
9.99 billion yen



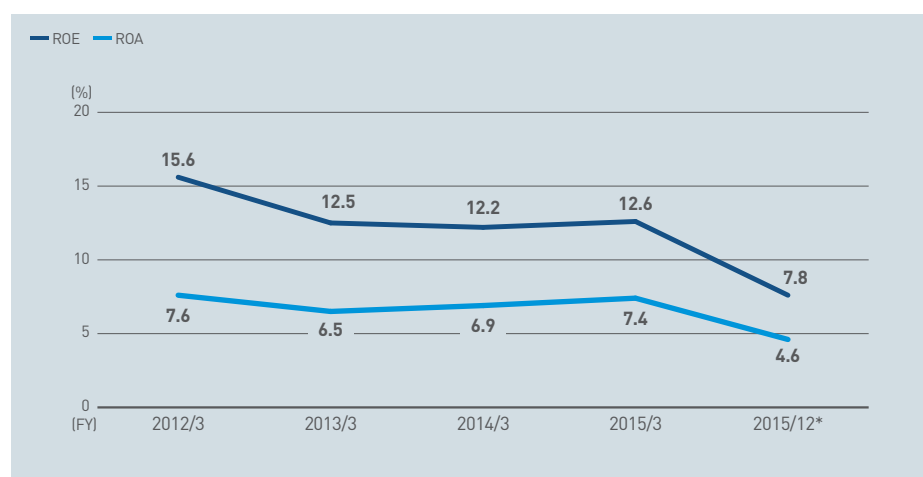
Cancellation of all acquired shares (as of December 28, 2015)

#### ■ Dividend / payout ratio

- Dividend policy  
“Maintain consolidated payout ratio at 30% or higher, and not cut dividend unless the ratio exceeds 40%.”
- Full-year dividend per share  
FY ended 12/2015 (actual result): 44 yen → FY ending 12/2016 (plan): 50 yen
- Total for the last 5 years (FY ended 3/2012 to FY ended 12/2015)  
Payout ratio: 34%  
Total payout ratio: 48%

\*Excluding treasury shares acquired in the resolution

### ROE/ROA



\* 9 months for Nabtesco and domestic subsidiaries and 12 months for overseas subsidiaries

## Financial Information

### Financial Performance

#### Operating Results

Effective from the fiscal year ended December 2015, the Nabtesco Group aligned its fiscal year with the calendar year by changing the fiscal year end of the parent company and domestic Group companies from March 31 to December 31 to synchronize their accounting periods with those of its overseas consolidated subsidiaries. The fiscal year alignment aims at streamlining business management and operations including budget compilation and financial performance management, and fulfilling the International Financial Reporting Standards (IFRS) requirement of unifying the fiscal year periods of all consolidated subsidiaries, as we consider applying the IFRS in the future.

Hence, financial performance for the fiscal year ended December 31, 2015 represents the aggregated results posted by Nabtesco Corporation and its consolidated subsidiaries in Japan over nine months and by its overseas consolidated subsidiaries over 12 months. Fiscal 2015/12 saw both net sales and incomes fall short of the forecast made at the beginning of the year. These results are attributed to the sluggish Chinese market, specifically, a decrease in Chinese demand experienced in the Hydraulic Equipment Business and a postponement of the Chinese high-speed railway project. Under such circumstances, a notable structural reform was executed in the Hydraulic Equipment Business, whereby two plants in China were restructured into one, and their production capacity was reduced by 30%. Furthermore, an impairment loss was recognized in the third quarter to compress the assets of Chinese manufacturing bases, resulting in the posting of an impairment loss of 109 million RMB (approximately 2.1 billion yen) as an extraordinary loss.

As a result, net sales amounted to 187,000 million yen; operating income - to 15,294 million yen; ordinary income - to 16,418 million yen; and net income attributable to owners of the parent - to 11,059 million yen. Net income per share came to 88.85 yen and return on equity (ROE) stood at 7.6%.

We are aiming to achieve record high figures in net sales, operating income, and net income for the fiscal year ending December 2016. Major factors expected to contribute to the increase in those figures are a growth in demand for industrial robots; a boost in the sales of factory automation (FA) products in the Precision Reduction Gear Business; and the contribution to the Group's financial performance by NABCO Systems Co., Ltd., which was converted into a consolidated subsidiary in April 2016 through acquisition of shares in our Automatic Door Business. In addition, in the Railroad Vehicle Equipment Business, demand is expected to grow due to the resumption of the high-speed railway project, which was postponed in the previous fiscal year. Moreover, in the Hydraulic Equipment Business, now that we have completed the execution of our earnings improvement measures, including a series of production system reforms and a reduction of fixed costs by way of posting an impairment loss, we are expecting to break even

based on the presumption that excessive inventories of finished vehicles will be unloaded and Chinese construction machinery manufacturers will achieve recovery in their production.

#### Financial Position

**Assets:** Total assets as of 2015/12 were 233,381 million yen, a decrease of 12,611 million yen from 2015/3, reflecting 128,575 million yen in current assets and 104,805 million yen in fixed assets. The key contributing positive factors included increases of 3,256 million yen in inventory assets, 2,635 million yen in notes and accounts receivable and 1,436 million yen in goodwill, while the primary contributing negative factors were decreases of 12,088 million yen in cash and time deposits, 4,000 million yen in marketable securities, 2,373 million yen in investment securities and 1,033 million yen in deferred tax assets.

**Liabilities:** Total liabilities as of 2015/12 were 84,456 million yen, a decrease of 2,871 million yen from 2015/3, reflecting 73,000 million yen in current liabilities and 11,456 million yen in long-term liabilities. The main contributing positive factor was a rise of 1,035 million yen in trade notes and accounts payable, while the primary contributing negative factors were decreases of 3,609 million in income taxes payable, 1,370 million yen in deferred tax liabilities and 1,234 million yen in short-term loans payable.

**Net Assets:** Total net assets as of 2015/12 stood at 148,924 million yen. Shareholders' equity amounted to 142,068 million yen, a decrease of 7,793 million yen from 2015/3. The key contributing positive factor was growth in earned surplus arising from net income attributable to owners of the parent of 11,059 million yen. Meanwhile, the primary negative contributing factors included a decrease of 10,002 million yen due to purchase of treasury stock, a 5,784 million yen decrease in earned surplus due to dividend payments, 1,379 million yen in translation adjustments due to changes in foreign exchange at overseas subsidiaries, and 1,288 million yen in net unrealized loss on securities. As a result, shareholders' equity ratio stood at 60.9% and net assets per share amounted to 1,150.41 yen.

#### Cash Flows

Cash and cash equivalents as of 2015/12 stood at 34,709 million yen, a decrease of 15,745 million yen from 2015/3, reflecting 8,746 million yen in capital gained from operating activities, which was mainly used for the purchase of treasury stock, capital expenditure and dividend payments.

**Cash Flow from Operating Activities:** Net cash generated from operating activities totaled 8,746 million yen. Principal positive factors included increases in income before income taxes. The main negative factor was the increase in income taxes paid.

**Cash Flow from Investing Activities:** Net cash used in investing activities amounted to 4,886 million yen, mainly due to the acquisition of tangible fixed assets.

**Cash Flow from Financing Activities:** Net cash used in financing activities totaled 19,090 million yen, primarily reflecting the purchase of treasury stock and dividend payments.



## 10-Year Financial Summary

[JPY Million]

	2006/3	2007/3	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2015/12*3
Net sales	147,428	161,445	174,254	158,171	126,249	169,304	198,527	179,543	202,292	219,657	187,000
Cost of sales	111,542	123,640	132,642	124,041	97,817	127,712	148,184	134,859	148,321	158,693	136,576
Selling, general and administrative expenses (SG&A)	21,058	21,378	22,183	22,118	20,467	21,380	27,484	29,670	33,877	37,347	35,129
Operating income	14,828	16,427	19,429	12,012	7,965	20,212	22,859	15,013	20,092	23,615	15,294
Income before income taxes and minority interests	14,288	16,691	18,433	7,932	8,012	21,954	24,848	18,997	23,522	27,026	15,358
Income taxes	5,721	6,216	6,370	2,778	3,272	7,485	8,874	5,598	8,140	9,254	5,731
Minority interests *1	356	691	1,038	728	723	1,081	1,217	129	404	25	-1,432
Net income *2	8,211	9,784	11,025	4,426	4,017	13,388	14,757	13,269	14,978	17,746	11,059

\*1 Net income or net loss attributable to non-controlling interests

\*2 Net income attributable to shareholders of the parent company

At year-end											
Current assets	82,501	95,625	99,237	84,306	89,893	119,003	123,929	112,048	134,159	139,321	128,575
Tangible fixed assets	41,934	43,610	43,346	45,207	44,102	44,442	51,509	54,475	55,225	56,877	55,916
Total assets	146,895	163,223	163,317	144,685	149,481	180,729	208,093	203,056	233,984	245,992	233,381
Current liabilities	60,138	57,098	58,183	41,209	43,611	74,892	70,897	52,322	73,161	64,830	73,000
Interest-bearing debt	19,188	26,927	23,115	19,160	19,920	20,158	31,695	26,389	26,203	16,659	15,332
Net assets	—	77,110	82,492	81,716	85,168	96,531	107,467	120,857	139,471	158,664	148,924
Retained earnings	30,387	38,304	47,412	49,669	52,662	64,263	74,816	83,606	94,225	107,554	107,487

Cash flows											
Cash flow from operating activities	16,406	8,293	18,249	14,055	14,892	27,997	15,104	12,952	27,597	19,949	8,746
Cash flow from investing activities	-4,896	-6,941	-8,969	-9,329	-6,156	-4,420	-27,464	-13,693	-8,064	-7,880	-4,886
Cash flow from financing activities	-7,273	6,135	-5,748	-6,189	-684	-1,850	6,036	-10,090	-8,175	-15,888	-19,090

Per share of common stock (Yen)											
Net income per share	64.05	77.10	86.77	34.82	31.70	105.91	116.74	104.57	117.95	140.24	88.85
Net assets per share	505.59	575.19	609.08	601.75	628.29	713.77	784.12	894.86	1,035.68	1,184.17	1,150.41
Cash dividends per share	12.00	14.00	16.00	13.00	9.00	25.00	34.00	34.00	38.00	44.00	44.00

Ratio (%)											
Operating income margin	10.1	10.2	11.2	7.6	6.3	11.9	11.5	8.4	9.9	10.8	8.2
Return on assets (ROA)	10.4	6.3	6.8	2.9	2.7	8.1	7.6	6.5	6.9	7.4	4.6
Return on equity (ROE)	14.1	14.3	14.7	5.8	5.2	15.8	15.6	12.5	12.2	12.6	7.6
Payout ratio	18.7	18.2	18.4	37.3	28.4	23.6	29.1	32.5	32.2	31.4	49.5*
Equity ratio	43.7	44.8	47.4	52.9	53.1	49.9	47.6	56.2	56.0	60.9	60.9

\*3 Due to the change of the closing date of fiscal year since FY 2015/12, the results for FY2015 is calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries.

## Financial Information by Business Segment

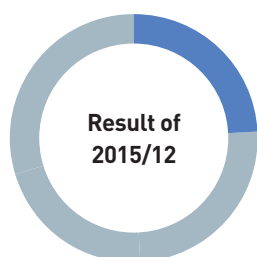
Nabtesco has changed the closing date of fiscal year from March 31 to December 31 since FY2015. In this report, the results for FY2015 is calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries. In order to make year on year comparison with the next fiscal year '2016/12 Plan', '2015/12 (referential)' is calculated on a basis of 12 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan and overseas.

### PRECISION EQUIPMENT SEGMENT

Precision Reduction Gears Business  
New Energy Equipment Business

Net Sales Composition

# 24.2%

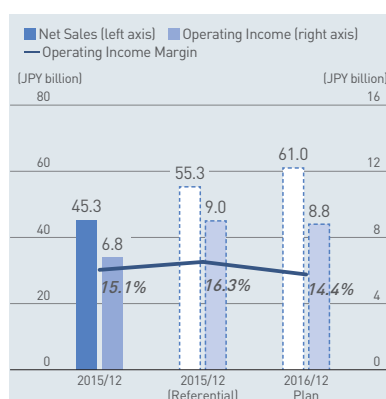


The amount of orders received in 2015/12 for precision equipment 45.1 billion yen. Net sales and operating income were 45.3 billion yen and 6.8 billion yen, respectively.

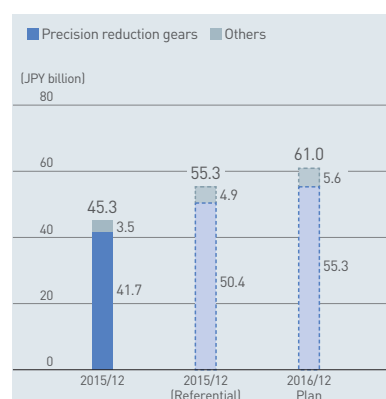
Sales of Precision Reduction Gears grew, reflecting strong demand for industrial robots, machine tools and other FA applications. However, due to the effect of reduced production by some robot manufactures during the third quarter (October 1, 2015 to December 31, 2015), sales in the Precision Equipment Business turned out to be slightly below the forecast at the beginning of the period.

For 2016/12, operating income will be temporarily depressed compared to the 2015/12 referential figure due to increased depreciation from capital expenditure and costs related to the new Chinese plant, despite a sales increase in the Precision Reduction Gear business.

Result for 2015/12 and 2016/12 Plan



Results for 2015/12 and 2016/12 Plan by business

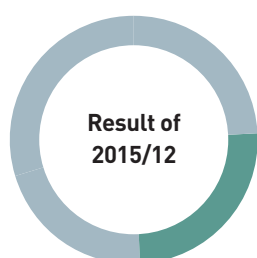


### TRANSPORT EQUIPMENT SEGMENT

Railroad Vehicle Equipment Business  
Commercial Vehicle Equipment Business  
Marine Vessel Equipment Business

Net Sales Composition

# 25.1%

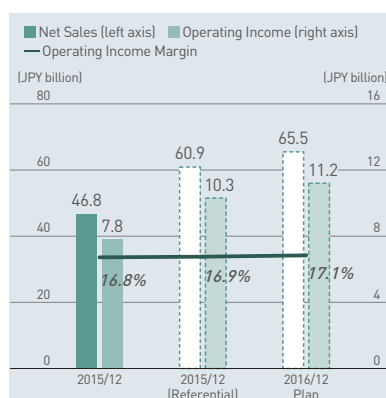


The amount of orders received in 2015/12 for transport equipment was 46.7 billion yen. Net sales and operating income were 46.8 billion yen and 7.8 billion yen, respectively.

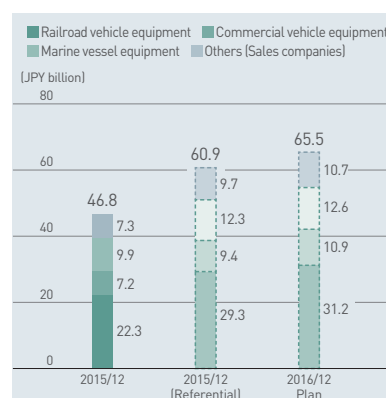
The Railroad Vehicle Equipment Business was negatively affected by the delayed Chinese high-speed railway project despite brisk domestic demand for new cars and expanded repair parts business. The Commercial Vehicle Equipment Business continued to face stagnant demand from ASEAN countries despite favorable growth in domestic demand for trucks. In the Marine Vessel Equipment business, there were partial cancellations of shipbuilding work in hand due to the deteriorating Chinese market. As a result, sales in the transport business fell below the forecast at the beginning of the period.

For 2016/12, income is forecast to increase in comparison with the 2015/12 referential figure.

Result for 2015/12 and 2016/12 Plan



Results for 2015/12 and 2016/12 Plan by business

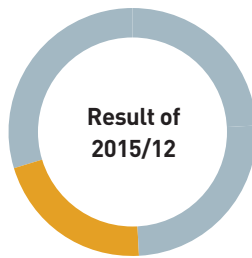


## AIRCRAFT AND HYDRAULIC EQUIPMENT SEGMENT

Aircraft Equipment Business  
Hydraulic Equipment Business

Net Sales Composition

21.1%

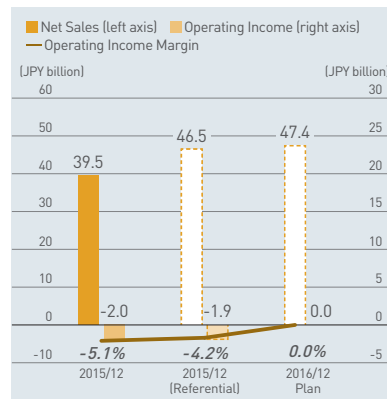


The amount of orders received in 2015/12 for aircraft and hydraulic equipment decreased by 40.8 billion yen. Reflecting this, sales fell by 39.5 billion yen, and operating loss was 2.0 billion yen.

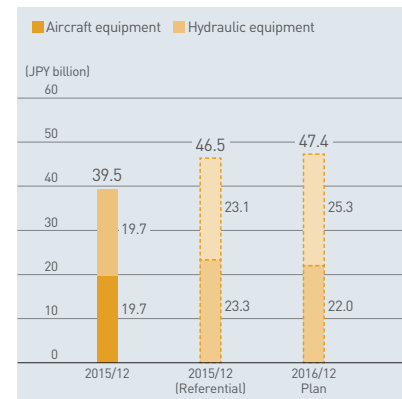
The Hydraulic Equipment Business has been significantly affected by the decreased demand for construction machinery in China although the Aircraft Equipment Business remained robust on the back of brisk sales of aircraft in the private sector and demand from the Ministry of Defense. Consequently, sales in the Aircraft and Hydraulic Equipment Business fell significantly short of the forecast at the beginning of the period.

For 2016/12, it is expected to attain break-even level by sales increase in the Hydraulic Equipment Business and through its structural reform effects.

Result for 2015/12 and 2016/12 Plan



Results for 2015/12 and 2016/12 Plan by business

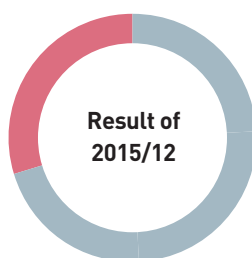


## INDUSTRIAL EQUIPMENT SEGMENT

Automatic Doors Business  
Packaging Machines Business

Net Sales Composition

29.6%

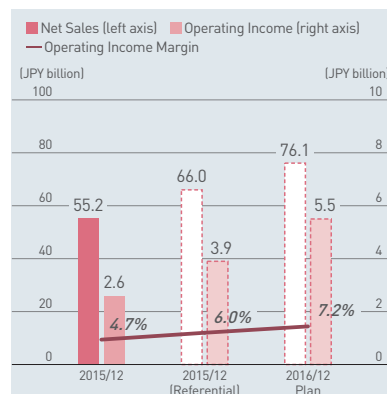


The amount of orders received in 2015/12 for industrial equipment was 54.4 billion yen. Net sales and operating income were 55.2 billion yen and 2.6 billion yen, respectively.

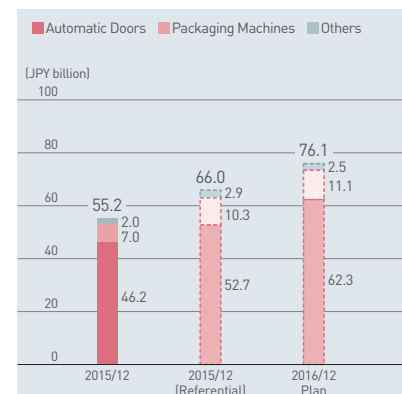
In the Automatic Door Business, sales remained robust both in Japan and overseas thanks to foreign exchange translation effects among other factors. In the Packing Machines Business, however, stagnant demand in the overseas market negatively impacted sales. As a result, sales in the Industrial Equipment Business stood slightly lower than the forecast at the beginning of the period.

For 2016/12, income is forecast to increase in comparison with the 2015/12 referential figure

Result for 2015/12 and 2016/12 Plan



Results for 2015/12 and 2016/12 Plan by business





To ensure the medium- to long-term growth of the Precision Reduction Gears Business, we will steadily meet the increased needs for automation in the automotive and general industries based on our stable supply systems established at our Japanese and Chinese plants.

Managing Executive Officer, President,  
Precision Equipment Company **Shinji Jyuman**

### Sources of Strength

#### Motion Control Technology, Ability to Develop Applications and Technologies

The Precision Reduction Gear RV, which boasts excellent durability and high positioning accuracy, while being compact and lightweight, serves as the source of Nabtesco's competitiveness. The high product performance is supported by the abilities the company has accumulated in responding to customer needs.

#### Relations of Trust with Customers

Nabtesco launched precision reduction gears on the market in 1986 and its global market share for industrial robots has reached about 60%. Although the basic patents possessed by the company for the products expired in 2006, the high market share has been maintained as a result of conducting business with the greatest importance placed on customer satisfaction and deepening relations of trust with them.

#### Stable Supply System

In anticipation of a high demand for precision reduction gears, Nabtesco has increased the production capacity of its domestic plants and has launched new production sites in China to ensure the stability of its supply system. We have also been implementing measures for increasingly higher quality and faster delivery on a continual basis, and are able to make flexible responses to changes in demand, which provides another competitive edge to Nabtesco.

### Business Environment (Opportunities and Risks)

According to the forecast made by the International Federation of Robotics, in the medium term, the world's market of industrial robots (including small, medium and large robots) will grow at the annual rate of 15%. In particular, demand for small robots has recently increased in accordance with rising needs for automation around the world. This is in addition to the demand for medium to large robots, which has been robust for years. In light of the fact that the growth rate of the market for small robots is relatively high with demand beginning to increase, the annual growth rate of the market for medium and large robots is expected to be 6%. By region, the growth rate will be around 25% in China, where the need for unmanned, automated operations has seen a remarkable increase. Other than industrial robots, demand for machine tools is increasing both in Japan and overseas. Also, modularized products are in high demand particularly in Europe and China. We expect it will help promote the sales of our new-type actuators which integrates precision reduction gears and servomotors.

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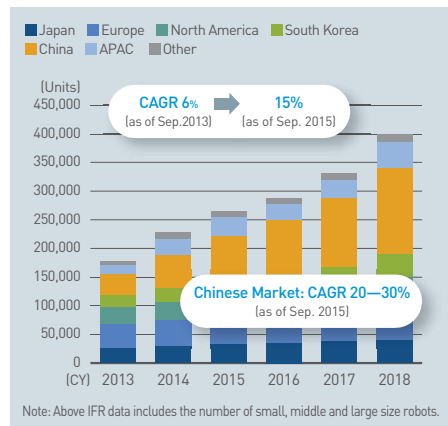
#### MAIN PRODUCTS



#### Precision Reduction Gears: RV Component Type

The Precision Reduction Gear RV are compact and lightweight with outstanding rigidity and overload resistance. With these features, the reduction gears serve to provide excellent accelerating capabilities, smooth motion, low backlash, and accurate positioning precision, leading to enhanced robot controllability.

### Worldwide Annual Shipment of Industrial Robots



Source: International Federation of Robotics (IFR)

### The Number of Multipurpose Industrial Robots per 10,000 Persons Employed in Automotive Industry



Source: International Federation of Robotics (IFR)

## Measures for Medium- to Long-Term Growth

For the medium- to long-term growth of the company, we will further deepen relations of trust with our existing customers by responding to any new needs they have. At the same time, we will strive to find new customers, work for higher quality and faster delivery so that we will not miss any opportunities that come as a result of the increased demand for industrial robots. Moreover, we are enhancing our production capacity at our manufacturing facilities in Japan and building a new production base in China for the maintenance and improvement of our stable supply system. This is done to prepare for increasing demand on a medium- to long-term basis. Furthermore, in the fields other than industrial robots, we are going to utilize our long-established technological expertise to promote the sales of new products and to develop new markets.

### FACT SHEET

#### Major customers

FANUC, YASKAWA Electric, Kawasaki Heavy Industries, KUKA Roboter, ABB Robotics and others

#### Production base (as of the end of December 2015)

Tsu City, Mie Prefecture, Japan / Jiangsu Prefecture, China

#### Market share

Joints of industrial robots: Approx. 60% global market share  
Machine tools ATC (Automatic Tool Changer): Approx. 60% domestic market share

#### History of business development

In 1976, Teijin Seiki began selling reduction gear-equipped hydraulic motors for use in construction machineries. Subsequently, following the maturation of this market, the company began to focus its attention on industrial robots, which would provide a new growth market where the company could make use of its unique reduction gear technology. The company then proceeded with the development of reduction gears for robot joints and began selling precision reduction gears for industrial robots in 1986. We now have a 60% share of the world precision reduction gear market and our products are widely used in a range of fields in addition to industrial robots. In 2014, we achieved a cumulative production of 5 million units in the business. In 2015, we commenced building a new production base for precision reduction gears in China, which now offers the world's largest industrial robot market. This base will start production at the beginning of 2016.

- 1986** Commenced launch of the Precision Reduction Gear RV Series.
- 1991** Built the Tsu Plant for the manufacture of precision reduction gears.
- 2014** Total cumulative production of precision reduction gears reached 5 million units.
- 2015** Began the construction of a production base in China (to start production in early 2016).



#### Gear Head Type "RD Series"

This is a gear head product based on the Precision Reduction Gear RV with the emphasis on ease of use. The product is easily installed on servomotors and features airtight grease sealing.



#### Gear Head Type (Table Type) "RS Series"

This table-type series is designed for accurate positioning. The low-profile products with large and hollow shafts are easy to use and are therefore widely adopted for index tables as well as for pivots of various devices.



#### Compact Actuator "AF Series"

This new product possesses the features of high accuracy, rigidity and reliability, which have been inherited from Precision Reduction Gear RV. Directly connected to servomotors, it serves to provide a compact drive part and usability by eliminating the need for embedding the servomotors into reduction gears.

#### WEB

Precision Reduction Gears

<https://www.nabtesco.com/en/products/robot.html>



# New Energy Equipment Business



Renewable energy business is expected to demonstrate long-term growth due to arising needs to secure energy sources and combat climate change. Leveraging our accumulated technologies and know-how in product development, the Nabtesco Group strives to grow sustainably.

Corporate Officer, General Manager,  
New Energy Business Development Division **Toshiharu Hibino**

## Sources of Strength

### (Drive units for wind turbines)

We have developed drive units for wind turbines based on our technology in reduction gears for industrial robots. The drive units are highly resistant to severe natural conditions, including low and high temperatures, and brine damage. In addition, as one of their strengths, they provide low-backlash performance, yet are compact and lightweight. Indeed, they embody the product development capabilities we have accumulated in the Precision Reduction Gears Business.

### (Solar tracking equipment)

Making use of the high-precision, high-rigidity and high-efficiency precision reduction gear technology we have developed in the industrial robot field, we provide solar tracking equipment that resists impacts, consumes a minimum amount of electricity and is maintenance-free. These features lead to a lower lifecycle cost.

## Business Environment (Opportunities and Risks)

### (Drive units for wind turbines)

The main players of the wind turbines market are companies engaged in the heavy electric machinery industry, who deal with entire electric systems, as well as companies specializing in and leading the market in a highly competitive manner. In this market of technologically advanced products, we have a track record of supplying products to the main players. In Europe, demand for wind power generation equipment will expand due to the accelerated installation of offshore wind turbines, while in the United States and China, governments are fostering renewable energy promotion measures. Accordingly, we expect that we will be able to achieve steady growth in the business.

However, elimination and consolidation of wind turbine manufacturers, change in competition environment due to rising of manufacturers in emerging country and intensification of competition will pose risks for us.

### (Solar tracking equipment)

The commercial operation of solar thermal power plants expected to fully begin in the middle of the 2020s, and there is also potential demand for special-purpose solar thermal power generation facilities at mines in Africa, South America and other regions. We are making efforts to grasp the sales opportunities provided by such demand.

On the other hand, we are preparing against possible risks that the use of renewable

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## MAIN PRODUCTS



### Yaw Drive for Wind Turbines

This drive unit has high rigidity and high load performance based on the Rotor Vector (RV) reduction gear technology. It can be used under severe natural conditions, for example, in both low- and high-temperature areas as well as areas prone to salt damage. The low backlash feature helps prolong the field life of wind turbines.

energy will be discouraged due to a markdown of crude oil prices and that the number of orders we may receive will decrease due to the delayed launch of the precursory projects.

## Measures for Medium- to Long-Term Growth

### (Drive units for wind turbines)

For the wind power generation business, we will conduct marketing activities by making use of our technological strengths and sales network to find new customers and promote sales.

### (Solar tracking equipment)

As for solar tracking equipment, for which the market has not yet established, we will continue our efforts to obtain new orders and expand the market mainly by using our product development ability and existing production facilities.



FACT SHEET

#### Major customers

Drive units for wind turbines: Mitsubishi Heavy Industries, Hitachi and others  
Solar tracking equipment: Cobra Thermosolar Plants (Spain)

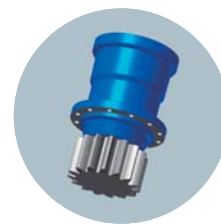
#### Production bases (as of the end of December 2015)

Drive units for wind turbines: Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan  
Solar tracking equipment: Tsu City, Mie Prefecture, Japan

#### History of business development

To help meet expanding demand for renewable energy around the globe, Nabtesco began to develop products for the market. We carried out the first shipment of our Yaw drive units for wind turbines to an overseas leading wind turbine manufacturer in 2005, achieving a cumulative shipment of 10,000 units in 2008. Moreover, we began activities in the solar thermal power generation field in 2012 and secured an order for our solar tracking equipment for use in Concentrated Solar Power plants. Subsequently in 2013, we integrated the solar tracking equipment and drive units for wind turbines businesses into the New Energy Business Development Division. We will contribute to fostering the use of renewable energy through this business.

- 2005** Made the first shipment of Yaw drive units for wind turbines to an overseas leading wind turbine manufacturer.
- 2012** Received the first order for solar tracking equipment for use at Concentrated Solar Power plants.
- 2013** Launched the New Energy Business Development Division by integrating the solar tracking equipment and the drive units for the wind turbines businesses.



#### Pitch Drive for Wind Turbines

The pitch drive controls the orientation of the wind turbine blades with high precision. Because it is compact, it provides high maintenance performance and allows easy oil replacement. As the wind turbine control system, it also helps increase power generation efficiency.



#### Solar Tracking Equipment

Highly resistant to shocks, including gusty winds, this high-precision drive unit moves the heliostat (reflective mirrors) used in solar power generation. It uses only a small amount of electricity and is maintenance-free, helping to reduce the life cycle cost of solar thermal power generation.



New Energy Equipment

<https://www.nabtesco.com/en/products/newenergy.html>



# Railroad Vehicle Equipment Business



We will contribute to safer and more convenient railroad transportation through provision of highly reliable brake control and door operating systems. These are core components of railroad vehicles that require high safety. We will also pursue sustainable growth by proactively conducting business not only in Japan but also in overseas railroad vehicle markets.

Managing Executive Officer, President,  
Railroad Products Company **Yukihiro Imuta**

## Sources of Strength

Since receiving the first order for our air brake equipment from the former Japanese Ministry of Railways in 1925, we have been accumulating technologies through the provision of highly reliable brake systems, and have contributed to, for example, space-saving by developing brake units comprising multiple brake mechanisms. Based on the recognition that railroad vehicle equipment, which provides infrastructure, needs to be highly reliable and safe, we have long been working to increase customer satisfaction and build relations of trust with them. This strengthens and supports our ability to provide customers with MRO (maintenance, repair, and overhaul) services on a continual basis.

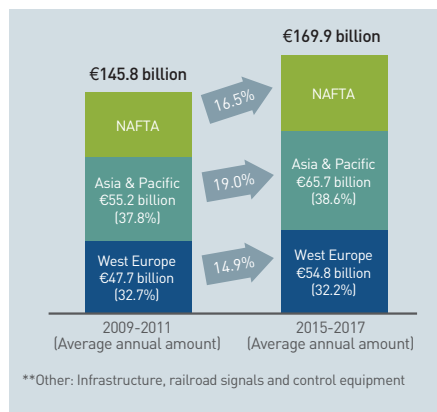
## Business Environment (Opportunities and Risks)

In the Japanese market, we expect that demand will continue to be stable mainly due to the need to replace old railroad vehicles with newer models. In China, demand in the high speed train market is expected to stabilize as the market matures, while demand in the subway train market will continue to expand due to the need to improve convenience in people's daily lives and for mitigation of environmental pollution. If a technology development of high-speed trains progresses in China, however, it will pose a risk to us. In Europe, we expect that demand will continue to grow stably, while in the Southeast Asian market, Japanese railroad vehicle manufacturers will bolster their activities to obtain more orders, which will provide us with new business opportunities.

Market Size of Railroad Industry (by Region)



Market Size of Railroad Industry (by Segment)



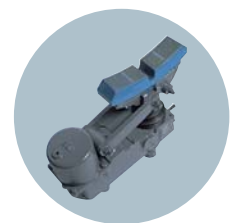
Source: UNIFE

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## MAIN PRODUCTS



### Unit Brakes

The unit brake incorporates the integral functions of a conventional foundation brake rigging and a built-in automatic slack adjusting mechanism. Compared to existing foundation brake units, the product offers reduced size and weight, simplified maintenance, greater noise protection, and heightened consistency of braking efficiency.



## Measures for Medium- to Long-Term Growth

In order to conduct business in an effective and efficient manner in highly promising markets identified around the world, we will expand our business system in an all-encompassing manner, fostering the optimization of our development, procurement and production activities in the three regions of Japan, China and Europe. Particularly in Europe, which provides the world's largest railroad market, we will work to obtain new orders through our local bases, aiming to expand the business in the region during the period of the next Medium-term Management Plan.

We will also promote sales of products targeting subway trains in China by making use of our local sales network as well as results and technologies accumulated in Japan. We will also continue focusing on increasing further customer satisfaction and expand the MRO business both in Japan and China based on our relations of trust with our customers. Moreover, in the second-hand vehicle market in Southeast Asia, we will continue our efforts to secure more orders in the MRO business.

**FACT SHEET**

### Major customers

Japan Railway (JR) companies, private railway companies, Kawasaki Heavy Industries, Hitachi, Ltd., railway related companies in China and others

### Production bases (as of the end of December 2015)

Kobe City, Hyogo Prefecture, Japan / Jiangsu Prefecture, China / Torino, Italy

### Market share

Brake systems: Approx. 50% domestic market share  
 Approx. 40% high-speed railways market share in China  
 Door opening systems: Approx. 70% domestic market share.

### History of business development

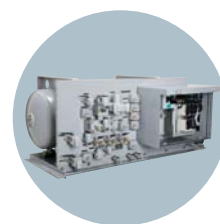
In 1925, we received an order for its air brake systems from the Ministry of Railways, and this marked the beginning of our Railroad Vehicle Equipment Business.

In the 1960s, Shinkansen bullet trains began to be operated in time for the Olympic Games to be held in Tokyo, and the urban railway networks were increasingly being improved for transportation at higher speeds and in greater quantity. In response, we developed highly reliable automatic train control systems to ensure safety even during high-speed operations, as well as electric command air brake systems. We continued to expand the business as subway systems were successively constructed to mitigate traffic congestion in urban areas.

We also changed our business model from the development of hardware products to making proposals to individual customers in order to expand our business.

In and after the 2000s, we expanded our market share in Chinese and Taiwanese high speed train and subway businesses. Further, in 2013, we acquired an Italian railroad vehicle door manufacturer (presently Nabtesco Oclap S.r.l.) to spearhead business in Europe and around the globe.

- 1925** Received the first order for air brake equipment from the former Japanese Ministry of Railways. Commenced manufacture and sales of air brake systems for railroad vehicles.
- 1998** Relocated and opened the Kobe Plant for the manufacture of railroad vehicle equipment.
- 2011** Established Jiangsu Nabtesco KTK Railroad Products Co., Ltd.
- 2012** Acquired International Railroad Industry Standard (IRIS) certification.
- 2013** Acquired OCLAP, an Italian railroad equipment manufacturer, and established Nabtesco Oclap S.r.l. Received an order for pneumatic door systems for train cars under the Intercity Express Programme (IEP) implemented in the United Kingdom.
- 2014** Became the first Japanese company to be certified as a global supplier of doors for train cabs and cars by Bombardier Transportation.
- 2015** Received an order for passenger doors for the Rennes subway line in France from Siemens AG.



### Brake Operating Units for Railroad Vehicles

This system is configured as a unit with a brake operating device that plays the core role in the electric commanding air brake system and the air brake valves that provide the brake cylinder pressure output for service and emergency braking.



### Door Operators for Railroad Vehicles

Offering a tremendous variety of door operating units, our product lineups comprises door operators that meet the demands of a wide diversity of applications from high-speed trains including the Shinkansen to commuter trains and ultra-low-floor light rail vehicles (LRVs).

### WEB

Railroad Vehicle Equipment

<https://www.nabtesco.com/en/products/railway.html>



# Commercial Vehicle Equipment Business



Nabtesco, as Japan's top air brake system manufacturer for commercial vehicles, contributes to safe and environmentally sound transportation systems. We continue to further enhance our competitiveness by entering the global market with leveraged production bases in Japan, Europe, and Asia, as well as expanded product lines.

President,  
Nabtesco Automotive Corporation **Tomoyuki Horiguchi**

### Sources of Strength

The technologies and brand power developed to meet Japanese automakers' high quality requirements are Nabtesco's strengths. Nabtesco became the first company to develop an air dryer in Japan, and our air dryers, which are highly safe and environment-friendly, are now one of the representative products in our Commercial Vehicle Equipment Business. We conduct business globally by making use of our production bases outside of Japan, and that is also a source of our strength.

### Business Environment (Opportunities and Risks)

In Japan, the volume of freight movement is increasing, driven by the government's economic measures and growing e-commerce business. In addition, the environmental law enforced 10 years ago stimulated a replacement cycle for trucks. This cycle has supported and will likely support the continuous and steady demand for new trucks. In emerging countries, the demand is anticipated to grow by around 5% annually over the medium-term. Nonetheless, in ASEAN market where Japanese truck manufacturers hold a large share, price competition between European automakers and those of emerging countries is intensifying and considered a risk that can affect the Group.

### Measures for Medium- to Long-Term Growth

By creating added value and enhancing the quality management system for higher competitiveness, we will continuously seek to increase customer satisfaction, thereby maintaining our share in the Japanese market. Also, we will make more use of our bases in Japan and overseas, and foster local procurement with an eye to securing all opportunities provided by robust demand in the highly promising ASEAN market, while also receiving more orders in India through proactive marketing activities.

Furthermore, through acquisition of European compressor makers, we aim to not only achieve early commercialization of a high value-added system by combining an air dryer and compressor, both of which are our most popular products, but also generate sales synergy as we build stronger customer relationships in Europe.

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#### MAIN PRODUCTS



#### Air Dryers for Commercial Vehicles

This product removes any water or oil in the compressed air to increase the durability and reliability of air control systems. It is used by major Japanese heavy-duty truck manufacturers.

> Major customers

Hino Motors, Mitsubishi Fuso Truck and Bus, Isuzu Motors, UD Trucks, Nissan Motor and others

Production bases (as of the end of June 2015)

Murayama City, Yamagata Prefecture, Japan / Samutprakarn, Thailand / Haryana, India / Saxony, Germany

Market share

Wedge brake chambers for commercial vehicles chambers: Approx.70% domestic market share

Air dryers for commercial vehicles: Approx.85% domestic market share

History of business development

Nippon Air Brake became the first company to manufacture and sell automobile oil brakes in Japan in 1933. Subsequently, it also succeeded in producing commercial vehicle air brake systems in Japan and continued to develop safety-related technologies and peripheral devices, further expanding its business in line with the development of the automobile industry.

In 1972, the company became the first to succeed in the development of air dryers for commercial vehicles in Japan. The air dryers contributed to solving various problems, such as the rusting and freezing-up of valves, by removing water contained in air brake systems.

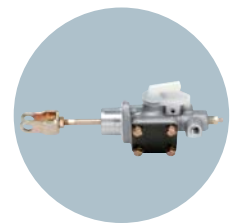
We established a new production base in Thailand in 2004 and spun off the growing Commercial Vehicle Equipment Business from Nabtesco Corporation, founding Nabtesco Automotive Corporation in 2009. Then, in 2013, we established Minda Nabtesco Private Limited in India as a joint venture to conduct business in the local truck market. We are thus further expanding our target market for this business.

- 1933** Became the first company to manufacture and sell oil brakes for commercial vehicles in Japan.
- 1937** Began manufacturing and selling air brake systems for commercial vehicles for the first time in Japan.
- 1972** Became the first company to succeed in developing air dryers for commercial vehicles in Japan.
- 1991** Opened the Yamagata Plant for the manufacture of commercial vehicle equipment.
- 2004** Established a joint venture to manufacture and sell automobile components (Nabtesco Automotive Products Co., Ltd).
- 2009** Began operations as Nabtesco Automotive Corporation.
- 2013** Established a joint venture to manufacture and sell commercial vehicle equipment in India (Minda Nabtesco Automotive Private Limited).
- 2016** Acquired a German air compressor maker and founded "Nabtesco ITG GmbH"



**Wedge Brake Chambers for Commercial Vehicles**

This product is mounted on the wheels of heavy-duty trucks: it uses air pressure to push the piston to apply the brakes.



**Hydraulic Clutch Master Cylinders for Passenger Vehicles**

This product converts the clutch force from the clutch pedal of manual-transmission vehicles into hydraulic pressure and transmits the pressure to the clutch system. It is supplied to automotive manufacturers nationwide.

 WEB

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Commercial Vehicle Equipment

<https://www.nabtesco.com/en/products/automobile.html>



# Marine Vessel Equipment Business



By upgrading and expanding product lines compatible with an “electronically controlled diesel engine” that contributes to lowering of environmental load, in addition to service support systems, we plan to assure we incorporate demand.

We are preparing to meet anticipated demand by expanding the product line up and service support for marine vessel engine control systems and “electronically controlled diesel engines”, which contribute to lowering environmental impacts.

Managing Executive Officer, President, Marine Control Systems Company **Taizo Tsuru**

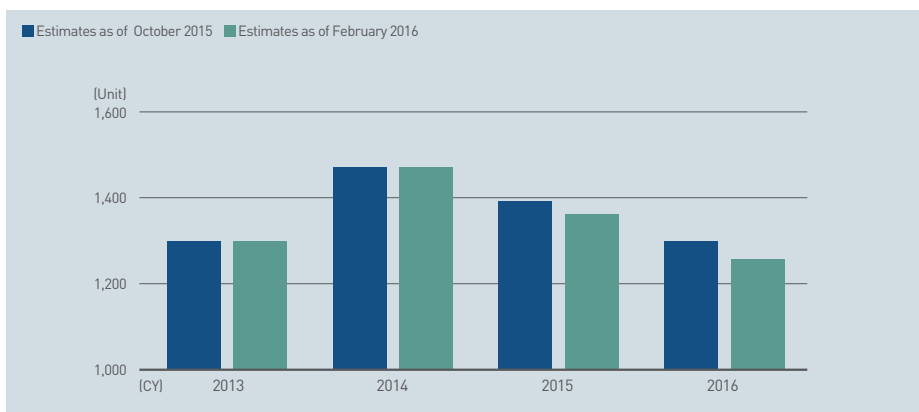
## Sources of Strength

We are developing products to create new value, environment conscious products. In addition to conventional products, we have included new product in our product lineup corresponding electronic engines for large-sized marine vessels in response to the enhancement of environmental regulations. This provides us with strength in the market. Moreover, we are implementing a substantial around-the-clock service support system, making use of our bases in Japan, Singapore, the Netherlands, China and South Korea.

## Business Environment (Opportunities and Risks)

The mainstream of engines for large marine vessels has been rapidly shifting to electronic products at a pace that has exceeded our expectations, and in our strategy for the business, we will focus on obtaining more orders as demand for electronic engine control devices increases. Although the marine vessel business is cyclic and has a risk to be affected by economic changes, we believe expansion of the MRO business will bring stability to the business.

### Global Production of 2-stroke Diesel Engines for Marine Vessels



Source: Nabtesco estimates

**REFERENCE**

Segment Information  
Transport Equipment  
Segment Result  
for 2015/3 and the Plan

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## MAIN PRODUCTS



### Main Engine Remote Control System (M-800-V)

This system enables the remote control of the diesel engine in a vessel from the ship's bridge and/or control room, and has functions for outputting commands to control the engine speed (rpm) and for monitoring the engine status. Equipped with advanced network functions and a liquid crystal touch panel display, the system provides excellent operability and expandability.

## Measures for Medium- to Long-Term Growth

We will respond flexibly to market needs and create new products to help customers solve their problems, focusing on demand for electronic devices. In addition, we will put the three-polar (Japan, China and South Korea) production system on track to make further improvements in QCD (quality, cost and delivery). Moreover, we will expand our service network to build up a system to provide services with additionally higher quality, thereby making proposals and satisfying customers' potential needs for preventive equipment maintenance service.

>  
**FACT SHEET**

### Major customers

Kawasaki Heavy Industries, Mitsui Engineering & Shipbuilding, Mitsubishi Heavy Industries, Hitachi Zosen, Hyundai Heavy Industries (South Korea), Doosan Engine (South Korea), Shanghai Waigaoqiao Shipbuilding (China), Hudong Heavy Machinery (China), MAN Diesel (Denmark) and others

### Production bases (as of the end of December 2015)

Kobe City, Hyogo Prefecture, Japan / Shanghai, China / Busan, South Korea

### Market share

2-stroke main engine control systems: Approx.60% domestic market share  
(Approx.40% world market share)

### History of business development

Since it developed the pneumatic valve in 1943, NABCO had been improving its pneumatic control technology for industrial use, and manufactured remote control equipment consisting of a range of valves, such as starting air pipe control valves, to be used in diesel engines for power generators and marine vessels, as well as gas compressors for freezers.

Subsequently, NABCO had built the foundation for meeting the standards that had been set by the ship classification societies of each country, and developed a pneumatic remote control system for ship engines ahead of others in Japan in 1963. Within only 11 years following the end of the war, Japanese shipbuilders had ascended to the level of the world's top producers in terms of the number of new ships built and further expanded their business, driven by increased international trade. Also, in response to accelerated automation of devices of marine vessels, NABCO had dramatically boost its market share for pneumatic remote control system used in large marine vessel engines in Japan.

Around 1975, as needs for advanced control systems using electronic technologies began to increase, NABCO decided to develop mechatronics technologies as well. In 1983, it developed a microcomputer-based main engine remote control system, which was later standardized. In 1987 the company launched a microcomputer-based electronic governor and established the position as a top engine control system manufacturer.

In addition, aiming to enhance service by making proposals to customers on preventive maintenance, we are expanding our service network through establishing bases in the Netherlands and Singapore.

- 1950** Delivered gas compressors for freezers of marine vessels.
- 1963** Commenced manufacture and sales of marine vessel engine control equipment.
- 1983** Developed and commenced sales of microcomputer controllers.
- 1986** Commenced sales of M-800-X, a mass production model of microcomputer controllers.
- 1987** Developed and commenced sales of microcomputer-based electronic governors.
- 1995** Established Nabmic B.V. in Netherlands.
- 1998** Established Nabtesco Marine Service Pte., Ltd. in Singapore.
- 2000** Established Nabtesco Marinotec Co., Ltd. in South Korea.
- 2008** Commenced manufacture and sales of hydraulic control valves for electronic controlled engines.
- 2013** Established production facilities (Nabtesco Marine Machinery (Shanghai) Co., Ltd.) in China.
- 2014** Decided to participate in the R&D network of Maritime Innovation Japan Corporation.  
Total cumulative delivery of marine vessel electronic governor systems reached 7,000 units.
- 2016** Total cumulative shipment of marine vessel equipments reached 50,000 units  
Total cumulative shipment of Electronically Controlled High-Speed Hydraulic Valves reached 10,000 units



### Electronically Controlled High-Speed Hydraulic Valves

Each Electronically Controlled diesel engine cylinder is equipped with one electronically controlled high-speed hydraulic valve, which electronically controls the timing and amount of fuel injection and the timing at which the exhaust valve opens and closes. The valve contributes to higher fuel economy and is attracting much attention as an environmentally friendly component.



### Electronically Controlled Diesel GAP Sensors

Sensors monitor the behavior of engine fuel injection pumps and exhaust valves. The sensor gives an alarm when an abnormality is detected, thereby increasing the reliability of electronic diesel engine control systems.

**WEB**  
Marine Vessel Equipment  
<https://www.nabtesco.com/en/products/ship.html>



We will pursue innovation in production, technologies and after-sale services to achieve growth and also to contribute to the development of Japanese aircraft industry and our local communities while working to take advantage of the long-term growth of the civil aircraft market to win more business opportunities.

Deputy Chief Executive Officer, President, Aerospace Company and in charge of Production Innovation **Nobutaka Osada**

### Sources of Strength

#### Motion Control Technology and Technological Development Ability

We have long accumulated know-how and technologies by meeting the needs of customers in both private and national defense sectors, which are sources of strength for Nabtesco. We have developed the world's highest-level production technologies and expertise in the aircraft market, which prioritizes safety, and by using these technologies, we are developing flight control actuation system (FCAS) that minimize possible risks.

#### Relations of Trust with Customers

We have been providing the world's aircraft manufacturers with the best solutions for nearly 40 years, always taking the viewpoint of customers as well as a proactive attitude. The close relations of trust we have built with customers provides us with the strength to establish ourselves as a world first-class supplier of FCAS.

#### Manufacturing System

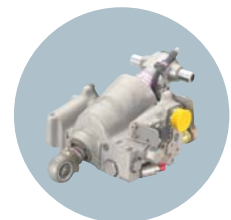
We have been continuously fostering measures for higher quality and productivity at two plants—one in Japan and the other in the United States.

**REFERENCE**

Segment Information  
Aircraft and Hydraulic  
Equipment Segment Result  
for 2015/3 and the Plan

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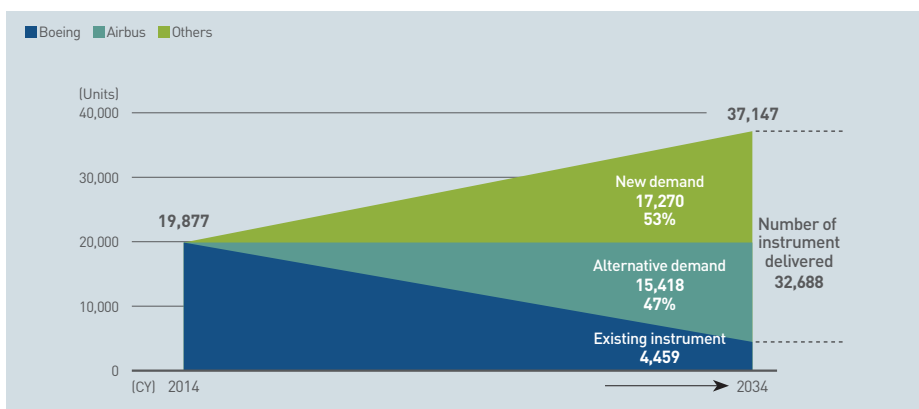
### MAIN PRODUCTS



#### Flight Control Actuation System

Nabtesco is the leading Japanese manufacturer of this system, which controls the aircraft's attitude. This system is used to move the surface such as the ailerons on the main wings and elevators on the tail surface. Nabtesco has a solid reputation as a global leader in the commercial aircraft market.

#### Forecast for passenger aircraft demand



Source: Japan Aircraft Development Corporation

## Business Environment (Opportunities and Risks)

In the private sector, the number of airplanes under operation will be doubled over next 20 years. The budget for national defense will be at a stable level, although it might slightly increase. On the other hand, risks exist such as those caused by stagnant growth of the world economy, political changes, and high crude oil prices.

## Measures for Medium- to Long-Term Growth

By communicating closely with customers based on our relations of trust with them, we will analyze their “needs and wants” and propose highly competitive and high-quality solutions by concentrating our resources appropriately. We will also improve our technological development ability to substantially shorten the lead time for new product development and expand the capacity of our manufacturing facilities in Japan and the United States for the launch of new programs in and after 2017, thereby steadily grasping the business opportunities provided by increased demand in the aircraft market.

Moreover, we will undertake actions while considering the provision of value across the value chain, and enhance measures in the after-sale market, while keeping the importance of achieving “profitable growth” in mind.



### High Voltage Electric Power Distribution Unit

This product has been newly developed for Boeing 787 aircraft requiring more electric power than other existing aircraft, and is equipped with an efficient liquid cooling system for motor controllers and transformers. This product contributes to not only aircraft weight reduction but also improvement of aircraft maintenance by reducing electric wires in the aircraft significantly.

### FACT SHEET

#### Major customers

Boeing (United States), Mitsubishi Aircraft Corporation, Kawasaki Heavy Industries, Mitsubishi Heavy Industries, IHI, the Japanese Ministry of Defense, airline companies and others

#### Production bases (as of the end of December 2015)

Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan / State of Washington, the United States

#### Market share

FCAS: Approx.100% Market share for domestically-produced aircrafts

#### History of business development

The history of our Aircraft Equipment Business dates back to the period during the war, when we began manufacturing landing gear for airplanes. After the end of the war, we introduced overseas technologies and adopted a range of element technologies. We also acquired the know-how necessary for the design, development, and production of aircraft equipment.

We subsequently worked to enter the overseas civil aircraft market, and began dealing with Boeing in 1976. In 1990 we secured a contract to supply flight control actuators (FCAs) to Boeing for use in the B777, thereby receiving the world’s first order for FCA systems for use in civil aircraft. This success helped us to improve our position in the world market and also promote a growth afterward.

In 2014 and 2016, we were awarded Boeing Supplier of the Year Awards, acclaimed for our performance improvement of QCDS (Quality, Cost, Delivery and Service). We have continued to steadily receive orders and supply FCAS and services for various airplanes and expand the business.

**1944** Commenced production in Japan for airplanes in the national defense field.

#### Latter half of the 1970s

Received orders for products including landing gear hydraulic actuators for the B737 Classic.

**1976** Established Teijin Seiki America, Inc. (presently Nabtesco Aerospace) in the State of Washington.

**1979** Received orders for spoiler actuators for the B767 and for aileron actuators for the B757.

**1990** Received an order for FCAS for the B777.

**2006** Received an order for high-voltage electric power distribution unit for the B787.

Received an order for aileron actuators/spoiler actuators for the B747-8.

**2008** Received an order for the FCAS for the MRJ (Mitsubishi Regional Jet).

**2012** Total cumulative delivery of FCAS for the B777 reached 1,000 units.

**2013** Received an order for spoiler actuators for the 737MAX, the latest model in the B737 family.

**2014** Received 2013 Boeing Supplier of the Year Award.

**2015** Received an order for FCAS for the B777X, the B777 next-generation model.

**2016** Received 2015 Boeing Supplier of the Year Award.



Received 2015 Boeing Supplier of the Year in the collaboration category. We are honored to receive the Supplier of the Year award for the third time to include the Boeing President’s Award in 1995.

#### WEB

Aircraft Equipment

<https://www.nabtesco.com/en/products/aircraft.html>



We retooled our production system in response to the rapid deceleration of the Chinese market. In the future we will enhance measures for hydraulic systems based on the product lineup expanded through business acquisition, identify potential customer needs, and add new values to our products to achieve growth again.

Managing Executive Officer, President, Power Control Company **Hiroaki Sakai**

### Sources of Strength

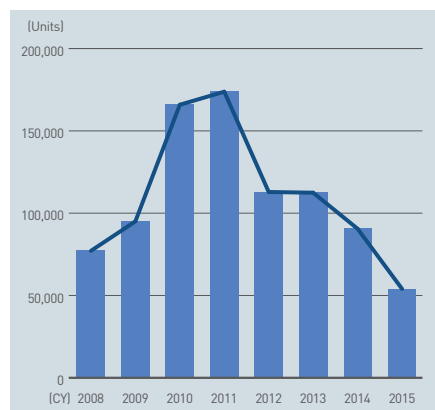
Nabtesco’s traveling units “GM Series” for crawlers, which integrate a hydraulic motor, a reduction gear, a parking brake and other components in one unit, feature excellence in durability and reliability in addition to great power generation efficiently, while remaining compact. Since the start of mass production in 1977, the GM series, one of the major products, have been highly appraised by customers, helping us to enhance the Nabtesco brand. With the improvement of machine processing technologies, the the Tarui Plant has achieved a high level of automation during the manufacturing process, which contributes to the continuous generation of competitiveness.

### Business Environment (Opportunities and Risks)

Demand for construction machines has been stagnant in China, which is the greatest market for the construction machinery industry.

However, demand recovery can be expected toward midterm. Within the construction machinery market, trends for new value creation, including the application of hybrid systems and ICT, will also help us find new business growth opportunities. However, if the economic recovery in emerging countries such as China is delayed, infrastructure demand, the main usage of construction machinery will continue to shrink, and if more time than expected is required for us to realize the synergy effect with Hyst Corporation, which was acquired in 2015, we may not be able to achieve the predefined targets on time.

Unit Sales of Hydraulic Construction Machinery in China (incl. Foreign Capital and State Companies)



Source: China Construction Machinery Association

### Measures for Medium- to Long-Term Growth

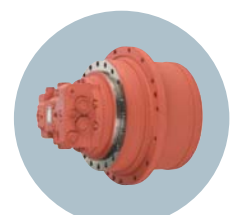
In the hydraulic equipment business, we will make a series of production system reforms and cut down fixed costs associated with impairment losses at the Shanghai plant in China to balance the revenue and the expenditure for the year ending December 2016. Also, based on the product lineup expanded through the acquisition of Hyst Corporation, we will foster a shift from selling components to cross-selling of hydraulic equipment and further proposals of hydraulic systems that correspond to customers’ potential needs and generate more

**REFERENCE**

Segment Information Aircraft and Hydraulic Equipment Segment Result for 2015/3 and the Plan

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### MAIN PRODUCTS



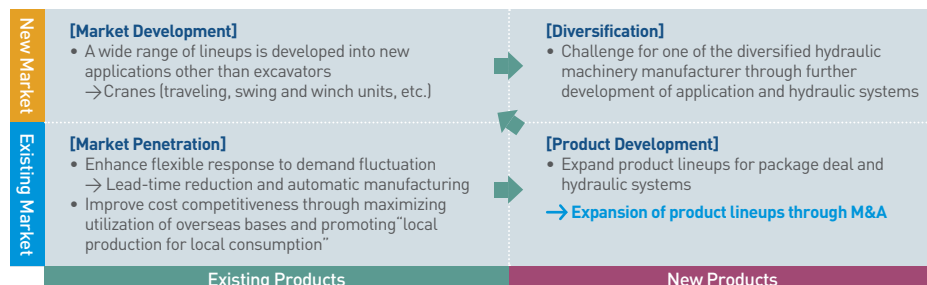
**Traveling Unit for Crawlers**

This series is used as a traveling unit for crawlers and the wheels of excavators, crawler drills, cranes, and aerial work platforms.



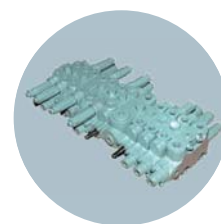
added value. Also, to respond to risks caused by changes in demand in the major markets, we will expand new markets where we can fully utilize our strengths, while optimizing production at our bases in Japan, China and Thailand, thereby building up a system that enables flexible response to changes in demand in the construction machinery market.

### Growth Matrix of Hydraulic Equipment Business of Nabtesco



### Amplification of Product Lineups for Excavators through M&A

	Mini Excavators				Mid- to Large-Sized Excavators			
	Traveling units	Swing units	Pumps	Valves	Traveling units	Swing units	Pumps	Valves
Nabtesco	●			●	●			
Hiest Corp.						●	●	●



### Control Valve for Mini Excavators

This product is a sectional type multi-control valve developed specially for mini excavators, and is ideal for various needs such as action control of excavators. The series is popular for its compact size, versatility, and strong lineup. It has captured a large share in Japan.

## FACT SHEET

### Major customers

Komatsu, Kobelco Construction Machinery, Hitachi Construction Machinery, Sumitomo Construction Machinery, Kubota, YANMAR, Volvo, JCB, Sany, Xugong Excavator, Liu Gong and others

### Production bases (as of the end of December 2015)

Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan / Shanghai, China / Chonburi, Thailand

### Market share

Traveling units for hydraulic excavators: Approx.30% global market share

### History of business development

Both Teijin Seiki and NABCO were engaged in the Hydraulic Equipment Business. NABCO began to conduct such business back in the 1930s, offering a range of products, not only for construction machines and special vehicles, but also for general industrial equipment. The company also developed small, multiple-spool control valves for use in road sweepers produced in Japan, and these valves have been developed into our present control valve products.

Teijin Seiki began conducting business by establishing the Tarui Plant in 1961. Its hydraulic motors were not highly competitive despite being core products, and the company worked to develop a new product independently. The traveling units "GM Series" that was thus developed provided the four functions necessary for the driving unit of hydraulic excavators (i.e. hydraulic motor, reduction gear, valve and parking brake functions), and was also compact enough relative to the width of an excavator crawler shoe. The company then successfully commenced mass production of this innovative product. Further, the reduction gear technology developed for hydraulic motors led to the development of Precision Reduction Gear RV to control the joints of industrial robots.

Subsequently, we established a production base in China in 1996 and one more in Thailand in 2008, thereby fostering overseas business expansion and increasing our global market share in the business of traveling units for hydraulic excavators to 30%. In 2015, we acquired Hiest Corporation, the hydraulic equipment division of TOSHIBA MACHINE, with a view to further expanding our product lineup and developing new hydraulic systems.

**1937** Manufactured hydraulic pumps for airplanes in the national defense field.

**1949** Commenced manufacture and sales of hydraulic equipment.

**1961** Opened the Tarui Plant for the manufacture of hydraulic equipment and start the Hydraulic Equipment Business.

**1970** Opened the Nishi Kobe Plant (presently Seishin Plant) for the manufacture of hydraulic and pneumatic equipment.

**1977** Commenced mass production of the "GM-series" traveling units. By using the reduction gears technology, developed the Precision Reduction Gear RV series for use in industrial robots.

**1996** Established a joint venture named Shanghai Teijin Seiki Co., Ltd. (presently Shanghai Plant).

**2008** Established Nabtesco Power Control Co., Ltd. in Thailand.

**2015** Acquired Hiest Corporation, the Hydraulic Equipment Business division of TOSHIBA MACHINE CO., LTD.

**2016** Fully Absorbed Hiest Corporation

### WEB

Hydraulic Equipment

<https://www.nabtesco.com/en/products/powershovel.html>



The “Pedestrian Flow Solution” is a business concept designed to provide people with safety, security and comfort in transportation and in their living spaces. Under the concept and NABCO and GILGEN brands, we will expand our businesses in Japan and also overseas markets, primarily in Europe, North America and China.

Managing Executive Officer, President,  
Accessibility Innovations Company **Koji Kaminaka**

### Sources of Strength

#### Global Business Development

Since becoming the first company to release automatic doors produced in Japan on the market in 1956, we have been engaged in the Automatic Doors Business, with our present share in the Japanese market reaching about 50%. Also, our share of the global market is as high as around 20%, which gives us a commanding position in the market. As our strength, we are selling automatic doors under the two brands of “NABCO” and “GILGEN” in Japan, Europe, North America and China.

On a global level, we conduct the value chain business focusing on automatic doors for buildings. We provide customers with a range of products and solutions, including installation, maintenance and management services in an integrated manner, which is also a source of strength for us. We are the only company in the world that sells automatic doors and platform doors in all four major world markets, and thus occupy a unique position in the industry.

#### Broad Product Lineup with Focus on Automatic Doors

We offer a wide spectrum of products to meet our customer needs as one of the world’s top automatic door brand. We focus on automatic doors used for buildings but also special purposes and industrial use.

#### Sales and installation Network

We have sales, installation and maintenance services supporting systems that covers all regions across Japan and helps us to maintain high market share. Similarly, we have world-class shares in major overseas markets sustained by our well established network of sales, installation, and maintenance.

### Business Environment (Opportunities and Risks)

In European market, the stagnant economy in Southern Europe causes sluggish demand for automatic door products; however, the demand in Swiss market is forecasted to remain steady. In the short-term the global market for automatic door products is expected to remain stable supported by the favourable U.S. economy and the strong domestic demand driven by upcoming Tokyo Olympics 2020. In the long-term, the declining birth rate and aging of Japanese population will increase the risk of domestic market shrinkage. In response, in order to offset these risks and secure consistent profitability, we will increase the business scale through acquisition of domestic and overseas distribution companies,

#### REFERENCE

Segment Information  
Industrial Equipment  
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#### MAIN PRODUCTS



GILGEN doors:  
Westside Shopping and Leisure  
Centre in Switzerland

#### Automatic Doors

We provide high-quality, reliable automatic doors, based on state-of-the-art technology. These doors are used at a wide range of facilities, such as office buildings, hospitals, airports, and commercial and industrial facilities.

and through expansion to markets in North America with its continuously growing population and South-East Asia whose social infrastructure is gradually maturing.

## Measures for Medium- to Long-Term Growth

We will expand the size of our business through M&A and organic growth. In mature markets, we will take advantage of our large market share to provide a range of products including general-purpose automatic and custom-made doors and offer a variety of solutions from installation and maintenance to management services with an eye to enhancing profitability and customer satisfaction.

>  
**FACT SHEET**

### Major customers

Automatic doors for buildings: Leading construction companies, sash manufacturers, commercial facilities, hospitals, public organizations, industrial facilities (factories) and so forth  
Platform doors: Railway companies in each country

### Production bases (as of the end of December 2015)

Kobe City, Hyogo Prefecture, Japan / State of Wisconsin, the United States / Bern, Switzerland / Beijing, China

### Market share

Automatic doors for buildings: Approx.50% domestic market share, Approx.20% world market share  
Platform screen doors: Approx.95% domestic market share (cumulative)

### History of business development

NABCO, which is one of a former company of Nabtesco, worked to launch a new business in addition to supplying transportation vehicle equipment, including brake systems for railroad vehicles and automobile oil brakes. In 1953, the company began manufacturing and selling automatic door systems for railroad vehicles and buildings. Then in 1956, it produced the first automatic door in Japan ahead of all others. The Olympic Games held in Tokyo caused an explosive increase in new building construction mainly in the city center, and skyscrapers were built one after the other, which also boosted the use of automatic doors. By establishing a sales network across Japan as well as a careful service system, the company established a robust market position in the country by the early 1960s. Subsequently, started by the export of products to Hong Kong, it proactively expanded its business to overseas markets and gained a foothold in the U.S. market in the 1990s.

In 2011, we acquired Gilgen Door Systems AG (KABA Group) to enter the European market on a full scale and have been operating the business under multiple global brand names. In Japan, we have achieved 2 million units of total cumulative production of NABCO automatic doors and our products are increasingly adopted in famed commercial and public facilities. Building the brand of "NABCO" and "GILGEN", we are establishing the top-class position dominating the four largest market (Japan, North America, Europe and China) in terms of automatic doors and platform doors businesses.

- 1956** Became the first company to manufacture automatic doors in Japan.
- 1957** Established Osaka Door Engines (presently NABCO DOOR).
- 1992** Acquired LANSON, an automatic door manufacturer in the United States (presently NABCO Entrances).
- 1995** Established CSCEC-NABCO Auto Door Co., Ltd. in China (presently NABCO Auto Door (Beijing) Co., Ltd).
- 2011** Acquired the Automatic Doors Business Division from Kaba Group of Switzerland and established Gilgen Door Systems AG.  
Building tetrapolar-system (Japan, North America, Europe and China) for automatic doors and platform doors businesses.
- 2012** Full acquisition of NABCO DOOR as the result of stock swap
- 2013** Total cumulative production of NABCO automatic doors reached 2 million units.



GILGEN platform doors (bijou®):  
Paris Metro Lines 1 and 13

### Automatic Platform Doors

Automatic platform doors are now used worldwide to ensure passenger safety at railway stations. Demand for these doors is fast expanding over the world. Nabtesco has over 20% share of the global market and is successfully operating in European, Asian and Japanese markets.



NABCO platform screen doors:  
Yurikamome (Tokyo Waterfront  
New Transit Line)

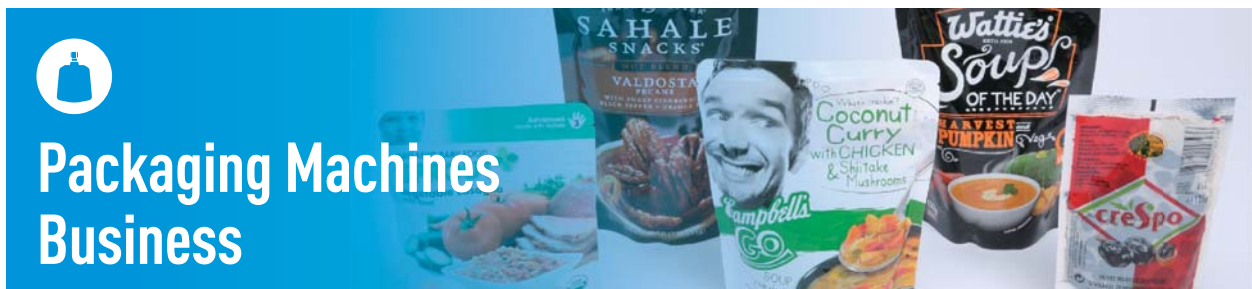
### Platform Screen Doors

Platform screen doors help ensure passenger safety on platforms. These doors also contribute to higher air conditioning efficiency, and enable unmanned operation of new transportation systems.

### WEB

Automatic Doors and  
Platform Doors

<https://www.nabtesco.com/en/products/automaticdoor.html>



To respond to sophisticated customer needs, we will foster the development of next-generation high-speed packaging machines and the enhancement of our service system. We will also proactively expand our business outside Japan, targeting potential customers in overseas markets.

President,  
Toyo Jidoki Co., Ltd. **Akiyoshi Kitamura**

### Sources of Strength

#### Advanced Technologies and Abilities of Onsite Employees

Nabtesco's strengths include technological capabilities, which we utilized to become the world's first successful developer of a rotary packaging machine. A stream of packaging with 1 line and control technology that enables high-speed, reliable, stable, and airtight packaging have been realized. The finely-tuned response abilities of onsite employees who support application of the technologies can also be considered as one of our competitive advantages.

#### Relations of Trust with Customers

We have earned trust from food manufacturers for our compact packaging machines, which provide high performance, require only limited space, and even seal packages with high air tightness to ensure the safety of food products contained therein.

### Business Environment (Opportunities and Risks)

Japan has seen increased demand for prepared meals for consumption by individuals at home, and demand for food packaging in pouches from manufacturers of private brand has been robust. Also, in North America, foods packed in pouches are gradually being accepted in place of cans as the preferred form of preserved foods. Moreover, in China and other emerging economies, people are increasingly focusing on the safety and hygienic quality of food products, and the demand for our packaging machines that enable high-precision processing are on the rise. However, foreign exchange-related risks are also increasing as the export of these machines expands leading to greater changes in conditions with regard to competition and business results.

**REFERENCE**

Segment Information  
Industrial Equipment  
Segment Result  
for 2015/3 and the Plan

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### MAIN PRODUCTS



#### Super High-Speed Automatic Filler/Sealer

A high-speed automatic continuous motion filler/sealer that delivers high performance in a compact space. This equipment is not only used for retort pouch foods but also for soups, sauces, and other food products as well as for refills for liquid detergents. It contributes to reducing the costs of mass production.

## Measures for Medium- to Long-Term Growth

We will strengthen our bases and official distributors outside of Japan to promote sales mainly in Europe, the United States and China. Also in line with the sophistication of customer needs, we will maintain and increase a competitive edge through development of the next generation high-speed machinery and enhancement of services in Japan and overseas.

>  
**FACT SHEET**

### Major customers

Sugar and salt manufacturers, food and beverage manufacturers, detergent manufacturers, pet food manufacturers in Europe, beverage manufacturers in North America, food manufacturers in China and others

### Production bases (as of the end of December 2015)

Iwakuni City, Yamaguchi Prefecture, Japan / Dalian, China

### Market share

Packaging machines for retort pouch foods: Approx.85% domestic market share

### History of business development

In line with Japan's economic growth, requirements for automation and energy conservation began to increase. In 1964, we started developing an automatic packaging machine, thus entering the packaging machine market. In the middle of the 1960s, automatic packaging machines were rapidly adopted by sugar and salt manufacturers as well as by confectionery companies. In the 1970s, requirements for automatic food processing machines increased among frozen food manufacturers due to the spread of so-called fast food and the growth of the restaurant industry. In response, we began developing automatic food machines and became the first company to develop a retort curry packaging machine in Japan. We also succeeded in developing a vacuum packaging machine.

Further, in 1994 we began supplying packaging machines for spout bags, and in 2011, established a production base in Dalian, China. Additionally, in 2013 we established a local corporation for sales promotion and service provision in the United States. We are thus favorably expanding the business.

- 1964** Developed an automatic packaging machine and started the packaging machines business (as the former Teijin Seiki).
- 1970** Delivered Japan's first retort pouch curry packaging machine (as the former Teijin Seiki).
- 1976** Began delivering vacuum packaging machines (as the former Teijin Seiki).
- 1994** Began delivering spout bag packaging machines (as the former Teijin Seiki).
- 2011** Established a subsidiary in Dalian, China (Dalian Toyo Jidoki).
- 2013** Established a local distribution company for packaging machines (Toyo Jidoki America Corporation).



### High-Speed Automatic Filler/Sealer

This ten-process rotary filler/sealer can be used to pack a range of foods, including not only liquids but also products containing both liquid and solid substances. Moreover, this machine allows the filling and sealing of two bags at the same time, which means that it has the production capacity equivalent to that of two conventional machines, while requiring the floor space and support equipment for one machine. Further, a range of test equipment can be mounted on the machine. The filler/sealer also supports deaeration using steam.

 **WEB**

Packaging Machines

<https://www.nabtesco.com/en/products/packing.html>

# Research & Development

## 01 Nabtesco's Approach to R&D

Nabtesco has integrated its component and system technologies focusing on “motion control,” and works to develop high-precision control devices and driving units. Based on the relations of trust we have built with customers who themselves are leading companies, we are shifting the focus of our business from the sales of component products to the provision of solutions. To this end, we are identifying the sophisticated needs of customers and enhancing our existing technologies while expanding the scope of our business by applying these technologies to the creation of new products and businesses, including those energy-related ones.

To attain the aforementioned goal, Nabtesco is implementing a range of initiatives, including promoting joint research with overseas universities and research institutes, and fostering M&A. Moreover, we relocated the Nabtesco Digital Engineering Center (NDEC) to the Kyoto Research Park located in the city of Kyoto, around where the universities and the research institutes collect. At the NDEC, we foster collaboration with external organizations such as companies and universities based on the concept of open innovation. Through these measures, we will further adopt diversified technologies, speed up our development process, and develop global human capital for R&D, thereby promoting the creation of new products and businesses.

## 02 R&D System

### Roles to Be Played by the Technology and R&D Division

#### (1) Support for In-house Companies

The Technology and R&D Division makes recommendations and supports in-house companies to help them meet their challenges and develop necessary human capital with the aim of eventually improving manufacturing quality to the industry's top level in each business field. The Division also formulates and implements intellectual property strategies to increase the company's competitiveness and protect its intellectual rights and associated benefits in all business segments. It supports the development activities of the in-house companies by using IT-based technologies, including computer-aided engineering (CAE), digital engineering (DE), 3D printing technologies and its unique material technology. Through simulations made at the initial product development stage, the Division helps the in-house companies make prior verifications in a precise manner. In addition to this “front-loading type” of development support, it also supports in-house companies in human capital development and other development activities by providing them with electronics and sensor technologies.

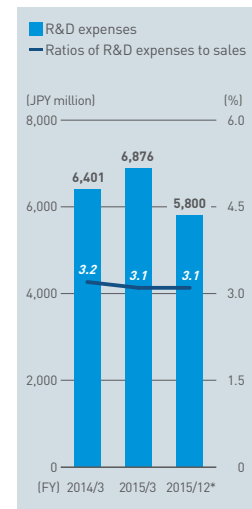
#### (2) Creating New Businesses

The Division searches for the seeds of business, including market needs and technological seeds and engages in various development projects. The Division conducts joint research with both domestic and overseas universities, research institutes, and companies on multiple development themes to develop high-level technologies in a timely manner. The NDEC works on the creation of new businesses through a wide range of intra-industry and industry-academia collaborations, taking an open innovation approach.

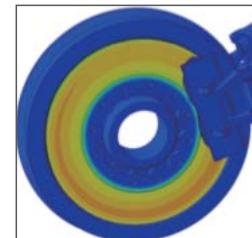
#### (3) Enhance Base Technologies (Surface Treatment and Heat Treatment Technologies)

Recently, great progress has been made on a range of machines in terms of energy conservation and product life longevity, which is said to be attributable to the advancement of surface treatment and heat treatment technologies. The Division proactively introduces the most advanced of these base technologies and verifies their effectiveness in laboratories, discloses the results internally, and applies the technologies to individual products and components in cooperation with the in-house companies. As competitors in emerging countries are catching up with us technologically, we are enhancing the base technologies and transforming them into “black box” technologies so that it will be difficult to imitate them. We are thus making efforts to maintain and increase our product competitiveness.

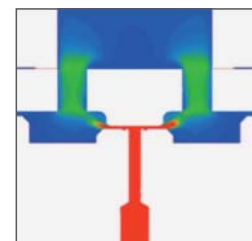
### Change in R&D expenses & ratios of R&D expenses to sales over time



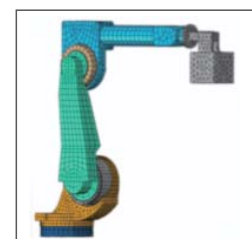
\* Covers 9 months for Nabtesco Corporation and its consolidated subsidiaries in Japan and 12 months for overseas consolidated subsidiaries.



Disc brake thermal analysis (example)



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



Robot motion simulation (example)

## 03 Major R&D Fields

### Additive Manufacturing

#### (Making use of 3D printers to acquire new manufacturing technologies)

3D printer technology is advancing from the stage of rapid prototyping (RP) to that of additive manufacturing (AM). Nabtesco has made the NDEC a center for its 3D printer-related technologies, and has equipped the NDEC with a metal 3D printer as well as a resin 3D printer (stereolithography equipment) to foster research into AM technologies. The NDEC has already started R&D using these printers, to further reduce the time required for development of new projects. We also plan to input resources in the development of materials to support the base technologies.

### Sensor Technology (Shift from prototyping to mass production of color and water sensors)

Nabtesco developed a lubricant oil status monitoring sensor by using fine processing technology for semiconductors, and its unique color measurement technology developed for lubricant oil by using white LEDs. The sensor enables the real-time quantitative measurement of lubricant oil contamination, degradation and water content. We will foster the use of this sensor in a wider range of fields.

### Joint Research with Overseas Universities and Research Institutes

We conducted wind power generation-related analyses jointly with the Technical University of Denmark (DTU) and announced the results at EWEA 2014 (European Wind Energy Association). In FY 2015, as the first stage of the joint research we continued working on the application of analytical technologies in preparation for their commercialization. In FY 2016 in the second stage, we plan to start validity testing using DTU-owned wind turbines. Moreover, in collaborative R&D with Eidgenössische Technische Hochschule Zürich (ETH) in Switzerland on power electronics, we have made progress not only in theory-building, but also in prototype development and presented our results on environmental energy generators with new methods as well as sensor technologies at several international symposiums. We also filed patent applications.



Technical University of Denmark



Meeting held at the ETH

### R&D System and Major R&D Fields

The Roles of the Technology and R&D Division	Open Innovation Joint Research	Major R&D Fields
<b>Support for In-house Companies</b> <ul style="list-style-type: none"> <li>● Improve technologies and manufacturing quality and develop human capital</li> <li>● Formulate and implement intellectual property strategies</li> </ul>	<b>Nabtesco Digital Engineering Center (NDEC) (at the Kyoto Research Park)</b> <ul style="list-style-type: none"> <li>● Promote business-academia joint research with the universities in Japan</li> <li>● Human capital development through the exchange of human resources and technologies</li> </ul>	<b>Use of 3D Printer Technology</b> <ul style="list-style-type: none"> <li>● Resin 3D printer (stereolithography equipment)</li> <li>● Metal 3D printer (metal layer modeling equipment)</li> </ul>
<b>Creating New Businesses</b> <ul style="list-style-type: none"> <li>● Search for market needs</li> <li>● Promote joint research with external organizations</li> </ul>	<b>Joint Research with Overseas Universities</b> <ul style="list-style-type: none"> <li>● Technical University of Denmark (DTU)</li> <li>● Eidgenössische Technische Hochschule Zürich (ETH Zurich)</li> </ul>	<b>Sensor Technology</b> <ul style="list-style-type: none"> <li>● Lubricant oil status monitoring sensor</li> </ul>
<b>Enhance Base Technologies</b> <ul style="list-style-type: none"> <li>● Verify base technologies and apply them to the products</li> <li>● Maintain and increase the product competitiveness through "black box" technologies</li> </ul>		<b>Wind Power Generation-related Analyses</b> <ul style="list-style-type: none"> <li>● Joint research with DTU</li> </ul> <b>Power Electronics Technologies</b> <ul style="list-style-type: none"> <li>● Joint research with ETH Zurich</li> </ul>

### 04 Topics

#### **Fostering the Use of 3D Printers (Promoting regular use and searching for new applications)**

At the new NDEC at the Kyoto Research Park since its relocation and expansion in July 2015, we newly installed a metal 3D printer at the Center, and therefore, are now able to form product prototypes. By concentrating our 3D printer-related technologies in NDEC, we now possess the necessary leading-edge infrastructure to shorten the time required for development, from initial prototyping of products using resin and then metal, to design for mass production. We will develop products by taking advantage of the features of our 3D printers while also focusing on the acquisition of AM technologies through the use of the 3D printers themselves.



Metal 3D printer

#### **Expanding Product Lines via M&As (From component unit sales to system product proposal)**

In April 2016, we absorbed Hyst Corporation which we have acquired with the purpose to enhance product development function through extension of hydraulic equipment product lines as well as to reinforce the hydraulic system function. By assimilating us with a power control company specialized in the Hydraulic Equipment Business, we push forward increasing the efficiency of the business operation and aim to accelerate the synergy effect development.

In addition, in May 2016, through Nabtesco Automotive Corporation whose expertise lies in the Commercial Vehicle Equipment Business, we acquired German corporate vehicle compressor manufacturers, ITG Serienfertigung Fahrzeugteile GmbH and ITG Kompressoren GmbH. The acquisition will enable us to attain early production of high value-added systems that are equipped with air dryer, our mainline product, and compressor technologies their primary technologies. The common objective of this set of acquisitions was to acquire a components entity so that we can accelerate the shift from sales of single component units to the proposal of “system” product. Given the above fact, we will strive to respond to potential customer needs as well as create greater added-value.

### 05 “Moving it, stopping it.” + “Monitoring it, and repairing it.”

Nabtesco has been honing its motion control technology under the tag line “moving it. stopping it.” to provide customers with high-precision and high-efficiency products. In the future, we will enhance our sensor technology to provide the function of monitoring products and their surrounding environment and repairing them before they fail. We will thus offer predictive solutions to help increase efficiency at manufacturing facilities, improve the safety and environmental performance of transport equipment, and expand the businesses of renewable energy, including wind power and solar thermal power generation. Through these measures, we will continue to provide advanced technologies to be used in important products and services that support social infrastructure.

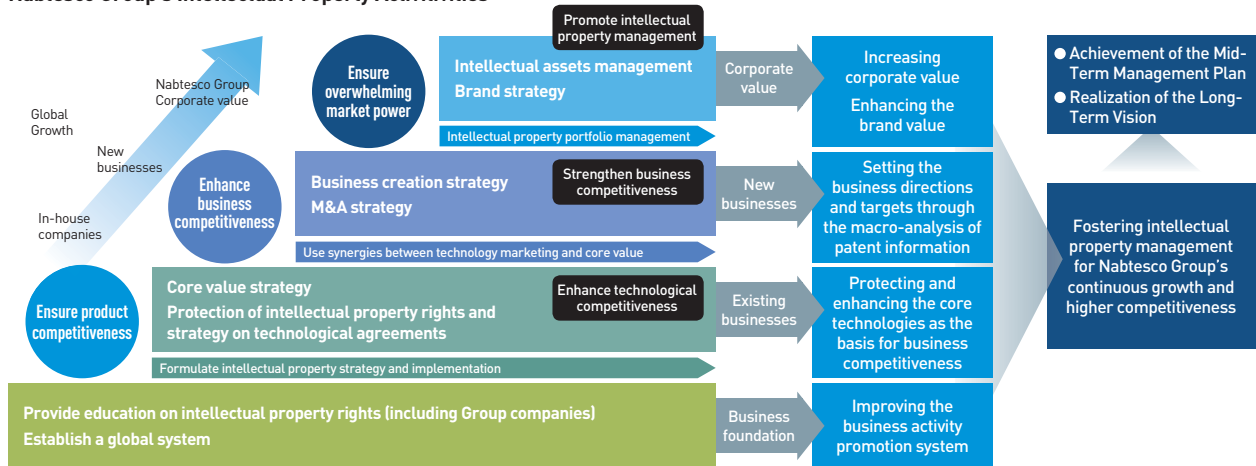


# Intellectual Property Strategy

## 01 Intellectual Property Activities to Achieve the 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 Road Maps (RM) for each in-house company to enhance our core values (core competence) as the basis for our competitiveness as well as to protect our intellectual properties on a global level. We are steadily conducting activities according to these RMs. Also, we are pursuing more effective technology marketing by researching and macro-analyzing global patent information to identify our targets 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.

### Nabtesco Group's Intellectual Property Activities

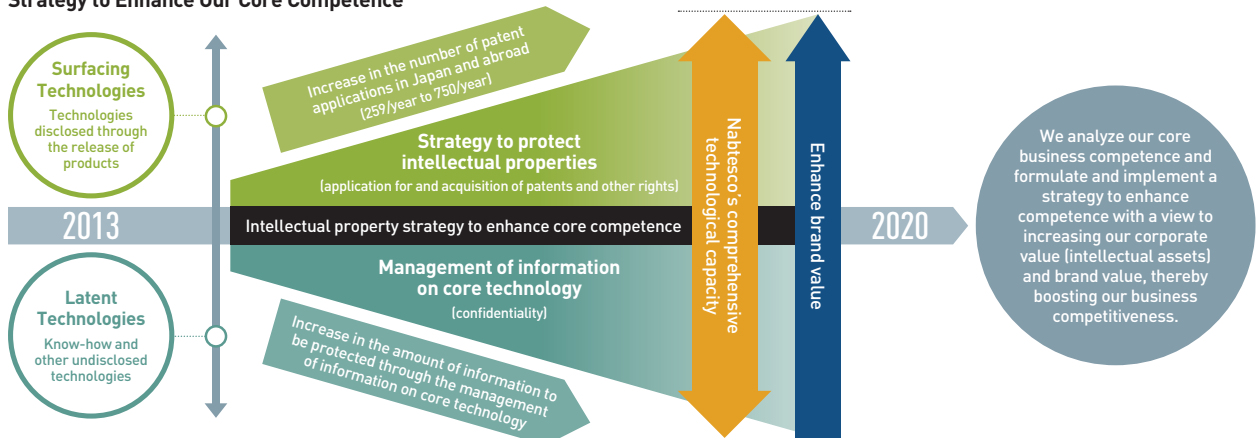


## 02 Strategy to Enhance Our Core Competence – Information Management of the Core Technologies and Strategic Intellectual Property Management

We analyze our core business competence and formulate and implement a strategy to enhance competence with a view to increasing our corporate value (intellectual assets) and brand value, thereby boosting our business competitiveness.

In order to protect the gained corporate value, we keep important know-how that others cannot obtain through reverse engineering strictly confidential, and proactively work to acquire intellectual property rights, including patent rights for other important technologies.

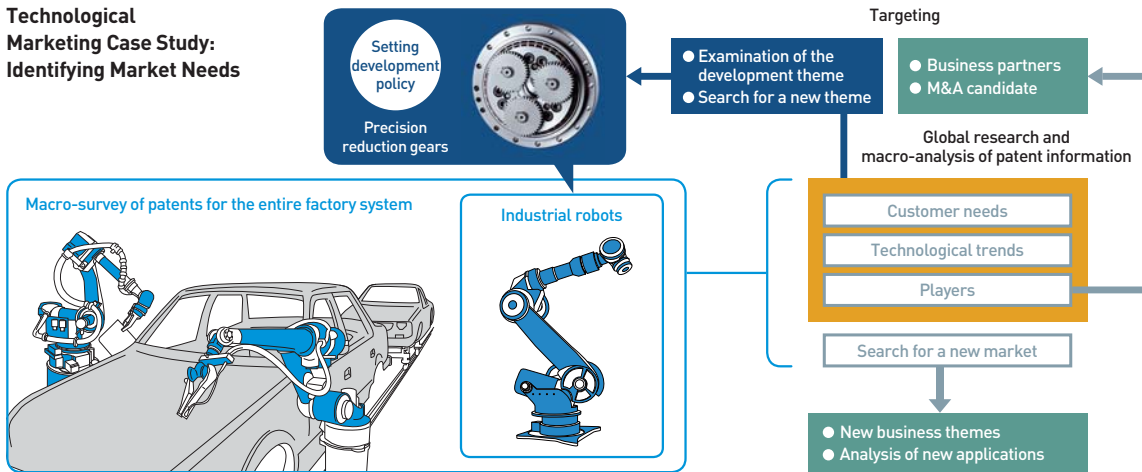
### Strategy to Enhance Our Core Competence



# Intellectual Property Strategy

## 03 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.

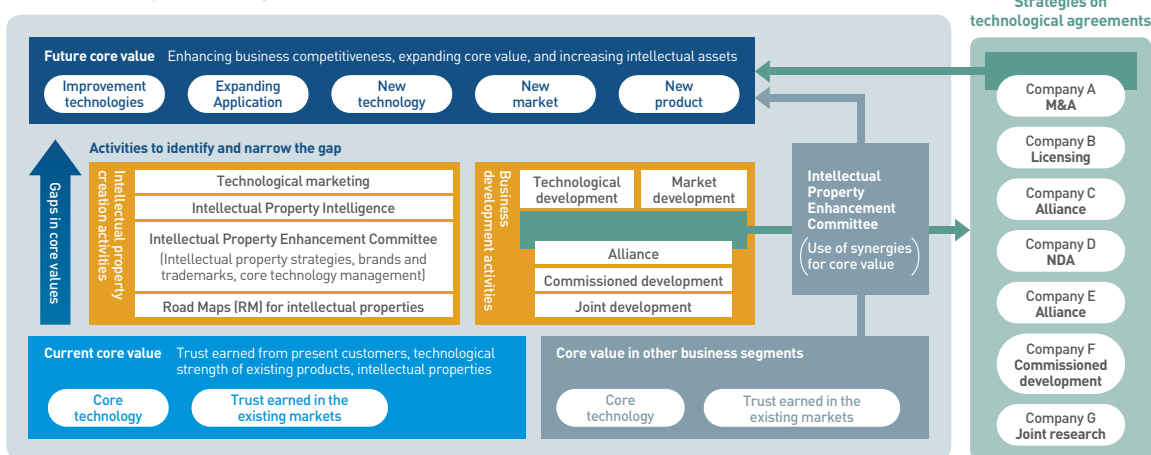


## 04 Intellectual Property Intelligence —Formulation of Strategy to Enhance Competitiveness—

Nabtesco use the Intellectual Property Intelligence to strengthen our competitiveness measures. Specifically, we analyze the core values of each business segment in terms of business operations and intellectual properties, focusing on how much extend we are able to meet customers' needs and comparative analysis with peers. We identify the gap between the current core values and the core value to be gained in the future, and formulate measures to enhance or gain the core value, thereby maintaining and increasing our business competitiveness.

The Intellectual Property Enhancement Committee, which is a cross-sectional entity in the company, introduces idea development methods and promotes technology development policy to enhance the core value of each business division. Furthermore, the committee leads company on M&A opportunities and technological partnerships (technological agreements) and accelerates to acquire intellectual property, secure patent and to promote risk reduction in intellectual property-related risks by fostering legal work on technological issues.

### Intellectual Property Intelligence to Enhance Core Value

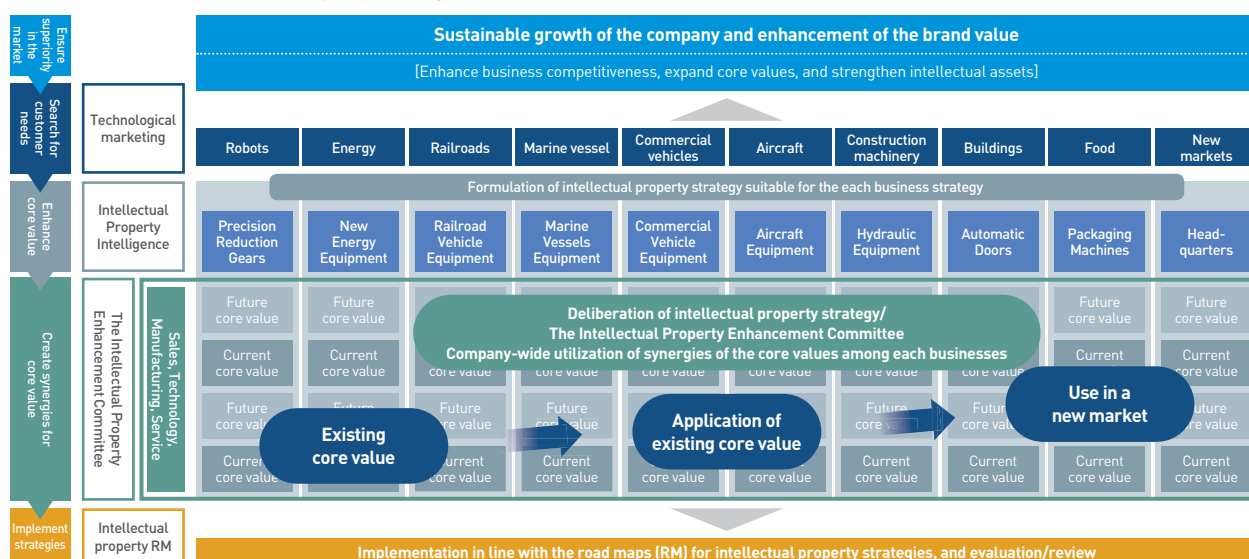


## 05 Overall Picture of Intellectual Property Strategy —Measures to Enhance Our Core Value—

Nabtesco makes use of the results of technology marketing and formulates intellectual property strategy for each segment by the Intellectual Property Intelligence. We implement intellectual property strategy in line with the Intellectual Property Strategy Road Map (RM) as an action plan, and the results are evaluated and reviewed through the PDCA cycle.

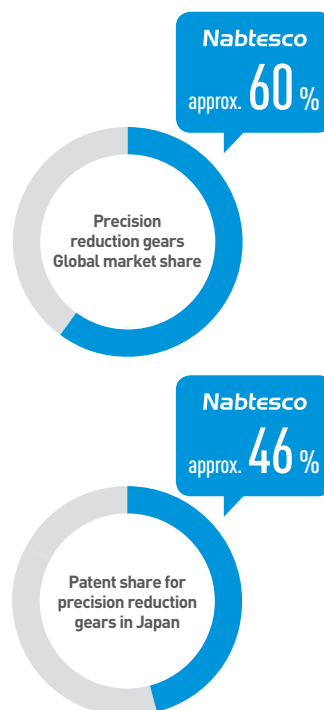
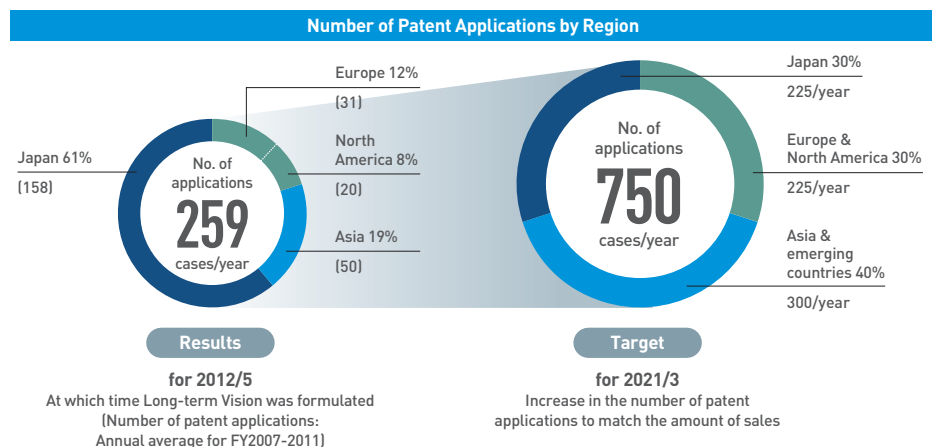
We have established the Intellectual Property Enhancement Committee, a company-wide intellectual property enhancement organization, to examine and analyze the core values of each business segment for use by other segments. Through these strategic activities, we are promoting to create synergies of the core values between the business segments by searching for opportunities to apply or make commercial use of the intellectual properties in the individual markets.

### Overall Picture of Intellectual Property Strategy



## 06 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. To realize our Long-Term Vision, we are aiming to become the No. 1 company in the patent share outside Japan along with increasing in overseas sales share. To this end, we are conducting intellectual property-related activities in a planned manner globally.







## FOUNDATION OF NABTESCO GROUP'S GROWTH STRATEGY

# PROVIDE HIGH VALUE- ADDED PRODUCTS PURSUING SAFETY, COMFORT AND A SENSE OF SECURITY THEREBY CONTRIBUTING PEOPLE'S DAILY LIVES

Nabtesco strives to contribute to the development of society and economy by providing high value-added technologies and products for safety, comfort and a sense of security. We recognize the following CSR elements as sources of added-value: provision of socially beneficial products and services, focus on growth and development of employees, harmonized business operations with global environment, implementation of fair and proper business, consideration for community and society, and business management system as well as ensured management transparency. We believe that addressing these utmost critical themes is the basis of our growth strategies.

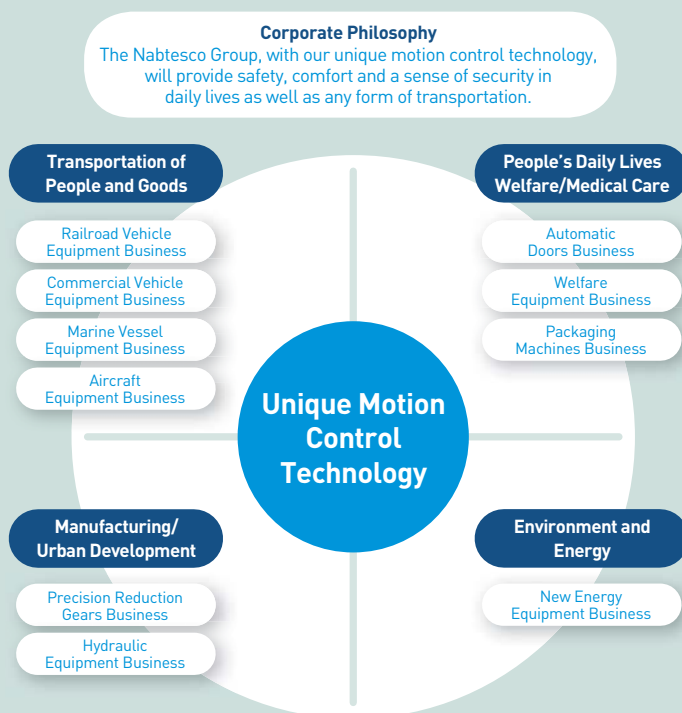
## Nabtesco Group's Approach to CSR

We will create new markets, and develop new products in cooperation with customers and contribute to the development of society and economy by providing high value-added technologies and products for safety, comfort and a sense of security, thereby sharing value with society.

### Basic Approach

The Nabtesco Group upholds the 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." In the Nabtesco Group Code of Corporate Ethics formulated in 2005, we set the following basic principles: "Socially beneficial products and services," "Focusing on employees' growth and development," "Striving for harmony with global environment," "Implementation of fair and proper business," "Consideration of community and society" and "Ensuring management transparency." All Group directors and employees are expected to conduct their business operations in line with these principles.

The Nabtesco Group conducts business in a wide range of product categories, from those related to the transportation of people and goods (railroad vehicle equipment, aircraft and marine vessel equipment, commercial vehicle equipment and others), manufacturing and construction (precision reduction gears for industrial robots, hydraulic equipment for construction machineries and others), to those related to people's daily lives, welfare and medical treatment (automatic doors, welfare equipment, packaging machines and others), and in addition to products in environment and energy categories (wind and solar thermal power generation equipment and others). In all of these categories we provide contribute to infrastructure that supports people's daily lives and society. As a manufacturer of component products, we will create new markets, develop new products in cooperation with customers and contribute to the development of society and economy by providing high value-added technologies and products for safety, comfort and a sense of security, thereby sharing value with society.



### Participation in the United Nations Global Compact

The United Nations Global Compact (UNGC) is an international initiative for companies and organizations to display creative leadership with responsibility and take action as good corporate citizens for the achievement of sustainable growth. Signatories of the UNGC are required to comply with the ten principles set in the areas of human rights, labor standards, environment and anti-corruption, and implement voluntary measures with strong commitment from their top leaders.

Nabtesco signed the UNGC to show its support for the initiative in April 2014. Since then the company has been donating a certain amount of money every year to contribute to the implementation of the aforementioned ten principles including the protection of human rights. We have been proactively participating in symposiums and study groups organized by the Global Compact Network Japan. In FY2015, we participated in the study groups on SRI/ESG, on environmental management, on disaster prevention and mitigation, and on supply chains. By participating in similar events, we will continue to interact with other participating companies and learn from advanced examples how to better foster CSR-oriented management at our company.

## Identification of Priority CSR Issues

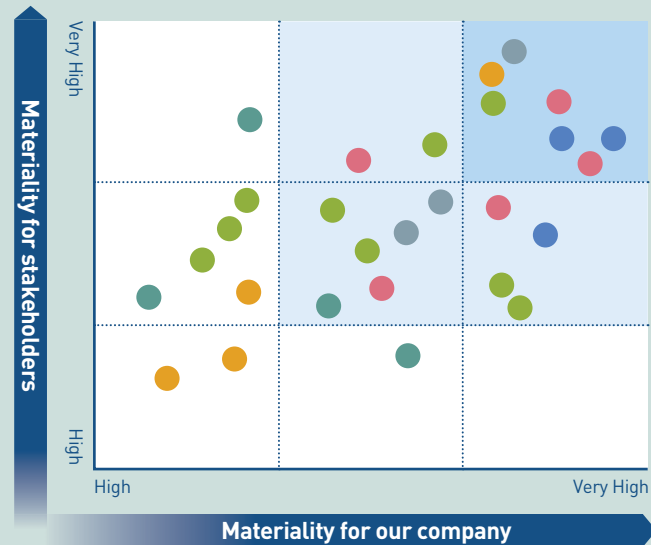
We reviewed our priority CSR issues through the following process:

First, we carried out different analyses based on external criteria, such as the GRI Sustainability Reporting Guidelines (G4), SASB\*<sup>2</sup> and other sustainability information disclosure standards as well as on the internal criteria, including the Nabtesco Group Code of Corporate Ethics, Nabtesco Group Code of Conduct, and the Nabtesco Group Environmental Philosophy and Environmental Action Plan.

Second, we assessed the materiality of the identified issues based on two assessment criteria: materiality for stakeholders and materiality for our company. For the former, we referred to the assessments made by leading SRI (socially responsible investment) research organizations in Japan and abroad, and for the latter, we interviewed the in-house departments to examine their priorities.

In the review process, we exchanged opinions with third-party organizations and confirmed with the directors in charge of CSR.

\*2 SASB: The sustainability accounting standard developed by Sustainability Accounting Standard Board in the United States.



- Category of issues**
- Socially Beneficial Products and Services
  - Focusing on Employees' Growth and Development
  - Striving for Harmony with Global Environment
  - Implementation of Fair and Proper Business
  - Consideration of Community and Society
  - Ensuring Management Transparency

## Material Issues for Nabtesco Group

### Socially Beneficial Products and Services

- Ensure and Improve Quality and Safety
- Enhance Customer Satisfaction
- Intellectual Property Strategy

### Focusing on Employees' Growth and Development

- Respect for Human Rights
- Healthy Labor Management Relations
- Management of Occupational Health and Safety
- Foster Workplace Diversity
- Employment and Stability of the Workforce
- Human Capital Development

### Striving for Harmony with Global environment

- Build Environmental Management System
- Countermeasures for Climate Change
- Research & Development of Products against Environmental and Social Issues
- Environment-friendly Products (LCA)
- Recycling, Reusing and Remanufacturing of Products (Expand MRO Business)
- Management of Waste and Other Emissions
- Sustainable Use of Raw Materials
- Prevention of Air Pollution
- Prevention of Water Pollution

### Implementation of Fair and Proper Business

- Promote CSR throughout Supply Chain
- Promote Human Rights Due Diligence
- Countermeasures for Conflict Minerals Issues
- Appropriate Tax Payment Based on Tax Strategy

### Consideration of Community and Society

- Promote Communication with Next Generation
- Corporate Philanthropy
- Mitigation of Environmental Impact on Local Communities
- Encourage Employment Creation for Local Communities

### Ensuring Management Transparency

- Enhance Corporate Governance
- Build and Strengthen Risk Management System
- Promote Compliance Behavior
- Ensuring Appropriate Information Disclosure and Proactive Dialogue with Stakeholders

# 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 a trustworthy relationships with us. Besides achieving “safety, comfort and a sense of security” of products, we also ensure them 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 gathered information in manufacturing our products to achieve the safety, reliability, and stability

requirements, as well as the high functionality and performance necessary for realizing maximum comfort.

As a result, we have received positive evaluations from corporate customers demanding high technology in various fields and can now offer products and services—many of which take top spots in their respective markets.

In the future, we will continue striving to ensure safety, comfort and a sense of security, with high value based on our unique motion control technology, throughout the life cycles of our products.

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

Recognizing that 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 also helps to deliver products with the highest levels of safety, and a sense of 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 the highest levels of 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, which satisfies market demand, by conducting safety and other quality evaluations prior to the release of products to the market.

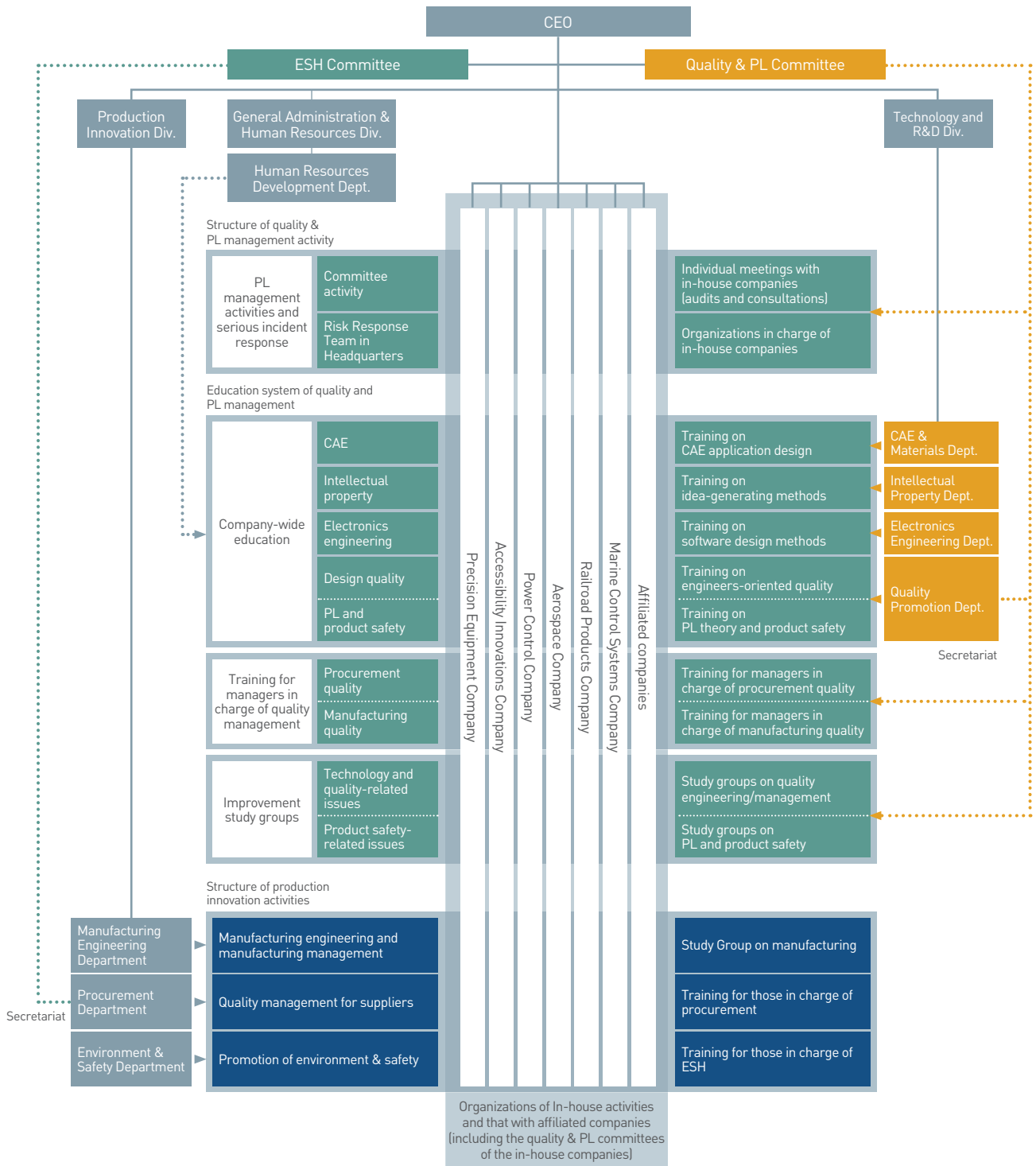
## Promotion Framework by the Quality & PL (Product Liability) Committee

The Quality & PL Committee promotes manufacturing procedures, which incorporate quality engineering, 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, Education System of R&D and High Manufacturing Quality**



## Socially Beneficial Products and Services

### 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 of our in-house companies according to the common rules and criteria. Therefore, we regularly hold meetings with each individual in-house company to better understand their unique situations, to give tailor-made advice and to consider what kind of support we can offer in order to make improvements and to implement more effective Quality and PL 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 at 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, 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.

In recent years, upholding the basic policy of enhancing fundamentals of design and manufacturing quality, we have been working on the intensive training of new employees on quality basics as well as provision of instructions to our overseas bases and suppliers for the improvement of 5S and also establishment of necessary processes at their sites. Since FY2015, we have been holding meetings at each site that give participating employees opportunities to ask "why" and "how" questions that arise from

their daily operations, as part of "Know-why Nabtesco activities." These meetings are expected to have positive impacts on operation quality and technology inheritance though higher common awareness at their worksites

In result of the continued efforts over the long period of time, losses caused by quality defects have steadily been decreasing, and our foundation for the provision of customer safety, comfort and security have strengthened.

## Measures against Product Accidents

### Prevention System

We have various product lineups such as aircraft flight control actuation systems, brake components for railroad vehicles, remote control systems for marine vessels, platform doors for railroad stations and automatic doors for buildings. Due to their very nature, such products could pose serious risks to human life in the event of a malfunction-related to a 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, 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 website.

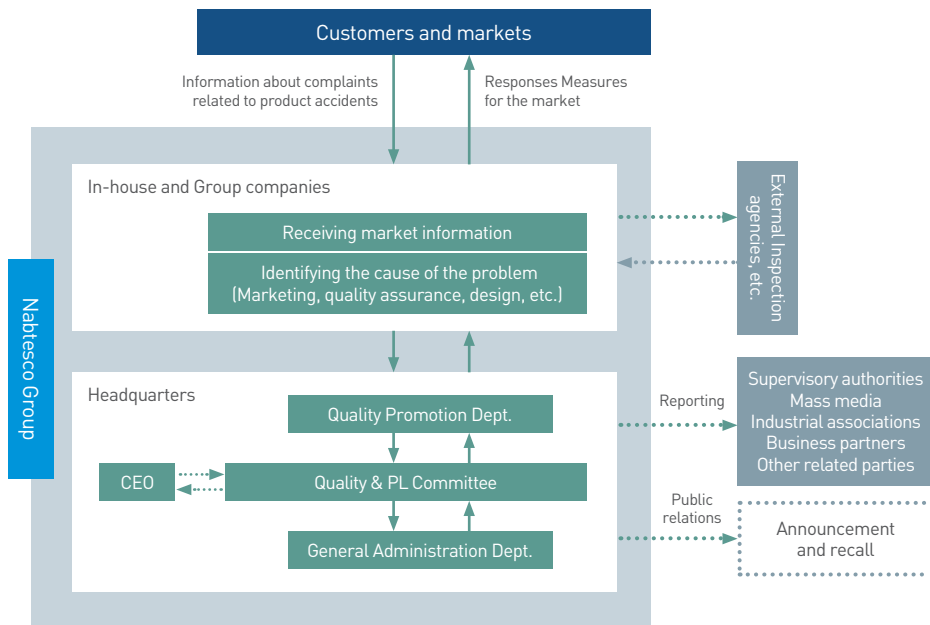
Until the present moment, we did not have major accidents related to the use of our products (our product responsibility).

**WEB**

Inquiries related to products

(24 hours a day)  
<http://www.nabtesco.com/en/inquiry/index.html>

### Response System for Product Accidents and Quality Problems



## Socially Beneficial Products and Services

### 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 a 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. Today, including those based on the industry specific standards, the numbers of certifications obtained amount to 15 in Japan and 16 overseas.

### Quality and PL Activities Conducted in FY2015

#### Enhancing the Manufacturing Quality of Suppliers

To be responsible for the 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.

We have been holding quality seminars to help suppliers improve their manufacturing quality. These seminars are becoming regular events. Upon the request from suppliers who have attended the seminars

and wish to have their other employees listen, we visit their factories to give site-specific instructions such as lectures on quality and instructions for 5S and the establishment of necessary processes. To this end, the Quality Promotion Department of Nabtesco's Technology and R&D Division sent their delegates to a total of three suppliers in FY2015 (over nine months). The appreciation by the suppliers for the delegates displays a good measure of the close relationships and trust between our departments of procurement and quality assurance.



5S-related quality instruction for supplier staff



Seminar on quality (defect analysis) for suppliers

#### Enhancing the Manufacturing Quality of Overseas Group Companies and Overseas Suppliers

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 Headquarters 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 to convey knowledge about onsite control points and management methods in a specific and easy-to-understand manner to participants. In 2015, approximately 300

employees in total from seven companies participated in our lectures. In the future we plan to extend the quality assurance activities to our overseas suppliers.



Seminar on quality for an overseas Group company (Nabtesco Automotive Products (Thailand) Co., Ltd.)



Quality MGS Public certification situation

<https://www.nabtesco.com/en/csr/public.html>

**Activities on Enhancing the Manufacturing Quality**  
\*Provided by Quality Promotion Department

#### FY2013-2014

Subject	Suppliers in Japan
Measures	Lectures on quality and instructions in responding to the suppliers' manufacturing conditions.
Achievement	FY2013 292 companies, 573 persons FY2014 325 companies, 824 persons

#### FY2015

Subject	Overseas Group Companies
Measures	Lectures and instructions on quality in responding to local language and cultures
Achievement	FY2015 7 companies, approx. 300 persons

# 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. (Refer to the diagram "Structure of Quality and PL Management 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 making sure that the company's products are 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 safety

considerations 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 competition over technology development is intensifying not only with existing competitors but also with new companies both in Japan and overseas, including emerging economies, we seek to expand our markets by solving new technological problems and developing new applications of our current technologies. To this end, we provide employees with technical training on front-loading design based on the high-precision use of CAE\*, sophistication of the motion control technology utilizing motorization, digitization and systematization, and on other methodologies to discover new ideas more promptly and efficiently.

\*CAE: Computer Aided Engineering

### Company-Wide Training (Technical Training)

#### Quality Management Training for Young Leaders

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



Quality Management Training for young employees: functionality assessment of a plastic model car

#### REFERENCE

Socially Beneficial Products and Services

Structure of Quality and PL Management, Education System of R&D and High Manufacturing Quality

Page 56

## Socially Beneficial Products and Services

### 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 employee 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 end users of our products.



Training on PL doctrine and Product safety  
(Basic awareness and correspondence on PL issues)

### Training for Higher CAE Analysis and 3D Designing Technologies

In order to reduce the number of prototyping and testing, it is critical to use 3D designs and CAE analysis to examine product shapes in a virtual space.

Nabtesco has established a unique curriculum through which not only our CAE analysis experts, but also our designers can learn to perform the CAE analysis. The CAE training is now a mandatory part of new employees training and attributed to the development of professionals who can naturally draw 3D images. We will expand the scope of CAE training to include more advanced analysis technologies, including

fluid analysis and system analysis, thereby developing more personnel who can think in a multifaceted manner.



CAE training

### Training on the TRIZ Theory about Inventive Problem Solving

As a manufacturer, we must continue to create original products contributing to 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, since FY2010 we have been conducting Training on the TRIZ Theory about inventive problem solving. During the training, we promote the use of this method to new engineers, who can apply the methodology

in order to solve technological problems and develop new applications.



Concept Creation Course  
(Introductory Course for young employees)

## Training on Software Design Quality

In response to an increase in the importance of software applied in products, in FY2013 we began to provide training on high design quality and the substantive demonstration of software reliability.

In line with the software development process, we have been providing training on using the following three steps: requirement analysis, software design, and software verification.

In FY2016, we will continue to conduct training in line with the software development process and also open a course on model-based development methods with

an eye to developing software with higher design quality.



Training on Software Designing Quality

## Product Quality Manager Training

### Training for Managers in Charge of Manufacturing Quality

Since FY2012, we have held a full-scale practical training program on quality improvement methods. The program is mainly targeting managers who are responsible for providing instructions on quality at our manufacturing bases. This program improves their abilities to analyze problems and to provide education on quality-related issues at their workplaces. In addition, we also enhance our quality education at our overseas manufacturing bases, especially those in the United States, China, and Thailand.



Product Quality Manager Training Problem analysis method (Nabtesco Service)

## Socially Beneficial Products and Services

### 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 conditions of use.

In response, in addition to the ordinary performance test, we also conduct tests to examine the behaviors of our products under various foreseeable environments by

considering all the possible usages from our customer data. Thereby we continuously make further technical and quality improvements on our products to ensure customer safety.

To manage the product quality, including managing the quality of products actually in use, it is necessary to implement a range of measures. Accordingly, Nabtesco is fostering education of personnel with expertise in such quality management through quality improvement workshops. At these workshops, quality managers share their past experiences and examine quality improvement measures.

#### Product Safety

With regard to product safety, our in-house companies have previously implemented all safety measures required by the standards of related industries, and we have established a satisfactory level of product safety.

Out in the market, however, even first-class manufacturers are facing a range of product safety issues, such as abnormal product breakages and problems due to defective components, which often lead to product recalls. Product safety has, therefore, been attracting an increasing amount of public attention and there is growing recognition that 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 for its products by building a systematic framework in line with international safety standards as well as promoting the

awareness of employees on and practical use of this framework. In particular, since FY2015, we have been working to provide customers with easy-to-read and intelligible user instructions in line with the relevant international standards to have our customers use our products correctly and safely.



Research on product safety: review of instruction manuals



## Human Rights and Labor Practice

### Policy Regarding Human Rights

Respecting human rights in all corporate activities is the basis of Corporate Social Responsibility (CSR). The Nabtesco Group Code of Conduct provides guidelines on basic human rights that all executives, employees and other workers across the Group observe.

Since FY2014, Nabtesco has been fostering 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, disability; sexual and other forms of harassment; or any act that may insult personal dignity is conducted, allowed to be conducted, or overlooked.

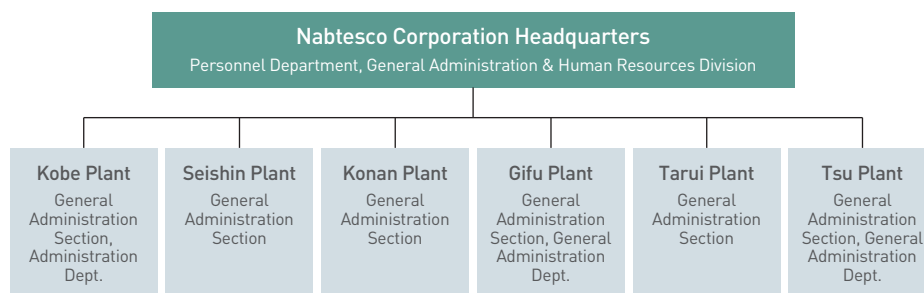


Network Japan  
WE SUPPORT

### Human Rights Monitoring System

In order to ensure that the recruitment of employees is carried out fairly, seven Human Rights Promotion Officers have been appointed to the Headquarters and each of six sites. We also conduct trainings for job interviewers every year to educate

them on human rights-related issues that they should consider, including questions to be asked of candidates and tips for evaluating international graduates. As of FY2015, we have not received any complaints regarding human rights.



### Prevention of Child Labor and Forced Labor

Based on the Universal Declaration of Human Rights, we are committed to eliminating child labor and forced labor. To this end, in FY2014 we have dispatched an employee in charge of personnel affairs to the corporation supporting the management of Group companies in China, and provided local employees with a consulting service for personnel and labor affairs.

After dispatching the employee, we conducted an employment survey and

confirmed that there were no cases of child labor or forced labor at Group companies in China, and that these companies employ people in compliance with the labor-related laws enforced by the government departments. To prevent child labor in specific, we have revised and instructed on the rules of Group companies and amended the minimum age for an employment to be 18 across the Group.

# Focusing on Employees' Growth and Development

## Labor Management Relations

### Labor union

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 approximately 1,810 members, including part-time employees.

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, regularly meeting to exchange

opinions regarding business management, environment and occupational health and safety, and salaries and bonuses. 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.



70.4%

### Protection of the right to bargain collectively

Nabtesco holds labor-management meetings regularly with the labor union. Through these meetings the union obtains important information about the company's management, which helps maintain sound labor-management relationships.

When labor and management need to discuss working conditions and the treatment of union members, in addition to the aforementioned meetings, extra meetings will be held; and if the two parties do not reach agreement on the issues, they will make their best efforts for a peaceful solution, with management supporting and protecting union members' right to bargain collectively.

- 1 Labor-management meeting (twice a year)
- 2 In-house company labor-management meeting (twice a year)
- 3 Onsite labor-management meeting (every month)
- 4 Study meeting on personnel affairs and labor relations (three times a year)

### Guaranteeing payment of minimum wages

Based on the minimum wages set by region and industry under the Minimum Wage Act, Nabtesco agrees with the labor union about its own minimum wages to be paid at each of the sites.

Legal minimum wage levels are revised

every year, and Nabtesco calculates its own minimum wages for the year by adding a certain amount agreed upon with the labor union to the revised wages, thereby improving the treatment of employees and preventing noncompliance with related laws.

# Management of Occupational Health and Safety

## ESH Promotion Framework

Nabtesco has a Group ESH (Environment, Safety & Health) Committee\*. This organization, which directly reports to the president, promotes the management of environment-, safety-, and health related issues across the Nabtesco Group. The chairman and other members of this committee are appointed by the president from among the directors. The Committee holds a meeting at least once a year. The Environment & Safety Department serves as the secretariat for the meetings.

The Group ESH Committee collects, analyzes and evaluates important information about environment, safety and health,

and discusses necessary measures. Based on the results of these discussions, particularly important issues that might potentially exert a serious impact on the Group's businesses, are reported on to the members of the Management Committee, where the highest-level decisions are made for execution of business, including those on business strategies.

Also at the monthly meeting of the executive officers, issues related to accidents and disasters are reported on and discussed in terms of risk management, and necessary measures are decided.

\*Refer to ESH Promotion Framework (P.76)

## Activities

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. Upholding the targets of zero work-related accidents and serious incidents, we are conducting the following activities:

### (1) Investigation of Reported Accidents

In the event of a lost-work time injury, non-lost-work time injury, or a commuting injury, a report on the incident is immediately submitted and shared across the Group. For a serious incident, onsite investigations are made to find out the true cause of the accident, and preventative countermeasures are implemented.

### (2) ESH Audits Carried out by the Group ESH Committee

The members of the Group ESH Committee and the secretariat annually visit each site to carry out ESH audits and check for any labor-related risks.

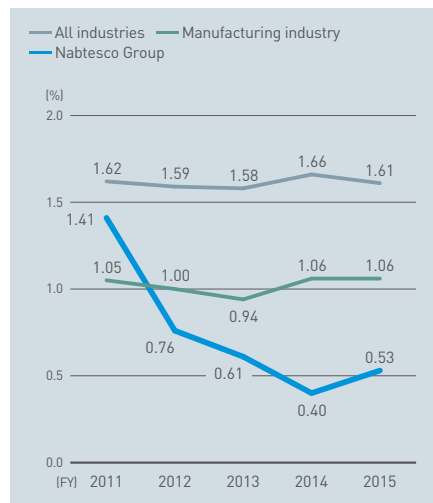
## Focusing on Employees' Growth and Development

The number of work related accidents decreased compared to the previous year. However, the number of accidents leading to bone fracture has been on the rise. Considering bone fracture accidents a serious issue, we carried out a research-based analysis, and identified that employees in the 40-s and 50-s are at the highest risk, while the main cause of bone fracture is falling or a bicycle accident. In 2016 we will improve the workplace safety by levelling uneven floor, promoting physical strength to prevent bone fractures, and raising the safety awareness by providing education based on the manuals for safe bicycle commuting.

In 2015, in order to improve the risk sensitivity of employees, we conducted Risk Detection Training (KYT), encouraged "near miss" incident reporting and promoted awareness-raising activities. Despite these efforts, the number of lost-time injury cases slightly increased, resulting in higher accident frequency rate.

There were no fatalities among our employees, including contract workers, within the last 5 years.

**Lost-Work time Injuries Frequency Rate**



## Occupational Health and Safety Management System (Acquisition of OHSAS 18001 certification)

The three major plants (Gifu, Tarui, and Tsu Plants), which comprehensively engage in processing and assembling, and together account for about 40% of the total number of our domestic plant workers, have acquired OHSAS 18001 certification as an effective tool to ensure occupational safety. These plants are establishing and operating their occupational health and safety management systems in line with the standards. The three plants undergo audit by a

certification body every year in their efforts to improve their occupational health and safety level.

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 existing risks, and promote the creation of workplaces without accidents.

**WEB**

THIRD PARTY VERIFICATION  
Nabtesco Group's environmental and social indicators  
\*Occupational accident rate

<https://www.nabtesco.com/en/ir/library/report.html>

### OHSAS 18001 Certification

Name of plants
Gifu Plant (Gifu pref.)
Tarui Plant (Gifu pref.)
Tsu Plant (Mie pref.)
Date of certification
July 6, 2004 (Joint acquisition by the three plants)
Last update
July 6, 2013
Certification body
LRQA

## Health Management

### Efforts to Eliminate Mental Health Problems

It is important that our employees maintain their physical and mental health so that the organization can be invigorated. Mental health problems are addressed across the Nabtesco Group. Depending on the size of the Group company, even if only one employee experiences a mental health problem, it can seriously hinder the work flow. To prevent mental health problems before they occur, it is important to build a framework to notice any signs among the 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 it is necessary, and help employees 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 Department, 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 suffering or at risk of metabolic syndrome to zero.

## Focusing on Employees' Growth and Development

# 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 as such, they are expected to have a positive effect on other personnel.

As a result of implementing measures such 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 December 31, 2015, foreign nationals from nine countries are amongst Nabtesco's workforce.

We aim to hire 20-30% of non-Japanese new graduates to overall new graduate positions each year.

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

	2012	2013	2014	2015	2016
Total number of newly recruited main career track employees	28	41	30	29	15
Number of non-Japanese nationals	4	16	8	10	2
Percentage of non-Japanese nationals	14.3%	39.0%	26.7%	34.5%	13.3%

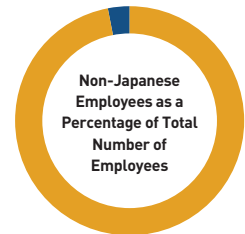
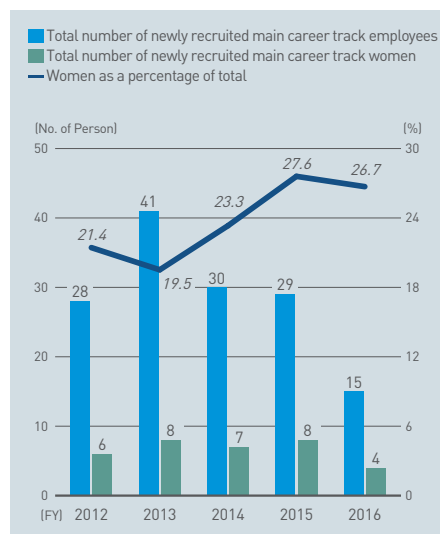
### Proactive Employment of Women

To promote the employment of female graduates, we hold meetings specifically for female college student seeking a job as part of our new graduate recruitment campaign.

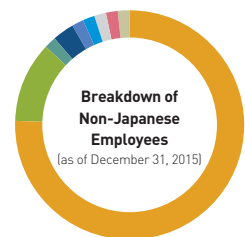
These meetings provide the students with an opportunity to directly listen to female employees' experiences regarding available childcare schemes and work-life balance. As a result, we have been achieving the goal of maintaining the number of women as a proportion of the total number of new recruits at no less than 20%.

Since FY2016, we plan to implement measures based on the three action plans under the Act on the Promotion of Women's Active Participation in Their Occupational Lives (enforced on April 1, 2016).

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



Japanese employees	97.0%
Non-Japanese employees	3.0%



Country	Number of Employees
China	46
Republic of Korea	7
Malaysia	1
Vietnam	2
Germany	1
Czech Republic	1
Ghana	1
India	1
U.S.A.	1

\*Employees naturalized in Japan are counted as the citizens of their countries of origin; employees from Hong Kong are counted as Chinese citizens.

### Our action plan following the Act to Advance Women's Success in their Working Life

- Measure 1: Propose new work styles to employees on the shorter work hour scheme by introducing home working and teleworking systems
- Measure 2: Introduce a mechanism to formulate a medium-term development plan to educate employees in a systematic manner
- Measure 3: Review evaluation elements and criteria by analyzing evaluation results

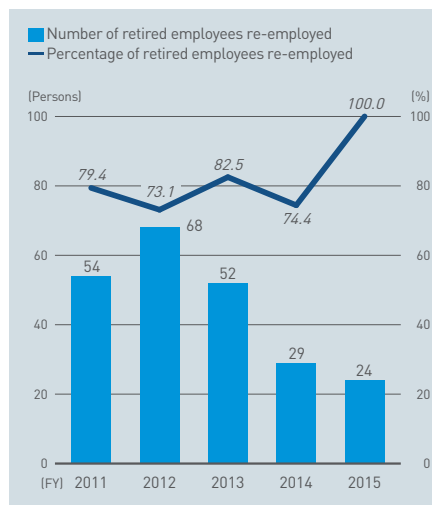
## Promotion of Senior Employment

Nabtesco's continued employment system provides a consolidated environment for experienced employees to maximize their performance levels, such as special benefit for those with advanced expertise.

Due to the revision of the National Pension Act, the rate at which Nabtesco re-employs retired employees will further increase beyond the present level of over 70%.

Experienced employees are sharing their skills with their successors and at each production site team members are conducting activities to turn their tacit knowledge into explicit knowledge. These activities have become an intellectual asset to support our current technical capabilities.

### Re-Employment Rate of Retired Personnel



## Employment Promotion of People with Disabilities

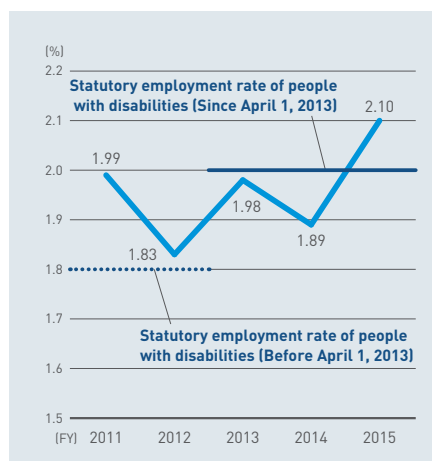
Nabtesco is committed to employing people with disabilities.

In 2013 the statutory employment rate of people with disabilities was raised from 1.8% to 2% , and in 2015 we achieved the 2% rate by actively hiring people with disabilities among new graduates. We will continue to promote employment of people with disabilities in the future.

In 2015, we have established a subsidiary to promote employment of people with disabilities.

At some sites, we cooperated with local special needs schools and communicated with the students through activities such as displays and sales of works created by the students, student internship programs and invitations to events.

### Employment Rate of People with Disabilities



\*The figure of FY2015 shows employment rate for 9 month, the full financial year.

# Focusing on Employees' Growth and Development

## Work-Life Balance

A good balance between work and a satisfying private life provide a source of new values and concepts, and will help each employee demonstrate high-quality performance. Based on this belief, we have a wide spectrum of schemes in place to promote a healthy work-life balance. We created a childcare support handbook that summarizes childcare-related laws and internal systems to help employees understand the difficult systems in place and undertake necessary procedures more easily. In January 2016, we created a nursing care support handbook to explain the nursing care leave system, which allows employees to take leave repeatedly for up to a total of

two years, as well as other support systems and consultation services to provide employees with alternatives to giving up their careers while committing to family responsibilities.



Brochures

### 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 taken off 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.)

### 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



## Stability of the Workforce

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

The graph on the right shows the rates of male and female employees that retired or resigned from Nabtesco. The rate of employees who resigned for personal reasons has remained around 1%, which shows 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 (FY2015)

(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	12	10	0	2
General employees	50	29	0	20
Total	62	39	0	22

\*The number of voluntary resignation of executive officers and those who had been re-employed are excluded.

### Breakdown of Regular Employees (as of December 31, 2015)

(Unit: persons)

	① Number of regular employees	Number of managers among ①	② Number of newly recruited employees	Number of graduates among ②
Male	1,936	324	169	45
Female	197	1	16	8
Total	2,133	325	185	53

# Focusing on Employees' Growth and Development

## Human Capital Development

### Basic Policy on Human Capital Development

We clearly state, "Employees are essential assets" in The Nabtesco Way.

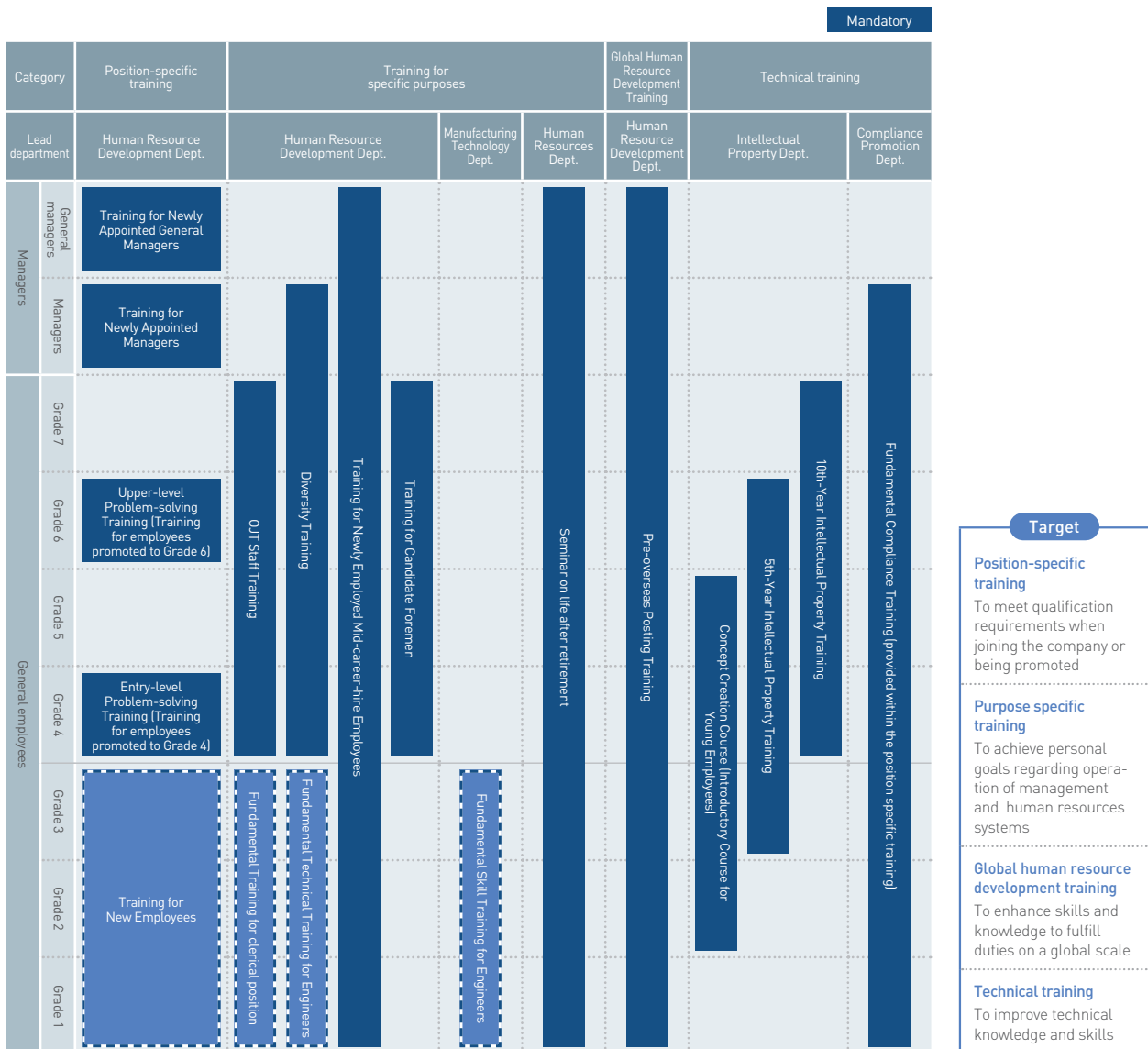
In order to share the company's ideal image of the human capital where it is the people who make the company, and to define the direction that all employees should follow, the Nabtesco Group established the Basic Policy on Human Capital Development and has been providing a

range of educational opportunities in line with this policy ever since.

#### 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.

### FY2015 Education Scheme



## Number of Trainees

(Training Provided by the Human Resources Development Department from April to December in FY2015)

(Unit: persons)

Training for New Employees	79	Basic Management Program	18
Entry-Level Problem-Solving Training (for those promoted to Grade 4)	63	Studying at domestic and overseas business schools	16
Upper-Level Problem-Solving Training (for those promoted to Grade 6)	42	Studying overseas	2
Training for Newly Appointed General Managers	14	English Writing Training	23
Training for Newly Appointed Managers	22	Intensive Study Camp for English Conversation	4
Training for Candidate Foremen	20	English Presentation Training	27
Training for Newly Employed Mid-Career-Hire Employees	48	Training on Marketing	13
Second-Year Research Report & Presentation	30	Workshop on Designing	12
Training for Second-Year Employees	57	Training for those to be transferred overseas	12
Training for Third-Year Employees	57	Global Training	19
OJT Staff Training	88		

\*The number of trainees above includes also trainees from subsidiaries.

## 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. We introduced a system to register in advance employees slated to work overseas so that we can provide them with essential training in a planned manner. It also builds a database of the experiences of those actually working overseas to share useful information on overseas work among employees, thereby enhancing the entire Nabtesco Group's global abilities.

We organize regular English writing and presentation classes to provide our employees with opportunities to gain and improve basic English language skills required for global business

communications. In FY2012, we introduced the "Overseas Trainee Program" in which our employees can study and work abroad. By the end of FY2015 we had sent a total of 13 employees overseas under this program.



Training for English Writing

Annual total number of participants  
(for training provided by Human Resources Development Dept.)

Total hours of training:  
**23,456** hours

The number of hours of training per person:

**11** hours



## Focusing on Employees' Growth and Development

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

We provide new graduates who have joined the company with intensive training in a planned and systematic manner during their first three years of work, deeming this time to be optimal for enhancing their basic skills. Specifically, we provide them with annual training programs in consideration of their individual growth stage, thereby helping them to improve year by year.

We also give new employees on-the-job

(OJT) training, believing it to be important to offer them hands-on work experience so that they can become an effective members of the workforce as soon as possible. Under the OJT system, OJT staff members provide careful instructions to individual trainees, while the trainers themselves also receive training to maintain their high ability to provide such instruction.

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

We established The Nabtesco Way in October 2012. The Nabtesco Way is a collective term that means our Corporate Philosophy, Our Promises, and Action Guidelines. In 2015, the fourth year since the establishment of The Nabtesco Way, we newly selected 13 employees from across Nabtesco bases to serve as the "Way facilitating leaders," and simultaneously they have begun working to raise the awareness on the Guidelines throughout the Group. Further, we continued holding a workshop to help employees adapt the direction and value stated in The Nabtesco Way to their own work. By the end of December 2015, the total number of employees who had participated in this workshop from each site at Nabtesco and Group companies in and outside Japan reached 766. We also held "The Nabtesco Way Month," which we

launched in FY2015 for the third time to raise employees' awareness on The Nabtesco Way, during which meetings were held at 400 workplaces at Nabtesco, including eight Group companies in Japan, with the participation of a total of 3,840 employees. Participants discussed and shared how they should apply The Nabtesco Way to their own business operations.



Workshop on The Nabtesco Way

"The Nabtesco Way Month"  
(Workplace Meeting)  
Participants in FY2015

Group companies  
in Japan

8

companies

400

workplaces

3,840

persons



# 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/Environmental Action Plan

**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**

- 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.
- 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.
- 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.
- 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.
- 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.

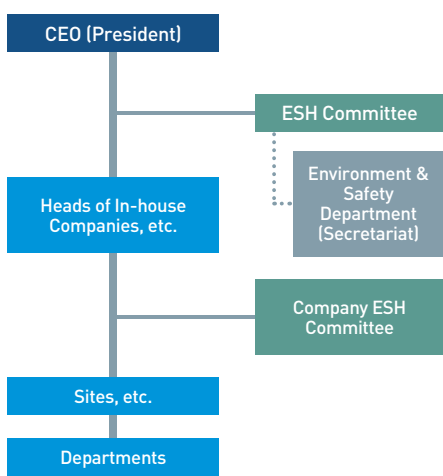
## ESH Promotion Framework

We have set up the Group ESH Committee as the organization that promotes the management of environment-, safety-, and health (ESH)-related issues across the Nabtesco Group. The Group ESH Committee directly reports to the president. (The meetings are held at least once a year. The Environment & Safety Department serves as the secretariat for the meetings.)

The chairman and the other members of this committee are selected from the directors and appointed by the president.

The Group ESH Committee collects important information on the environment, safety and health, including climate

### ESH Management Organization



change-related risks and opportunities; assesses the materiality of related issues; and discusses measures for issues that are deemed to be important. Based on the results of the discussions, particularly important issues that might have a serious

impact on the Group's business are reported to the members of the Management Committee, where highest-level decisions are made for execution of business, including business strategies.

## 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 results of the audit. At the end of each fiscal year, the

company'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 FY2015 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: 6 plants Group companies: 6 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: 6 plants Group companies: 6 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: 6 plants Group companies: 8 companies

## Environmental Management System

The Nabtesco Group acknowledges that the ISO 14001 international standard is an effective tool for environmental management and therefore 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 ISO 14001 certified.

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 among our sites in order to realize effective environmental performance. We are also aiming to establish a sustainable system that integrates ecology and economy.

## NEMS (Nabtesco Energy Management System)

In April 2015, we introduced an environmental information management tool and changed twice-a-year environmental information reporting by branch offices into monthly reporting, in purpose of speeding up collection, aggregation and analysis of

the environmental information. This has lead us totake quicker actions against gaps between our target numbers and actual data identified through the monthly reporting to the Corporate Officers Committee  
Furthermore, we have began

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ISO14001  
Pubic Certification  
Situation

<https://www.nabtesco.com/en/csr/public.html>

installations of a monitoring system at six of Nabtesco's factories since 2015 that allows real-time data verification and aggregation on energy usage. The monitoring system will enable the factories to easily compare and analyze their energy usage to abnormality and previous data.

The results will also be shared at monthly meetings (of the Environmental Committee, Energy Saving Committee, and Energy Study Group) and used to encourage all employees to participate in energy conservation activities.

## 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. At the Energy Saving Committee's meeting in FY2015, external lecturers were invited to give briefings on the latest energy conservation technologies.



Meeting for energy conservation committees

### Number of trainees

(Unit: persons)

	FY2013	FY2014	FY2015
Energy conservation Frequency: 4/year	68	76	80
ESH Frequency: 1/year	15	14	18
Safety Frequency: 1/year	16	13	14

\* Object persons: ESH managers and those in charge of ESH

## 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 2015, there were no breaches, penalties and sanctions against across the Group any environmental regulation during the year.

## Participation in the United Nations Global Compact Study Group on Environmental Management

Nabtesco signed the UNGC to show its support for the initiative in April 2014 and has since been proactively participating in the Global Compact Network Japan's study group activities. In the study group on environmental management, we foster dialogue with experts and NGOs and collect

the latest information on climate change, water-related risks, biodiversity, energy and other themes, and also exchange opinions and discuss matters with peers and companies engaged in other industries to enhance environmental management.

# Combating Climate Change

## Anti-Global Warming Measures

The Nabtesco Group introduced the energy-saving product certification system and the energy conservation activity commendation program in FY2012 as part of the energy conservation efforts made by the entire Group.

We participate in the Global Compact Network Japan's study group on environmental management. We collect information from NGOs and experts and exchange opinions with peers and companies engaged in other industries through the study group, which helps us enhance our environmental management. We also advocate the measures taken by the CDP\* of the United Kingdom to mitigate the impact of climate change and reduce greenhouse gas

emissions. Accordingly, we disclose and report the Nabtesco Group's climate change strategies and greenhouse gas emissions to the CDP.

The Nabtesco Group has been included in the CDP's evaluation target, and disclosing its climate change strategies and greenhouse gas emissions levels to the organization since 2010. In FY2015, we have achieved a high score of 99 points for disclosure and received A for overall performance.

Nabtesco will further develop its motion control technology, which moves and stops objects in a precise manner, thereby making greater contributions to the prevention of global warming.

## Reduction of Greenhouse Gas Emissions

The Nabtesco Group set the long-term targets for FY2020 in FY2014. With regard to the total amount of CO<sub>2</sub> emitted from the sites of Group companies in Japan, we have set the target of reducing total emissions by 15% from the FY2005 level. As for our global emissions, including from our overseas sites, we will manage emissions relative to our sales (per unit of sales) and aim to reduce emissions intensity by 20% com-

pared to FY2012 levels.

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.

## 2015 Targets and Results

In FY2015, our total CO<sub>2</sub> emissions increased by approximately 7% relative to the FY2015 target for Japanese operations, due partially to increased sales but mainly

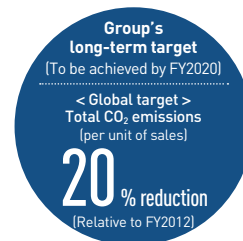
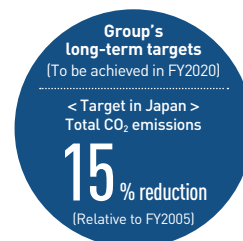
to the acquisition of Hyst Corporation\*1 in April 2015. Globally, our CO<sub>2</sub> emissions per unit of sales target for FY2015 was over-achieved by 16%.

### Targets and Results of FY2015

CO <sub>2</sub> emissions	FY2015 Targets	FY2015 Results	Performance	Status
Total CO <sub>2</sub> emissions [In Japan]	46,063 [t-CO <sub>2</sub> ]	49,154 [t-CO <sub>2</sub> ]	7% above target	Not Achieved
Per unit of sales [Global]	0.302	0.253	16% below target	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.

\*CDP (Carbon Disclosure Project): CDP is an international non-profit organization. It urges companies that boast the world's top-ranked total market value to disclose their climate change strategies and greenhouse gas emissions levels. Based on the information disclosed, the CDP annually evaluates the companies and announces their scores to the public. The CDP represents 826 institutional investors with total assets of 100 trillion US dollars (as of 2016 survey), and evaluates 6,000 top companies in the world, including 500 in Japan.



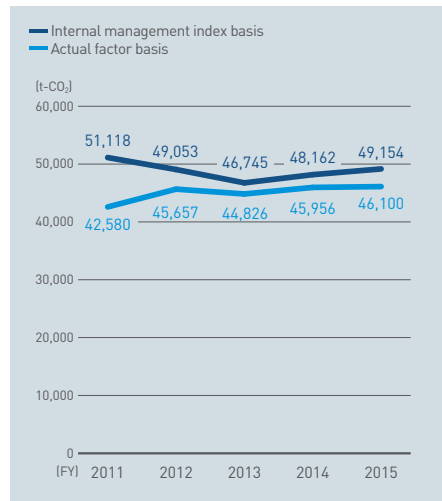


## Total CO<sub>2</sub> emissions in Japan

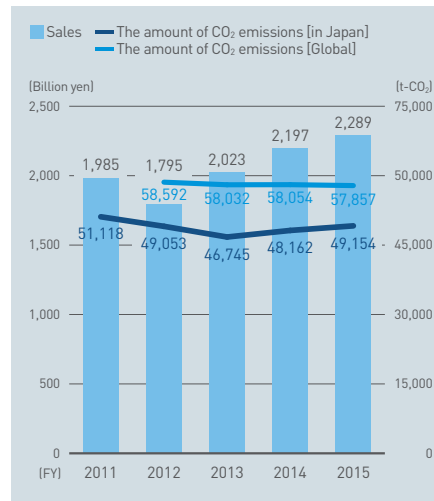
With the exclusion of Hiest Corporation, domestic emissions of Nabtesco Group were reduced by 1,030 tons of CO<sub>2</sub> compared to previous year; however, the

acquisition of Hiest Corporation has added 2,020 tons of CO<sub>2</sub>, bringing the overall balance to the surplus of 990 tons compared to the previous year.

### The amount of CO<sub>2</sub> emissions [in Japan]



### The amount of CO<sub>2</sub> emissions [Global]



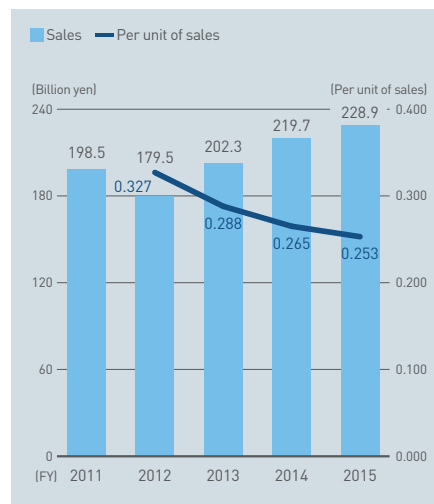
## CO<sub>2</sub> Emissions per Unit of Sales [Global]

In 2015 CO<sub>2</sub> emissions\*<sup>3</sup> from overseas operations decreased due to the slowdown of Chinese economy, however the expansion of production capacities in Japan resulted in the total volume of CO<sub>2</sub> emissions remaining unchanged in global terms.

In order to achieve its long-term emissions reduction targets, Nabtesco promotes energy efficiency measures, including the utilization of energy monitoring systems, efficiency upgrade of production facilities, and the installation of PV panels at Tsu and Kobe plants.

Furthermore, anticipating the increase in production volumes, Nabtesco is planning to build new plants in Japan and overseas. These new plants are expected to be 40% more efficient than conventional production facilities. New energy efficiency technologies applied at new plants will be then disseminated across existing plants, with the aim of reducing CO<sub>2</sub> across the Group.

### CO<sub>2</sub> Emissions per Unit of Sales [Global] (Amount of CO<sub>2</sub> emissions/sales)



#### THIRD-PARTY VERIFICATION

Nabtesco Group's CO<sub>2</sub> emissions data for the calendar year 2015

<https://www.nabtesco.com/en/ir/library/report.html>

- \*1 Hiest Corporation was acquired by Nabtesco on April 1, 2016.
- \*2 The calculation policy and standards comply with the Act on the Regional Use of Energy and the Act on the Promotion of Global Warming Countermeasures, and are aligned with the internal Guidelines on the Management of Environmental Information.
- \*3 The management of the results for the total CO<sub>2</sub> emissions is based on the number derived from the internal management index.
- \*4 The calculation period covers January 2015 – December 2015. Due to the changes in the start date of a financial year, the length of the FY2015 is 9 months (from April to December), however, in order to confirm year-on-year change, January – March of 2015 were included in the calculation.
- \*5 The calculation scope includes Nabtesco Corporation and domestic Group Companies (10 companies and 24 sites), which are listed at "Scope of Environment and Other Data", P.89.
- \*6 The CO<sub>2</sub> conversion index published by the Ministry of Environment for each industry is used as the actual emission factor
- \*7 The calculation scope includes Nabtesco Corporation, domestic Group companies (10 companies and 24 sites), and overseas Group companies (20 companies and 20 sites), which are listed at "Scope of Environment and Other Data", P.89.

## Striving for Harmony with Global Environment

### Calculation of Scope 3 Emissions

The Nabtesco Group had begun 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 of past three years.

Classification	FY2013	FY2014	FY2015
Direct emissions (Scope 1) *8, *9	8,126	7,402	7,040
Indirect emissions through the use of electricity and others (Scope 2) *8, *9	50,116	50,829	50,817
Emissions from the supply chain (Scope 3) *10	727,764	845,068	826,842

The following table shows the breakdown of our Scope 3 greenhouse gas emissions. "Purchased goods and services" (category 1) accounts for the largest percentage (85.4% of the total), followed by "Upstream transportation and distribution" (category 4, 9.8%). Due to the increase in production volumes, the emissions from the "Purchase of goods and services" have increased, however, the revision of transportation routes for import products resulted in

approx.10% decrease in "Upstream transportation and distribution" category, while waste reduction measures led to approx.16% reduction in "Waste generated in operations" (category 5). 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 Lloyd's Register Quality Assurance Limited.

#### Scope 3 emissions (FY2015)

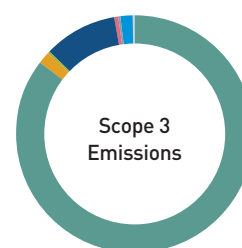
Category		Emissions (t-CO <sub>2</sub> )	Rate (%)
		FY2015	
1	Purchased goods and services	706,206	85.4
2	Capital goods	14,412	1.7
3	Fuel- and energy-related activities (except for Scopes 1 and 2 activities)	2,821	0.3
4	Upstream transportation and distribution	80,834	9.8
5	Waste generated in operations	960	0.1
6	Business travel	3,958	0.5
7	Employee commuting	1,349	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	14,432	1.7
12	End-of life treatment of sold products	1,870	0.2
13	Downstream leased assets	N/A (No corresponding leased assets)	
14	Franchises	N/A (No corresponding franchises)	
15	Investments	N/A (No corresponding investments)	

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THIRD-PARTY VERIFICATION  
Nabtesco Group's CO<sub>2</sub> emissions data for the calendar year 2015

<https://www.nabtesco.com/en/ir/library/report.html>

- \*8 The calculation scope includes only domestic operations: Nabtesco Corporation and Group companies (10 companies and 24 sites, 20 overseas Group companies and 20 sites), which are listed at "Scope of Environment and Other Data", P.89.
- \*9 As a rule, the CO<sub>2</sub> emissions factor complies with the requirements of the Act on the Promotion of Global Warming Countermeasures. However, the electricity factor is assigned the default value of 0.555kg of CO<sub>2</sub>/kWh.
- \*10 The calculation scope includes Nabtesco Corporation only.



- Purchased goods and services
- Capital goods
- Fuel- and energy-related activities (except for Scopes 1&2)
- Upstream transportation and distribution
- Waste generated in operations
- Business travel
- Employee commuting
- Use of sold products
- End-of-life treatment of sold products

The Scope 3 calculations for FY2015 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: January 1, 2015 to December 31, 2015

## Reduction in Energy Consumption

The Nabtesco Group is continuously working to conserve energy and replace its equipment with an increased number of energy-saving products, thereby reducing its energy consumption footprint.

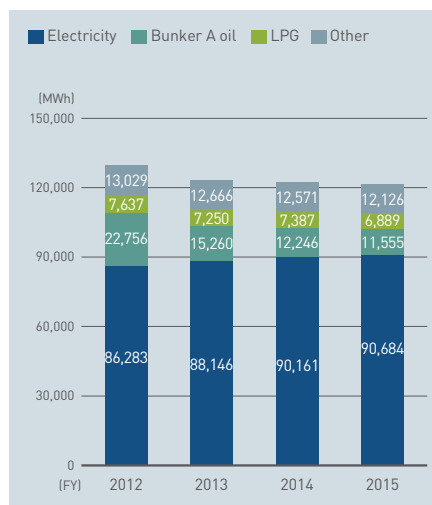
We have installed electricity meters to our energy-heavy production facilities to monitor excessive use of electricity and standby power, repair equipment and improve operational methods. We also electricity usage for air-conditioning and lighting in order to reduce energy waste. We have introduced a monitoring system using the intranet where employees can see their energy use data and engage in activities to raise awareness on energy saving.

The Nabtesco Group have established an internal system to give bases with high energy saving levels commendations after establishing the guideline in September 2012. In FY2015, the Railroad Products Company (Kobe Plant), Aerospace Company (Gifu Plant) and TS Precision and Marine Control Systems Company (Seishin Plant) received first commendations under this system.

## Renewable Energy

The Nabtesco Group is promoting the use of renewable energy equipment at its facilities. In 2012, The Tarui solar power plant in Gifu Prefecture began generating 400 kW of electricity, and in February 2016 the Tsu

Energy Consumption [Global]



solar power plant in Mie Prefecture started its operation producing 500 kW of electricity. Furthermore, Kobe plant (Hyogo Prefecture) started the operation of PV systems in April 2016.



Solar panels at Tsu plant



Solar panels at Kobe plant

# Striving for Harmony with Global Environment

## Mitigation of Environmental Impact Caused by Products and Services

### Certification System for Energy-Saving Products

This certification system was established 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.

For energy-saving product certifications, we internally evaluate products to be released on the market to see whether they meet more than one certification criteria and exceed existing levels with non-requisite features.

To be certified as energy-saving products, products to be released on the market are evaluated internally to see if they meet at least one required criteria and exceed existing level on non-requisite

In FY2015, we certified following products of the Precision Equipment Company as energy-saving products. The Compact Actuator AF Series are compact actuators

with built-in servomotors developed based on the Precision Reduction Gear RV that contributes to automation and improved energy efficiency of manufacturing facilities.

There are needs for automation and energy efficiency in emerging countries, especially China. The Compact Actuator AF Series, in which a reduction gear and a servomotor drive the force in an integrated manner reduce not only problems such as grease leakage, noise, vibrations problems caused by defective assembly of the reduction gear and the servomotor but also time and the number of steps in designing, assemblage, and procurement.

#### Certification Criteria

Downsizing and weight reduction	Higher efficiency and less energy use
By 15% or more compared with previous models	By 15% or more compared with previous models
Longer life	Non-use of hazardous substances
By 20% or longer compared with previous models	Not contained

Product name	Evaluation criteria			
	Downsizing and weight reduction	Higher efficiency and less energy loss	Longer life	No-use of hazardous Substances
Compact Actuator "AF Series"	By 19.5% compared with previous models	On par with previous models	On par with previous models	Not contained

## Cost of Implementing Anti-Climate Change Measures

The Nabtesco Group is collecting important information about the environment, safety, and health, including climate change-related risks and opportunities, and is assessing the materiality of related issues and discussing measures to implement for those that are deemed to be important. In FY2015, we updated air conditioners, fostered the use of heat-insulating coating materials, and implemented measures against snow, wastewater, and rain leakage, for which we spent approximately 16.4 million yen in total. Furthermore, Nabtesco's spent 5.8 billion yen on R&D related to climate change mea-

asures and development of green products.

The Nabtesco Group pursues higher energy efficiency in a range of business fields based on the motion control technology, which has developed for precision reduction gears for industrial robots, travel unit for excavators, aircraft flight control actuation systems, brake operating units, and door operators for railroad vehicle, engine control systems for marine vessels, and automatic doors for buildings and other structures. Thereby we contribute to reducing greenhouse gas emissions generated through the use of end products by our customers.



Certification mark (Nabtesco's eco label) and Certificate



Compact Actuator "AF Series"

# Management of Waste and Other Emissions

## Waste Reduction

### Activities to Reduce Landfill Waste

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.

In FY2015 we continued to implement the separation of waste bound for landfill and enhanced waste heat recovery processes. However, since we have altered the layout of our production facilities in order to improve productivity, the amount of waste produced in the course of

construction works resulted in 74% increase of landfill waste compared to the previous year. Thus, the Zero Emission rate was 0.46% significantly exceeding the target rate of 0.25%. This year we will continue to promote 3R in order to achieve Zero Emissions goal by FY2020.

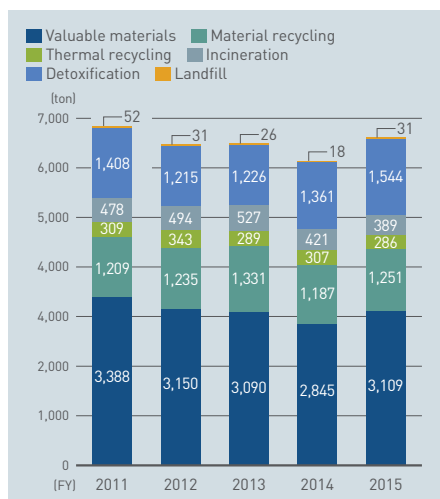
The Nabtesco Group landfills sludge, waste plastics, and waste glass that do not contain hazardous substances. For hazardous water-soluble waste oil and alkalis, we detoxify them so as not to release waste containing hazardous substances.

\*Here “zero” means 0.05% or lower.

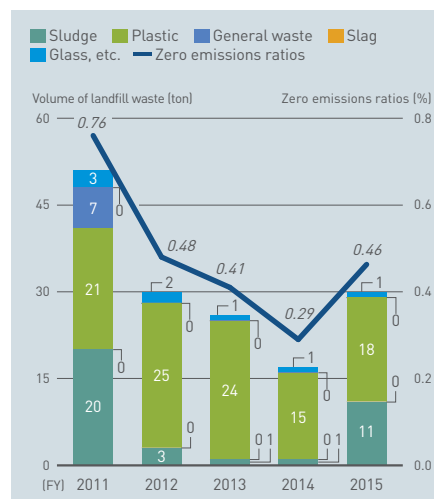
### Targets and Results of 2015

Targets	Results	Status
Zero emissions rate: 0.25%	Zero emissions rate: 0.46%	Not Achieved

### Volume of Waste Generated



### Volume of Landfill Waste and Zero Emissions Ratios



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THIRD PARTY VERIFICATION  
Nabtesco Group's environmental and social indicators

\*Waste generated and landfilled

<https://www.nabtesco.com/en/ir/library/report.html>

**Target for Waste reduction**  
Zero emissions

< Group long-term target (for FY2020) >  
Zero emissions rate of

**0%**

(percentage of landfill waste vs. total emissions)

**Breakdown of emissions**

- Valuable materials**  
metal, oil, cardboard, etc.
- Material recycling**  
oil, sludge, wood, liquid, plastic, etc.
- Thermal recycling**  
packaging, general waste, plastic, etc.
- Incineration**  
general waste, plastic, etc.
- Detoxification**  
water-soluble oil, alkalis, etc.
- Landfill**  
sludge, plastic, glass

## Striving for Harmony with Global Environment

### Measures to Reduce the Use of Raw Materials

By reusing components and reducing the production of new ones, Nabtesco is working to minimize the use of resources. We have been fostering the MRO (maintenance, repair, and overhaul) business for

Transport Equipment Business, Aircraft Equipment Business and Industrial Equipment Business to optimized the use of resources and expand sales in the service field.

### Prevention and Reduction of Pollution

The Nabtesco Group is working to identify, reduce the use, and prevent the leakage of

substances that impact the environment as a result of its business operations.

#### Targets for Prevention and Reduction of Pollution

Control of Chemical Substances	PRTR Substances: Keep the volume of use below the previous year VOC Emissions: Keep the emissions below the previous year
Soil Contamination	Prevent the outflow of harmful substances inside and outside the sites
Waste Containing	PCBs Manage and store the equipments containing PCBs at the sites and prevent the outflow of PCBs
Asbestos Management	Manage the building materials containing asbestos and prevent dispersal of asbestos

### Control of Chemical Substances (PRTR Substances and VOC Emissions)

The Nabtesco Group is promoting activities such as identifying the handled amounts of substances relevant to Pollutant Release and Transfer Register (PRTR), as well as carrying out appropriate management and reduction in the use of such substances in accordance with the PRTR law\* enforced in March 2003. The total amount of PRTR substances used at Nabtesco in FY2015 was 61.8 tons, down 7% from the previous fiscal year.

In FY2015 we continued to focus on the reduction of such substances as toluene, xylene, and HCFC-225.

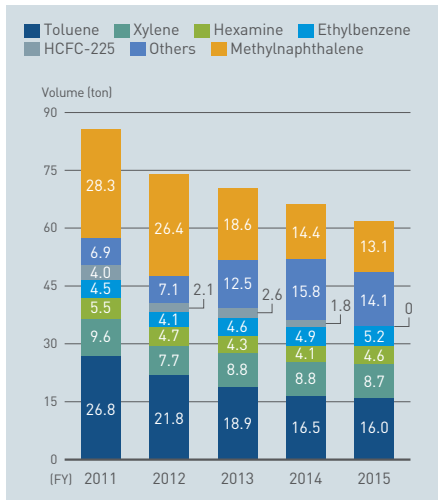
Most of these substances are contained in diluents and cleaning solvents used in various coating processes, and in order to reduce the environmental impact, we are

working in close cooperation with paint manufacturers and customers, promoting the switch to alternative eco-friendly paints, water-based cleaning solvents, and one-coat painting.

In FY2015, we completely eliminated the use of HCFC-225 in our activities. Moreover, we have reduced the use of toluene and xylene to the total amount of 24.8 ton, down 2.3 tons compared to previous year. As the result of eliminating the use of HCFC-225, our VOC emissions were reduced by 8.8% compared to 2014.

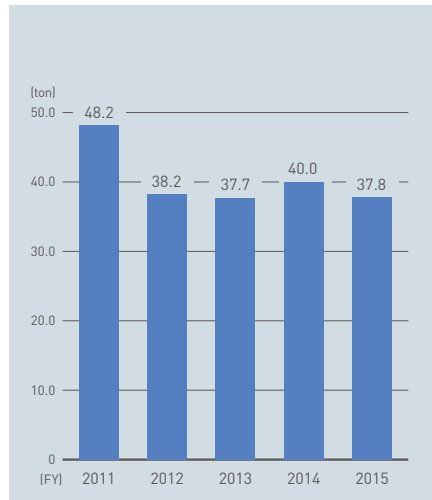
\* PRTR Law: Act on Confirmation, etc., of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof.

### Volume of Major PRTR Substances Used



\*Methylnaphthalene contained in heavy oil was added upon the FY2010 revision of substances subject to the PRTR law

### VOC Emissions



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THIRD PARTY VERIFICATION  
Nabtesco Group's environmental and social indicators

\*Chemical substances controlled under the PRTR scheme in Japan

<https://www.nabtesco.com/en/ir/library/report.html>

### 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, promul-

gated 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.

### Soil Contamination

Based on the understanding that harmful substances contained 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. Presently, there are no cases of soil contamination at Nabtesco.

### Management of 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.

Because workers in some of Nabtesco workplaces have had some previous contact with asbestos, we notified and recommended to all ex-employees to undergo a

health checkups in FY2006. In response to the revision of the Act on Asbestos Health Damage Relief, health checkup notices to ex-employees were sent again in FY2009, and health checkups have been continued to be offered. We 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.

# Striving for Harmony with Global Environment

## Conservation of Water Resources

### Basic Approach to the Use of Water

The Nabtesco Group does not require a large amount of water nor water of a certain quality for its business operations.

However, we deem it important to manage water resources, and accordingly conduct water-related risk analyses, measure the amount of water used and discharged, monitor water quality, and implement measures to prevent the leakage of hazardous substances into water. The Group has the following targets for the use of water and management of water quality.

The amount of water used and

discharged at each base are measured every month, and Group data are accumulated through the environmental information system. As for bases found using a large amount of water per month, we conduct surveys to identify contributing factors for the increased water usage, and implement measures to reduce the water use as necessary.

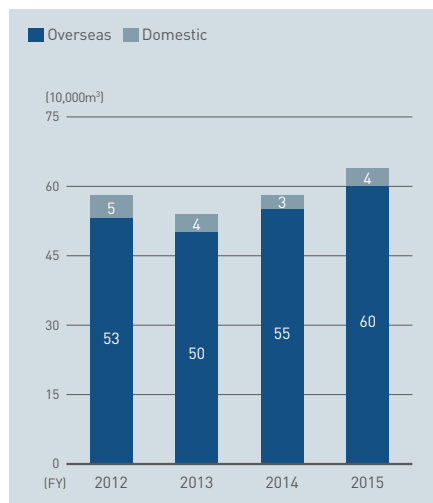
As for water quality control, we continuously monitor through monthly voluntary tests and regular inspections by external experts.

- Water use: Maintain the year-on-year change rate at 10% or lower.
- Management of water quality: Set in-house management criteria that are stricter than local standards, and monitor and manage the discharge of water

## Global Water Use Management

In 2012 the Nabtesco Group started to measure its water use on a global level <sup>\*1</sup> <sup>\*2</sup> <sup>\*3</sup>, including the data for the overseas subsidiaries. The water use at the overseas subsidiaries remains relative low, constituting a mere 10% of the Group water use; however, in order to respond to global water risks, we continue measuring the water use in our overseas operations.

Water consumption [Global]



**WEB**

THIRD PARTY VERIFICATION  
Nabtesco Group's environmental and social indicators  
\*Water consumption  
<https://www.nabtesco.com/en/ir/library/report.html>

\*1 The calculation scope includes Nabtesco Corporation, domestic Group companies (10 companies and 17 sites) and overseas Group companies (20 companies and 20 sites), which as listed at "Scope of Environment and Other Data", P.89

\*2 The calculation period for Nabtesco Corporation and domestic Group companies is from January 2015 to December 2015. In 2015 Nabtesco has changed the start of its financial year, which resulted in a 9-month accounting period (April – December 2015), however, in order to confirm a year-on-year change, the water use data for January – March 2015 was included into the calculation.

\*3 To ensure data credibility, all data received the third-party verification from Lloyd Register Quality Assurance Limited.



## Water use and water discharge management in Japan

The Nabtesco Group in Japan uses groundwater mainly to cool test stands and melt snow in snowy regions (Yamagata and Gifu). We discharge the used groundwater to rivers under the strict water quality control criteria set by the Group. In FY2015, there were no cases wherein used groundwater did not meet the water quality control criteria.

The total volume of water used by the Nabtesco Group in FY2015 amounted to 600,000 m<sup>3</sup>, an increase of 8% (50,000 m<sup>3</sup>) compared to the previous fiscal year. The major contributor to this increase was relocation of the testing equipment from Hyst Corporation that Nabtesco has acquired in April 2015, to the Tarui Plant.

### Addressing water risks

In FY2014, 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 using the Aqueduct tool provided by the World Resources Institute and referencing the "water vision" announced by the local municipalities. The results confirmed

that our Group has no water-related risks. We plan to review our water risk every three years. Due to heavy rain falls caused by recent climate change, the risk of rainwater flooding our plants is increasing. The Nabtesco Group is using oil-based water-soluble cutting fluids in its business operations and recognizes the risk of hazardous substances contained in the liquids discharged to rivers if rainwater floods the manufacturing facilities. To prevent this, we have been making capital investments to install oil-water separation tanks and oil recovery equipment.

To reduce water use, the Nabtesco Group has since FY2014 been replying to the CDP Water\*4 questionnaire in collaboration with other companies. We will continue this activity going toward the future. In FY2015, we spent around 2.4 million yen to enhance the rainwater discharging function, install drainage pipes, and make our facilities more water-resistant.

\*4 CDP Water: CDP's survey program to find each company's risk awareness and the strategies against the water risks.

## Striving for Harmony with Global Environment

### Scope of Environment and Other Data

The scope of the calculation covers the major domestic and overseas production bases and business sites.

#### (Domestic Bases)

Corporation	Location	CO <sub>2</sub>	Water	Waste	PRTR	Disaster
Nabtesco Corporation	Tokyo Headquarter	○		○		○
	Sensor Technology Group	○		○		○
	Gifu Plant	○	○	○	○	○
	Surface Treatment Plant	○		○	○	○
	Tarui Plant	○	○	○	○	○
	Tsu Plant	○	○	○	○	○
	Kobe Plant	○	○	○	○	○
	Konan Plant	○	○	○	○	○
	Seishin Plant	○	○	○	○	○
	Nagoya Office	○				○
	Osaka Office	○				○
Nabtesco Automotive Corporation	Tokyo Headquarter	○				○
	Yamagata Plant	○	○	○	○	○
	Yokosuka Technical Center	○	○	○		○
Diavac Limited	Tokyo Headquarter	○	○	○	○	○
CMET Inc.	Headquarter	○	○	○	○	○
Nabtesco Service Co., Ltd.	Yokohama Techno-Center	○	○	○	○	○
	Kobe Techno-Center	○	○	○	○	○
NABCO DOOR Ltd.	Headquarter	○	○	○		○
TS Precision Co., Ltd.	Headquarter Plant	○	○	○	○	○
	Matsuyama Plant	○	○	○	○	○
Toyo Jidoki Co., Ltd.	Iwakuni Plant	○	○	○	○	○
Hyst Corporation	Headquarter	○		○	○	○
Nabtesco Link Corporation	Headquarter	○	○		○	○

#### (Global Bases)

Corporation	Country	CO <sub>2</sub>	Water
Nabtesco Automotive Products (Thailand) Co., Ltd.	Thailand	○	○
Nabtesco Marinotec Co., Ltd.	South Korea	○	○
Nabtesco Power Control (Thailand) Co., Ltd.	Thailand	○	○
Nabtesco Marine Service Singapore Pte Ltd.	Singapore	○	○
Taiwan Nabtesco Service Co., Ltd.	Taiwan	○	○
Changzhou Nabtesco Precision Machinery Co., Ltd.	China	○	○
Dalian Toyo Jidoki Co., Ltd.	China	○	○
Jiangsu Nabtesco Hydraulic Co., Ltd.	China	○	○
Jiangsu Nabtesco KTK Railroad Products Co., Ltd.	China	○	○
Nabtesco Railroad Products (Beijing) Co., Ltd.	China	○	○
Shanghai Nabtesco Business Management Co., Ltd.	China	○	○
Shanghai Nabtesco Hydraulic Co., Ltd.	China	○	○
Nabtesco Marine Machinery (Shanghai) Co., Ltd.	China	○	○
Gilgen Door Systems AG	Switzerland	○	○
NABMIC B.V.	Netherlands	○	○
Nabtesco Precision Europe GmbH	Germany	○	○
Nabtesco Oclap S.r.l.	Italia	○	○
Nabtesco Motion Control Inc.	USA	○	○
Nabtesco Aerospace Inc.	USA	○	○
Nabco Entrances, Inc.	USA	○	○

# Promote CSR through Supply Chain

## Fundamental Approach for Fair, Proper and Transparent Business Activities

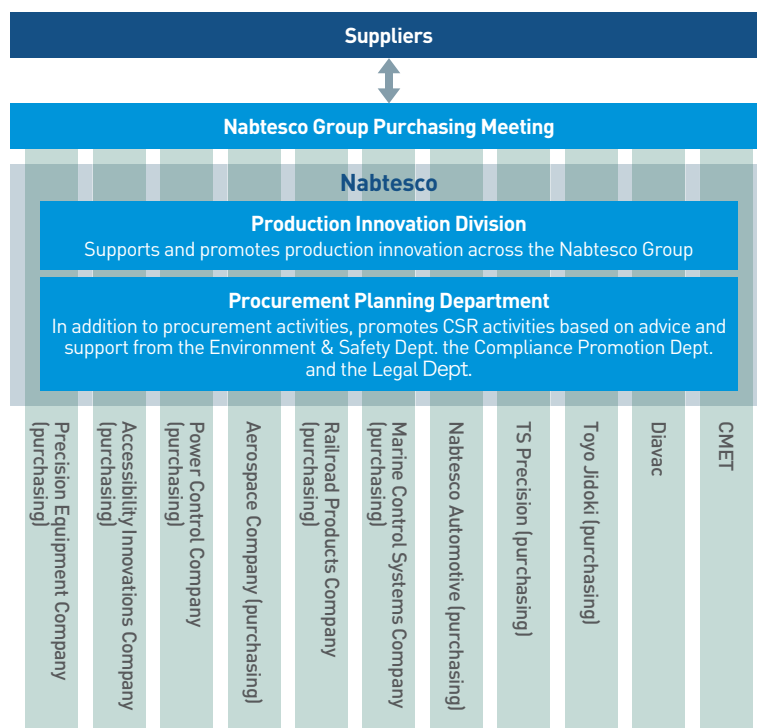
We are well aware of the importance of meeting the demands of society. By developing mutual trust relationships with through fair, proper, and transparent transactions, we are committed to meeting our

social responsibilities not just through the efforts of the Nabtesco Group alone but with the cooperation of the entire supply chain.

## Promotion Framework for the Nabtesco Group's CSR-Oriented Procurement

In order to promote CSR-oriented procurement, we need to have expertise and know-how in environment- and human rights-related measures, which are not conventionally handled by purchasing departments. The Purchasing Planning Department of the Production Innovation Division, in collaboration with the Environment & Safety Department, the Quality Promotion Department, the Compliance Promotion Department, the Legal Department, the General Administration Department, and other head

office departments, plays a central role in promoting CSR-oriented procurement, including supporting the activities conducted to this end by the in-house companies and Group companies. The Purchasing Planning Department discusses and decides on the related policies and measures at the Group Purchasing Meeting held with the participation of the procurement departments of each in-house and Group company, which work to fulfill the Group's CSR throughout the supply chain in cooperation with their suppliers.



## Implementation of Fair and Proper Business

### Establishment of the Nabtesco Group CSR-Oriented Procurement Policy

In accordance with the globalization of our business, we increasingly need to respond appropriately in our supply chain to the worldwide demands related to the environment and human rights. On April 1, 2014, aiming to further foster CSR activities across the supply chain, we established the Nabtesco Group CSR-Oriented Procurement Policy. In formulating this

policy, we referred to the ISO 26000 standard, the United Nations Guiding Principles on Business and Human Rights, the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, and other international guidelines, and also incorporated into the policy the ideas expressed in the Nabtesco Group Code of Corporate Ethics and Code of Conduct.

#### 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 and society

#### Internal Training based on Nabtesco CSR Procurement Policy

We provide internal training to procurement managers of each Group company to educate them about the Nabtesco CSR Procurement Policy and to explain the process of conducting survey research and interviews at the suppliers. Upon the

completion of the training, the procurement managers equipped with the full understanding of the CSR procurement work to ensure that the Policy is implemented across the whole supply chain.



Nabtesco Group's  
CSR-Oriented  
Procurement Policy

<https://www.nabtesco.com/en/csr/procurement.html>

## Organization of Briefing Sessions for Suppliers in Japan and Abroad

We have been visiting suppliers in China, Thailand and South Korea to brief them on the Nabtesco Group CSR-Oriented Procurement Policy since the latter half of FY2014, thereby accelerating the global penetration of the policy. Specifically, in FY2014 and FY2015 we briefed approximately 600 suppliers on the policy, respectively. We will further foster CSR-oriented procurement across the Group in order to meet the expectations of a wide range of stakeholders, including customers, by making new suppliers aware of the policy and raising existing suppliers' awareness

of the policy and enhancing partnerships with them.



Briefing session for suppliers

## Self-Assessment Questionnaire Survey on Suppliers

In 2015, continuing from FY 2014 we asked 1,105 primary (tier-1) suppliers in Japan and overseas to reply to the Nabtesco Group CSR-Oriented Policy-based self-assessment questionnaire (SAQ) survey. The questionnaire consists of six categories aligned with the paragraphs of the CSR Procurement Policy and contains the total of 36 subcategories, which were assessed

in order of higher priority. Our goal for FY 2016 is to achieve the score of 80 points out of 100 in all six categories. The goal for FY 2015 - to score 80 points for four out of the six categories - was successfully achieved.

Based on the survey results, we will interview suppliers to identify our CSR challenges and risks, and make necessary improvement plans.

## Nabtesco's Basic Purchase Agreement

In the Basic Purchase Agreement that we conclude with new suppliers, we list not only compliance, including the prevention of any form of corruption such as bid rigging or bribery, but also consideration to

the environment and occupational health and safety and the elimination of anti-social forces as the most important items to be observed by our suppliers.

### Basic Purchase Agreement

(Examples)

Article 10: Ensuring occupational health and safety and appropriate working conditions (including prohibiting forced labor and child labor)

Article 29: Obligation to prevent pollution, manage the environment, and manage the use of specified hazardous substances

Article 30: Obligation to prevent workplace disasters

Article 32: Prohibition of bid rigging and bribery

Article 47: Elimination of anti-social forces

No. of Suppliers Briefed on the Policy (in FY2015)



No. of Respondents to the SAQ (in FY2015)



# Implementation of Fair and Proper Business

## Participation in the United Nations Global Compact

Nabtesco signed the United Nations Global Compact in April 2014 to show that it supports this international initiative, and has since been proactively participating in the activities conducted by the Global Compact Network Japan. In FY2014, we worked to

set norms and criteria and to solve problems for global CSR-oriented procurement in cooperation with peers and companies in other industries as a corporate leader for the supply chain study group.

## Measures for Conflict Minerals\*

As neither Nabtesco Corporation nor its Group companies are listed on US stock markets, and therefore are not subject to the Dodd-Frank Act or the reporting obligations. The Nabtesco Group, however, is committed to establish a responsible supply chain management framework and to avoid becoming complicit in the activities of armed groups and conflicts,

while keeping an eye on maintaining international peace and security.

In FY2015, we received requests from multiple customers to conduct surveys on conflict minerals at our sites. In response, we are conducting the Reasonable Country of Origin Inquiry (RCOI) in cooperation with our suppliers.

\*The term "conflict minerals" refers to four mined minerals (gold, tantalum, tin and tungsten), which 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.

## Consolidation of Risk Management Systems in Response to Supply Risk

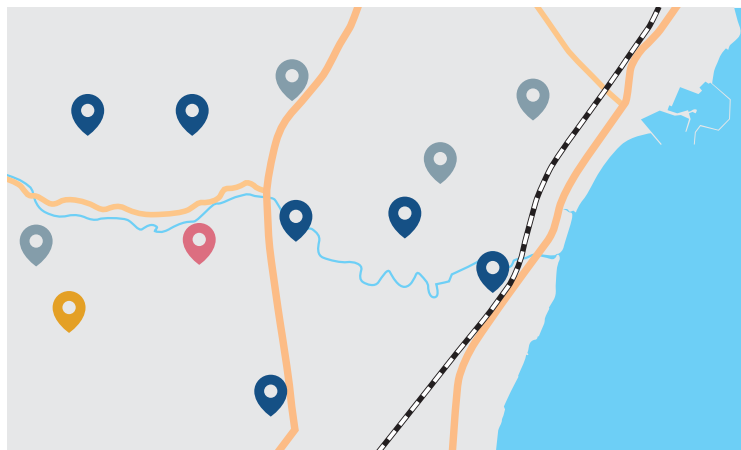
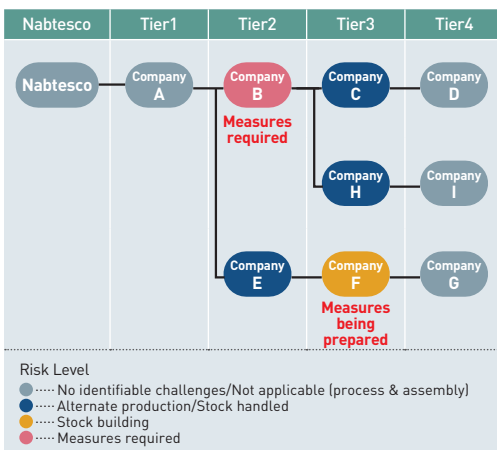
Nabtesco has begun identifying risks for each operational company leveraging lessons learnt in the Great Hanshin Earthquake 1995, the Great East Japan Earthquake 2011, and recurring floods in Thailand, in order to recognize potential risks and build countermeasures against them, and ultimately turn these risks into growth opportunities.

Practically, the procedure of the above includes deriving possible challenges of bottlenecks to the stable supply in the supply chain as well as building the countermeasure while having understood

numerous potential risks to the Group, for instance, impacts from anticipated external factors such as natural disasters and suspension of the production line attributed to business partners and clients.

Nabtesco will urgently enforce identification of the challenges arising from the risks in the supply chain, penetrate this action throughout the Group by the end of FY 2016, and progressively establish a supply risk response system in every operational company.

### Supply Risk Response Crisis Management in the Supply Chain



Grasp the full spectrum of the supply chain via a "tree" diagram

Understand production plant locations of suppliers and clients on a "map"

# Consideration of Community and Society

## Policies on Community and Society

The Nabtesco Group formulated the Corporate Philosophy and the Nabtesco Group Code of Corporate Ethics in 2005. In the Code of Corporate Ethics, our Group makes a pledge to conduct social contribution activities voluntarily as a corporate citizen, to respect local laws, regulations, culture and customs at each of our bases in Japan and overseas, and contribute to the development of local communities.

In addition to contributing to local economies by the establishment of a local production and local consumption system, we are fostering exchange with local educational institutions and the implementation of environmental education projects for the development of the next generation of leaders, with an eye to contributing to the development of local communities and achieving co-prosperity with them.

## 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. In 2015, we donated the AW to West Japan Railway Company in addition to local governments. So far, We have donated 270 AW wheelchairs in total.

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

### Numbers of Donated Assist Wheel® Wheelchairs

Site/Region	Local government/Public Institution	2015	Total Number
Headquarters in Tokyo	Tokyo, Kanagawa Pref.	2	18
	West Japan Railway Company	10	10
Tarui and Gifu Plants	Gifu Pref.	2	17
Tsu Plant	Mie Pref.	2	18
Kobe, Konan, Seishin Plant	Hyogo Pref.	3	32
NAM Yamagata Plant	Yamagata Pref.	2	18
TSP and Toyo Jidoki	Iwakuni City (Yamaguchi Pref.)	2	16
TSP Matsuyama Plant and Shikoku Marine Customer Service	Ehime Pref.	2	14
3 Prefectures in Tohoku	Iwate Pref.	5	41
	Miyagi Pref.	5	44
	Fukushima Pref.	5	42
Total Number of AW donated		40	270

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

**REFERENCE**  
Corporate Philosophy  
P. 2

**REFERENCE**  
Nabtesco Group Code of Corporate Ethics  
P.107



Donation to Imabari City in Ehime prefecture

## Consideration of Community and Society

### Exchange with Local Educational Facilities

In FY2015, the Nabtesco Group hosted 488 groups, in total of 2,525 people including students and teachers from elementary, junior high, high schools and universities, 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 communication and exchange with students and teachers of these schools.

### Support for an Environmental Education Program

Nabtesco has been supporting *Asahi Shimbun's* Environmental Education Program in since 2014. The Program is held to help children learn about the Earth in a pleasant manner, and encourage them to voluntarily take actions for the planet. We will continue to support this program also in FY2016.

Under the Program, free-of-charge educational materials, which *Asahi Shimbun* created with four supporting companies including Nabtesco, will be distributed to 250,000 children in about 3,000 elementary schools located across Japan (as of FY2015). Moreover, an environmental event will be held in September, special

classes will be provided at elementary schools in November and December, and participatory events will be held for the children, who will be asked to write articles and essays for some of the events.



Special class provided in the Program

### Mangrove Planting Activity Conducted by an Overseas Group Company

Nabtesco Automotive Products (Thailand) Co., Ltd. (NAPT) has been conducting a mangrove planting activity on tideland located within the premises of the Bang Pu Nature Education Center in the province of Samut Prakan. The activity was carried out three times in the past: June, 2013, January and October, 2015. In total, 267 employees have participated in the programme and planted 1,250 mangrove seedlings.

Mangroves grow in intertidal zones where seawater mingles with fresh water, and there are hopes that mangroves will help prevent global warming, maintain and recover ecosystems, and mitigate the damage caused by natural disasters. Nabtesco group will continue to regularly conduct social contribution activities into the future.



Mangrove seedlings and protection tools against washing away



Ceremonial photo at Bang Pu Nature Education Center





## BUSINESS MANAGEMENT SYSTEM OF NABTESCO GROUP

# STRIVE TO IMPLEMENT BUSINESS MANAGEMENT IN ACCORDANCE WITH AN EVEN HIGHER STANDARD OF ETHICS

Nabtesco Group states that we take actions in a highly transparent manner in line with the basic policy of “open, fair and honest” in our Promise. Aiming for increasing of mid- and long-term corporate value, we implement not only compliance with laws and regulations, but also corporate ethics at a higher level, furthermore, we continuously enhance corporate governance. Also, in order to gain the understanding and receive the appropriate evaluation by our stakeholders, we disclose non-financial information, in addition to management and financial information, regarding our environmental and social activities in a proactive manner.





# Corporate Governance

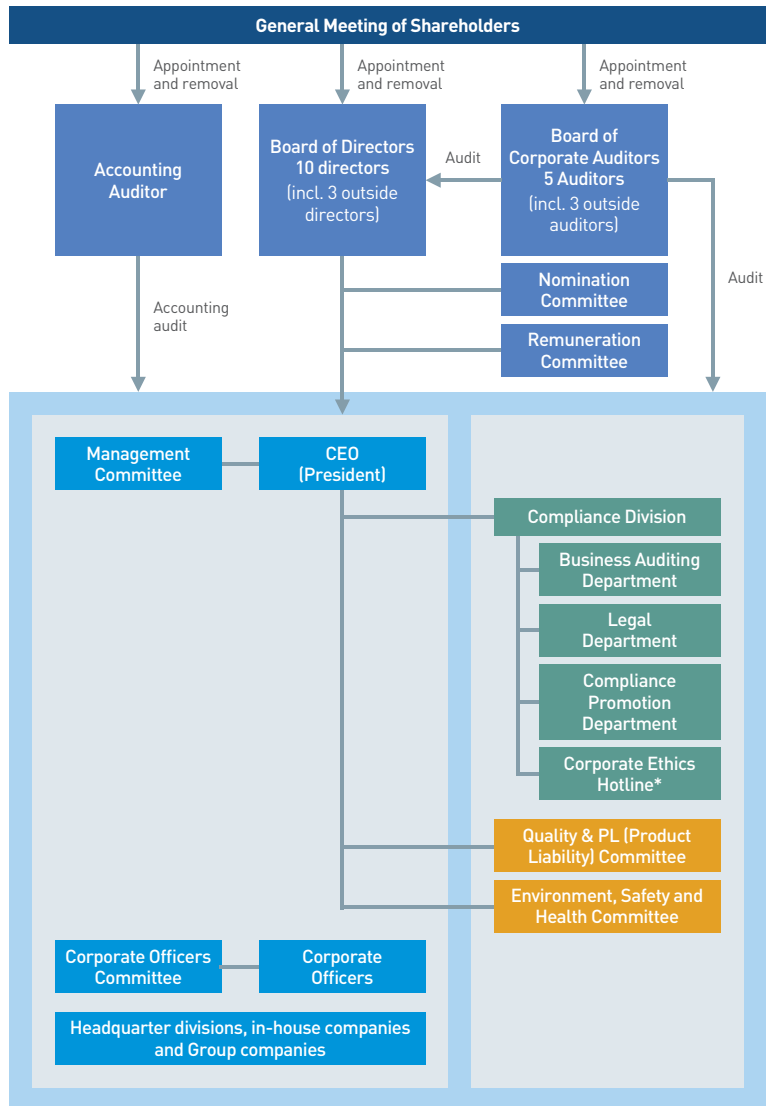
## Basic Approach to Corporate Governance

Nabtesco is committed to achieving sustainable growth, increasing its corporate value on a medium- to long-term basis, and earning greater trust from stakeholders based on the principles and spirit of Japan's Corporate Governance Code, which is incorporated into the Securities Listing Regulations of the Tokyo Stock Exchange. To fulfill this commitment by improving our corporate governance so as to ensure transparency and fairness in our business and foster prompt decision-making, we established the Nabtesco Corporate Governance Basic Policy on October 30, 2015. The Policy is found on our website.

## Measures to Enhance 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 Governance System (As of March 24, 2016)



\* Regardless of the regular ladder-line, direct reports to the Compliance Division are acceptable.

**WEB**

Nabtesco Corporate Governance Basic Policy

<https://www.nabtesco.com/en/ir/policy/governance.html>

## Explanation of Company's Organizations

Organization Name	Roles and Responsibilities	No. of People	Frequency of meetings in FY2015
Board of Directors	Formulates the Group's basic policies and strategies, makes decisions about the execution of important business matters and supervises the way business is carried out.	10 (incl. 3 outside directors)	14 times (At least once a month, in principle)
Nomination Committee	Deliberates on candidates for directors, corporate auditors and the CEO and reports the results to the Board of Directors	3 (incl. 2 outside members)	2 times
Remuneration Committee	Deliberates on compensation of the management team and reports the results to the Board of Directors.	3 (incl. 2 outside members)	2 times
Board of Corporate Auditors	Corporate auditors, including outside auditors, exchange information with the Business Auditing Department and hold the Board of Group Corporate Auditors meetings. Furthermore, they organize briefing sessions on auditing plans and results jointly with accounting auditors and foster mutual cooperation on occasions such as on-site inspections of inventories at factories. 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.	4 (incl. 3 outside auditors)	10 times
Board of Group Corporate Auditors	We maintain a Board of Group Corporate Auditors, the members of which include corporate auditors of Group companies, as a way of strengthening management of the Group.	—	2 times
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 20 members including the corporate officers of the Group's two subsidiaries.	20	10 times
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 and reports on results and the execution of business. It is composed of full-time directors and corporate officers.	—	17 times (At least once a month in principle)
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 Business Auditing Department was established to strengthen internal business auditing. It conducted internal business audits of headquarter divisions, in-house companies and consolidated subsidiaries.	8	—

\* No. of people and frequency of meetings show the aggregated figures of FY2015.

## Appointment of Directors and Corporate Auditors

### Nomination Committee

With the aim of ensuring an independent and objective manner in the process of selecting the directors and the corporate auditors and fulfilling the company's accountability obligations, we established the Nomination Committee, which is composed of three members, including at least two independent outside directors/corporate auditors. The committee deliberates

on candidates for directors, corporate auditors and the CEO and reports the results to the Board of Directors.

When appointing executives, directors and corporate auditors, Nabtesco selects individuals who, based on their career record and abilities, can contribute to the growth and advancement of the entire Group.

### Composition of the Board of Directors

The Board of Directors is composed of up to 10 directors, of whom at least two are independent outside directors. For the Board of Directors to fulfill its roles and responsibilities to the fullest, members are selected from among those who have outstanding personal qualities, expertise and abilities,

exhibit advanced professionalism and strong ethics, and can demonstrate abundant experience. This helps ensure a Board of Directors that is well balanced and has diversity in terms of expertise, abilities, experience, and others.

#### WEB

Appointment Criteria for Directors and Auditors  
Notice of Convocation of the 13th Annual General Meeting of Shareholders (P.4-11)

[https://www.nabtesco.com/library/pdf/shareholders\\_meeting/shoushuu\\_13\\_en.pdf](https://www.nabtesco.com/library/pdf/shareholders_meeting/shoushuu_13_en.pdf)

## Corporate Governance

### Independent Outside Directors

Nabtesco has at least two independent outside directors who can give advice and supervise management to help increase the corporate value in a sustainable manner and on a medium- to long-term basis. All independent outside directors are well experienced, have versatile knowledge, can take a broader view for various

stakeholders of the company, and meet Nabtesco's Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors. Outside directors meet by themselves as necessary in order to freely discuss and exchange information and views objectively and independently, apart from the execution of business.

### Composition of the Board of Corporate Auditors

The Board of Corporate Auditors is composed of up to five auditors, of whom at least half are independent outside auditors. Members are selected from among those who have outstanding personal qualities, expertise and abilities, exhibit advanced professionalism and strong ethics, and can demonstrate abundant experience. The Board of Corporate Auditors includes at least one person who is appropriately well versed in financial and accounting issues.

The Board of Corporate Auditors organically combines the robust independence of outside corporate auditors and the advanced information collection ability of internal corporate auditors so that it may fulfill its roles and responsibilities effectively. All independent outside corporate auditors meet Nabtesco's Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.

## Remuneration for Directors and Auditors

### Remuneration Committee

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 three members, including at least two independent outside directors/corporate auditors.

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 issues, and then reports the results to the Board of Directors.

### Compensation System for Directors

Compensation to directors comprises "monthly compensation," which is made up of fixed compensation and short-term performance-linked compensation, and "stock compensation-type stock options," which are offered in consideration of medium- to long-term performance. The compensation standard and its configuration are reviewed as necessary and as appropriate according to changes in the business environment.

The amount of performance-linked compensation to be paid to directors is decided based on performance for the

fiscal year and the achievement level of the annual performance targets. Net sales, operating profit, ROA and ROE are used as the major performance indicators.

Regarding disciplinary actions against directors, the Board of Directors shall discuss and decide these in line with the Group's rules on authorities and responsibilities.

Compensation of independent outside directors is only paid on a fixed basis in light of their roles and independence.

#### WEB

Activities conducted by external directors and external corporate auditors  
Notice of Convocation of the 13th Annual General Meeting of Shareholders (P.31)

[https://www.nabtesco.com/library/pdf/shareholders\\_meeting/shoushuu\\_13\\_en.pdf](https://www.nabtesco.com/library/pdf/shareholders_meeting/shoushuu_13_en.pdf)

#### WEB

Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors

<https://www.nabtesco.com/en/ir/policy/governance.html>

## Compensation Structure for Corporate Auditors

Compensation given to corporate auditors is decided through consultation with the auditors. Due to the nature of auditing, the

compensation structure for corporate auditors comprises only the base salary and no performance-based incentives.

### Total Amount of Compensation Paid to Directors and Corporate Auditors (for Fiscal 2015)

(Unit: Million JPY)

Directors/Auditors	Number of Directors and Auditors	Types of Compensation			Total Amount of Compensation
		Monthly Compensation	Monthly Compensation	Stock Compensation-Type Stock Options	
Directors (Outside Directors)	227	167	0	59	11
Corporate Auditors (Outside Auditors)	30	30	—	—	3
Outside Directors	27	27	—	—	7

[Notes]

1. The number of directors shown above includes 4 directors who resigned during the FY 2015/12.
2. The number of corporate auditors shown above includes 2 auditors who resigned during the FY 2015/12 (including one person who officially resigned by own will)
3. The number of outside directors shown above includes 2 directors who resigned during the term.
4. Monthly remuneration consists of basic monthly salary and performance-based compensation, paid out in total on a monthly basis.
5. Since none of the directors receives a compensation exceeding JPY100 million, disclosure of compensation on an individual level is omitted (according to Japanese legislation, a compensation exceeding JPY100 million should be publicly disclosed)

## Stock Compensation-Type Stock Options

Nabtesco has introduced “stock compensation-type stock options” in an effort to make the directors keenly aware of the need to achieve the medium- to long-term performance targets and to share not only the benefits of rising stock prices but also the risks of falling stock prices. The company thereby aims to motivate the directors to be more strongly committed to making contributions to higher performance and corporate value.

The long term performance-linked “stock compensation-type stock options” were introduced following the abolition of the retirement allowance system in fiscal

2009 as resolved at the sixth annual general meeting of shareholders held on June 24, 2009. The medium term performance linked “stock compensation-type stock options” were introduced as stock options linked with the achievement level of the performance targets set in the Medium-Term Management Plan (announced on May 9, 2014) as resolved at the 11th annual general meeting of shareholders held on June 24, 2014.

Specifically, directors are given stock acquisition rights, and the actual number of shares allowed for each director is decided individually based on his or her job title.

## Corporate Governance

### Measures to Ensure the Effectiveness of the Board of Directors, and the Evaluation of the Effectiveness

Nabtesco analyzes and evaluates the effectiveness of the Board of Directors by way of self-evaluation performed by each director, with a view to improving the functionality of the Board. In FY2015/12, the company conducted an anonymous self-evaluation questionnaire survey of the directors and corporate auditors, and the Board analyzed and evaluated the survey results. According to the results, the directors positively believe that measures have been fostered to establish a system to enhance the Board's supervision function and to nurture a culture of open and constructive discussion and opinion exchange. The effectiveness of the Board is, therefore, considered

to be well secured. On the other hand, in order to further deepen discussions and increase deliberation efficiency at Board meetings, respondents to the survey offered constructive comments regarding issues such as how to discuss medium- to long-term growth strategies and how to improve the operation of the Board.

Nabtesco will further enhance its corporate governance system to increase its corporate value through better corporate management. Based on the aforementioned evaluation results, we will further enhance the functionality of the Board on a continual basis.

#### Attendance Rate at the Board of Directors and the Board of Corporate Auditors in FY2015

Board of Directors		
Average Attendance Rate		97.6%
Average Attendance Rate of Outside Directors		100.0%
Kazuakai Kotani	Representative Director, President & CEO	100.0%
Yosuke Mishiro	Representative Director	100.0%
Nobutaka Osada	Representative Director	100.0%
Katsuhiro Teramoto	Representative Director	100.0%
Hiroaki Sakai	Director	100.0%
Toshio Yoshikawa	Director	100.0%
Goro Hashimoto	Director	100.0%
Daisuke Hakoda	Director	100.0%
Yutaka Fujiwara	Outside Director	100.0%
Norio Uchida	Outside Director	100.0%
Takayuki Onishi	Corporate Auditor	100.0%
Tetsuya Ishimaru	Outside Corporate Auditor	100.0%
Hiroshi Mitani	Outside Corporate Auditor	85.7%
Hisao Katayama	Outside Corporate Auditor	80.0%

Board of Corporate Auditors		
Average Attendance Rate		96.4%
Average Attendance Rate of Outside Corporate Auditors		95.2%
Takayuki Onishi	Corporate Auditor	100.0%
Tetsuya Ishimaru	Outside Corporate Auditor	100.0%
Hiroshi Mitani	Outside Corporate Auditor	100.0%
Hisao Katayama	Outside Corporate Auditor	85.7%

Average Attendance  
Rate of Board of Directors  
(FY2015)

**97.6%**  
(Outside Directors 100%)

Average Attendance  
Rate of Board of  
Corporate Auditors  
(FY2015)

**96.4%**  
(Outside Auditors 95.2%)



## Current Status of Internal Control System

Based on its Basic Policies 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.

## 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 the Group's directors, corporate auditors and all employees comply with these norms and rules.

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.

## Message from Outside Director

### THRIVING TO BE THE WORLD'S BEST

When I think of Nabtesco in a global context, its four world-class elements spring to mind. The first element is its sophisticated technology. The second is its system, human resources, and organization that consolidate its manufacturing and product quality management, followed by the third element that is its balanced business portfolio. The last but not the least is its front office function that supports close engagement with customers. Nabtesco's high global market share and sustainable growth have been built upon these four distinct aspects.

As an outside director, I bring my extensive management experience, business sensibilities, and scenario-building skills into directing Nabtesco as well as making managerial decisions from the risk management perspective. Criteria I focus, particularly in management decision-making are its speed and compliance. Following these criteria, I will make every effort to contribute to making wise decisions which all stakeholders can accept.

To raise effectiveness of the Board of Directors meetings, I believe outside directors should participate in discussion of material issues from the very early phase

including business strategies. Nabtesco performs management with a high level of transparency, and all directors demonstrate positive attitude towards addressing corporate governance. Nabtesco has always conducted Investor Relations activities, information disclosure, and stakeholder-oriented management. For Nabtesco to maintain its stance, I will take my responsibilities in supervising the conduct of the Board as an outside director.

In attaining the eminent position in the global market, Nabtesco will require sustainable growth of its profit that may be succeeded through development of overseas operations with a greater ratio of overseas businesses to domestic, exploitation of potentially profitable business areas, and entry to new markets. I expect Nabtesco to not only tackle above challenges but also generate higher corporate value, realize sustainable growth, and build recognition as the world's best company in the industry world-wide. I, as an outside director, will fulfill my duty with close communications with stakeholders and strive to enhance the supervision function.

**Norio Uchida**

Outside Director



# Risk Management

## Risk Management in General

The 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 damage to the entire Group is detected, will

be reported to the Board of Directors promptly and accurately.

We have been thus making efforts to discover risks early and to minimize losses. More specifically, we have been proceeding with the placement of cross-group organizations and the maintenance of related regulations while managing the following types of risks and preventing losses

- |                                                  |                                                         |
|--------------------------------------------------|---------------------------------------------------------|
| (1) Risks relevant to the economy and markets    | (7) Risks relevant to competition                       |
| (2) Risks relevant to overseas operations        | (8) Risks relevant to information security              |
| (3) Risks relevant to large-scale disasters      | (9) Risks relevant to intellectual property             |
| (4) Risks relevant to exchange rate fluctuations | (10) Risks relevant to laws, ordinances and regulations |
| (5) Risks relevant to procurement                | (11) Risks relevant to environment                      |
| (6) Risks relevant to product quality            |                                                         |

We also ensure the suitability and legality of decision-making and manage risks through compliance with, and thoroughgoing implementation of, the Group regulations for responsibility and authority.

We have also established the 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 at the Headquarters, such as the Business Auditing Department, conduct cross-organizational audits of operational risk management and offer necessary and appropriate advice with regard to operational improvement.

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Risk Factors

[https://www.nabtesco.com/en/ir/policy/risk\\_factors.html](https://www.nabtesco.com/en/ir/policy/risk_factors.html)

## Risk Management Activities of the Group

In response to the globalization of our business operations, we are fostering activities to identify a range of risks faced by our business sites in Japan and overseas, and to prevent the materialization of serious risks.

In FY2015, based on the risk management rules, we carried out risk assessments on all in-house companies of Nabtesco Corporation and its Group companies in Japan to identify serious risks and formulate countermeasures at each base.

At the same time, as part of risk management education, we held briefing

sessions for executives of our domestic bases to inform of the importance of risk management and loss prevention.

For overseas Group companies, we conducted surveys on risks, including those related to corruption (bribery and others) and to the infringement of human rights, such as the use of child labor and forced labor, at three companies in China, and re-evaluated risks at eight Group companies in China and five companies in other Asian countries in FY2014.

## Business Continuity Plan (BCP) Activities

To prepare for major natural disasters such as large earthquakes and other contingencies, the Nabtesco Group has been fostered activities to create BCPs since FY2010.

As a result of the risk assessment on in-house companies and domestic Group companies, we recognize natural disasters as the greatest risk against the continuation of our business and urge to enhance BCP activities as crisis measures.

In FY2015, we established a new production base in China for the Precision Reduction Gear Business which used to rely on the only domestic plant for its all production. The second plant in China circumvented the issue of the concentrated production at one plant and attributed to strengthening the stable supply system with a capacity to cope

with global demand growth.

In FY2016, we will work to attain the following goals to further strengthen our business continuity through integrated effort by bases and the BCP secretariat together.

- (1) Solve, one by one, problems of important domestic production bases and enhance BCP.
- (2) Embark on establishing the BCP for overseas group companies as measures for the overseas business continuity have been rising along with globalization of business.
- (3) Embark on establishing the HQ BCP expecting a major disruption of the Tokyo HQ office functions, in preparation against a mega earthquake that may directly strike the capital.

# Compliance

## Compliance-Related Rules

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 an even higher standard of ethics across the Group, and since then, based on these Codes, we have been working hard to strictly implement corporate ethics.

The Compliance Promotion Department, a department at the Headquarters in charge of compliance issues, fulfills a central role by increasing employees' compliance awareness in addition to fostering their compliance with laws and regulations and by helping with the

enhancement of the Group's corporate value over the medium- to long-term. Nabtesco Group Code of Corporate Ethics shows the basic approach to be taken by members of the Nabtesco Group for the implementation of the corporate philosophy in their business activities. Nabtesco Group Code of Conduct provides judgment standards that need to be observed by all executives and employees from the viewpoints of corporate ethics and legal compliance. In order to help employees deepen their understanding of this Code of Conduct and take actions that are in line with it, we provide a handbook on compliance in compliance trainings for employees.

### Nabtesco Group Code of Corporate Ethics

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

### Nabtesco Group Code of Conduct

- |                                                            |                                                             |
|------------------------------------------------------------|-------------------------------------------------------------|
| 1. Objective of the Code and scope of application          | 4. Relationship with shareholders and investors             |
| 2. General provisions                                      | (1) Disclosure of corporate information                     |
| (1) Compliance with laws and regulations                   | (2) Prohibition of insider trading                          |
| (2) Prohibition of acts leading to conflicts of interest   | 5. Moral and Honest acts                                    |
| (3) Respect for basic human rights                         | (1) Entertainment and gifts in moderate way                 |
| (4) Prohibition of harassment                              | (2) Prohibition of bribery                                  |
| 3. Business activities                                     | (3) Elimination of any relationships with antisocial groups |
| (1) Pursuit of safety, security and comfort                | (4) Management of corporate assets                          |
| (2) Provision of comfortable workplaces                    | 6. Appropriate management of information                    |
| (3) Protection of the environment                          | (1) Proper management and utilization information           |
| (4) Maintenance and promotion fair and liberalized dealing | (2) Protection of personal information                      |
| (5) Dealing with transactions with suppliers and partners  | (3) Protection of intellectual property rights              |
| (6) Export and import transactions                         | 7. Pledge                                                   |

## Implementation and Fostering of Compliance

### Compliance Training and Education for Employees

#### (1) Training of Employees for Each Position.

We incorporated compliance education into the training provided by the Human Resources Development Department to employees for each position.

#### (2) Launch of Training for All Group Employees

In addition to the training provided by the Human Resources Development Department to employees at each level, we have been providing all Group employees with training, including raising awareness of human rights, during the period from the latter half of 2015 to 2016.

#### (3) Compliance Education through E-learning

We continued the e-learning program launched in FY2011 and offered courses on the basics of security export control. We will also conduct this program in FY2016.

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

- Training for Newly Appointed Executive Officers
- 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



Training for managers

#### Compliance Education through E-learning (FY2015)

	Total
Targeted employees	441 persons
Completed the courses	385 persons
Completion rate	87%

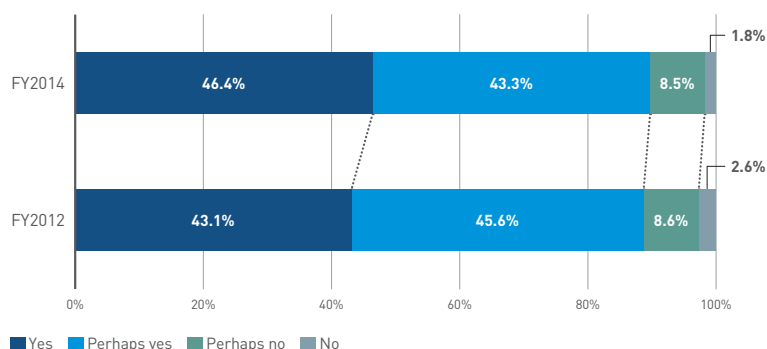
### Compliance Awareness Survey

We have been conducting a biennial survey on the compliance awareness of Nabtesco Group employees since FY2006, targeting all employees of Nabtesco Corporation and its Group companies in Japan.

The graph shows compliance

awareness levels calculated among employees in the FY2012 and FY2014 surveys. We will conduct the next survey in FY2016 and continue this activity to further increase compliance awareness among employees.

#### Do you understand the meaning of the word "compliance"?



## Risk Management/Compliance

### Promotion of Compliance at Overseas Group Companies

#### (1) China

As in FY2015, in FY2014 we provided compliance training twice in China, targeting 11 local Group companies with 226 and 276 employees participating in the training held in the first half and second half of the term, respectively.

In the training, participants increased their awareness of the Nabtesco Group Code of Conduct as well as human rights.

We will continue conducting this training while working to improve its effects through measures such as incorporating case studies given the local situations. Moreover, we publish a bi-monthly newsletter on compliance in Chinese, and strive to foster employees' awareness of compliance.

#### (2) Thailand

In FY2015, we held compliance training for a Group company in Thailand, in which 54 employees participated. As in the training provided in China, the goal of the training was to raise the participants' awareness of the Nabtesco Group Code of Conduct.

We will continue working to further raise the awareness level of local employees towards compliance synergized with "Compliance Press" –the internal newsletter that has been issued since FY2015.

#### (3) Singapore and South Korea

Also in FY2015, we held the compliance training for Group companies in Singapore and South Korea, in which a total of 33 employees participated.

### Information Dispatch and Enlightenment Activities

#### Corporate Ethics Month

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

In FY2015, the CEO offered a message for the month-long campaign. Moreover, a compliance meeting were also conducted at each workplace. A total of 4,111 employees participated in the campaign activities for the fiscal year, including participation from overseas group companies.

#### Activities

To raise employees' compliance awareness, we used the intranet as well as hand-outs to disseminate information to all employees. We will continue these activities using a wider range of tools.



Training held in South Korea in FY2015

#### Examples of Activities Conducted in FY2015

- Publication of the newsletter on compliance (Japanese language: monthly; Chinese and Thai languages: bimonthly)
- Introduction of a case study on compliance in the in-house magazine
- Distribution of the e-mail newsletter on compliance
- Dispatch of compliance- and risk management-related information, including news, quizzes, articles, and information about Corporate Ethics Month



Poster for Corporate Ethics Month in FY2015

## Internal Hotline System for Reporting

We have established a “hotline” system for the purpose of preventing and discovering legal violations, illegal acts and misconducts, including corruption such as bid rigging and bribery and the infringement of human rights (child labor, forced labor and others), at an early stage, thus enhancing our “self-cleansing” function, while controlling reputational risk and maintaining trust from society.

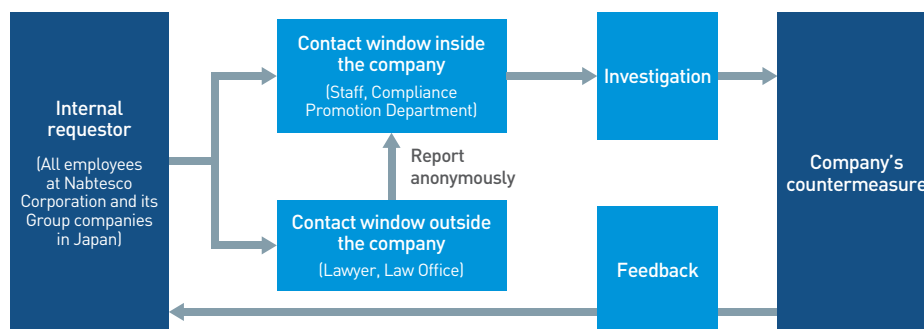
This hotline system, which offers a contact point not only within the company but also outside the company (a lawyer), is available to all employees (directors, regular, non-regular, part-time and temporary employees) at Nabtesco Corporation and its Group companies in Japan. Contact can be made anonymously.

In FY2015, we received 17 reports/

inquiries through the internal hotline system. All the issues reported through the system are surveyed and cases of serious noncompliance are strictly handled according to the reports submitted by the disciplinary committee. Further, to prevent the recurrence of similar problems, general employees are made more aware of the importance of compliance through notifications issued by the Director (and Executive Officer) who serves as General Manager of the Compliance Division as well as through training conducted on related themes. For corruption, there were no reports made through the internal hotline system, no cases of noncompliance, and no payments of penalties for bribery in FY2015.

We plan to implement a whistle-blowing system in China (in Shanghai) in FY2016.

### Flow of “Hotline”



## Anti-Corruption Measures

Nabtesco Group Code of Conduct, which was established in 2005, clearly prohibits not only bribery but also unreasonable activities, including the provision of entertainment and gifts for the purpose of garnering an unfair business advantage. Under the authority of the Director (and Executive Officer) who serves as General Manager of the Compliance Division, we strive to ensure the prevention of corruption by establishing a range of guidelines and providing employees with compliance education.

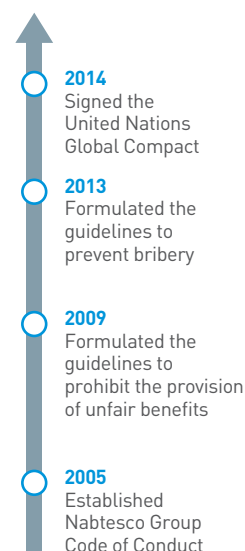
In 2009, we formulated the guidelines to prohibit the provision of unfair benefits in line with revision of the related laws in Japan and in reference to cases at other companies. The guidelines demonstrate important points on the use of mediators, including distribution agents, in addition to issues related to entertainment and gifts.

We have been working to raise employees’ awareness of all of these issues.

In 2013, in light of the fact that Nabtesco Corporation and its Group companies are expanding our business in China, and in consideration of the bribery-related risks that we may face in the country, we also formulated the guidelines to prevent bribery, focusing on important points to be noted when conducting business in China. By using these guidelines, we were able to provide compliance education at Group companies located in the country.

In 2015, we carried over from previous years and continued holding the educational activities. In coming years, we plan to consider consolidating in-house regulations and updating the existing guidelines following recent enactment and amendment of the relevant laws.

### Initiatives on Anti-Corruption Measures



## Ensuring Management Transparency

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

Under Nabtesco Corporate Governance Basic Policy, to assure appropriate disclosure of corporate information and transparency, we disclose information in accordance with: the Companies Act, the Financial Instruments and Exchange Act, and other laws and regulations, as well as Timely Disclosure Rules mandated by Tokyo Stock Exchange for the listed companies. We also pledge to disclose any other information but not required under the aforementioned rules, when the information, both financial and non-financial, is considered to have potentially high impact on decision-making of investors.

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 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. Moreover, we also disclose non-financial information regarding our measures for the environment, society and corporate governance (ESG) 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 and place. Therefore, we make every effort to consolidate the environment where

shareholders are given enough time to assess proposals and effectively exercise their voting rights.

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. Early disclosure of the notice of convocation (disclosed on the website)	We have been making early disclosure of the notice of convocation since 2013 (one business day before the dispatch of the notice of convocation). In 2016, the disclosure was made approximately one month before the day of the General Meeting.
5. 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.
6. 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.
7. Provision of an English summary of the notice of convocation	We translated the summary of the notice of convocation and posting it on our website since 2011. Additionally, in 2016, we have published an English edition of parts of consolidated financial statements on our website.
8. 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.
9. Materials containing visual presentations of data used in the General Meeting of Shareholders	In order to create easy-to-understand reports and proposals for the General Meeting, we are promoting the visual presentation of data used in supplementary documents reporting on business to shareholders and other materials. Since 2014, we also use 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 FY2015, although, the number of overseas IR activities has dropped due to the transition period of the change of fiscal year-end, we conducted IR activities in Taiwan, Korea and others, in addition to in

Europe, the United States, Canada, Singapore, Hong Kong and mainland China.. Further, we are committed to building the recognition of Nabtesco amongst investors by hosting seminars for individual investors at brunch offices of securities companies as well as our corporate information sessions at diverse events.

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. For the first and third quarters, we hold a telephone conference.
Participation in IR conferences and implementation of overseas roadshows	In order to foster communication with institutional investors both in Japan and overseas, we participated in three IR conferences in Japan and three overseas, and also held five overseas roadshows in FY2015.
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 FY2015, we accepted over 450 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 overseas as often as deemed appropriate.
Overseas IR activities	In FY2015, we conducted IR activities in Taiwan, Korea and other regions in addition to the conventional activities in Europe, the United States, Canada, Singapore, Hong Kong and mainland China.
IR Activities for Individual Investors	
Briefing on the company	We held IR briefings across Japan, 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, integrated reports and various other IR documents on our website and also provide streaming video of meetings held to announce our financial results.

## Stakeholder Engagement

### Participation in the Study Group on SRI/ESG

Nabtesco signed the UNGC to show its support for the initiative in April 2014 and has since been proactively participating in the Global Compact Network Japan's study group activities. For example, we are participating in the study group on SRI/ESG to enhance measures for the environment, society and governance, and foster the disclosure of related information. Through this group, we promote dialogues with stakeholders, such as institutional investors and research organizations, and conduct research into the best practices for SRI/ESG,

thereby understanding how investors evaluate companies and what they expect of the companies in terms of non-financial factors. Specifically, we are making use of the following findings to constantly improve our business activities and foster the disclosure of related information: investors expect companies to deal with climate change and other issues and enhance environmental management for the benefit of the environment; to respect human rights, develop human resources, and foster diversity for the benefit of society; and to enhance risk management for better corporate governance.

# Ensuring Management Transparency

## Global IR Activities and “reverse engagement”

Nabtesco is proactively conducting overseas IR activities to keep in touch with overseas investors and shareholders, who account for as much as 56% ownership of the company’s outstanding shares. (as of December 31, 2015)

Outside Japan, we held a total of 125 in FY2013, a total of 164 in FY2014 and a total of 87 in FY2015. With a vision of our shares to be held by investors who have a long-term perspective as possible, we proudly believe that reaching out a wide range of investors interested in long-term assets using a targeting method will result in formation of a group of loyal shareholders. We proactively hear candid opinions of investors on our capital policy in meetings, with the concept of “reverse engagement” and endeavor to hold mutual communication with them, which includes accepting the feedback to improve our management.

Through continuous communication, 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.



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

**Toshihiro Matsumoto**

## 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. Since 2006 Nabtesco has been receiving IR awards from the company for ten years in a row, including an excellent award won in 2015.
<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 received a high placing for ten years in a row since 2006 and in 2015 was selected as one of the best websites.
<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 has been included in this 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 requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives.

# Management

## Board of Directors (as of March 24, 2016)



**Kazuaki Kotani**  
 (Sep. 15, 1951)  
 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 and General Manager, Corporate Planning Division of Nabtesco Corporation
- Jun. 2011 Representative Director, President & CEO of Nabtesco Corporation (to present)



**Nobutaka Osada**  
 (Sep. 14, 1953)  
 Representative Director  
 Deputy Chief  
 Executive Officer and in charge of  
 Production Innovation  
 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
- Jun. 2015 Representative Director and Senior Managing Executive Officer of Nabtesco Corporation
- Mar. 2016 Representative Director and Deputy Chief Executive Officer of Nabtesco Corporation and in charge of Production Innovation (to present)



**Katsuhiro Teramoto**  
 (Dec. 13, 1955)  
 Representative Director  
 Managing Executive Officer  
 General Manager of  
 Corporate Planning Division

- Jun. 2007 General Manager, Sales Department No. 1, Precision Equipment Company of Nabtesco Corporation
- Jul. 2008 General Manager, Overseas Sales Department, Precision Equipment Company of Nabtesco Corporation
- Jun. 2009 General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation
- Jun. 2011 Executive Officer of Nabtesco Corporation
- Oct. 2011 Vice President and General Manager of Planning Department, Accessibility Innovations Company of Nabtesco Corporation
- Feb. 2013 Deputy General Manager, Corporate Planning Division, and General Manager, Corporate Planning Department of Nabtesco Corporation
- Jun. 2015 Representative Director, Managing Executive Officer and General Manager of Corporate Planning Division of Nabtesco Corporation (to present)




**Hiroaki Sakai**  
 (Jul. 10, 1953)  
 Director  
 Managing Executive Officer  
 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 Co., Ltd.
- Jun. 2011 Executive Officer of Nabtesco Corporation
- Jun. 2013 Managing Executive Officer of Nabtesco Corporation and President of Power Control Company of Nabtesco Corporation (to present)
- Jun. 2014 Director of Nabtesco Corporation (to present)



**Toshio Yoshikawa**  
 (Nov. 14, 1954)  
 Director  
 Managing Executive Officer  
 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 Assistant to General Manager, General Administration & Human Resources Division and General Manager, General Administration Department of Nabtesco Corporation
- Jun. 2010 President of Precision Equipment Company of Nabtesco Corporation
- Jun. 2011 Executive Officer of Nabtesco Corporation
- Jun. 2014 Director and General Manager, Technology Division of Nabtesco Corporation (to present)
- Jun. 2015 Managing Executive Officer of Nabtesco Corporation (to present)



**Goro Hashimoto**  
 (Feb. 7, 1957)  
 Director  
 Executive Officer  
 General Manager of  
 Compliance Division

- Jan. 2009 General Manager, Legal Department of Nabtesco Corporation
- Jun. 2015 Director, Executive Officer and General Manager of Compliance Division of Nabtesco Corporation (to present)

## Management



### Daisuke Hakoda

(Oct. 25, 1957)  
 Director  
 Executive Officer  
 General Manager of  
 General Administration &  
 Human Resources Division

- Jun. 2007 President of Nabtesco Aerospace, Inc.
- Jun. 2009 General Manager, Accounting & Finance Department of Nabtesco Corporation
- Jun. 2010 General Manager, Corporate Planning Department of Nabtesco Corporation
- May 2013 General Manager of Shanghai Nabtesco Hydraulic Co., Ltd.
- Jun. 2013 Executive Officer of Nabtesco Corporation (to present)
- Jun. 2015 Director and General Manager of General Administration & Human Resources Division Nabtesco Corporation (to present)



### Yutaka Fujiwara

(Apr. 20, 1951)  
 Outside Director

- Apr. 1974 Joined MODEC, Inc.
- Nov. 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.
- Jul. 1998 Retired from 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
- Jun. 2008 Managing 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)



### Norio Uchida

(Oct. 22, 1950)  
 Outside Director

- Apr. 1973 Joined Tokyo Optical Co., Ltd. (current TOPCON CORPORATION)
- Jun. 1980 General Manager of Topcon Singapore Pte. Ltd.
- Feb. 1989 President of Topcon Australia Pty Ltd.
- Oct. 1994 Senior Vice President of Topcon Laser Systems, Inc. (current Topcon Positioning Systems, Inc.)
- Jun. 2003 Executive Officer of TOPCON CORPORATION
- Jul. 2003 President and Director of Topcon Sales Co., Ltd.
- Jun. 2005 Director and Executive Officer of TOPCON CORPORATION
- Jun. 2007 Director, Managing Executive Officer, Supervising Sales Promotion Group, and Chief of Positioning Business Unit of TOPCON CORPORATION
- Jun. 2010 Director, Senior Managing Executive Officer and Supervising Corporate Planning Group of TOPCON CORPORATION
- Jun. 2011 President & Representative Director of TOPCON CORPORATION
- Jun. 2013 Advisor of TOPCON CORPORATION
- Jun. 2015 Director of Nabtesco Corporation (to present)
- Sep. 2015 External Director of ULVAC, Inc. (to present)



### Naoko Yamazaki

(Dec. 27, 1970)  
 Outside Director

- Apr. 1996 Joined the National Space Development Agency of Japan (currently Japan Aerospace Exploration Agency (JAXA))
- Sep. 2001 Certified as International Space Station (ISS) onboard astronaut
- May 2004 Acquired certification for Flight Engineer, Soyuz Spacecraft
- Feb. 2006 Acquired certification for Mission Specialist, Space Shuttle
- Apr. 2010 Crew Member of Space Shuttle Discovery as Mission Specialist, participated in Construction and Supply for ISS
- Aug. 2011 Retired from JAXA
- Sep. 2011 Honorary Chairperson of the National Soroban Education Association (to present)
- Apr. 2012 Visiting Professor of Ritsumeikan University (to present)
- Jul. 2012 Member of Committee on National Space Policy, Cabinet Office (to present)
- May 2013 Visiting Professor of Joshibi University of Art and Design (to present)
- Jul. 2015 President of Japanese Rocket Society (to present) and Chairperson of Sorajo Committee (to present)
- Dec. 2015 Advisory Board Member of International Robot Competition Executive Committee (to present)
- Jan. 2016 Specialist Member of Council on Science Technology and Academics (Marine Resource Development Subcommittee) (to present)
- Mar. 2016 Director of Nabtesco Corporation (to present)

## Board of Corporate Auditors (as of March 24, 2016)

Corporate Auditor	Takayuki Onishi
Corporate Auditor	Kensuke Ioku
Outside Corporate Auditor	Hisao Katayama (Part-time)
Outside Corporate Auditor	Zenzo Sasaki (Part-time)
Outside Corporate Auditor	Takemi Nagasaka (Part-time)

## Executive Officers (as of March 24, 2016)

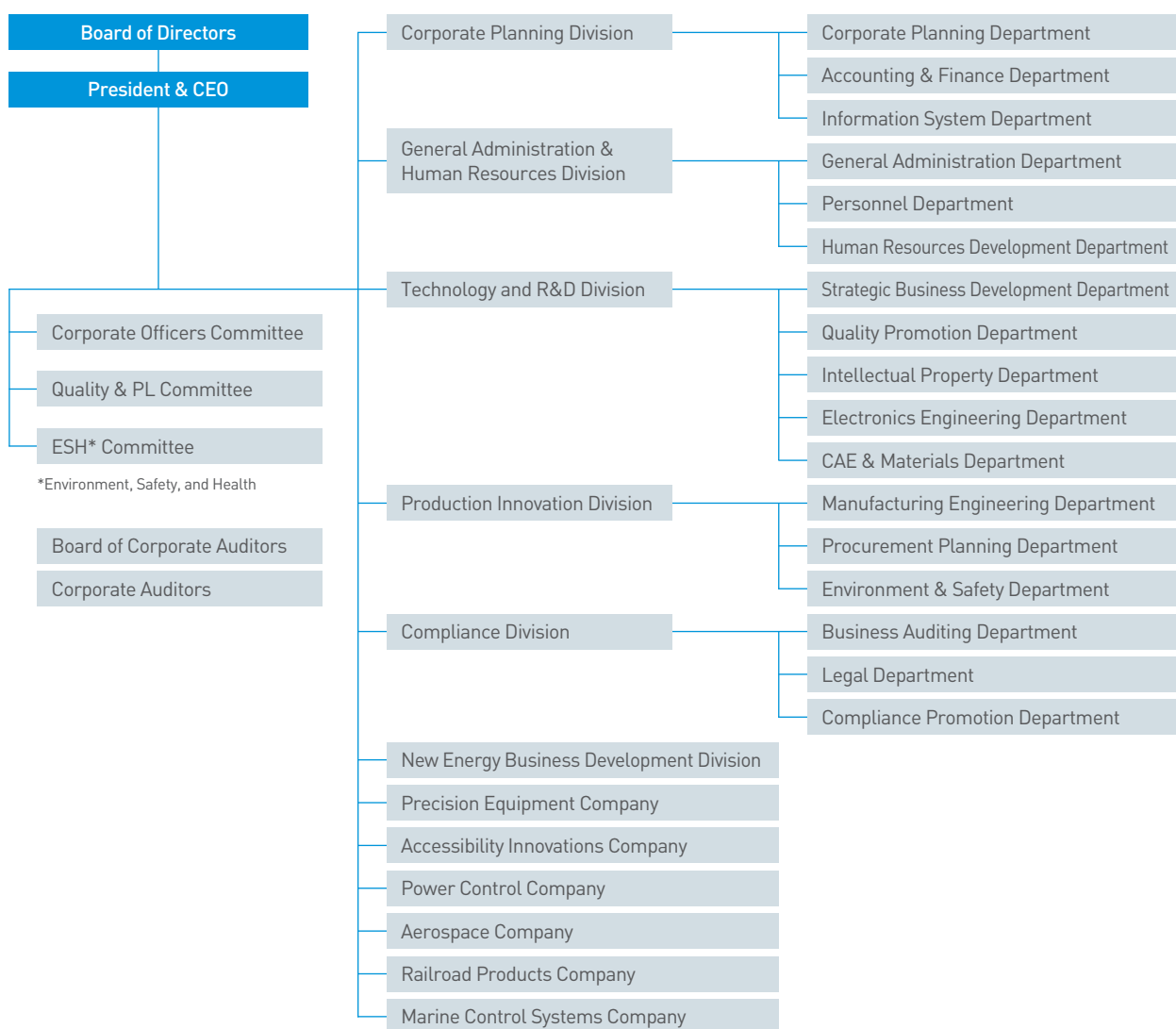
Chief Executive Officer	Kazuaki Kotani	
Deputy Chief Executive Officer	Nobutaka Osada	President, Aerospace Company and in charge of Production Innovation
Managing Executive Officer	Katsuhiro Teramoto	General Manager, Corporate Planning Division
Managing Executive Officer	Hiroaki Sakai	President, Power Control Company
Managing Executive Officer	Toshio Yoshikawa	General Manager, Technology and R&D Division
Managing Executive Officer	Shinji Jyuman	President, Precision Equipment Company
Managing Executive Officer	Yukihiro Imuta	President, Railroad Products Company
Managing Executive Officer	Taizo Tsuru	President, Marine Control Systems Company
Managing Executive Officer	Koji Kaminaka	President, Accessibility Innovations Company
Executive Officer	Goro Hashimoto	General Manager, Compliance Division
Executive Officer	Daisuke Hakoda	General Manager, General Administration & Human Resources Division
Executive Officer	Shigeto Kunii	Vice President, Accessibility Innovations Company (in charge of overseas business)
Executive Officer	Kiyoo Amako	Deputy General Manager, Technology and R&D Division Manager, Business Planning Department
Executive Officer	Jakob Gilgen	President, Gilgen Door Systems AG
Executive Officer	Shigeru Naoki	Plant Manager, Tsu Plant and General Administration Department at Precision Equipment Company
Executive Officer	Michio Ogawa	Representative Director, Nabtesco Service Co., Ltd.
Executive Officer	Toshiaki Akita	Deputy General Manager, Technology and R&D Division (in charge of technology) and Representative Director, NABTEC Co., Ltd.
Executive Officer	Kiyoshi Ando	Manager of Product Development Department, Precision Equipment Company
Executive Officer	Norimasa Takagi	Vice President, Manager of Sales Department and Manager of Customer Support Center, Aerospace Company
Executive Officer	Shoji Ijuin	Director, NABCO Systems Co., Ltd.

# Corporate Profile

## Corporate Profile (as of December 31, 2015)

Company Name	Nabtesco Corporation	
Established	September 29, 2003	
Address	7-9, Hirakawa-cho 2-chome, Chiyoda-ku, Tokyo 102-0093, Japan	
TEL	+81-3-5213-1133	
FAX	+81-3-5213-1171	
Capital	10 billion yen	
Number of issued shares	125,133,799 (as of December 31, 2015)	
Employees	Non-consolidated: 2,167	
	Consolidated: 5,839	
Consolidated companies	In Japan	18 (incl. 6 equity method affiliates)
	Overseas	40 (incl. 4 equity method affiliates)

## Management Structure



# Disclosure Policy

## Publication of the Integrated Report

Since 2014 Nabtesco Group has published Integrated Report, which has been 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.

In consideration of the environment, we publish the report as an electronic copy (PDF) on our corporate website as part of our effort in building paperless society.

## Boundary 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 also covers 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.

## Period Covered

April 1, 2015 to December 31, 2015 (FY2015)

- Non-financial data: January 1, 2015 to December 31, 2015
- Some activities conducted outside the above period are also introduced in this report.

## Date of Publication

Published in July 2016 (Published annually; previous report published in September 2015)

## Earnings Forecast for FY2016

Nabtesco has changed the closing date of fiscal year from March 31 to December 31 since FY2015.

In this report, the results for FY2015 is calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries.

In order to make year on year comparison with the next fiscal year '2016/12 Plan', "2015/12 (referential)" is calculated on a basis of 12 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan and overseas.

## 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.

## Guidelines Referenced for Sustainability Information

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

## Participation to External Initiatives and External Evaluation

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



Network Japan  
WE SUPPORT

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, FTSE4Good, and MSCI Global Sustainability. Nabtesco also received a high score from Carbon Disclosure Project (CDP) which evaluates corporate initiatives against climate change. In January 2014, the JPX-Nikkei Index 400 added Nabtesco on its constituents list.



FTSE4Good

MEMBER OF

**Dow Jones  
Sustainability Indices**

In Collaboration with RobecoSAM

MSCI



2015 Constituent  
MSCI Global  
Sustainability Indexes



**NABTESCO CORPORATION AND  
CONSOLIDATED SUBSIDIARIES**

# **CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and March 31, 2015  
(With Independent Auditors' Report)



## Consolidated Balance Sheets

Nabtesco Corporation and Consolidated Subsidiaries  
December 31, 2015 and March 31, 2015

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Dec. 2015	Mar. 2015	Dec. 2015
<b>Assets</b>			
Current assets:			
Cash and deposits (Note 5)	¥ 22,068	¥ 34,157	\$ 182,972
Notes and accounts receivable—trade	59,751	57,115	495,406
Less allowance for doubtful receivables	(238)	(194)	(1,977)
Short-term investment securities (Note 7)	13,000	17,000	107,785
Inventories (Note 8)	28,422	25,165	235,649
Deferred tax assets (Note 11)	1,976	3,020	16,382
Other current assets	3,597	3,059	29,829
Total current assets	128,576	139,322	1,066,046
Property, plant and equipment (Note 10)			
Land	13,737	14,713	113,899
Buildings and structures	50,637	48,842	419,843
Machinery and equipment	95,836	92,388	794,591
Construction in progress	1,551	1,241	12,862
Sub-total	161,761	157,184	1,341,195
Less accumulated depreciation	(105,845)	(100,307)	(877,581)
Property, plant and equipment, net	55,916	56,877	463,614
Investments and other assets			
Investment securities (Note 7)	23,058	25,431	191,176
Deferred tax assets (Note 11)	466	455	3,862
Goodwill (Note 22)	19,424	17,988	161,049
Other intangible assets	4,234	4,118	35,102
Assets for retirement benefits (Note 13)	205	231	1,698
Other assets	1,585	1,660	13,146
Less allowance for doubtful receivables	(83)	(90)	(686)
Total investments and other assets	48,889	49,793	405,347
Total assets	¥233,381	¥245,992	\$1,935,007

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Dec. 2015	Mar. 2015	Dec. 2015
<b>Liabilities and Net assets</b>			
Current liabilities:			
Notes and accounts payable—trade	¥ 38,643	¥ 37,608	\$ 320,399
Short-term loans payable	5,257	6,491	43,587
Current portion of bonds (Note 9)	10,000	—	82,912
Current portion of long-term loans (Note 9)	77	84	637
Income taxes payable (Note 11)	1,057	4,666	8,763
Provision for product warranties	612	884	5,073
Provision for loss on order received	5	32	43
Others	17,350	15,065	143,848
Total current liabilities	73,001	64,830	605,262
Non-current liabilities:			
Bonds (Note 9)	—	10,000	—
Long-term loans (Note 9)	—	84	—
Provision for director's retirement benefits	180	210	1,494
Liability for retirement benefit (Note 13)	7,340	6,687	60,856
Deferred tax liabilities (Note 11)	2,094	3,464	17,359
Others	1,842	2,052	15,275
Total non-current liabilities	11,456	22,497	94,984
Total liabilities	84,457	87,327	700,246
Net assets (Note 12)			
Common stock:			
Authorized: 400,000,000 shares as at December 31 and March 31, 2015			
Issued: 125,133,799 shares as at December 31, 2015 and 128,265,799 shares as at March 31, 2015	10,000	10,000	82,912
Capital surplus	14,237	18,990	118,043
Retained earnings	107,487	107,554	891,195
Treasury stock, at cost			
1,639,476 shares as at December 31, 2015 and 1,710,998 shares as at March 31, 2015	(2,718)	(2,928)	(22,538)
Total shareholders' equity	129,006	133,616	1,069,612
Accumulated other comprehensive income			
Valuation difference on other securities	2,159	3,447	17,903
Deferred gains (losses) on hedges	3	(3)	28
Foreign currency translation adjustments	11,599	12,978	96,161
Remeasurements of defined benefit plans	(698)	(176)	(5,785)
Total accumulated other comprehensive income	13,063	16,246	108,307
Subscription rights to shares	379	391	3,145
Non-controlling interests	6,476	8,412	53,697
Total net assets	148,924	158,665	1,234,761
Total liabilities and net assets	¥233,381	¥245,992	\$1,935,007

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

Nabtesco Corporation and Consolidated Subsidiaries  
 Nine-month period ended December 31, 2015 and year ended March 31, 2015

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Dec. 2015	Mar. 2015	Dec. 2015
Net sales (Note 22)	¥187,001	¥219,657	\$1,550,458
Cost of sales (Notes 14 and 22)	136,577	158,694	1,132,383
Gross profit	50,424	60,963	418,075
Selling, general and administrative expenses (Notes 14 and 22)	35,129	37,348	291,262
Operating income	15,295	23,615	126,813
Other income (expenses):			
Interest and dividend income	260	336	2,155
Interest expenses	(148)	(200)	(1,231)
Foreign exchange gain (loss), net	(986)	916	(8,175)
Equity in earnings of affiliates	1,710	2,117	14,181
Gain on sales of investment securities	2,064	0	17,117
Gain on sales of property, plant and equipment	32	21	267
Gain on negative goodwill	—	3	—
Loss on disposal of property, plant and equipment	(337)	(155)	(2,794)
Impairment loss (Notes 20 and 22)	(2,111)	—	(17,505)
Business structure improvement expenses (Note 21)	(288)	—	(2,385)
Loss on valuation of golf club membership	(4)	—	(32)
Loss on revision of retirement benefit plan (Note 13)	(385)	(37)	(3,193)
Environmental expenses	(32)	—	(264)
Others, net	289	411	2,389
Total	64	3,412	530
Income before income taxes	15,359	27,027	127,343
Income taxes (Note 11):			
Current	5,348	8,699	44,344
Deferred	384	556	3,180
Total	5,732	9,255	47,524
Net income	9,627	17,772	79,819
Net income attributable to non-controlling interests	(1,432)	26	(11,875)
Net income attributable to owners of the parent	¥ 11,059	¥ 17,746	\$ 91,694

	(Yen)		(U.S. dollars) (Note 1)
	Dec. 2015	Mar. 2015	Dec. 2015
Earnings per share of common stock;			
Basic net income per share	¥ 88.85	¥ 140.24	\$0.74
Diluted net income per share	88.75	139.99	0.74
Net assets per share	1,150.41	1,184.17	9.54
Cash dividends per share applicable to the period/year	44.00	44.00	0.36

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Nabtesco Corporation and Consolidated Subsidiaries

Nine-month period ended December 31, 2015 and year ended March 31, 2015

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 1)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Net income	<b>¥ 9,627</b>	¥17,772	<b>\$ 79,819</b>
Other comprehensive income <i>(Note 15)</i>			
Valuation difference on other securities	<b>(1,268)</b>	1,658	<b>(10,515)</b>
Deferred gains (losses) on hedges	<b>6</b>	(1)	<b>51</b>
Foreign currency translation adjustments	<b>(1,772)</b>	4,409	<b>(14,687)</b>
Remeasurements of defined benefit plans, net of tax	<b>(522)</b>	133	<b>(4,328)</b>
Share of other comprehensive income (loss) of affiliates accounted for using equity method	<b>(67)</b>	271	<b>(559)</b>
Total other comprehensive income	<b>(3,623)</b>	6,470	<b>(30,038)</b>
Comprehensive income	<b>¥ 6,004</b>	¥24,242	<b>\$ 49,781</b>
Comprehensive income attributable to:			
Owners of the parent	<b>7,875</b>	23,198	<b>65,297</b>
Non-controlling interests	<b>(1,871)</b>	1,044	<b>(15,516)</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

Nabtesco Corporation and Consolidated Subsidiaries  
Year ended March 31, 2015

	(Millions of yen)					
	Number of shares of common stock (Shares)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2014</b>	128,265,799	¥10,000	¥19,011	¥94,225	¥(2,987)	¥120,249
Cumulative effects of changes in AP*	—	—	—	678	—	678
<b>Balance at April 1, 2014 (Restated Balance)</b>	128,265,799	¥10,000	¥19,011	¥94,903	¥(2,987)	¥120,927
Cash dividends	—	—	—	(5,088)	—	(5,088)
Net income attributable to owners of the parent	—	—	—	17,746	—	17,746
Purchase of treasury stock	—	—	—	—	(3)	(3)
Disposal of treasury stock	—	—	(21)	—	62	41
Staff and workers bonuses and welfare fund	—	—	—	(7)	—	(7)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at March 31, 2015</b>	128,265,799	¥10,000	¥18,990	¥107,554	¥(2,928)	¥133,616

\*AP: Accounting Policy

	(Millions of yen)							
	Valuation difference on other securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total Accumulated other comprehensive income	Subscription rights to shares	Non- controlling interests	Total net assets
<b>Balance at April 1, 2014</b>	¥1,784	¥(2)	¥ 9,322	¥(309)	¥10,795	¥306	¥8,121	¥139,471
Cumulative effects of changes in AP*	—	—	—	—	—	—	—	678
<b>Balance at April 1, 2014 (Restated Balance)</b>	¥1,784	¥(2)	¥ 9,322	¥(309)	¥10,795	¥306	¥8,121	¥140,149
Cash dividends	—	—	—	—	—	—	—	(5,088)
Net income attributable to owners of the parent	—	—	—	—	—	—	—	17,746
Purchase of treasury stock	—	—	—	—	—	—	—	(3)
Disposal of treasury stock	—	—	—	—	—	—	—	41
Staff and workers bonuses and welfare fund	—	—	—	—	—	—	—	(7)
Net changes of items other than shareholders' equity	1,663	(1)	3,656	133	5,451	85	291	5,827
<b>Balance at March 31, 2015</b>	¥3,447	¥(3)	¥12,978	¥(176)	¥16,246	¥391	¥8,412	¥158,665

\*AP: Accounting Policy

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

Nabtesco Corporation and Consolidated Subsidiaries  
 Nine-month period ended December 31, 2015

	(Millions of yen)					
	Number of shares of common stock (Shares)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2015</b>	<b>128,265,799</b>	<b>¥10,000</b>	<b>¥18,990</b>	<b>¥107,554</b>	<b>¥ (2,928)</b>	<b>¥133,616</b>
Cash dividends	—	—	—	(5,785)	—	(5,785)
Net income attributable to owners of the parent	—	—	—	11,059	—	11,059
Purchase of treasury stock	—	—	—	—	(10,002)	(10,002)
Disposal of treasury stock	—	—	(94)	—	212	118
Retirements of treasury stock	(3,132,000)	—	(4,659)	(5,341)	10,000	—
Staff and workers bonuses and welfare fund	—	—	—	(0)	—	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at December 31, 2015</b>	<b>125,133,799</b>	<b>¥10,000</b>	<b>¥14,237</b>	<b>¥107,487</b>	<b>¥ (2,718)</b>	<b>¥129,006</b>

	(Millions of yen)							
	Valuation difference on other securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total Accumulated other comprehensive income	Subscription rights to shares	Non- controlling interests	Total net assets
<b>Balance at April 1, 2015</b>	<b>¥ 3,447</b>	<b>¥(3)</b>	<b>¥12,978</b>	<b>¥(176)</b>	<b>¥16,246</b>	<b>¥391</b>	<b>¥ 8,411</b>	<b>¥158,665</b>
Cash dividends	—	—	—	—	—	—	—	(5,785)
Net income attributable to owners of the parent	—	—	—	—	—	—	—	11,059
Purchase of treasury stock	—	—	—	—	—	—	—	(10,002)
Disposal of treasury stock	—	—	—	—	—	—	—	118
Retirements of treasury stock	—	—	—	—	—	—	—	—
Staff and workers bonuses and welfare fund	—	—	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	(1,288)	6	(1,379)	(522)	(3,183)	(12)	(1,935)	(5,131)
<b>Balance at December 31, 2015</b>	<b>¥ 2,159</b>	<b>¥ 3</b>	<b>¥11,599</b>	<b>¥(698)</b>	<b>¥13,063</b>	<b>¥379</b>	<b>¥ 6,476</b>	<b>¥148,924</b>

See accompanying notes to consolidated financial statements.

Nabtesco Group Integrated Report FY Ended December 31, 2015

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

	Number of shares of common stock (Shares)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2015</b>	<b>128,265,799</b>	<b>\$82,912</b>	<b>\$157,447</b>	<b>\$891,753</b>	<b>\$(24,278)</b>	<b>\$1,107,834</b>
Cash dividends	—	—	—	(47,961)	—	(47,961)
Net income attributable to owners of the parent	—	—	—	91,694	—	91,694
Purchase of treasury stock	—	—	—	—	(82,931)	(82,931)
Disposal of treasury stock	—	—	(777)	—	1,761	984
Retirements of treasury stock	(3,132,000)	—	(38,627)	(44,283)	82,910	—
Staff and workers bonuses and welfare fund	—	—	—	(8)	—	(8)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at December 31, 2015</b>	<b>125,133,799</b>	<b>\$82,912</b>	<b>\$118,043</b>	<b>\$891,195</b>	<b>\$(22,538)</b>	<b>\$1,069,612</b>

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

	Valuation difference on other securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
<b>Balance at April 1, 2015</b>	<b>\$28,583</b>	<b>\$(23)</b>	<b>\$107,602</b>	<b>\$(1,457)</b>	<b>\$134,704</b>	<b>\$3,243</b>	<b>\$ 69,735</b>	<b>\$1,315,516</b>
Cash dividends	—	—	—	—	—	—	—	(47,961)
Net income attributable to owners of the parent	—	—	—	—	—	—	—	91,694
Purchase of treasury stock	—	—	—	—	—	—	—	(82,931)
Disposal of treasury stock	—	—	—	—	—	—	—	984
Retirements of treasury stock	—	—	—	—	—	—	—	—
Staff and workers bonuses and welfare fund	—	—	—	—	—	—	—	(8)
Net changes of items other than shareholders' equity	(10,680)	51	(11,441)	(4,328)	(26,397)	(98)	(16,038)	(42,533)
<b>Balance at December 31, 2015</b>	<b>\$17,903</b>	<b>\$ 28</b>	<b>\$ 96,161</b>	<b>\$(5,785)</b>	<b>\$108,307</b>	<b>\$3,145</b>	<b>\$ 53,697</b>	<b>\$1,234,761</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Nabtesco Corporation and Consolidated Subsidiaries  
 Nine-month period ended December 31, 2015 and year ended March 31, 2015

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
<b>Operating activities:</b>			
Income before income taxes	¥15,359	¥ 27,027	\$127,343
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	6,364	6,259	52,762
Amortization of goodwill	1,608	1,225	13,333
Gain on negative goodwill	—	(3)	—
Share-based compensation expenses	106	125	880
Changes in asset and liability for retirement benefits	(14)	659	(118)
Changes in allowance for doubtful receivables	42	(132)	347
Equity in earnings of affiliates	(1,710)	(2,117)	(14,181)
Interest and dividend income	(260)	(336)	(2,155)
Interest expenses	148	200	1,231
Gain on sales of property, plant and equipment	(32)	(21)	(267)
Gain on sales of investment securities	(2,064)	0	(17,117)
Loss on disposal of property, plant and equipment	337	155	2,794
Impairment loss	2,111	—	17,505
Loss on valuation of golf club membership	4	—	32
Changes in notes and accounts receivable—trade	(618)	(2,775)	(5,127)
Changes in inventories	(2,737)	(1,605)	(22,691)
Changes in other assets	(487)	55	(4,041)
Changes in notes and accounts payable—trade	(392)	1,533	(3,252)
Changes in consumption tax payable	188	(21)	1,561
Changes in other liabilities	(1,029)	(63)	(8,535)
Others, net	(19)	(307)	(144)
Sub-total	16,905	29,858	140,160
Interest and dividend income received	891	928	7,384
Interest expenses paid	(150)	(207)	(1,243)
Income taxes paid	(8,900)	(10,630)	(73,785)
Net cash provided by operating activities	¥ 8,746	¥ 19,949	\$ 72,516



	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Dec. 2015	Mar. 2015	Dec. 2015
<b>Investing activities:</b>			
Deposit in time deposits	¥ (7)	¥ (178)	\$ (58)
Proceeds from withdraw of time deposits	310	174	2,570
Purchases of property, plant and equipment	(6,193)	(5,416)	(51,349)
Proceeds from sales of property, plant and equipment	930	111	7,709
Purchases of intangible assets	(875)	(1,191)	(7,258)
Purchases of investment securities	(13)	(47)	(108)
Proceeds from sales of investment securities	3,314	12	27,478
Purchases of investments in affiliates	(29)	(73)	(239)
Purchases of investments in capital of subsidiaries	—	(147)	—
Purchases of investments in subsidiaries	—	(69)	—
Payments for business transfer	(38)	(214)	(315)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,220)	(767)	(18,410)
Others, net	(66)	(76)	(536)
Net cash used in investing activities	(4,887)	(7,881)	(40,516)
<b>Financing activities:</b>			
Net decrease in short-term loans payable	(3,298)	(59)	(27,347)
Repayments of long-term loans payable	(81)	(10,229)	(671)
Proceeds from stock issuance to non-controlling shareholders	34	—	279
Purchases of treasury stock	(10,002)	(3)	(82,927)
Proceeds from sales of treasury stock	0	0	0
Dividends paid	(5,743)	(5,597)	(47,620)
Net cash used in financing activities	(19,090)	(15,888)	(158,286)
Effect of exchange rate changes on cash and cash equivalents	(514)	1,222	(4,261)
Decrease in cash and cash equivalents	(15,745)	(2,598)	(130,547)
Cash and cash equivalents at the beginning of period/year	50,455	53,053	418,334
Cash and cash equivalents at the end of period/year (Note 5)	¥ 34,710	¥ 50,455	\$ 287,787

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Nabtesco Corporation and Consolidated Subsidiaries  
Nine-month period ended December 31, 2015 and year ended March 31, 2015

### 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 of the Company 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 four 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 December 31, 2015, which is ¥120.61 to U.S. \$1.00. 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 48 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, a 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 December 31, 2015 and March 31, 2015.

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 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, including building and building fixtures, are stated at cost. The Company and its consolidated domestic subsidiaries calculate depreciation 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, of which 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.

**(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 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 the 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 are comprised 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 translation 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 the general shareholders meeting held subsequent to the close of such financial period. Therefore, the accounts for that period do not reflect such appropriations.

### **(16) Retirement benefits**

The Company and certain 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.

① Allocation of estimated retirement benefit obligation

Expected retirement benefits are attributed to the respective fiscal years by a Benefit formula basis.

② Past service costs and actuarial gains and losses

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.

③ Simplified method in small consolidated subsidiaries

Certain consolidated subsidiaries calculate retirement benefit liabilities and expenses using the simplified method that assumes their benefit obligation is equal to the benefits payable if all employees voluntarily retired at fiscal year-end.

### **(17) Provision for director's retirement benefits**

Certain consolidated subsidiaries accrue liabilities for retirement benefits, which is estimated at the end of the fiscal year, for their directors and corporate statutory auditors based on their internal policies.

### **(18) 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 general shareholders meeting held subsequent to the end of fiscal year.

### **(19) 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.

### **(20) Change in fiscal year**

The Company and its domestic consolidated subsidiaries changed their fiscal year end from March 31 to December 31. The consolidated fiscal year end was also changed from March 31 to December 31. As a result of the change, consolidation period consists of the nine months from April to December for the Company and its subsidiaries whose fiscal year end was previously March 31 and consists of the twelve months from January to December for subsidiaries whose fiscal year end was December 31.

## **3. Change in Accounting policy**

### **(1) Accounting Standard for Business Combination**

Effective from the beginning of this fiscal year, the Company and its domestic subsidiaries has applied "Revised Accounting Standard for Business Combination" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013, ("Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013 ("Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013 (collectively, the "Business Combination Accounting Standards"). As a result, the difference arising from changes in the equity in subsidiaries under ongoing control of the Company should be accounted for as capital surplus, and acquisition-related costs are recognized as expenses for the fiscal year in which they are incurred. In addition, with respect to any business combination took place on or after April 1, 2015, it is required to reflect adjustments to the allocation of acquisition cost under the provisional accounting treatment retrospectively on the consolidated financial statements in which the relevant business combination became or will become effective. Presentation of "net income" was changed and the term of "minority interest" was replaced to "non-controlling interests." In order to reflect the changes in the presentation, certain reclassifications have been made to the consolidated financial statements with respect to the previous fiscal year.

The Business Combination Accounting Standards has been applied prospectively, in accordance with the transitional treatments of article 58-2 (4) of Statement No. 21 and article 44-5 (4) of Statement No. 22 has been applied prospectively.

In the consolidated statement of cash flows of the current fiscal year, cash flows from acquisition or disposal of the shares in subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities", and cash flows from acquisition related costs of the shares in subsidiaries with changes in the scope of consolidation and costs related to acquisition or disposal of the shares in subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

As a result, the impact on income, Cash flows for the nine-month period ended December 31, 2015 and Capital surplus as at December 31, 2015 are immaterial. The impact on the earnings per share is explained in Note 17 "Earnings Per Share".

#### 4. Accounting standards issued but not yet applied

Implementation Guidance on Recoverability of Deferred tax assets (ASBJ Guidance No. 26 issued on December 28, 2015)

##### (1) Overview

The implementation Guidance basically continues to apply the framework used in the JICPA Guidance No. 66 that provides the criteria to classify entities into five categories and determines the amount of deferred tax assets according to those categories, but certain accounting treatments were changed. The implementation Guidance includes the following:

- ① Accounting treatments for entities which are not included in any categories,
- ② Criteria as to the classification of entities in the (Category 2) and (Category 3),
- ③ Accounting treatments of unscheduled deductible temporary differences for entities in the (Category 2),
- ④ Accounting treatments for reasonably estimated period for taxable income before temporary differences for entities in the (Category 3), which are scheduled to be deductible after 5 years, and
- ⑤ Accounting treatments for entities in the (Category 4) in the current fiscal year, which are expected to be included in the (Category 2) or (Category 3) in the future year.

##### (2) Scheduled date of adoption

The implementation guidance will be adopted from the beginning of the fiscal year ending December 31, 2016.

##### (3) Impact of the adoption of the implementation guidance

The financial impact of the application of the guidance on the consolidated financial statements is currently being evaluated.

#### 5. Cash and Cash Equivalents

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 December 31, 2015 and March 31, 2015 is as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Cash and deposits in the consolidated balance sheets	<b>¥22,068</b>	¥34,157	<b>\$182,972</b>
Time deposits with maturities extending over three months	<b>(358)</b>	(702)	<b>(2,970)</b>
Short-term investment securities	<b>13,000</b>	17,000	<b>107,785</b>
Cash and cash equivalents in the consolidated statements of cash flows	<b>¥34,710</b>	¥50,455	<b>\$287,787</b>



## 6. Financial Instruments

### (1) Qualitative information on financial instruments

#### ① Policies for using financial instruments

The Company raises required fund for its business primarily from loans payable and bond issues, and manages surplus funds using financial instruments that carry low 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 derivative transactions 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 mainly consist of held-to-maturity debt securities and securities for strengthening 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 policies for managing its credit exposure and business receivables. The Company manages amounts and settlement dates by counterparties and works to identify and mitigate payment risk that may result from situations including deterioration of the financial condition of counterparties at an early stage. Consolidated subsidiaries are subject to the same risk management rules.

Held-to-maturity debts securities carry low credit risk because they are managed in high liquidation.

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

##### (b) Market risk management

The Company and some consolidated subsidiaries use derivative transactions 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 reports 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 risks 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 derivative transactions discussed in "Derivative Financial Instruments" below are not an indicator of the market risk associated with derivative transactions.

**(2) Fair value of financial instruments**

Fair value and difference compared to the book value reported in the balance sheets as of December 31, 2015 and March 31, 2015 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>Dec. 2015</b>		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 22,068	¥ 22,068	¥ —
(2) Trade notes and accounts receivable	59,751	59,751	—
(3) Short-term and long-term investment securities			
① Held-to-maturity debt securities	13,000	13,000	—
② Other securities	4,741	4,741	—
③ Securities issued by affiliated companies	5,151	48,293	43,142
Assets	¥104,711	¥147,853	¥43,142
(1) Trade notes and accounts payable	¥ 38,643	¥ 38,643	¥ —
(2) Short-term loans payable	5,257	5,257	—
(3) Current position of bonds payable	10,000	10,000	—
(4) Current portion of long-term debt	77	77	—
Liabilities	¥ 53,977	¥ 53,977	¥ —
Derivatives	¥ 5	¥ 5	¥ —

	<i>(Millions of yen)</i>		
	<b>Mar. 2015</b>		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 34,157	¥ 34,157	¥ —
(2) Trade notes and accounts receivable	57,115	57,115	—
(3) Short-term and long-term investment securities			
① Held-to-maturity debt securities	17,000	17,000	—
② Other securities	7,924	7,924	—
③ Securities issued by affiliated companies	4,778	48,549	43,771
Assets	¥120,974	¥164,745	¥43,771
(1) Trade notes and accounts payable	37,608	37,608	—
(2) Short-term loans payable	6,491	6,491	—
(3) Current portion of long-term debt	84	84	—
(4) Bonds payable	10,000	10,070	70
(5) Long-term loans payable	84	86	2
Liabilities	¥ 54,267	¥ 54,339	¥ 72
Derivatives	¥ (4)	¥ (4)	¥ —

(Thousands of U.S. dollars)

	Dec. 2015		
	Book value	Fair value	Difference
(1) Cash and deposits	\$182,972	\$ 182,972	\$ —
(2) Trade notes and accounts receivable	495,406	495,406	—
(3) Short-term and long-term investment securities			
① Held-to-maturity debt securities	107,785	107,785	—
② Other securities	39,309	39,309	—
③ Securities issued by affiliated companies	42,708	400,403	357,695
Assets	\$868,180	\$1,225,875	\$357,695
(1) Trade notes and accounts payable	320,399	320,399	—
(2) Short-term loans payable	43,587	43,587	—
(3) Current position of bonds payable	82,912	82,912	—
(4) Current portion of long-term debt	637	637	—
Liabilities	\$447,535	\$ 447,535	\$ —
Derivatives	\$ 45	\$ 45	\$ —

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

Note 1: 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 their fair values approximate their book values, 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 according to holding purposes, please refer to the "Securities" section of the notes to the financial statements.

#### Liabilities

(1) Trade notes and accounts payable, (2) Short-term loans payable, (3) Current portion of Bonds payable and (4) Current portion of long-term debt

Since these items are settled in a short period of time and their fair values approximate their book values, the book value is used.

#### Derivatives

Please refer to the "Derivatives" section of the notes to the financial statements.

Note 2: Items for which obtaining an estimated fair value is deemed to be extremely difficult

Items	(Millions of yen)		(Thousands of U.S. dollars)
	Dec. 2015	Mar. 2015	Dec. 2015
		Book value	
Unlisted stocks	¥ 158	¥ 125	\$ 1,310
Securities issued by affiliate companies	13,007	12,606	107,849

The unlisted stocks and securities issued by affiliate companies in the above table are not included in “(3) Short-term and long-term investment securities Other securities and Securities issued by affiliated companies” because there is no fair value available.

Note 3: Scheduled redemption of monetary claims and short-term and long-term investment securities at December 31, 2015 and March 31, 2015.

	(Millions of yen)			
	Dec. 2015			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
(1) Cash and deposits	¥22,068	¥—	¥—	¥—
(2) Trade notes and account receivables	59,751	—	—	—
(3) Short-term and long-term investment securities				
① Held-to-maturity debt securities				
Certificate of deposit	13,000	—	—	—
Total	¥94,819	¥—	¥—	¥—

	(Millions of yen)			
	Mar. 2015			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
(1) Cash and deposits	¥ 34,157	¥—	¥—	¥—
(2) Trade notes and account receivables	57,115	—	—	—
(3) Short-term and long-term investment securities				
① Held-to-maturity debt securities				
Certificate of deposit	17,000	—	—	—
Total	¥108,272	¥—	¥—	¥—

	(Thousands of U.S. dollars)			
	Dec. 2015			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
(1) Cash and deposits	\$182,972	\$—	\$—	\$—
(2) Trade notes and account receivables	495,406	—	—	—
(3) Short-term and long term investment securities				
① Held-to-maturity debt securities				
Certificate of deposit	107,785	—	—	—
Total	\$786,163	\$—	\$—	\$—

Note 4: Maturities of bonds payable and long-term loans payable at December 31, 2015 and March 31, 2015.

*(Millions of yen)*

<b>Dec. 2015</b>						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥10,000	¥—	¥—	¥—	¥—	¥—
Long-term loans payable	77	—	—	—	—	—
Total	¥10,077	¥—	¥—	¥—	¥—	¥—

*(Millions of yen)*

<b>Mar. 2015</b>						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥—	¥10,000	¥—	¥—	¥—	¥—
Long-term loans payable	84	84	—	—	—	—
Total	¥84	¥10,084	¥—	¥—	¥—	¥—

*(Thousands of U.S. dollars)*

<b>Dec. 2015</b>						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	\$82,912	\$—	\$—	\$—	\$—	\$—
Long-term loans payable	637	—	—	—	—	—
Total	\$83,549	\$—	\$—	\$—	\$—	\$—

## 7. Securities

Information on securities at December 31, 2015 and March 31, 2015 are shown below.

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of December 31, 2015 and March 31, 2015:

(Held-to-maturity debt securities)

		<i>(Millions of yen)</i>		
		<b>Dec. 2015</b>		
Type	Fair value	Book value	Difference	
Certificate of deposit	¥13,000	¥13,000	¥—	
Total	¥13,000	¥13,000	¥—	

		<i>(Millions of yen)</i>		
		<b>Mar. 2015</b>		
Type	Fair value	Book value	Difference	
Certificate of deposit	¥17,000	¥17,000	¥—	
Total	¥17,000	¥17,000	¥—	

		<i>(Thousands of U.S. dollars)</i>		
		<b>Dec. 2015</b>		
Type	Fair value	Book value	Difference	
Certificate of deposit	\$107,785	\$107,785	\$—	
Total	\$107,785	\$107,785	\$—	

(Other securities)

(1) Securities with book values exceeding acquisition costs:

		<i>(Millions of yen)</i>		
		<b>Dec. 2015</b>		
Type	Acquisition cost	Book value	Difference	
Equity securities	¥1,638	¥4,731	¥3,093	
Total	¥1,638	¥4,731	¥3,093	

		<i>(Millions of yen)</i>		
		<b>Mar. 2015</b>		
Type	Acquisition cost	Book value	Difference	
Equity securities	¥2,817	¥7,898	¥5,081	
Total	¥2,817	¥7,898	¥5,081	

		<i>(Thousands of U.S. dollars)</i>		
		<b>Dec. 2015</b>		
Type	Acquisition cost	Book value	Difference	
Equity securities	\$13,583	\$39,227	\$25,644	
Total	\$13,583	\$39,227	\$25,644	

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

<i>(Millions of yen)</i>			
<b>Dec. 2015</b>			
Type	Acquisition cost	Book value	Difference
Equity securities	¥12	¥9	¥(3)
Total	¥12	¥9	¥(3)

<i>(Millions of yen)</i>			
<b>Mar. 2015</b>			
Type	Acquisition cost	Book value	Difference
Equity securities	¥29	¥26	¥(3)
Total	¥29	¥26	¥(3)

<i>(Thousands of U.S. dollars)</i>			
<b>Dec. 2015</b>			
Type	Acquisition cost	Book value	Difference
Equity securities	\$98	\$75	\$(23)
Total	\$98	\$75	\$(23)

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.

Total sales of other securities and the related gain and loss for the years ended December 31, 2015 and March 31, 2015 are as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Sales of other securities	¥3,314	¥ 0	\$27,478
Gain on sales of other securities	2,064	0	17,117
Loss on sales of other securities	1	—	6

## 8. Inventories

Inventories at December 31, 2015 and March 31, 2015 consisted of the followings:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Finished goods	¥ 5,579	¥ 5,770	\$ 46,260
Works in process	11,622	9,473	96,364
Raw materials and supplies	11,221	9,922	93,025
Total inventories	¥28,422	¥25,165	\$235,649

## 9. Long-term Debt

Long-term debt at December 31, 2015 and March 31, 2015 consist of the followings:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Loans, principally from banks due October 2016 (with interest rate of 4.18%)	¥ 77	¥ 168	\$ 637
Straight bonds due December 2016 (with interest rate of 0.64%)	10,000	10,000	82,912
Total	¥ 10,077	¥10,168	\$ 83,549
Less current portion	(10,077)	(84)	(83,549)
Long-term debt, net	¥ —	¥10,084	\$ —

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

## 10. Leases

(Operating leases)

Future minimum lease payments (including the interest portion thereon) subsequent to January 1, 2016 and April 1, 2015 under non-cancelable operating leases are summarized as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Under non-cancelable operating leases:			
Payments due within one year	¥167	¥116	\$1,383
Payments due after one year	530	144	4,397
Total	¥697	¥260	\$5,780



## 11. Income Taxes and Deferred Income Taxes

The tax effects of temporary differences, which give rise to a significant portion of the deferred tax assets and liabilities at December 31, 2015 and March 31, 2015, are summarized as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Deferred tax assets:			
Liability for retirement benefit	¥ 2,105	¥ 2,033	\$ 17,452
Provision for director's retirement benefits	45	57	372
Other accrued expenses	613	838	5,079
Loss on valuation of inventories	175	125	1,451
Accrued employees' bonuses	623	1,323	5,165
Net operating loss carry forwards	1,542	1,459	12,784
Allowance for doubtful receivables	19	8	154
Loss on devaluation of investments in securities	8	21	70
Loss on devaluation of investments in affiliates	174	174	1,441
Loss on devaluation of golf club membership rights	58	58	477
Provision for product warranties	128	226	1,060
Provision for loss on order received	2	10	14
Impairment loss	528	—	4,376
Others	783	778	6,507
	6,803	7,110	56,402
Less valuation allowance	(2,333)	(1,752)	(19,344)
Total deferred tax assets	4,470	5,358	37,058
Deferred tax liabilities:			
Deferred taxation on government contributions for acquisition of property, plant and equipment	1,145	(1,420)	9,492
Valuation difference on other securities	1,000	(1,748)	8,288
Effect of differences between tax rates in Japan and other countries on undistributed earnings of foreign subsidiaries	1,347	(1,483)	11,171
Others	723	(775)	5,998
Total deferred tax liabilities	4,215	(5,426)	34,949
Deferred tax assets (liabilities), net	¥ 255	¥ (68)	\$ 2,109

The following table summarizes the significant differences between the effective tax rates and the actual tax rates for financial statements for the years ended December 31, 2015 and March 31, 2015:

	Dec. 2015	Mar. 2015
Effective tax rate	33.1%	35.6%
Different tax rates applied to consolidated overseas subsidiaries	0.3	(1.1)
Unrecognized tax benefits from losses of subsidiaries	5.7	1.4
Changes in valuation allowances	3.4	(0.1)
Non-deductible expenses for tax purpose such as meals and entertainment, etc.	0.4	0.2
Per capita inhabitant tax	0.4	0.3
Equity in earnings of affiliates	(3.7)	(1.9)
Tax credit for R&D costs	(2.7)	(2.1)
Foreign tax credit	(0.2)	(0.2)
Tax credit for salary growth	(1.6)	—
Amortization of goodwill	3.5	1.6
Decrease in deferred tax assets resulting from changes in the statutory tax rates	—	0.8
Others	(1.2)	(0.3)
Actual tax rate	37.4%	34.2%

## 12. 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 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.

### 13. Employee's Severance and Retirement Benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of December 31, 2015 are consisted of the followings:

Retirement benefit obligations

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

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Balance at the beginning of the period	¥20,120	¥17,753	\$166,820
Cumulative Effects of Changes in AP*	—	(1,150)	—
Restated Balance	20,120	16,603	166,820
Service cost	1,303	1,168	10,804
Interest cost	221	296	1,829
Actuarial loss (gain)	195	2,192	1,619
Benefits paid	(258)	(559)	(2,137)
Past service cost	5	47	39
Increase through business combinations	288	—	2,386
The effect of changes in foreign exchange rates	(69)	372	(575)
Balance at the end of the period	¥21,805	¥20,119	\$180,785

\*AP: Accounting Policy

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

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Balance at the beginning of the period	¥14,661	¥13,052	\$121,554
Expected return on plan assets	187	259	1,549
Actuarial loss (gain)	(42)	455	(346)
Contributions by the employer	439	394	3,642
Contributions by the employee	513	359	4,252
Benefits paid	(1)	(278)	(6)
The effect of changes in foreign exchange rates	(66)	420	(546)
Balance at the end of the period	¥15,691	¥14,661	\$130,099

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

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Balance at the beginning of the period	¥ 997	¥950	\$8,264
Retirement benefit costs	128	157	1,059
Benefits paid	(74)	(74)	(615)
Contributions to the plans	(26)	(22)	(214)
The effect of changes in foreign exchange rates	(2)	(15)	(20)
Balance at the end of the period	¥1,023	¥996	\$8,474

**(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>
	Dec. 2015	Mar. 2015	Dec. 2015
Funded retirement benefit obligations	¥ 15,871	¥ 14,452	\$ 131,586
Plan assets	(15,691)	(14,661)	(130,099)
	180	(209)	1,487
Unfunded retirement benefit obligations	6,955	6,665	57,672
Total Net liability (asset) for retirement benefits at the end of the period	7,135	6,456	59,159
Liability for retirement benefits	7,340	6,687	60,856
Asset for retirement benefits	(205)	(231)	(1,697)
Total Net liability (asset) for retirement benefits at the end of the period	¥ 7,135	¥ 6,456	\$ 59,159

**(5) Retirement benefit costs**

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Service cost, excluding contributions by employees	¥ 790	¥ 809	\$ 6,552
Interest cost	221	296	1,829
Expected return on plan assets	(187)	(258)	(1,549)
Net actuarial loss amortization	(437)	393	(3,620)
Past service costs amortization	5	47	39
Retirement benefit costs calculated by the simplified method	128	157	1,059
Total retirement benefit costs at the end of the period	¥ 520	¥ 1,444	\$ 4,310

**(6) Remeasurements of defined benefit plans (before tax effects)**

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Actuarial gains and losses	¥674	¥ 1,347	\$5,585
Adjustments of the effect of limiting a net defined asset to the asset ceiling	—	(1,505)	—
Others	—	(20)	—
Total	¥674	¥ (178)	\$5,585

**(7) Cumulative remeasurements of defined benefit plans (before tax effects)**

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Actuarial gains and losses that are yet to be recognized	¥992	¥319	\$8,225
Total	¥992	¥319	\$8,225

**(8) Plan assets**

1. Plan assets comprise

	Dec. 2015	Mar. 2015
Bonds	50%	47%
Equity securities	34%	35%
Cash and deposits	4%	3%
Others	12%	15%
Total	100%	100%

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.

**(9) Actuarial assumptions**

The principal actuarial assumptions at December 31, 2015 and March 31, 2015 (expressed as weighted averages) are as follows:

	Dec. 2015	Mar. 2015
Discount rate:	0.8%—1.1%	0.8%—1.2%
Long-term expected rate of return:	0.8%—1.1%	0.0%—1.2%

3. Defined contribution plan

(Retirement benefit costs)

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Dec. 2015	Mar. 2015	Dec. 2015
Contributions to a defined contribution plan	¥799	¥775	\$6,622

**14. Research and Development Costs**

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended December 31, 2015 and March 31, 2015, amount to ¥5,800 million (\$48,089 thousand) and ¥6,876 million, respectively.

## 15. Other 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>
	Dec. 2015	Mar. 2015	Dec. 2015
Valuation difference on other securities			
Increase (decrease) during the year	¥ 94	¥2,313	\$ 780
Reclassification adjustments	(2,064)	—	(17,117)
Sub-total, before tax	(1,970)	2,313	(16,337)
Tax effect	702	(655)	5,822
Sub-total, net of tax	(1,268)	1,658	(10,515)
Deferred gains or losses on hedges			
Increase (decrease) during the year	5	(4)	45
Reclassification adjustments	4	3	31
Sub-total, before tax	9	(1)	76
Tax effect	(3)	(0)	(25)
Sub-total, net of tax	6	(1)	51
Foreign currency translation adjustments			
Increase (decrease) during the year	(1,772)	4,409	(14,687)
Remeasurements of defined benefit plans			
Adjustments arising during the year	(241)	(260)	(2,002)
Reclassification adjustments to profit or loss	(432)	440	(3,584)
Amount before income tax effect	(673)	180	(5,586)
Tax effect	151	(47)	1,258
Total	(522)	133	(4,328)
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	(67)	271	(559)
<b>Total other comprehensive income</b>	<b>¥(3,623)</b>	<b>¥6,470</b>	<b>\$(30,038)</b>

## 16. Derivative Financial Instruments

According to the accounting standard for derivative financial instruments, forward foreign exchange 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 December 31, 2015 and March 31, 2015, 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 instrument subject to disclosure of market value information as of December 31, 2015 and March 31, 2015.

(Foreign exchange forward contracts)

Derivative financial instruments for which hedge accounting are applied as of December 31, 2015 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	¥ 293	¥—	¥5
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	1,657	—	Note 2

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	\$ 2,431	\$—	\$45
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	13,742	—	Note 2

Notes 1: Fair values are stated at the price provided by financial institutions etc.

2: 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, 2015 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	¥312	¥—	¥(4)
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	795	—	Note 2

Notes 1: Fair values are stated at the price provided by financial institutions etc.

2: 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.

## 17. Earnings per Share

Earnings per share for the year ended December 31, 2015 and March 31, 2015 are as follows.

	<i>(Millions of yen)</i>		<i>(Thousand of U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Basic earnings per share			
Net income attributable to owner of parent	<b>¥ 11,059</b>	¥ 17,746	<b>\$ 91,694</b>
Weighted average number of shares issued (thousands)	<b>124,471</b>	126,541	<b>124,471</b>

	<i>(Yen)</i>		<i>(U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Basic earnings per share	<b>¥88.85</b>	¥140.24	<b>\$0.74</b>

	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
	Diluted earnings per share		
Increase in common shares (thousands)			
Stock option rights	<b>144</b>	223	<b>144</b>

	<i>(Yen)</i>		<i>(U.S. dollars)</i>
	<b>Dec. 2015</b>	Mar. 2015	<b>Dec. 2015</b>
Diluted earnings per share	<b>¥88.75</b>	¥139.99	<b>\$0.74</b>

Note: The Company applied the amended accounting standard as noted in 3. Change in Accounting policy. The impact for Earnings per Share information is immaterial.



## 18. Stock Based Compensation Plan

(1) Stock based compensation plans as of December 31, 2015 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 (shares)	16,000	12,000	32,600	36,500	42,700

	Share subscription rights-6	Share subscription rights-7	Share subscription rights-8
Date of grant	July 31, 2014	May 28, 2015	July 31, 2015
Number of shares granted	Common stock 55,500	Common stock 3,000	Common stock 29,300
Grantee	Directors and corporate officer of the Companies	Directors and corporate officer of the Companies	Directors and corporate officer of the Companies
Exercisable period	August 21, 2014 through August 20, 2039	June 15, 2018 through June 14, 2025	August 21, 2015 through August 20, 2040
Outstanding at the end of the fiscal year (shares)	40,000	—	29,300

### Price information

Date of grant	July 30, 2009	July 30, 2010	July 29, 2011	July 31, 2012	July 31, 2013	July 31, 2014	May 28, 2015	July 31, 2015
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price upon exercise	¥3,188	¥3,188	¥3,188	¥3,188	¥3,188	¥3,188	¥ —	¥ —
Fair value at grant date	¥1,026	¥1,285	¥1,529	¥1,393	¥1,978	¥2,241	¥2,980	¥2,420

**(2) Valuation technique used for estimating fair value of stock option granted in the fiscal year**

(May 28, 2015)

Valuation technique: Black-Scholes option-pricing model

Principal parameters used in the option-pricing model:

Expected volatility	37.456%	Calculated based on the actual stock prices from December 14, 2008 to June 15, 2015.
Average expected period	6.500 years	It is estimated assuming that the options were exercised at the midpoint of the exercise period.
Expected dividends	¥44 per share	Expected dividends are based on the actual dividends for the fiscal Year ended March 31, 2015.
Risk-free interest rate	0.223%	Japanese government bond yield corresponding to the average expected period

(July 31, 2015)

Valuation technique: Black-Scholes option-pricing model

Principal parameters used in the option-pricing model:

Expected volatility	30.189 %	Calculated based on the actual stock prices from August 1, 2012 to August 20, 2015.
Average expected period	3.049 years	It is estimated assuming that the options were exercised at the midpoint of the exercise period.
Expected dividends	¥44 per share	Expected dividends are based on the actual dividends for the fiscal Year ended March 31, 2015.
Risk-free interest rate	0.005%	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 since a reasonable estimate is not possible.

**19. Investment and Rental Property**

Information about fair value of investment and rental property included in the consolidated financial statements at December 31, 2015 and March 31, 2015 are as follows:

The Company owns a portion of office building and lands in Tokyo and other area.

Purpose of use	<i>(Millions of yen)</i>			
	Book value as of April 1, 2015	Increase / (decrease)	Book value as of December 31, 2015	Fair value as of December 31, 2015
Rental property	¥3,899	¥(1,022)	¥2,877	¥5,224
Idle property	321	—	321	989
Total	¥4,220	¥(1,022)	¥3,198	¥6,213

*(Thousands of U.S. dollars)*

	Book value as of April 1, 2015	Increase / (decrease)	Book value as of December 31, 2015	Fair value as of December 31, 2015
Purpose of use				
Rental property	\$32,328	\$(8,473)	\$23,855	\$43,316
Idle property	2,665	—	2,665	8,200
Total	\$34,993	\$(8,473)	\$26,520	\$51,516

Notes 1: The book value of each property on the balance sheet is its acquisition cost less cumulative depreciated expenses.  
 2: Main rental properties are rental building in Tokyo, land in Kobe and land and building in Ehime prefecture.  
 3: Main idle properties are vacant land of the old Yokosuka factory in Kanagawa prefecture.  
 4: Decrease is mainly a sale of a rental building in Tokyo.  
 5: Fair value of property as of December 31, 2015 and March 31, 2015 is primarily calculated based on real estate appraisal standards provided by the external licensed appraiser.

*(Millions of yen)*

	Book value as of April 1, 2014	Increase / (decrease)	Book value as of March 31, 2015	Fair value as of March 31, 2015
Purpose of use				
Rental property	¥3,968	¥(69)	¥3,899	¥4,137
Idle property	321	—	321	2,586
Total	¥4,289	¥(69)	¥4,220	¥6,723

Notes 1: 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, 2015 and 2014 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)*

Dec. 2015			
Rental revenues	Rental expenses	Net	Other expenses
¥259	¥153	¥107	¥10

*(Millions of yen)*

Mar. 2015			
Rental revenues	Rental expenses	Net	Other expenses
¥294	¥96	¥198	¥12

*(Thousands of U.S. dollars)*

Dec. 2015			
Rental revenues	Rental expenses	Net	Other expenses
\$2,150	\$1,267	\$883	\$80

Notes 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. Impairment loss

The Company recognized impairment loss on fixed assets for the following subsidiary for the nine-month period ended December 31, 2015.

CGU	Location	Nature of the asset	(Millions of yen)	(Thousands of U.S. dollars)
Shanghai Nabtesco Hydraulic Co., Ltd.	Shanghai, China	Buildings and structures	¥ 410	\$ 3,401
		Machinery and equipment	1,649	13,674
		Others	52	430
		Total	¥2,111	\$17,505

The Company classified an in-house company in the Company and each subsidiary as a CGU. Hydraulic equipment business has been affected by the sluggish market condition in China in this fiscal period. As a result, the subsidiary impaired its fixed assets to a recoverable amount and recorded the impairment loss in extraordinary loss. The recoverable amount was calculated based on a value in use. The future cash flow was discounted by interest rate of 14.0%.

## 21. Business structure improvement expenses

The business structure improvement expenses include mainly loss on disposal of property, plant and equipment and property relocation expenses due to production reorganization in Oil hydraulic equipment business.

## 22. Segment Information

### (1) General information about reportable segments

Reportable segments are components of the Companies for which discrete financial information is available, and whose operating results are reviewed regularly by the board of directors to make decisions about resources to the segment and assess performance.

The Companies manufacture and sale products based on motion control technology and their segments are divided into four reportable segments, "Precision Equipment", "Transport Equipment", "Aircraft and Oil Hydraulic Equipment" and "Industrial Equipment".

Main products and main industries of each reportable segment are as follows:

Segment	Main products	Main industries
Precision Equipment	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
Transport Equipment	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
Aircraft and Oil Hydraulic Equipment	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
Industrial Equipment	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 for reportable segment profit or loss, segment assets, segment liabilities and other material items

The basis of measurement for reportable segment 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 segment profit or loss, segment assets, segment liabilities and other material items**

Reportable segment information as of and for the fiscal year ended December 31, 2015 and March 31, 2015 is as follows:

(Millions of yen)

	Dec. 2015						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	¥45,328	¥46,849	¥39,524	¥55,300	¥187,001	¥ —	¥187,001
Intersegment sales	67	222	1,244	271	1,804	(1,804)	—
Total sales	45,395	47,071	40,768	55,571	188,805	(1,804)	187,001
<b>Operating income</b>	6,824	7,891	(2,030)	2,610	15,295	—	15,295
<b>Total assets</b>	52,197	41,922	48,376	64,410	206,905	26,476	233,381
<b>Total liabilities</b>	17,926	14,061	13,467	19,631	65,085	19,372	84,457
<b>Depreciation</b>	1,068	1,179	2,457	1,200	5,904	460	6,364
<b>Amortization of goodwill</b>	—	—	267	1,341	1,608	—	1,608
<b>Capital expenditures</b>	3,556	1,229	1,650	1,661	8,096	887	8,983

(Millions of yen)

	Mar. 2015						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	¥51,548	¥61,388	¥47,858	¥58,863	¥219,657	¥ —	¥219,657
Intersegment sales	53	204	1,254	189	1,700	(1,700)	—
Total sales	51,601	61,592	49,112	59,052	221,357	(1,700)	219,657
<b>Operating income</b>	8,356	11,355	995	2,909	23,615	—	23,615
<b>Total assets</b>	42,768	43,661	49,800	65,412	201,641	44,351	245,992
<b>Total liabilities</b>	15,394	16,373	12,593	20,315	64,675	22,652	87,327
<b>Depreciation</b>	1,240	1,176	2,453	963	5,832	427	6,259
<b>Amortization of goodwill</b>	—	—	—	1,225	1,225	—	1,225
<b>Amortization of negative goodwill</b>	(3)	—	—	—	(3)	—	(3)
<b>Capital expenditures</b>	1,012	1,504	1,164	1,899	5,579	1,340	6,919

(Thousands of U.S. dollars)

	Dec. 2015						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	\$375,820	\$388,432	\$327,705	\$458,501	\$1,550,458	\$ —	\$1,550,458
Intersegment sales	556	1,846	10,309	2,250	14,961	(14,961)	—
Total sales	376,376	390,278	338,014	460,751	1,565,419	(14,961)	1,550,458
<b>Operating income</b>	56,580	65,423	(16,830)	21,640	126,813	—	126,813
<b>Total assets</b>	432,777	347,583	401,091	534,032	1,715,483	219,524	1,935,007
<b>Total liabilities</b>	148,630	116,579	111,657	162,768	539,634	160,612	700,246
<b>Depreciation</b>	8,856	9,777	20,374	9,947	48,954	3,808	52,762
<b>Amortization of goodwill</b>	—	—	2,214	11,119	13,333	—	13,333
<b>Capital expenditures</b>	29,483	10,188	13,677	13,774	67,122	7,354	74,476

Notes: 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 products and services**

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 December 31, 2015 and March 31, 2015 is as follows:

(Note) Sales are divided into country and region based on the locations of the customers.

(Millions of yen)

	Dec. 2015						
	Japan	China	Asia (Others)	North America	Europe	Other areas	Total
Sales	¥93,550	¥19,111	¥16,875	¥21,471	¥35,107	¥887	¥187,001
Property, Plant and equipment	42,815	6,484	2,014	2,179	2,424	—	55,916

(Millions of yen)

	Mar. 2015						
	Japan	China	Asia (Others)	North America	Europe	Other areas	Total
Sales	¥121,916	¥26,857	¥16,238	¥18,888	¥35,059	¥699	¥219,657
Property, Plant and equipment	41,913	8,625	2,166	2,170	2,003	—	56,877

(Thousands of U.S. dollars)

	Dec. 2015						
	Japan	China	Asia (Others)	North America	Europe	Other areas	Total
Sales	\$775,646	\$158,451	\$139,914	\$178,019	\$291,076	\$7,352	\$1,550,458
Property, Plant and equipment	354,993	53,761	16,697	18,063	20,100	—	463,614

**(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 impairment loss in reportable segments)**

Information on impairment loss in reportable segments for the nine-month period ended December 31, 2015 is as follows:

<i>(Millions of yen)</i>							
<b>Dec. 2015</b>							
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
Impairment loss	¥—	¥—	¥2,111	¥—	¥2,111	¥—	¥2,111

<i>(Thousands of U.S. dollars)</i>							
<b>Dec. 2015</b>							
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
Impairment loss	\$—	\$—	\$17,505	\$—	\$17,505	\$—	\$17,505

**(Information about goodwill in reportable segments)**

Information on amortization goodwill and unamortized balance in reportable segments for the fiscal year ended December 31, 2015 and March 31, 2015 is as follows:

<i>(Millions of yen)</i>							
<b>Dec. 2015</b>							
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	Total	
<b>Goodwill</b>							
Amortization	¥—	¥—	¥ 267	¥ 1,341	¥—	¥ 1,608	
Balance at year-end	—	—	2,581	16,843	—	19,424	

<i>(Millions of yen)</i>							
<b>Mar. 2015</b>							
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	Total	
<b>Goodwill</b>							
Amortization	¥—	¥—	¥—	¥ 1,225	¥—	¥ 1,225	
Balance at year-end	—	—	—	17,988	—	17,988	
<b>Negative goodwill</b>							
Amortization	¥(3)	¥—	¥—	¥ —	¥—	¥ (3)	
Balance at year-end	—	—	—	—	—	—	

*(Thousands of U.S. dollars)*



	Dec. 2015					Total
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	
<b>Goodwill</b>						
Amortization	\$—	\$—	\$ 2,214	\$ 11,119	\$—	\$ 13,333
Balance at year-end	—	—	21,404	139,645	—	161,049

### 23. 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, was approved at the general shareholders' meeting held on March 24, 2016:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥22 [= \$0.18] per share)	¥2,731	\$22,647

### 24. Subsequent events

On February 26, 2016 and March 23, 2016, the Board of Directors' meeting of the Company resolved to acquire additional shares in NABCO Systems Co., Ltd. ("NABCO Systems") on April 1, 2016. As a result, NABCO Systems is to become a consolidated subsidiary from an equity-method affiliate.

#### 1. Purpose of acquisition

The Company has decided to acquire additional shares in NABCO Systems, which is currently an equity-method affiliate and will become a consolidated subsidiary, with a view to further strengthening the business relationship between the two companies and accelerating the movement of unification of value chains across the country. Based on the view that such measures will contribute to the further development of the automatic doors business, the agreement that shares in NABCO Systems Co., Ltd. will be transferred to the Company was agreed between the Company and Mr. Taizo Yamamura, as a major shareholder of NABCO Systems Co., Ltd., Taiei Limited Liability Company, of which Mr. Taizo Yamamura is a major shareholder, and six other companies.

#### 2. Outline of the target company

(1) Company name	NABCO Systems Co., Ltd.	
(2) Location	22-5 Toranomom 1-chome, Minato-ku, Tokyo	
(3) Representative's name and title	Nozomu Yamamura, Representative Director and President	
(4) Business line	Sale, design, construction and maintenance of automatic doors	
(5) Capital	300 million yen	
(6) Date of establishment	November 7, 1957	
(7) Non-consolidated operating results for the past three years		
Fiscal year-end	January, 2014	January, 2015
Net assets	5,601 million yen	6,303 million yen
Total assets	12,572 million yen	13,402 million yen

3. Companies which shares will acquire

Mr. Yamamura Taizo, Taiei Limited Liability Company and six other companies

4. Number of shares to be acquired, acquisition price and the status of shares held before and after the acquisition

(1) Number of shares held before acquisition	Number of shares of common stock: 223,520 (Percentage of voting right held: 37.9%)
(2) Number of shares to be acquired	Number of shares of common stock: 283,120 (Acquisition price: ¥3,681 million) Out of which, the number of shares to be acquired from Mr. Taizo Yamura: 231,270 Number of shares to be acquired from Taiei Limited Liability Company: 17,850 Number of shares to be acquired from 6 other companies: 34,000
(3) Number of shares held after acquisition	Number of shares of common stock: 506,640 (Percentage of voting rights: 85.9%)

5. Consideration for acquisition

Cash

6. Date of acquisition

April 1, 2016

### **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 December 31, 2015 and March 31, 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for nine-month period ended December 31, 2015 and year ended March 31, 2015, 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 December 31, 2015 and March 31, 2015, and their financial performance and cash flows for nine-month period ended December 31, 2015 and year ended March 31, 2015 in accordance with accounting principles generally accepted in Japan.

#### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to the below Note to the consolidated financial statements,

1. As stated in the note of subsequent events, at the Board of Directors' meeting held on February 26, 2016 and March 23, 2016, the Company resolved to acquire additional shares in Nabco Systems Co., Ltd. on April 1, 2016. As a result, NABCO Systems Co., Ltd. is to become a consolidated subsidiary from an equity-method affiliate.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to nine-month period ended December 31, 2015 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**

April 14, 2016  
Tokyo, Japan

**Nabtesco**  
moving it. stopping it.