

# Think Global! Act Local! For the Second Decade

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NABTESCO GROUP  
INTEGRATED REPORT 2015

## NABTESCO GROUP INTEGRATED REPORT 2015

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# 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.

## 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, 2014 to March 31, 2015 (FY2014)

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

## Date of Publication

Published in September 2015 (Published annually; previous report published in September 2014)

## Earnings Forecast for FY2015

Nabtesco has changed the closing date of fiscal year from March 31 to December 31 since FY2015.

In this report, the earnings forecast for FY2015 (in terms of "2015/12 Plan" or "2015[Plan]") 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 previous fiscal year '2015/3 Result' (as of March 31, 2015), "2015/12 Plan (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 and FTSE4Good. Also in January 2014, the company was selected to be included in the JPX-Nikkei Index 400.



MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

**MSCI** | 2015 Constituent  
MSCI Global  
Sustainability Indexes



## 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

TEIJIN SEIKI

Established in 2003

Nabtesco

2002

2004

NABCO

Established in 1925

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

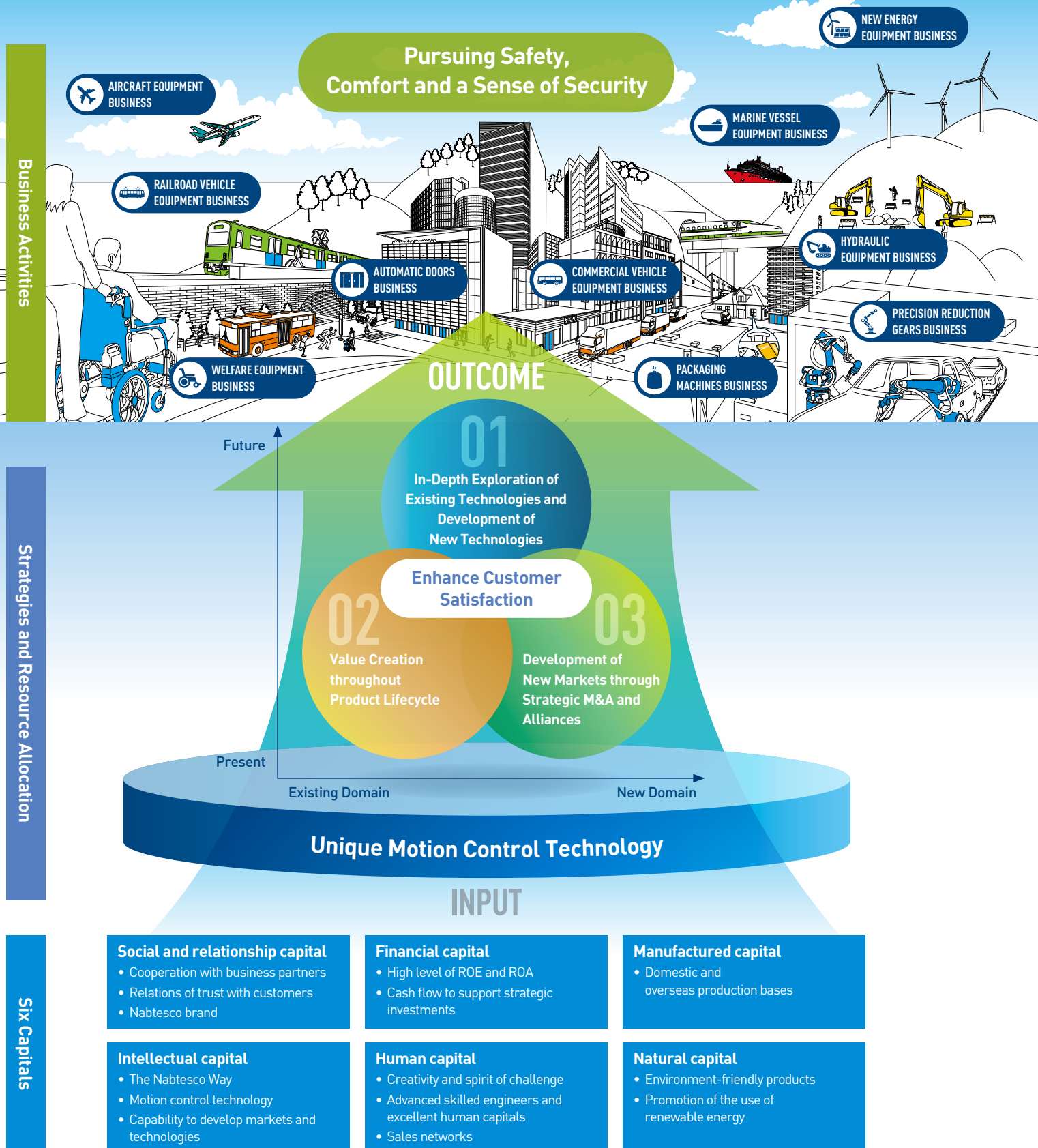
Nabtesco Corporation was established. Listed on the first section of the Tokyo Stock Exchange.

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.

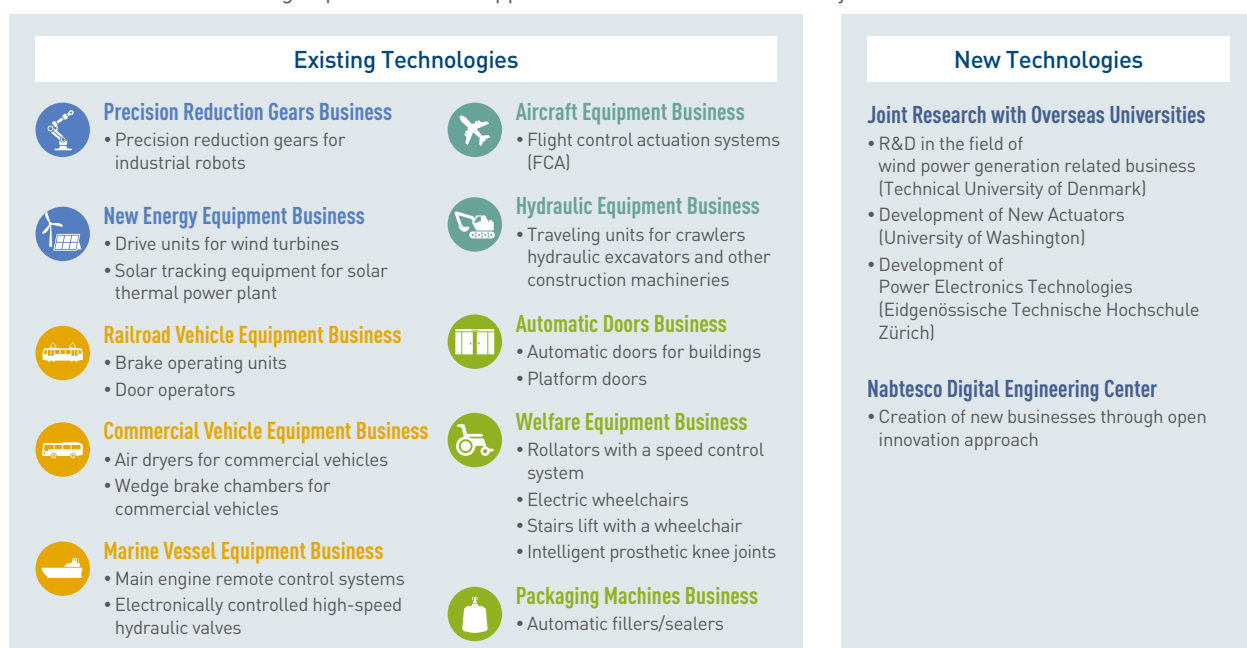


Nabtesco operates a wide range of businesses in the industrial, daily life-related, and environmental fields, capitalizing on its motion control technology, which moves and stops objects in a precise manner.

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.



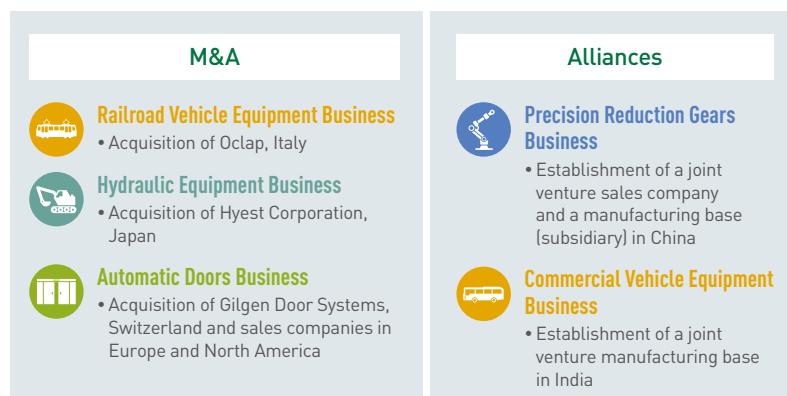
## 02 Value Creation throughout Product Lifecycle

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



## 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."







## 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

# Financial & Non-Financial Highlights

## Financial Highlights

[JPY million]

	2011/3	2012/3	2013/3	2014/3	2015/3
Net sales	169,303	198,527	179,543	202,292	<b>219,657</b>
Operating income	20,212	22,858	15,013	20,092	<b>23,615</b>
Net income	13,387	14,756	13,269	14,978	<b>17,746</b>
Operating income margin (%)	11.9	11.5	8.4	9.9	<b>10.8</b>
Return on assets (ROA) (%)	8.1	7.6	6.5	6.9	<b>7.4</b>
Return on equity (ROE) (%)	15.8	15.6	12.5	12.2	<b>12.6</b>
Equity ratio (%)	49.9	47.6	56.2	56.0	<b>60.9</b>

## Non-Financial Highlights

	2011/3	2012/3	2013/3	2014/3	2015/3
Number of employees					
Total number of employees (consolidated)	4,057	4,995	5,081	5,344	<b>5,552</b>
Total number of employees (non-consolidated) *1	1,989	2,020	2,060	2,092	<b>2,102</b>
Male	1,832	1,858	1,883	1,906	<b>1,911</b>
Female	157	162	177	186	<b>191</b>
Turnover rate (%)					
Male	2.5	1.2	1.7	3.2	<b>2.9</b>
Female	4.9	4.7	6.0	3.8	<b>5.7</b>
Voluntary retirees (%)	0.9	0.5	0.7	0.6	<b>1.1</b>
Lost-time injury frequency rate (%)	0.1	1.4	0.8	0.6	<b>0.4</b>
CO <sub>2</sub> emissions (CO <sub>2</sub> -ton/year) *2 *3	46,100	51,100	49,050	46,745	<b>48,162</b>

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

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

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

# TOPICS

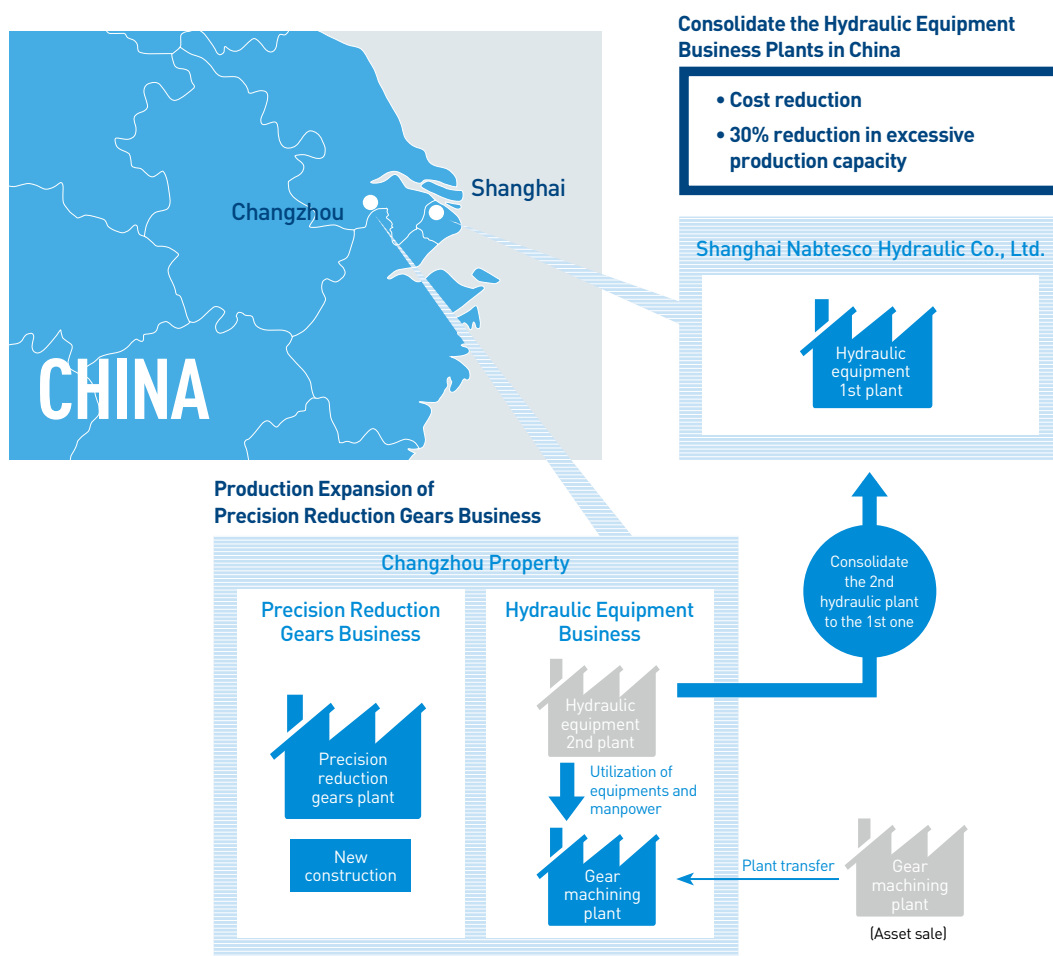
## TOPICS FOR FISCAL YEAR 2014

### 01

#### Establishment of a Production Base for Precision Reduction Gears Business and Reorganization of the Hydraulic Equipment Business in China

Nabtesco expects that the market for precision reduction gears for industrial robots will continue to expand on a long-term basis, particularly in China where rapid growth exists for the requirement for automation. In order to agilely supply its products to the market, Nabtesco decided to establish a new production base in Changzhou, China jointly with Shanghai Mechanical & Electrical Industry Co., Ltd., a subsidiary of Shanghai Electric Group Company Limited.

In Changzhou, Jiangsu Nabtesco Hydraulic Co., Ltd., which was also established jointly with Shanghai Electric Group, has been manufacturing hydraulic equipment. We will make effective use of this company's local facilities for the early opening of the new precision reduction gears production base (slated for launch in fiscal 2016), while transferring the company's Hydraulic Equipment Business to Shanghai Nabtesco Hydraulic Co., Ltd. as we move toward business consolidation and asset reduction in China, where demand for construction machinery has remained sluggish.







## 02

### Expansion of the Railroad Vehicle Equipment Business in Europe

Since receiving the first order for our air brake equipment from the Japanese government in 1925, we have continuously delivered highly reliable brake and door systems. In 2015 we celebrated the 90th anniversary of the founding of the Railroad Vehicle Equipment Business. In 2014, we became the first Japanese company to be certified by Bombardier Transportation as a global supplier of entrance systems for railroad vehicles. This global supplier certification qualifies us to automatically receive official requests for quotation from the company's railroad business sector, which operates in 21 bases in 16 countries around the world.

As a result of acquiring this certification, Nabtesco Oclap S.r.l, a Nabtesco Group company in Italy, received an order for cab doors for trains on the Cross Rail, the British urban railway line that will be opened at the end of 2018. Moreover, the company also received an order from Siemens AG for passenger doors for the fully automated unmanned trains that will be operated on the B Line of the Rennes Metro in France.

Since becoming a Nabtesco Group company in 2013, Nabtesco Oclap S.r.l has contributed to the Group's expansion of new business opportunities in Europe, and the Group will continue to expand its door system business around the globe.

## 03

### Awarded a Contract to Supply Aircraft Equipment for Boeing 777X

For over 40 years, Nabtesco has had a business partnership with Boeing, and recently was awarded a contract to supply flight control actuation systems for the aircraft manufacturer's next-generation large jet, the 777X.

The 777X is the latest model of the 777 series, with more than 1,000 airplanes belonging to the 777 family delivered by Boeing to its customers. The 777X will be released on the market in 2020. Nabtesco has already been supplying actuation systems for four flight control surfaces on the current Boeing 777 series, and with the new agreement concluded for approximately 300 airplanes, our scope of work will expand to actuation systems for all eight flight control surfaces, including spoilers.

We will contribute to the success of Boeing's two major development programs, for the 777X and 737MAX for which we won a contract in 2013, thereby supporting the aircraft industry to achieve dynamic growth. We expect that participation in these programs will help us stably expand our business, including in after-market services, on a long-term basis.

## 04

### Promotion of CSR-Oriented Procurement and Participation in the UN Global Compact

The Nabtesco Group is delivering products necessary for the establishment of social infrastructure that supports people's daily lives, while conducting CSR\* activities in the spirit of its corporate philosophy of, "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 April 2014, we formulated the Nabtesco Group CSR-Oriented Procurement Policy to foster the fulfillment of CSR by the entire Group across its supply chain. Subsequently, in April 2014, we announced our support for and signed the United Nations Global Compact. The Global Compact was proposed at the meeting of the World Economic Forum held in Davos in 1999, with more than 13,000 companies and organizations participating in this initiative and conducting activities in line with the ten Principles set in the four areas of "Human Rights," "Labour Standards," "Environment" and "Anti-Corruption."

As a participant in the Global Compact, we will make further efforts to foster CSR-oriented management suitable for a global enterprise.

\*CSR: Corporate Social Responsibility



# OUR VALUE

Enhancing Product  
Development and  
Technological Strength  
for Value Creation, and  
Forging Trusting Relationships  
with Stakeholders

President & CEO

**Kazuaki Kotani**



## Looking Back on the Year Ended March 31, 2015

**Results are  
generally favorable,  
with both sales and  
profits exceeding the  
numerical targets  
set at the beginning  
of the term**

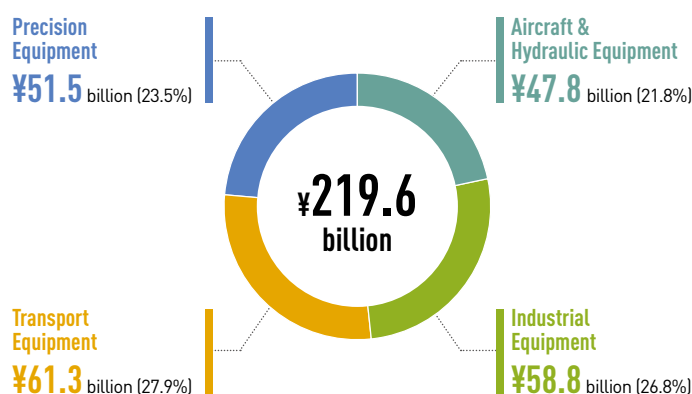
For the year ended March 31, 2015 (fiscal 2014), the Nabtesco Group posted net sales of 219,657 million yen (up 8.6% year on year), operating income of 23,615 million yen (up 17.5%), ordinary income of 27,193 million yen (up 12.2%), and net income of 17,746 million yen (up 18.5%).

Both sales and profits exceeded numerical targets set at the beginning of the term, with the results generally favorable. During the year, however, we felt rapid changes in the business environment, although we achieved greater-than-expected growth in some business segments, growth was slower than planned in other segments.

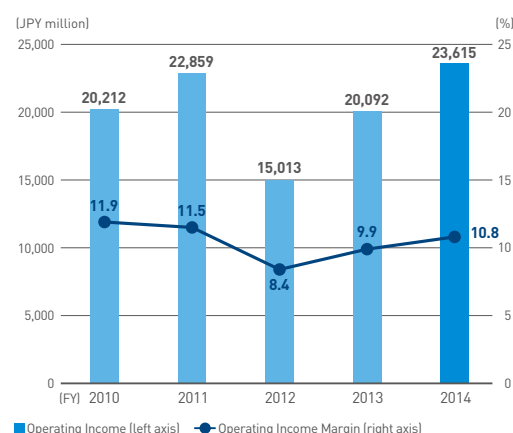
In the Precision Equipment Segment, the market expanded, driven by the growth in demand for precision reduction gears for industrial robots. We made appropriate responses to meet this demand, as a result, both the amount of orders received and sales were increased. We also boosted profits by more than 30%, covering an increase in the cost of overseas procurement as a result of the weaker yen, by expanding sales and implementing production reforms.

In the Transport Equipment Segment, the proactive expansion of the Maintenance, Repair and Overhaul (MRO) business greatly helped increase the amount of orders received and sales at a pace exceeding the market growth rate. Further, we achieved dramatic growth in the Marine Vessel Equipment Business due to the abundant volume of shipbuilders' backlog and expansion of the MRO business. As a whole, operating profit for this segment was boosted by approximately 80%.

## Consolidated Sales by Business Segment (FY2014)



## Operating Income and Operating Income Margin



In the Aircraft and Hydraulic Equipment Segment, however, the Hydraulic Equipment Business continued to be sluggish. In China, demand for construction machinery has not recovered, which led to declining operation rate of our local manufacturing facilities. The supply of key components from Japan to China also declined. As a result, we recorded decreases in both sales and profits in the business.

We expanded the scale of business in the Industrial Equipment Segment through recent proactive M&A in the Automatic Doors Business—the core business of the segment. However, we posted a decrease in profit in this segment due to one-time M&A related cost and up-front IT investments in Europe and North America.

For sales by region, actual sales exceeded to previous year for all the regions. In Asia, we faced difficulties in the Hydraulic Equipment Business in China as mentioned above, but thanks to the growth of the Railroad Vehicle Equipment, Marine Vessel Equipment and Precision Reduction Gears Businesses, we also posted a surplus in the country. In North America and Europe, success of the Precision Reduction Gears and Automatic Doors Businesses contributed to an increase in sales; particularly in the North American market, sales increased by more than 20% including the effect of the weaker yen in Aircraft Equipment Business.

In short, I believe that our Group's business portfolio management has led to overall favorable results.



## Progress in the Mid-Term Management Plan, "Think Global! Act Local! For the Second Decade" (Fiscal 2014 to 2016)

### Composition ratio of the business segments would differ from those initially planned, reflecting changes in the business environment

In the three-year Mid-Term Management Plan, "Think Global! Act Local! For the Second Decade," we uphold "consolidated net sales of 280 billion yen  $\pm$ 5%" and "operating income of 34 billion yen" as our targets for the final year of the Plan. The sales results for the initial year indicate an increased possibility of achieving these targets; however, composition of ratio of the business segments making up the net sales and operating income will differ from those initially planned, reflecting changes in the business environment. As for the net sales of 66 billion yen planned for the Precision Equipment Segment, the expanded sales of precision reduction gears for industrial robots will cover of the sales decrease of solar tracking equipments caused by drop-off of potential businesses resulting from the delay in launching the solar thermal generation plant. Also, decrease in the Aircraft and Hydraulic Equipment Segment will be covered by expansion of the Transport Equipment Segment. As a result, the configuration of the operating income would also substantially differ from the initial plan.



## Top Message

### Main Business Targets

	2015/3 Results	2017/3 Plan (formulated May 2014)		2021/3 Long-Term Vision (formulated May 2012)
Net sales (billion yen)	219.6	280±5%		400
Operating income (billion yen)	23.6	34		60
Operating income margin (%)	10.8	12.0	→	15.0
ROA (%)	7.4	7.5		11.0
ROE (%)	12.6	15.0		18.0

## > Policies and Measures to Achieve the Targets Set in the Mid-Term Management Plan

### Capitalizing on the growth of the Precision Reduction Gears Business and reorganizing the Hydraulic Equipment Business in China

In the Precision Reduction Gears Business, it is predicted that demand from the industrial robot industries will increase on a medium- to long-term basis. In particular, to take advantage of the growth of the Chinese market where the needs for unmanned, automated operations are dramatically increasing, we will enhance the capacity of our manufacturing facilities in Japan during 2015 and launch a new production base in China in 2016, thereby building up a stable supply system to meet the expected increased medium- to long-term demand. In the fields other than industrial robots, we will promote the sales of new products in Europe and China with an eye to find new markets.

The Hydraulic Equipment Business has been sluggish due to the stagnant Chinese construction machinery market, however, we will reorganize the business and seek to achieve a V-shaped recovery in and after 2016 by reducing related assets according to the extent of demand. Specifically, we will consolidate Jiangsu Nabtesco Hydraulic Co., Ltd., which we established jointly with Shanghai Electric Group for the production of hydraulic equipment, into Shanghai Nabtesco Hydraulic Co., Ltd., another hydraulic equipment production base in China, thereby downsizing the production facility. The land and facilities of Jiangsu Nabtesco Hydraulic will be taken over and effectively operated by Nabtesco (China) Precision Equipment Co., Ltd., a new company to be established as a new production base for precision reduction gears.

In the Hydraulic Equipment Business, we also acquired Hyst Corporation on April 1, 2015 to broaden our product lineup in the business. In the future, we will release a new value-added hydraulic system into the market developed by fusing the technologies of the two companies.

## > Expectations for Mid- to Long-Term Growth

### Demand will double in the first half of the 2020s in the Aircraft Equipment Business, and the Railroad Vehicle Equipment Business will steadily expand into the European market

In the civil aircraft field, the number of airplanes in operation is predicted to double over the next 20 years. Nabtesco has cultivated a business partnership with Boeing for over 40 years, and in 2015 was chosen by the aircraft manufacturer to be a supplier of flight control actuation systems for its next-generation large passenger aircraft 777X, which is slated for release in the market in 2020. In addition, we have already won contracts to supply actuation systems for Boeing's 737MAX in 2013 and the MRJ\*1 of Mitsubishi Aircraft Corporation, both of which will be released on the market in 2017.

Also, in the Railroad Vehicle Equipment Business, we made important progress for future growth. In December 2014, we were certified as a Japan's first global supplier of doors for train

cabs and cars by Bombardier, one of the three leading manufacturers of railroad vehicles in the world. Moreover, in April 2015, we forged an agreement with Siemens AG to supply passenger doors for subway cars to be operated in France. We will steadily expand our business in the European market through Nabtesco Oclap S.r.l., which operates in Italy.

\*1 MRJ: Mitsubishi Regional Jet



## Enhancing Product Development and Technological Strength for Value Creation

### Accelerating R&D in the field of advanced technologies and fostering innovation in the production development process

In this year, we spent a total of 15 billion yen for capital investment, M&A and R&D to achieve further growth, and for the next term (fiscal 2015, 12-month basis), we plan to double this amount to make growth investments totaling 30 billion yen.

In R&D, we have been proactively conducting joint research with the overseas universities, such as the University of Washington, the Technical University of Denmark, ETH Zurich<sup>\*2</sup>. We have been fostering collaboration with these external research institutes to adopt a range of technologies and improve the product development process. We will accelerate R&D in the field of advanced technologies and foster innovation in the product development process with a view to enhancing our technological strength for value creation. For example, a resin 3D printer using stereolithography, which was developed by CMET Inc., a Nabtesco's subsidiary, has been utilized in a product development process. Further, in July 2015, we started a project to develop next-generation products with the use of a metal 3D printer at the Nabtesco Digital Engineering Center, which was transferred from the Kobe Plant to our facility within the Kyoto Research Park. Thus a most-advanced basic structure has just been prepared and it will contribute to shorten the development period drastically.

Nabtesco will take advantage of its product technologies, business diversity, and the relations of trust it has built up with customers over many years as its greatest strengths, and will further enhance its technological capabilities to provide customers with products that will lead to greater value creation.

<sup>\*2</sup> ETH Zurich: Eidgenössische Technische Hochschule Zurich



## In Pursuing the Achievement of the Long-Term Vision

### Forging a trusting relationships with both internal and external stakeholders

We are required to secure and develop excellent human resources as a means to build the foundation of our businesses. We also need to make a concerted effort across the Group to achieve the Long-Term Vision, which was formulated in May 2012, sharing Nabtesco's values and features, and taking actions in line with the same decision-making criteria. To this end, we formulated The Nabtesco Way in 2012 and have been raising all members' awareness of its principles. We aim to develop human resources who will respect the corporate DNA that has been passed down through the generations, make prompt responses to changes occurring in the world, and continue making all-out efforts.

Further, in order to foster trusting relationships with a range of our stakeholders, including shareholders, investors, customers, business partners, and local communities where we conduct businesses, and also to fulfill our social responsibility more firmly as a global enterprise, we signed the United Nations Global Compact in April 2014 as an advocator of its principles. In fiscal 2014, we proactively participated in the symposiums and study meetings held by Global Compact Network Japan as opportunities to make exchanges with other companies and foster our CSR activities.

The Nabtesco Group will strive to achieve the Long-Term Vision while working to implement "Challenge & Creation" across the Group to build even more trusting relationships with stakeholders and foster value creation.

The background of the page is a photograph of a sunset or sunrise over a mountain range. The sky transitions from a deep blue at the top to a bright orange and yellow near the horizon, where the sun is partially visible. The mountains in the foreground are silhouetted against the bright light.

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.





## LONG-TERM VISION

(formulated May 2012)

Status on  
FY 2020

### Global Partner with Best Solutions

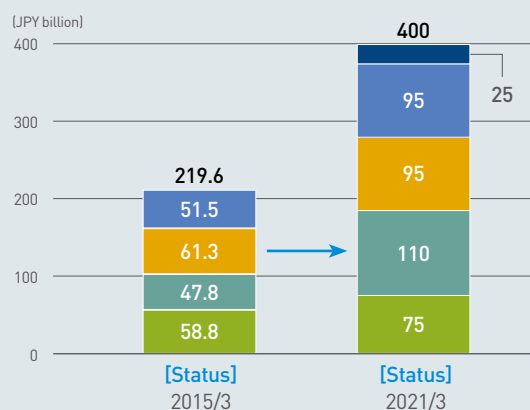
- Continue to provide society with new innovative solutions (products, services and business models)
- Pursue excellence through continuous technological innovation, thereby enhancing rapport and trust with customers
- Value open communication and creative thinking regardless of language and cultural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

#### > Main Business Targets

	2015/3 Results	2017/3 Plan (formulated May 2014)	2021/3 Long-Term Vision (formulated May 2012)
Net sales (billion yen)	219.6	280±5%	400
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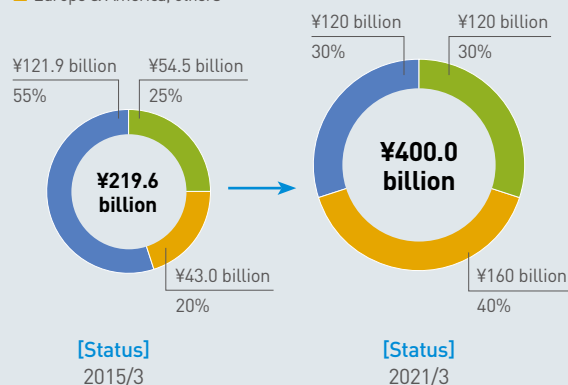
#### > Consolidated Sales by Business Segment

- New business (except derivatives of existing products)
- Precision ■ Transport ■ Aircraft & Hydraulic ■ Industrial



#### > Consolidated Sales by Geographic Segment

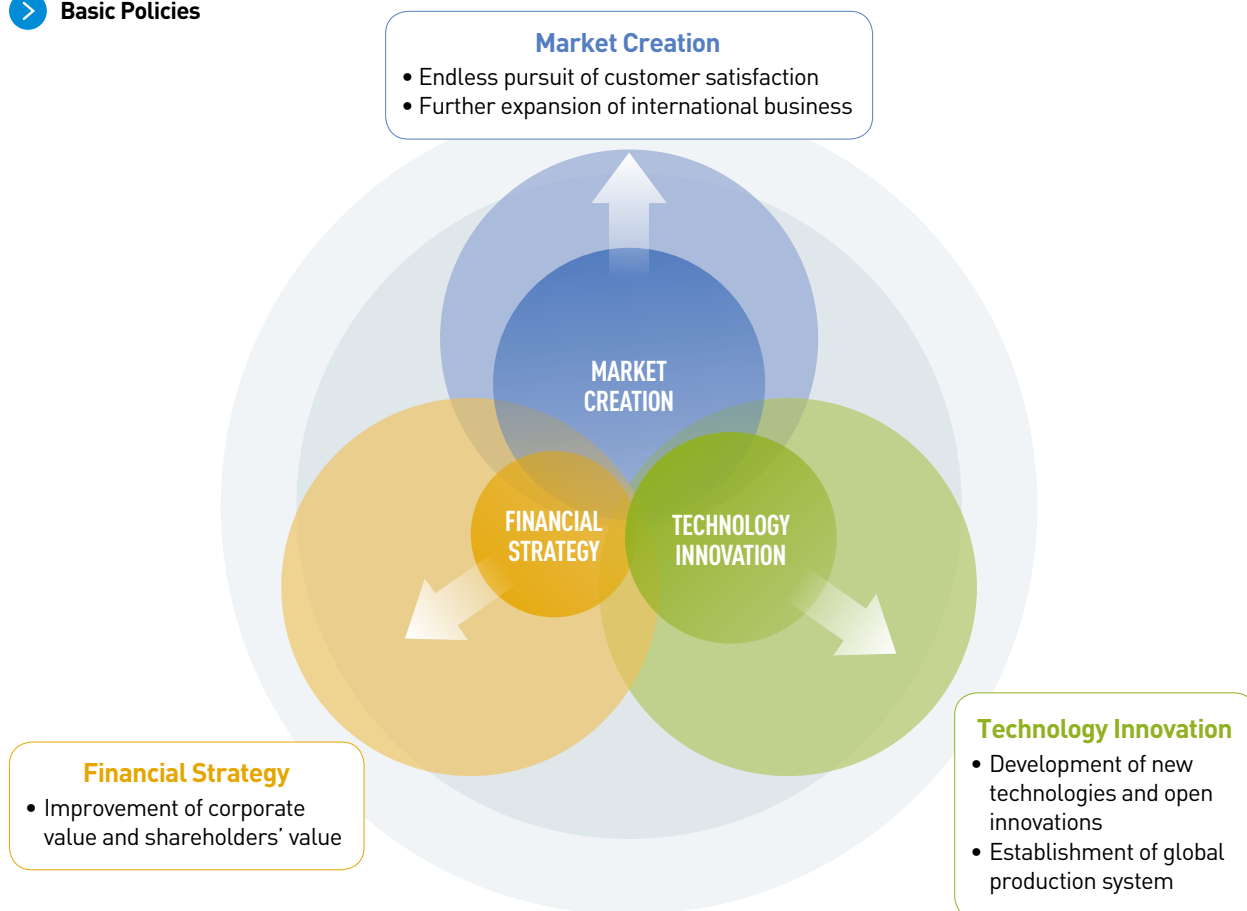
- Japan
- Asia & emerging countries (except Japan)
- Europe & America, others



# New Medium-Term Management Plan

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

### > 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.

# New Medium-Term Management Plan “Think Global! Act Local! For the Second Decade”

## Targeted Financial Figures

(from the year ended March 31, 2015 to the year ending March 31, 2017)

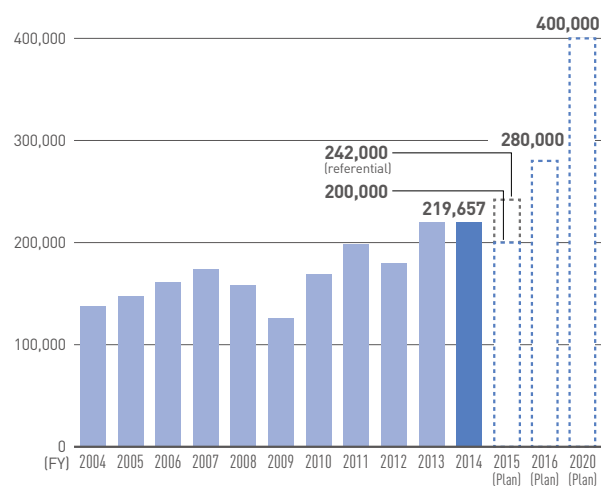
	2014/3 Results	2015/3 Results	2015/12 Plan	2015/12 Plan (referential)*	2017/3 Plan	2021/3 Long-Term Vision (formulated May 2012)
<b>Further expansion of the business scale and pursuance of profitability</b>						
Net sales (billion yen)	202.2	219.6	200.0	242.0	280.0 ±5%	400.0
Operating income (billion yen)	200	23.6	17.9	24.7	34	60
Operating income margin (%)	9.9	10.8	9.0	10.2	12.0	15.0
Net income (billion yen)	14.9	17.7	13.4	18.4	24.0	—
EPS (yen)	117.95	140.24	105.88	145.39	190.00	—
<b>Promoting management with the conscious of asset and capital efficiency</b>						
ROA (%)	6.9	7.4	5.3	7.2	7.5	11.0
ROE (%)	12.2	12.6	8.8	11.9	15.0	18.0
<b>Distribution of business earnings with the conscious of corporate growth</b>						
Dividend per share (yen)	38	44	44 (Plan)	—	—	—
Payout ratio (%)	32.2	31.4	41.6 (Plan)	—	30% or higher	—

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

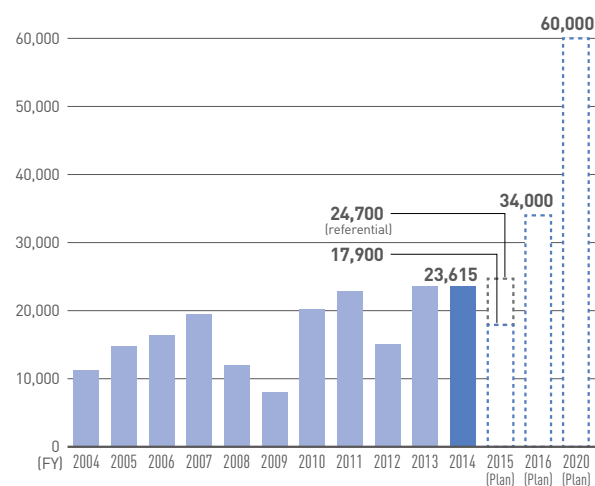
\* Due to the change of closing date of fiscal year, the numerical values in terms of “2015/12 Plan (referential)” is calculated on a basis of twelve months in order to make YoY comparison with the previous fiscal year “2015/3 Result” (as of March 31, 2015). [For Nabtesco Corporation and the other consolidated subsidiaries in Japan, “2015/12 Plan (referential)” shall be covering 12 months from April 1, 2015 to March 31, 2016. For the overseas consolidated subsidiaries, “2015/12 Plan (referential)” shall be covering 12 months from January 1, 2015 to December 31, 2015.

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

### Net Sales (JPY million)

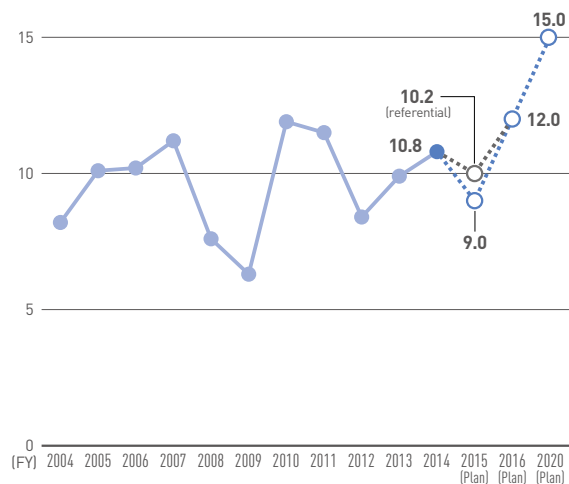


### Operating Income (JPY million)

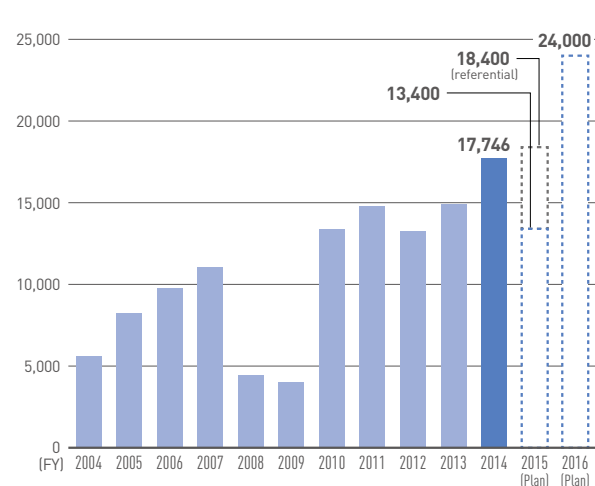




**Operating Income Margin (%)**

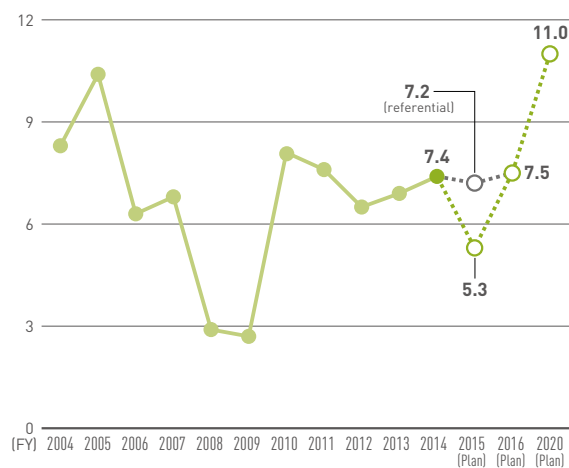


**Net Income (JPY million)**

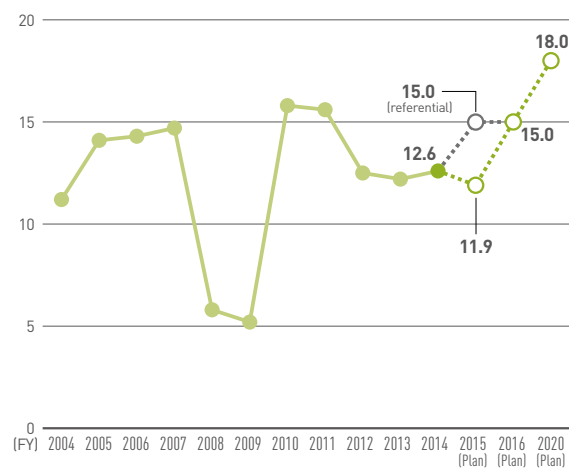


**Promoting management with the conscious of asset and capital efficiency**

**Return on Assets (ROA) (%)**

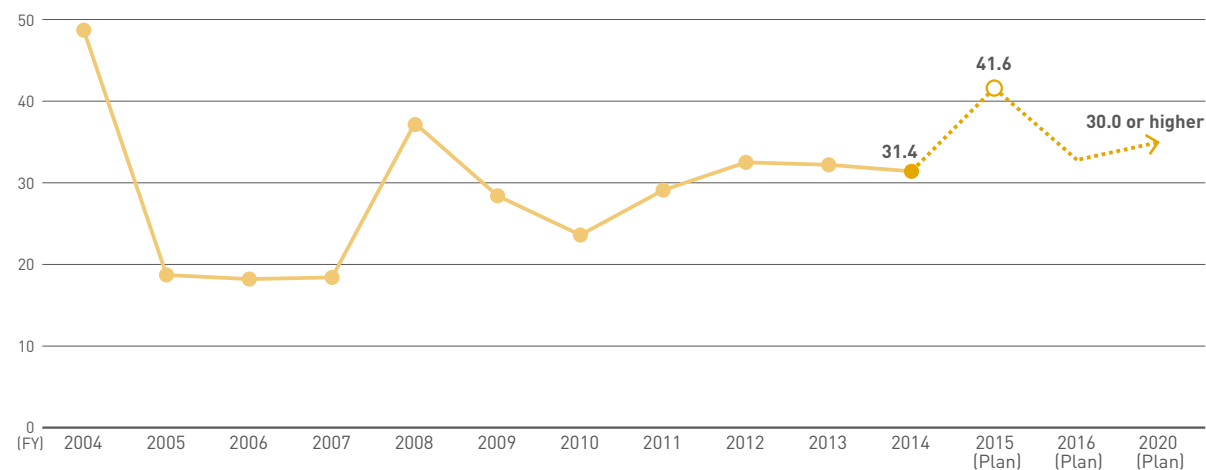


**Return on Equity (ROE) (%)**



**Distribution of business earnings with the conscious of corporate growth**

**Payout Ratio (%)**

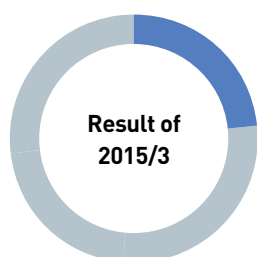


## PRECISION EQUIPMENT SEGMENT

Precision Reduction Gears Business  
New Energy Equipment Business

Net Sales Composition

# 23.5%

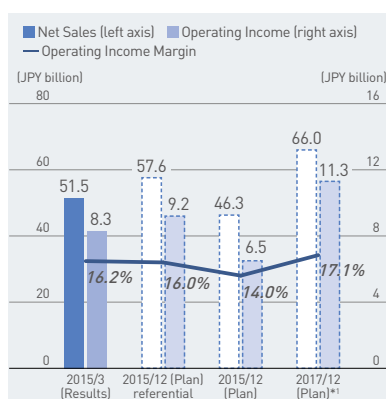


The amount of orders received for precision equipment increased by 23.6% year-on-year to 54.9 billion yen. Net sales rose by 20.3% to 51.5 billion yen, and operating income grew by 31.4% to 8.3 billion yen.

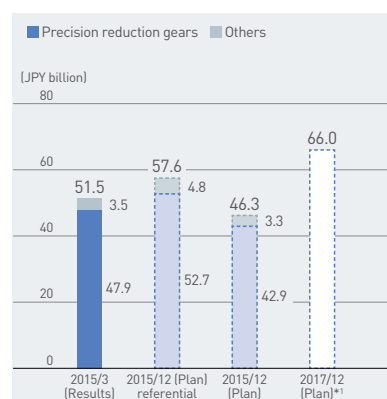
Sales of precision reduction gears increased reflecting a growth in demand for industrial robots, machine tools and other factory automation devices.

For 2015/12, it is expected an increase in income is forecast on the referential basis.

Result for 2015/3 and Mid-Term Plan



Results for 2015/3 and Mid-Term Plan by business



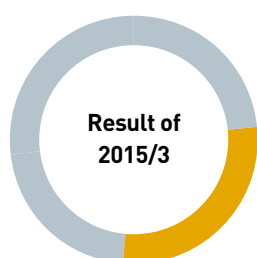
\*1: Adjusted value which reflects a change of business environment from the announcement of this Mid-Term Management Plan

## TRANSPORT EQUIPMENT SEGMENT

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

Net Sales Composition

# 27.9%

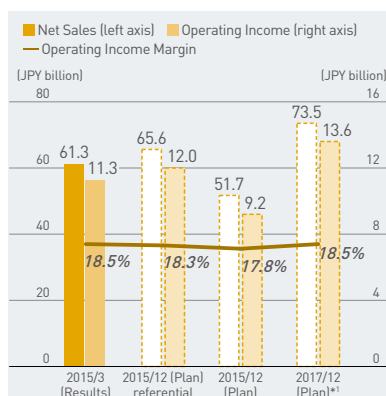


The amount of orders received for transport equipment saw a year-on-year growth of 13.5% to 64.7 billion yen. Net sales advanced 16.6% to 61.3 billion yen, and operating income soared by 79.0%, to 11.3 billion yen.

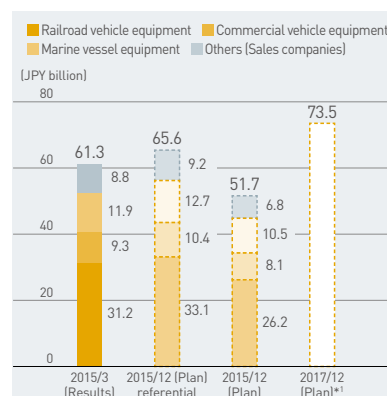
In the Railroad Vehicle Equipment Business, sales rose owing to a growth in sales for overseas and demand for after-sales service. In the Commercial Vehicle Equipment Business, sales remained flat, reflecting strong demand in Japan despite a decrease in overseas demand for trucks. Similarly, in the Marine Vessel Equipment Business, sales increased on the back of the large volume of orders received for new vessels in Japan and overseas.

For 2015/12, it is expected an increase in income is forecast on the referential basis.

Result for 2015/3 and Mid-Term Plan



Results for 2015/3 and Mid-Term Plan by business



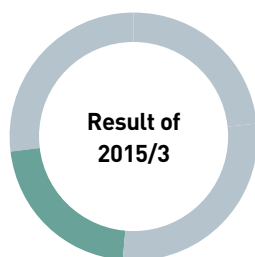
\*1: Adjusted value which reflects a change of business environment from the announcement of this Mid-Term Management Plan

## AIRCRAFT AND HYDRAULIC EQUIPMENT SEGMENT

Aircraft Equipment Business  
Hydraulic Equipment Business

### Net Sales Composition

21.8%

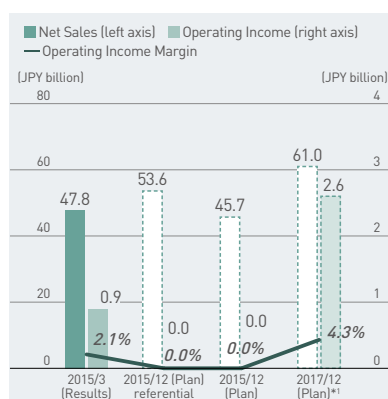


The amount of orders received for aircraft and hydraulic equipment decreased by 3.2% year-on-year to 51.3 billion yen. Reflecting this, sales fell by 8.9% to 47.8 billion yen, and operating income shrank by 74.2% to 0.9 billion yen.

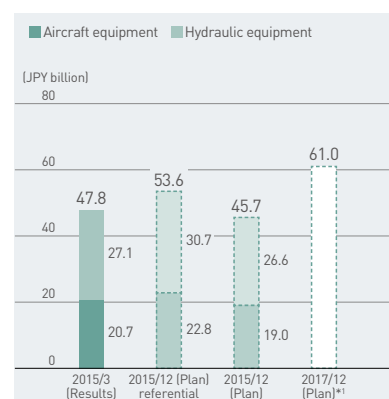
In the Aircraft Equipment Business, sales advanced due to the expansion of demand for aircraft in the private sector and benefits from foreign exchange translation effects. In the Hydraulic Equipment Business, sales dropped, due to a decline in demand for construction machinery in China.

For 2015/12, it is expected an increase in income is forecast on the referential basis.

### Result for 2015/3 and Mid-Term Plan



### Results for 2015/3 and Mid-Term Plan by business



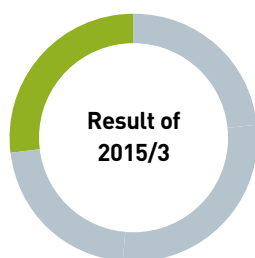
\*1: Adjusted value which reflects a change of business environment from the announcement of this Mid-Term Management Plan

## INDUSTRIAL EQUIPMENT SEGMENT

Automatic Doors Business  
Packaging Machines Business

### Net Sales Composition

26.8%

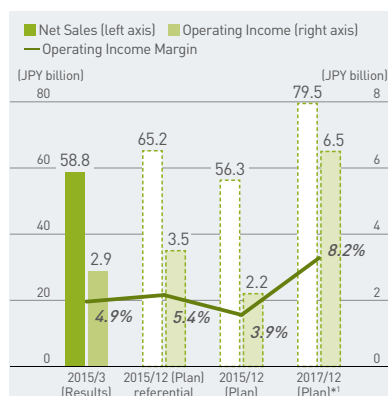


The amount of orders received for industrial equipment increased by 2.3% year-on-year to 60.5 billion yen. Sales rose by 8.5% to 58.8 billion yen while operating income fell by 17.5% to 2.9 billion yen.

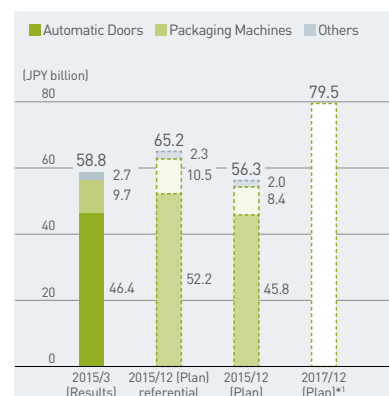
In the Automatic Doors Business, sales were boosted as a result of continued strong demand in the Japanese and overseas markets as well as foreign exchange translation effects. In the Packaging Machines Business, sales rose owing to robust sales in Japan and overseas.

For 2015/12, it is expected an increase in income is forecast on the referential basis.

### Result for 2015/3 and Mid-Term Plan



### Results for 2015/3 and Mid-Term Plan by business



\*1: Adjusted value which reflects a change of business environment from the announcement of this Mid-Term Management Plan



# Precision Reduction Gears Business

## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, sales increased year on year to 47.9 billion yen in the Precision Reduction Gears Business reflecting growth in demand for industrial robots, machine tools, and other factory automation devices, which was driven by robust capital investment from the automotive sector. For 2015/12 (referential), sales is expected to continue to increase to about 52.7 billion yen due to increased needs for automation mainly in the automotive industry.

## Sources of Strength

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

The Precision Reduction Gear RV are compact and lightweight while having excellent durability and providing high positioning accuracy, which have given Nabtesco a competitive edge. 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 1985 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

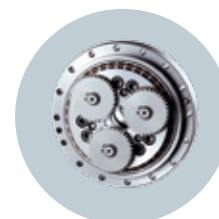
The Tsu Plant has a stable supply system in place in anticipation of increasing demand for precision reduction gears. We have also been implementing measures for increasingly higher quality and faster delivery on a continual basis, and are able to make flexible responses to changes in demand, which provides another competitive edge to Nabtesco.

## Business Environment (Opportunities and Risks)

According to the forecast made by the International Federation of Robotics, the world's market of industrial robots (including small, medium and large robots) will grow at the annual rate of 12 to 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 10%. 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.

Demand for industrial robots, however, is influenced by changes in the amount of capital investments made following economic changes, and we might face dramatic changes

## 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.



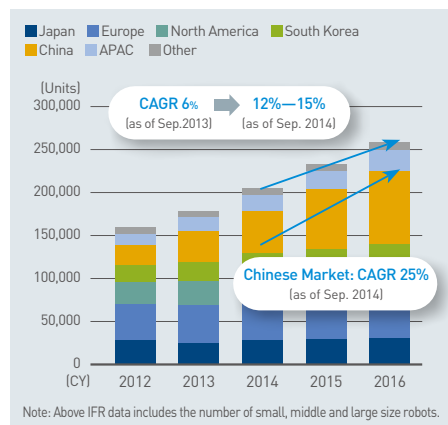
### Gear Head Type

This is a gear head type 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.



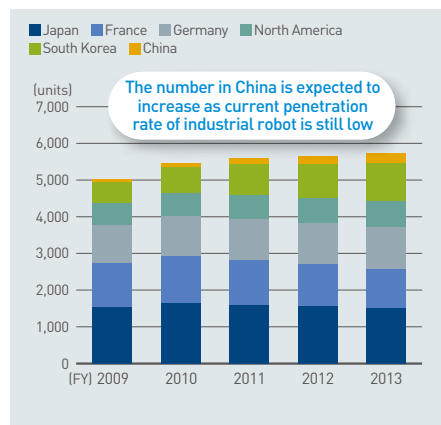
in demand depending upon the capital investment policies implemented by end customers. We also deem it a potential risk for the future that competitors might catch up with us in terms of technologies.

#### 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

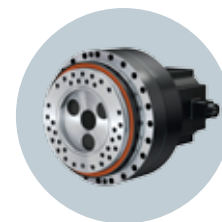


Source: International Federation of Robotics (IFR)



#### Gear Head Type (Table Type)

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.

## 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. Further, in fields other than industrial robots, we will fully display our long-established ability to develop new customers and new technologies to promote the sales of new products and the expansion of our business into new markets.

### FACT SHEET

#### Major customers

FANUC, YASKAWA Electric, Kawasaki Heavy Industries, KUKA Roboter (Germany), ABB Robotics (Sweden) and others

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

Tsu City, Mie Prefecture, Japan

#### 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 1985. 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.

**1985** Commenced launch of the Precision Reduction Gear RV Series (as the former Teijin Seiki).

**1991** Built the Tsu Plant for the manufacture of precision reduction gears (as the former Teijin Seiki).

**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).



# New Energy Equipment Business

## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, sales of drive units for wind turbines slightly increased year on year thanks to the foreign exchange effect while sales of solar tracking equipment was not recorded. For 2015/12(referential), sales of solar tracking equipment will not be recorded due to a decrease in the number of potential orders caused by the delayed launch of the world's first Concentrated Solar Power plant projects, to which we had delivered solar tracking equipment. However, sales of drive units for wind turbines will increase since the defects found in some of the procurement materials, which negatively affected sales in the previous fiscal year, will no longer influence the business.

### 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)

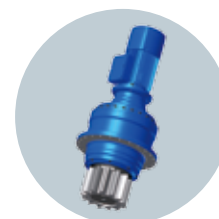
The main players of the wind power generation market are companies engaged in the heavy electric machinery industry, who deal with entire electric systems, as well as companies specializing in and leading the market in a highly competitive manner. In this market of technologically advanced products, 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, intensification of competition in the new market does pose a risk for us.

#### (Solar tracking equipment)

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

### MAIN PRODUCTS



#### Yaw Drive

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.



#### Pitch Drive (Control System 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.

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



### Solar Tracking Equipment

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

## 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 March 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.



# Railroad Vehicle Equipment Business

## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, sales increased to 31.2 billion yen year on year, driven by increased sales of products for high-speed trains in China and increased sales from the Maintenance, Repair and Overhaul (MRO) business. For 2015/12(referential), sales is expected to continue to increase to 33.1 billion yen, propelled by increased sales from high speed trains in China and by sales expansion of the MRO business despite a decrease for sales for new railroad vehicles in Japan.

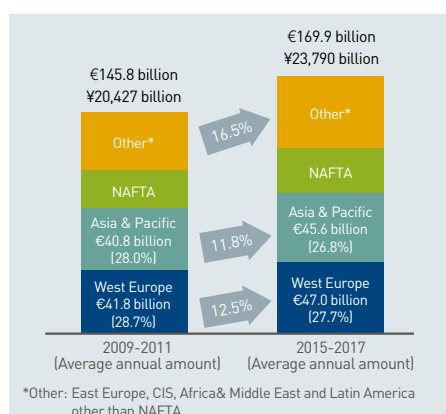
## Sources of Strength

Since receiving our 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 after-sale services on a continual basis.

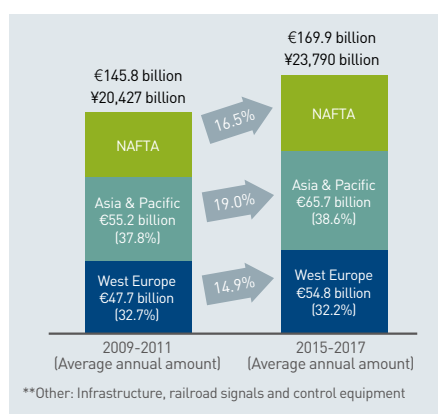
## Business Environment (Opportunities and Risks)

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 domestic production of high-speed trains commences 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

## 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.



### 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.



## 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.



### 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).

#### FACT SHEET

##### Major customers

Japan Railway (JR) companies, private railway companies, Kawasaki Heavy Industries, companies related to Chinese high-speed trains and urban traffic systems and others

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

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

##### Market share

Brake systems: Approx.50% domestic market share

Door opening systems: Approx.70% domestic market share

##### History of business development

Nippon Air Brake Co., Ltd., the predecessor of NABCO, was founded in 1925 and received an order for its air brake systems from the Ministry of Railways that same year. 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 entered into the market of 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 (as the former NABCO).
- 1998** Relocated and opened the Kobe Plant for the manufacture of railroad vehicle equipment (as the former NABCO).
- 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.



# Commercial Vehicle Equipment Business

## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, demand decreased in the overseas truck market, while domestic demand remained favorable. As a result, sales amounted to 9.3 billion yen, reaching the same level as attained in the previous fiscal year. For 2015/12 (referential), demand will be stabilized in Japan but sales is expected to increase to 10.4 billion yen due to the recovery of demand in the Southeast Asian truck market.

## Sources of Strength

The technologies and brand power developed to meet Japanese automakers' needs for high quality products 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, which is also a source of our strength.

## Business Environment (Opportunities and Risks)

In Japan, the volume of cargo transported is expanding, propelled by the economic measures implemented by the government. In addition, thanks to the continuous demand for replacement of old vehicles with new models, which began 10 years ago due to the environmental regulation, demand for trucks will remain stable. For demand in emerging economies, an annual growth rate of around 5% is expected. Nonetheless, in ASEAN, where Japanese truck manufacturers hold a large market share, price competition between these manufacturers and their counterparts based in Europe and emerging countries is intensifying, which could be considered as a risk.

## Measures for Medium- to Long-Term Growth

By creating added value and enhancing the quality management system for higher competitiveness, we will continuously work 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.

### 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 all Japanese heavy-duty truck manufacturers.



#### 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.

### Major customers

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

### Production bases [as of the end of March 2015]

Murayama City, Yamagata Prefecture, Japan / Thailand

### 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 automobile 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 2012, 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 (as the former NABCO).

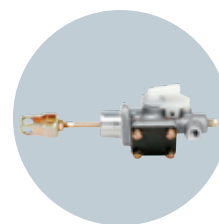
**1937** Began manufacturing and selling air brake systems for commercial vehicles for the first time in Japan (as the former NABCO).

**1972** Became the first company to succeed in developing air dryers for commercial vehicles in Japan (as the former NABCO).

**1991** Opened the Yamagata Plant for the manufacture of commercial vehicle equipment (as the former NABCO).

**2004** Established a joint venture to manufacture and sell automobile components (Nabtesco Automotive Products Co., Ltd).

**2009** Began operations as Nabtesco Automotive Corporation.



### 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.



# Marine Vessel Equipment Business



## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, sales increased year on year to 11.9 billion yen, reflecting an increase in the amount of backlog at shipbuilding facilities both in Japan and overseas and so on. For 2015/12 (referential), sales is expected to increase year on year to 12.7 billion yen thanks to increasing demand for electronic engine control devices etc.

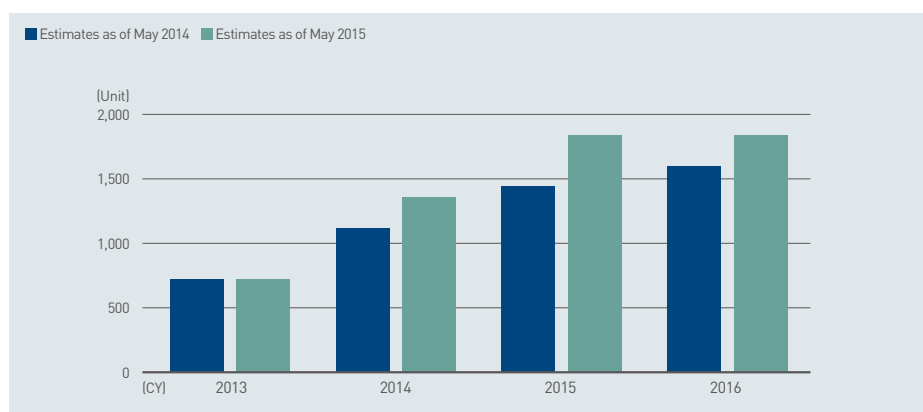
## Sources of Strength

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)

Since 2013, following the recovery in demand for new ships, shipbuilding facilities in Japan and overseas have secured an abundant number of backlog, which will be executed consistently toward the future. Further, 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. Though the market may be affected by cyclic economic changes, along with market recovery, demand for preventive repair and maintenance services is increasing, which will help expand our business.

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



Source: Nabtesco estimates

## MAIN PRODUCTS



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

This system enables the remote control of the vessel's diesel engine 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 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 receiving more orders 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 March 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.

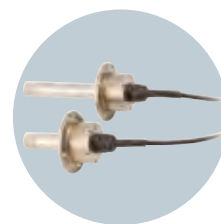
In 2014, we achieved a cumulative shipment of 7,000 electronic governor units for use in marine vessels.

- 1950** Delivered gas compressors for freezers of marine vessels (as the former NABCO).
- 1963** Commenced manufacture and sales of marine vessel control equipment (as the former NABCO).
- 1983** Developed and commenced sales of microcomputer controllers (as the former NABCO).
- 1986** Commenced sales of M-800-X, a mass production model of microcomputer controllers (as the former NABCO).
- 1987** Developed and commenced sales of microcomputer-based electronic governors (as the former NABCO).
- 1995** Established Nabmic B.V. in Netherlands (as the former NABCO).
- 1998** Established Nabtesco Marine Service Pte., Ltd. in Singapore (as the former NABCO).
- 2000** Established Nabtesco Marinotec Co., Ltd. in South Korea (as the former NABCO).
- 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.



#### Electronically Controlled High-Speed Hydraulic Valves

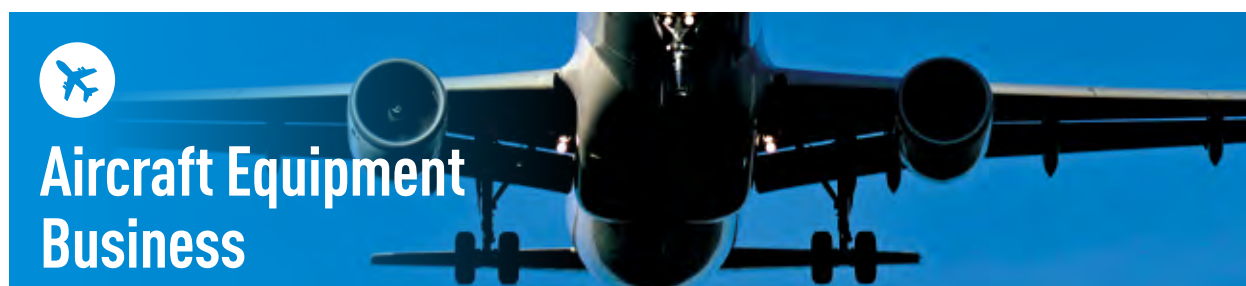
Each diesel engine cylinder is equipped with one electronically controlled high-speed hydraulic valve, which electronically controls the timing and amount of fuel injection and the timing at which the exhaust valve opens and closes. The valve contributes to higher fuel economy and is attracting much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



#### GAP Sensors

GAP 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.





### Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, sales increased from 19.8 billion yen, to 20.7 billion yen year on year, due to the expanded sales of products used in civil aircraft and to the foreign exchange effect. Also, for 2015/12 (referential), sales is expected to increase to around 22.8 billion yen, thanks to the continued expansion of sales of products for civil aircraft and the foreign exchange effect.

### 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 actuators that minimize possible risks.

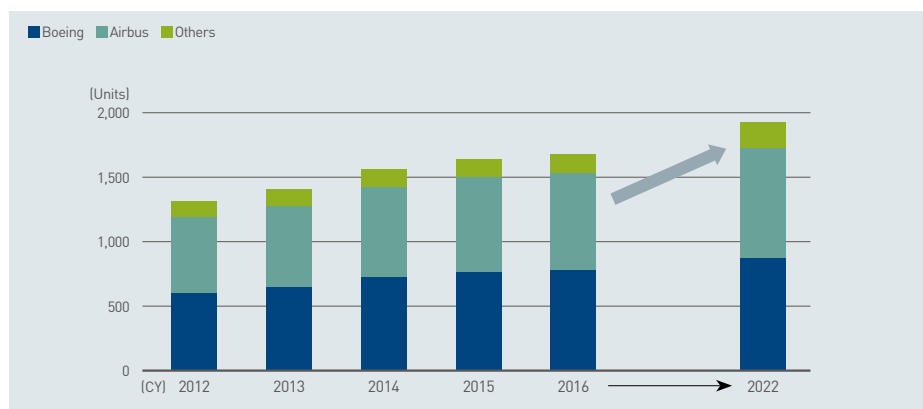
#### Relations of Trust with Customers

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 flight control actuation (FCA) systems.

#### 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.

### Transition of Delivery of Aircrafts



Source: Nabtesco estimates

### 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.

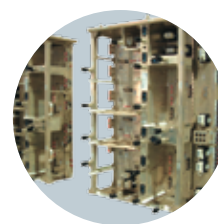
## Business Environment (Opportunities and Risks)

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), Kawasaki Heavy Industries, Mitsubishi Heavy Industries, IHI, the Japanese Ministry of Defense, airline companies and others

#### Production bases [as of the end of March 2015]

Gifu Prefecture in Japan / State of Washington in the United States

#### Market share

FCA: 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, we were awarded 2013 Boeing Supplier of the Year Award, acclaimed for our improvement of QCDS (Quality, Cost, Delivery and Service). We have continued to steadily receive orders and supply FCAs for various airplanes and expand the business.

**1944** Commenced production in Japan for airplanes in the national defense field (as the former Teijin Seiki).

#### Latter half of the 1970s

Received orders for products including landing gear hydraulic actuators for the B737 Classic (as the former Teijin Seiki).

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

**1979** Received orders for spoiler actuators for the B767 and for aileron actuators for the B757 (as the former Teijin Seiki).

**1990** Received an order for FCA systems for the B777 (as the former Teijin Seiki).

**2006** Received an order for high-voltage electric power distribution unit for the B787.  
Received an order for FCA systems for the B747-8.

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

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

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

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

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



Received 2013 Boeing Supplier of the Year Award from among about 21,000 suppliers around the world



# Hydraulic Equipment Business

## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, sales decreased year on year from 32.6 billion yen, to 27.1 billion yen, influenced by a decrease in demand for construction machinery in China. For 2015/12 (referential), demand for construction machineries will remain stagnant in China but sales is expected to increase due to the acquisition of Hyst Corporation .

## Sources of Strength

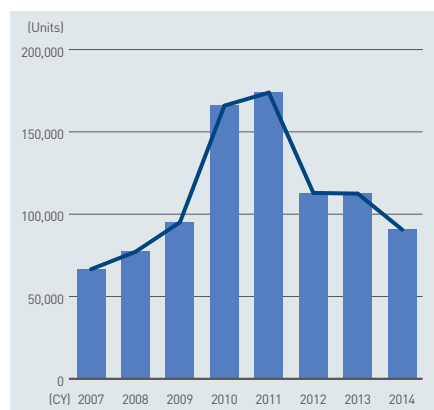
Nabtesco's traveling units "GM Series" for crawlers, which integrate a reduction gear, a hydraulic motor, a parking brake and other components in one unit, feature excellence in durability and reliability in addition to great power generation efficiently, while remaining compact. Since the start of mass 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, 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)

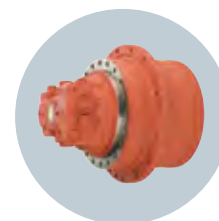


Source: China Construction Machinery Association

## Measures for Medium- to Long-Term Growth

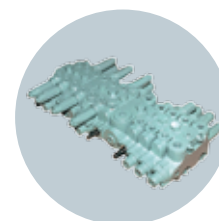
While expanding the product lineup through the acquisition of Hyst Corporation, we will foster a shift from selling components to cross-selling of hydraulic equipment and further proposals of hydraulic systems that correspond to customers' potential needs and generate more added value. Also, to respond 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 us to respond flexibly even to drastic changes in the business environment.

## MAIN PRODUCTS



### Traveling Unit for Crawlers

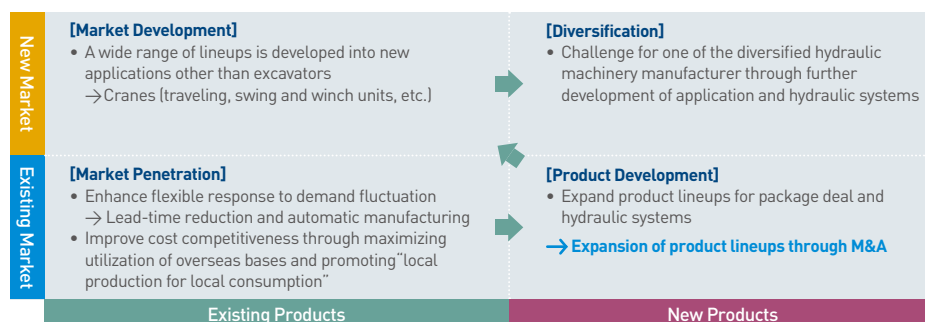
This series is used as a traveling unit for crawlers and the wheels of excavators, crawler drills, cranes, and aerial work platforms.



### 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.

## 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.						●	●	●

## FACT SHEET

### Major customers

Komatsu, Kobelco Construction Machinery, Kubota, Hitachi Construction Machinery, Sumitomo Construction Machinery, Sany, Zoomlion, Xugong Excavator, Liu Gong and others

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

Gifu Prefecture in Japan / Shanghai and Jiangsu in China (the base in Jiangsu will be integrated into the plant in Shanghai) / 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 (as the former NABCO).

**1949** Commenced manufacture and sales of hydraulic equipment (as the former NABCO).

**1961** Opened the Tarui Plant for the manufacture of hydraulic equipment and start the Hydraulic Equipment Business (as the former Teijin Seiki).

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

**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 (as the former Teijin Seiki).

**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.



# Automatic Doors Business

## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, sales increased year on year from 42.7 billion yen, to 46.4 billion yen, thanks to favorable demand in both Japanese and overseas markets as well as the foreign exchange effect. For 2015/12 (referential), sales is expected to increase to 52.2 billion yen, driven by continuously favorable demand in Japan and overseas, the acquisition of a sales company in last fiscal year and the foreign exchange effect.

## Sources of Strength

### Value Chain Management

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, including special-purpose automatic doors and those for industrial use, and also engage in door 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.

### Global Business Development

We conduct global business mainly in four regions around the world: Japan, Switzerland, North America and China, and use our brand power and technological progress widely around the world as our strengths.

### Sales Network

We have a sales support system that covers all regions across Japan, which discourages other companies from entering the market and helps us to maintain high market share.

## Business Environment (Opportunities and Risks)

In the mature markets of Japan and Europe, demand for our products will not increase exponentially, but demand for after-sale services, such as maintenance service, will show stable growth. Also, in the United States, the real estate property market is showing moderate recovery from the damage caused by the collapse of Lehman Brothers. In Europe, however, high value of the Swiss franc may negatively affect our business in the region.

## 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.



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.



## Measures for Medium- to Long-Term Growth

Through M&A targeting of overseas sales companies, we will enhance value chain management, which will give us a competitive edge in the Automatic Doors Business, thereby expanding the size of the business. Further, by fostering the integration of the acquired companies into Nabtesco, we will enhance further governance and increase profitability. If an overseas subsidiary presents with a problem, we will restructure its business for higher profitability. In mature markets, we will provide customers with reliable after-sale services based on our high market share, thereby enhancing higher customer satisfaction, which will in turn improve our profitability.



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.

## 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 March 2015)

Kobe City, Hyogo Prefecture, Japan / State of Wisconsin in the United States / Bern, Switzerland / 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 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) (as the former NABCO).

**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. (as the former NABCO).

**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.

**2013** Total cumulative production of NABCO automatic doors reached 2 million units.



# Packaging Machines Business



## Results for the Year Ended March 31, 2015, and Prospects for the Year Ending December 31, 2015 (referential)

For 2015/3, we recorded favorable sales both in Japan and overseas. Specifically, sales increased year on year from 9.2 billion yen, to 9.7 billion yen. For 2015/12 (referential), sales is expected to be around 10.5 billion yen due to increased sales outside of Japan.

## 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 automated processing 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.

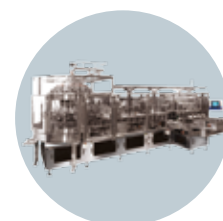
### Relations of Trust with Customers

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 requirements for packaging machines manufactured using high-precision processing technologies in Japan 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.

## 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 March 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, Teijin Seiki developed 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 corporation 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.

### 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

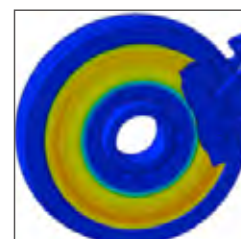
The Technology and R&D Division makes recommendations and supports in-house companies to help them meet their challenges and develop necessary human capital with the aim of eventually improving manufacturing quality to the industry's top level in each business field. The Division also formulates and 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

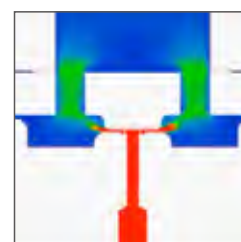
The Division searches for the seeds of business, including market needs and technological seeds. It now deals with 100 or more development projects launched by the in-house companies as well as by the Division itself. The Division conducts joint research with both domestic and overseas universities, 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 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.



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 more 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, being the first to launch an internal 3D printing service. 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 FY2015, we will press forward with analytical research, move to the second stage of the project, and conduct experiments that use actual wind turbines. Moreover, we are working on R&D for actuators with the University of Washington (UW) in the United States and for power electronics technologies with Eidgenössische Technische Hochschule Zürich (ETH Zurich).



Technical University of Denmark



Meeting held at the Technical University of Denmark

### 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>● University of Washington (UW)</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>Actuator-related Technologies</b> <ul style="list-style-type: none"> <li>● Joint research with UW</li> </ul>
		<b>Power Electronics Technologies</b> <ul style="list-style-type: none"> <li>● Joint research with ETH Zurich</li> </ul>



### 04 Topics

#### **Relocating the Nabtesco Digital Engineering Center (NDEC) to the Kyoto Research Park and Enhancing the Facilities**

We have relocated the NDEC, which we opened within the premises of the Kobe Plant in November 2013, to the Kyoto Research Park in July 2015, with a view to enhancing the facilities.

Through this base in Kyoto, a city that collects the universities and the research institutes, we will foster external collaboration with local companies and universities based on the concept of open innovation, thereby reducing the time required for development and efficiently managing R&D expenses, while also developing human capital through the exchange of human resources and technologies with the organizations.



Kyoto Research Park

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

We introduced a resin 3D printer manufactured by CMET, a Nabtesco Group company, to the NDEC. Using this machine, the Center has been supporting the development activities of the in-house companies and conducting examinations on the rapid prototyping of casting steels. In FY2014, we tested a new unique 3D printing method that prints objects with certain forms that in the past were unable to be produced by 3D printing. We also implemented a new initiative—making use of a 3D printer in a patent litigation—and from that, achieved results.

Also, in relocating the NDEC to the Kyoto Research Park and enhancing the facilities, we newly installed a metal 3D printer at the Center for product prototyping.

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

### 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.

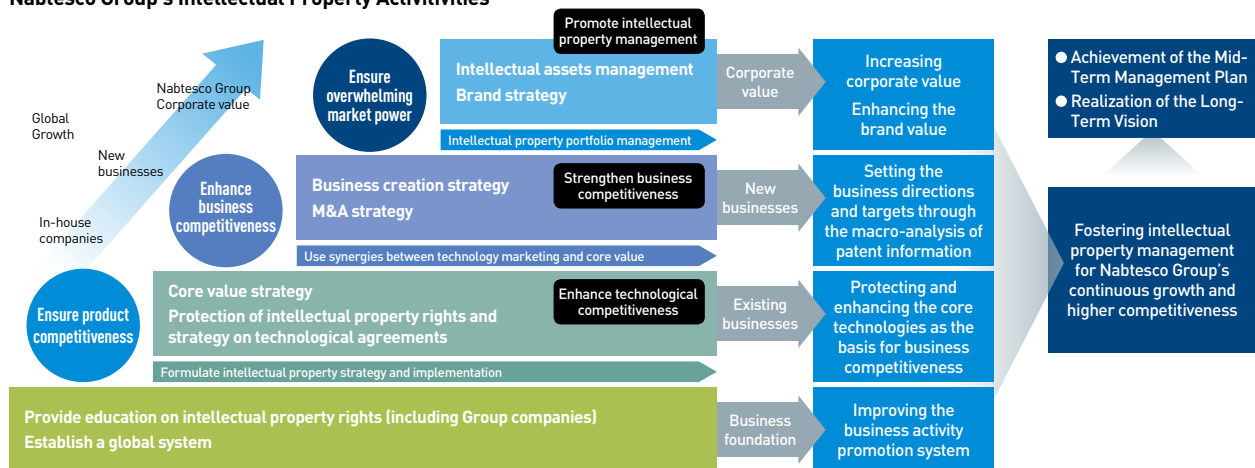
# Intellectual Property Strategy

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



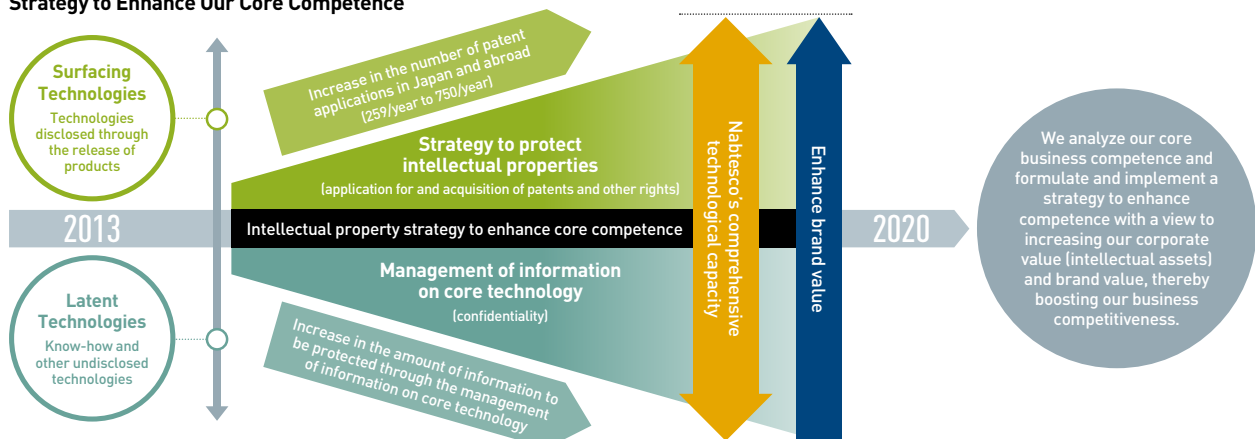
02

## 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.

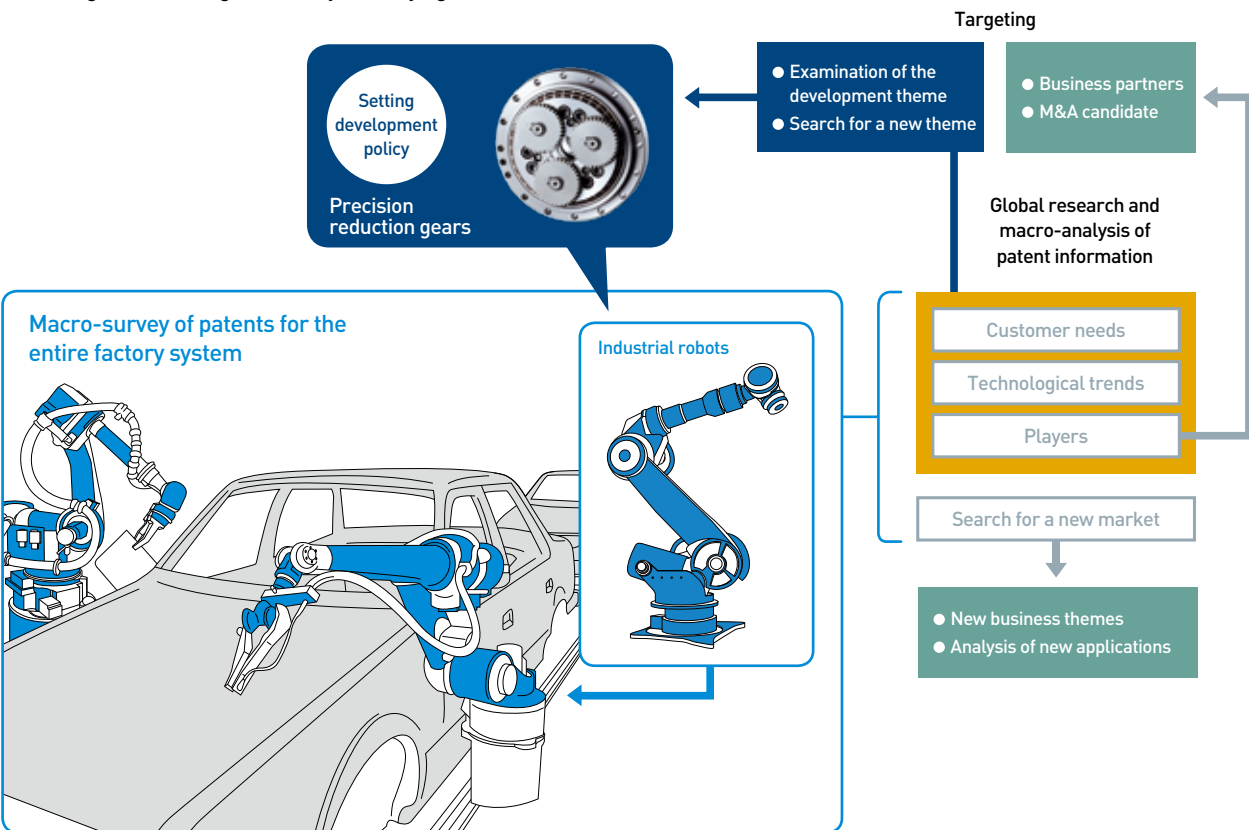
### Strategy to Enhance Our Core Competence



### 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.

#### Technological Marketing Case Study: Identifying Market Needs



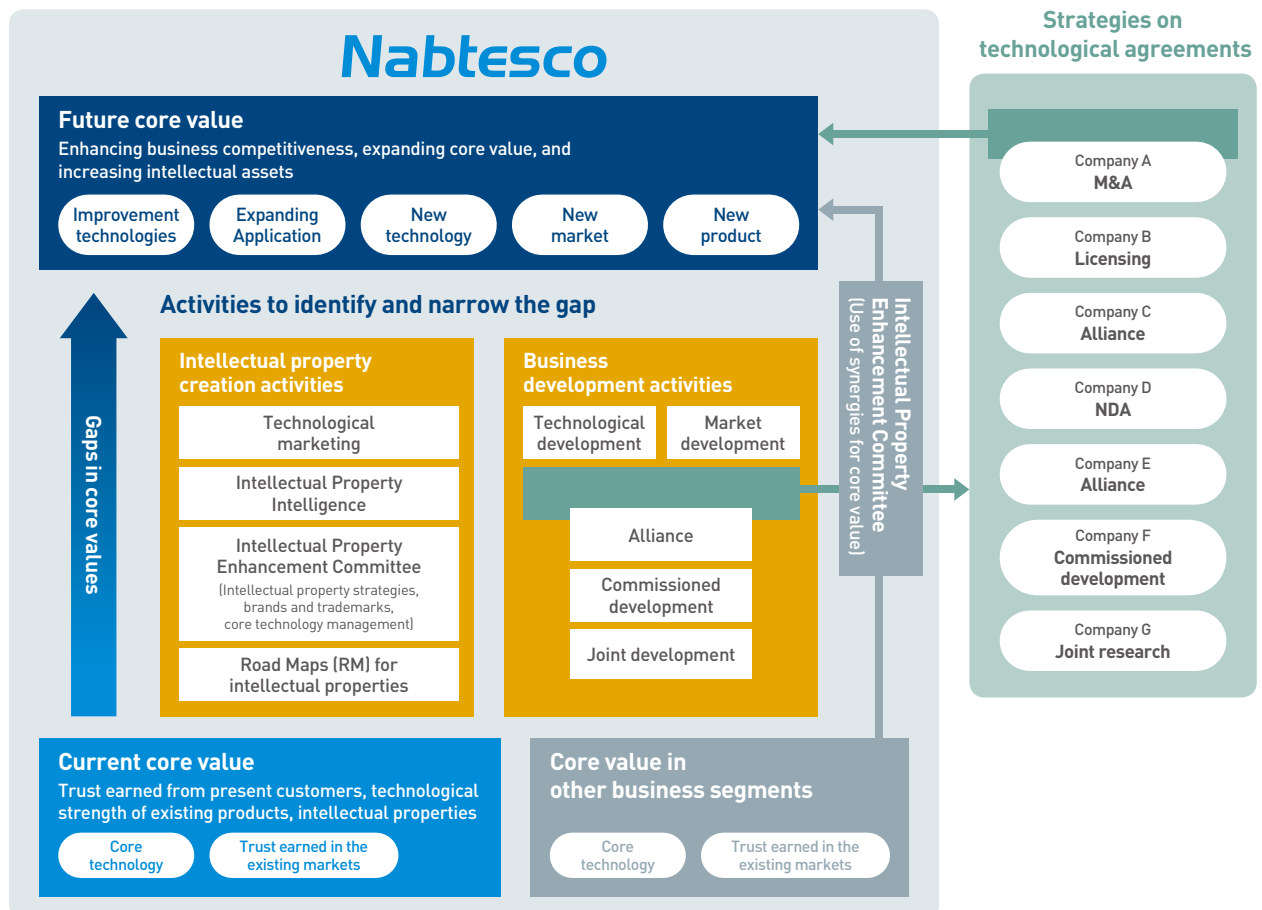
# 04

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

We use the Intellectual Property Intelligence to strengthen our competitiveness measures. First, 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. Based on the analysis results, 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.

As regards an organizational structure, 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

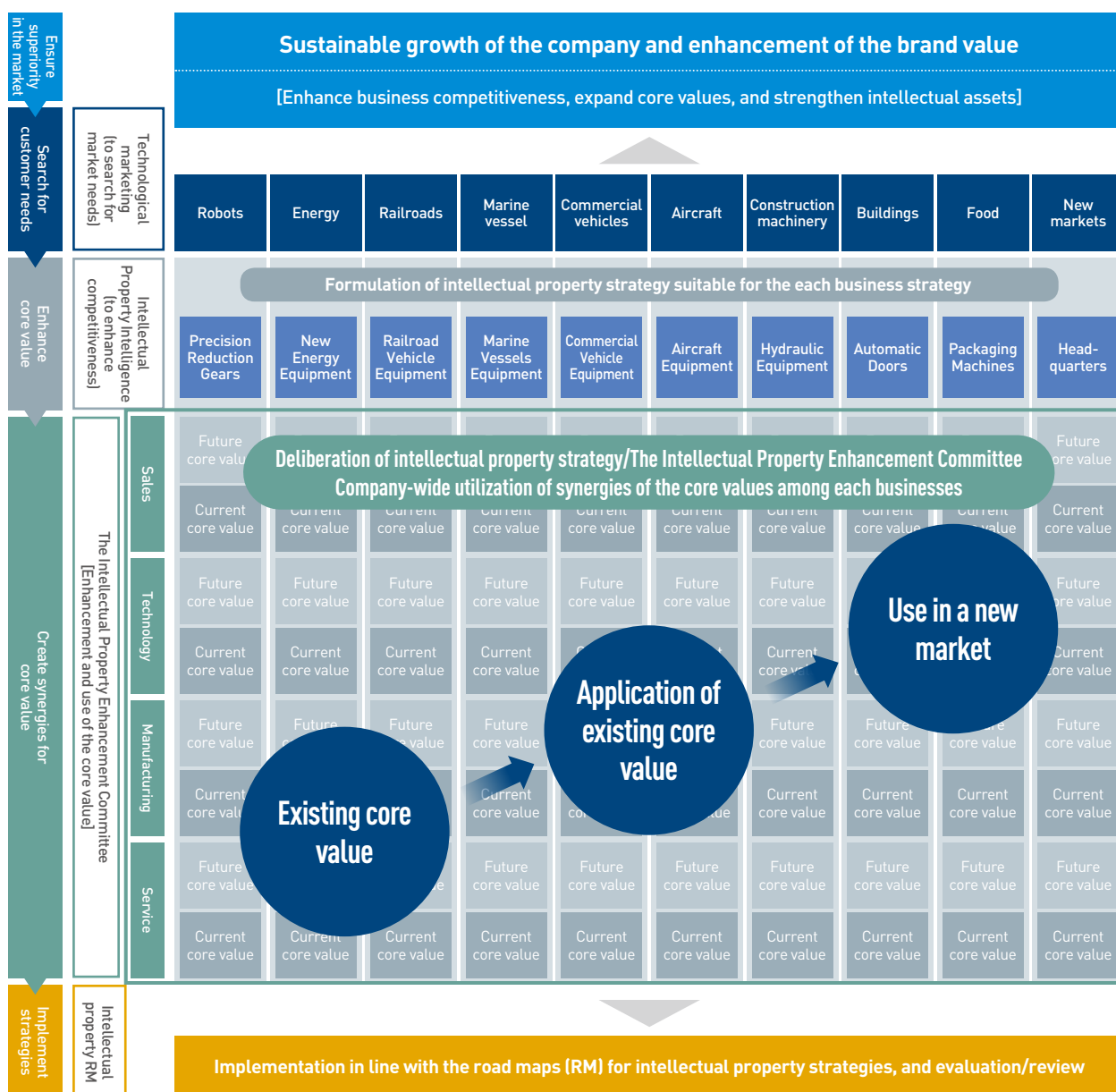


## 05 Overall Picture of Intellectual Property Strategy —Measures to Enhance Our Core Value—

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 strategy review organization, to examine and analyze the core values of each business segment for use by other segments. Thorough 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

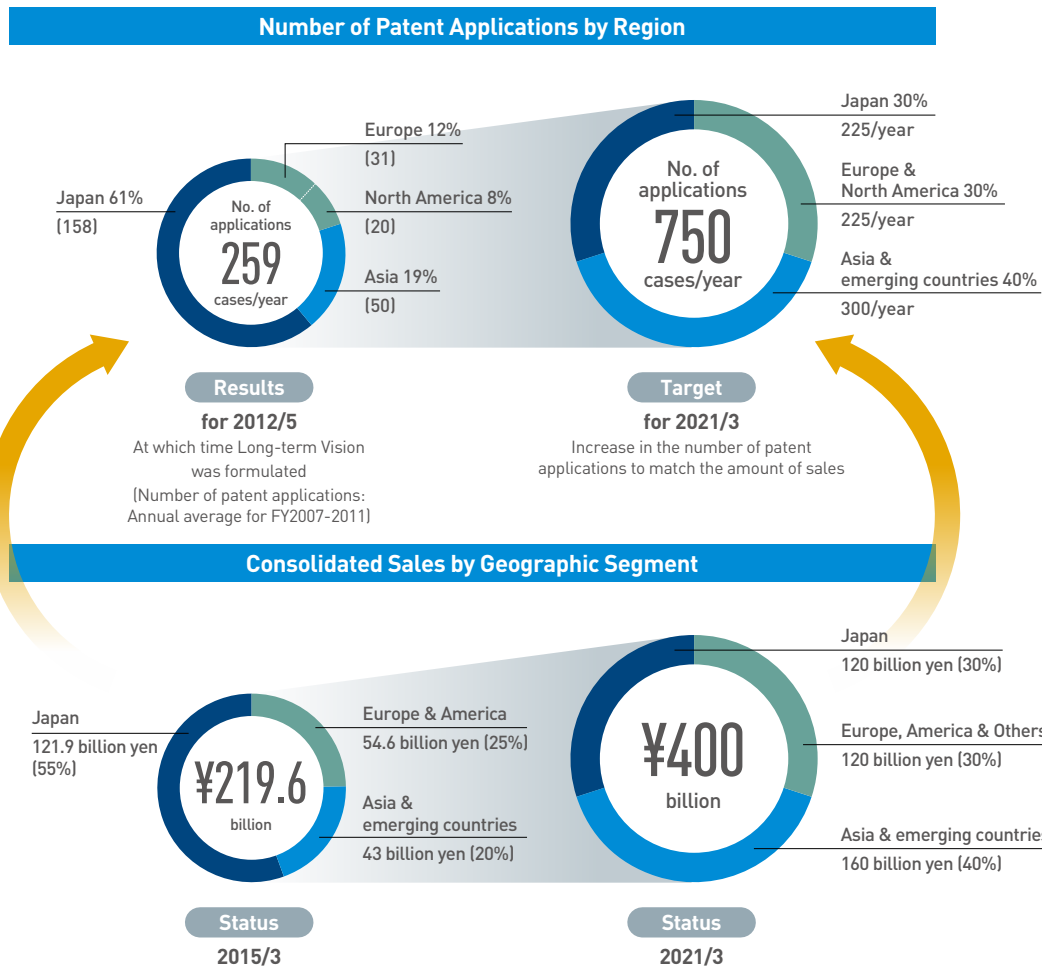
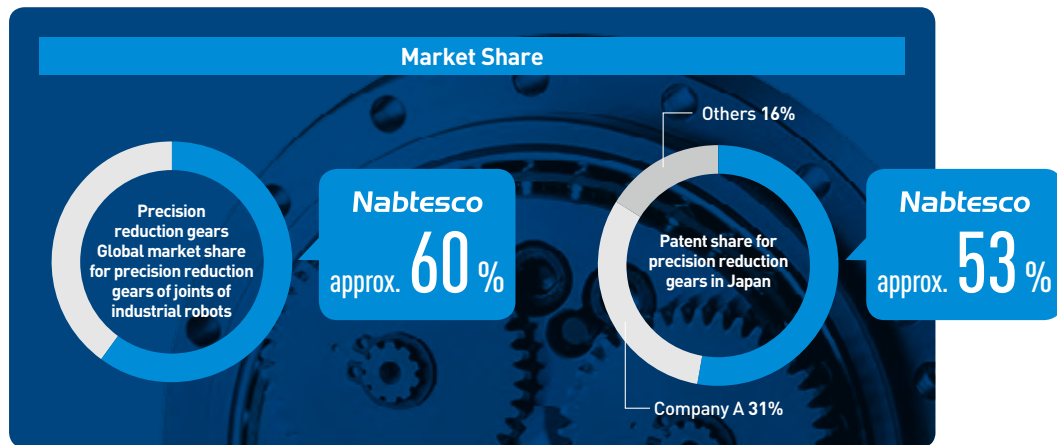




# 06

## 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, which will in turn help us further increase our market share across the world.





## 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

We strive to contribute to the development of society and economy by providing high value-added products pursuing safety, comfort and a sense of security. As the source of value creation, we identified the following material 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,” and “Ensuring management transparency.” We believe that our growth strategy would be supported by addressing these material issues sincerely.





## 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

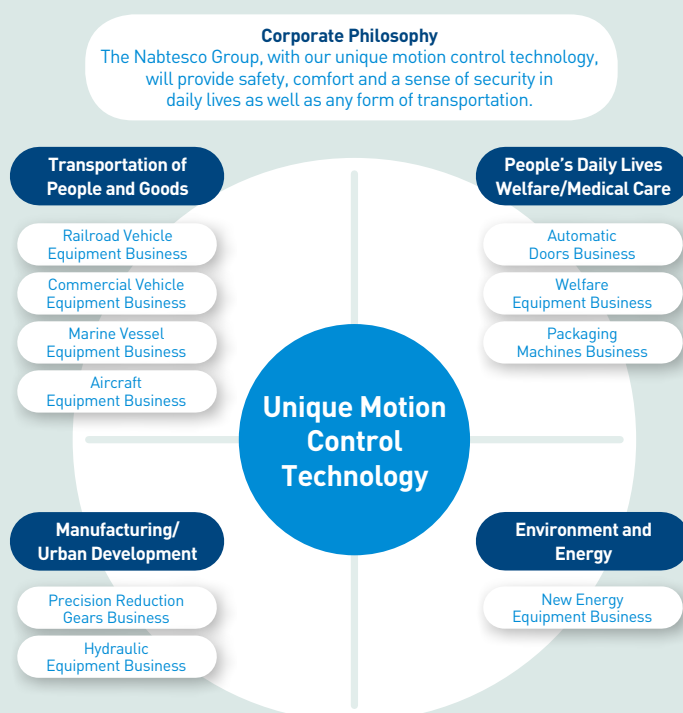
The Nabtesco Group upholds the corporate philosophy, "The Nabtesco Group, with our unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any form of transportation." In the Nabtesco Group Code of Corporate Ethics formulated in 2005, we set the 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 we have been proactively participating in symposiums\*1 and study groups organized by the Global Compact Network Japan. In FY2014, we participated in the study groups on how to permeate the GC concept throughout the company, 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.



\*1 The head of our General Administration Department made a presentation in the panel discussion on how to disclose ESG information in a well-balanced manner. The presentation was held as part of the symposium organized on December 9, 2014 to highlight the importance of disclosing ESG information in the management of companies.

## Identification of Priority CSR Issues

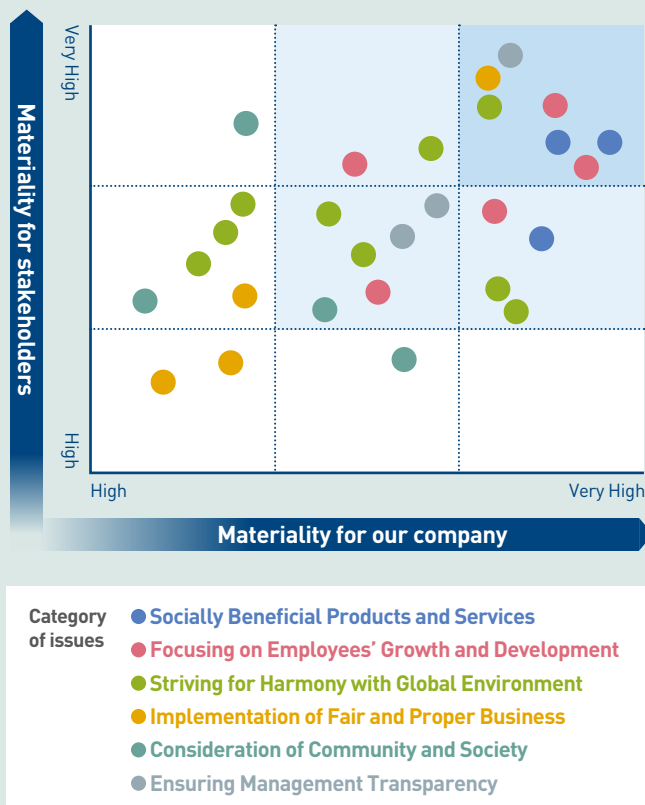
We reviewed our priority CSR issues through the following process:

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.



## 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:

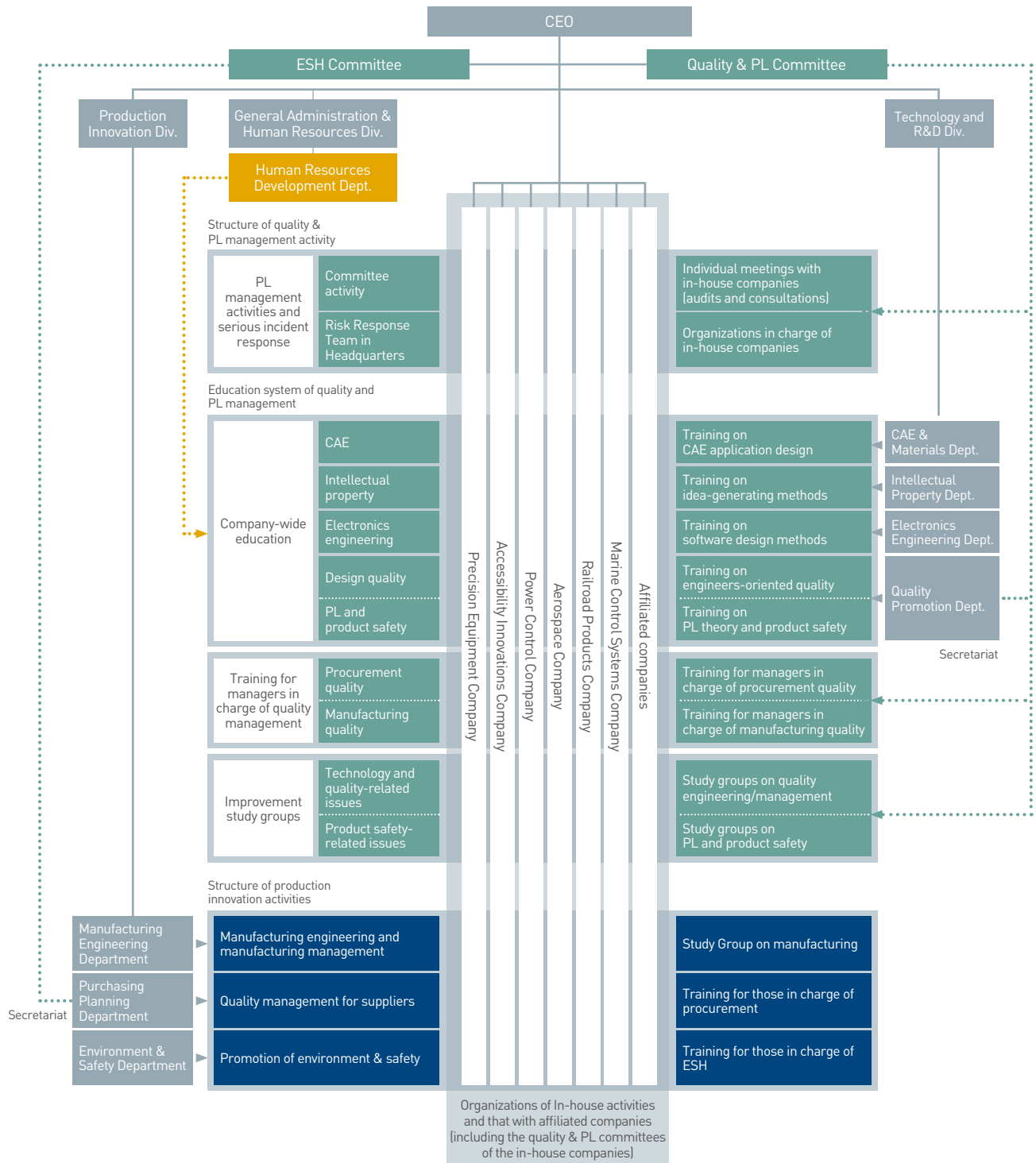
1. Give priority to safety over anything else, based on the principle of respect for people;
2. Meet safety and other quality needs of products through the integration of business activities and quality and PL activities; and
3. Realize product quality, which satisfies market demand, by conducting safety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



The Quality & PL Committee



Visit by the chairperson of the Quality & PL Committee to a factory for quality inspection (Manufacturing sector of the Railroad Products Company)

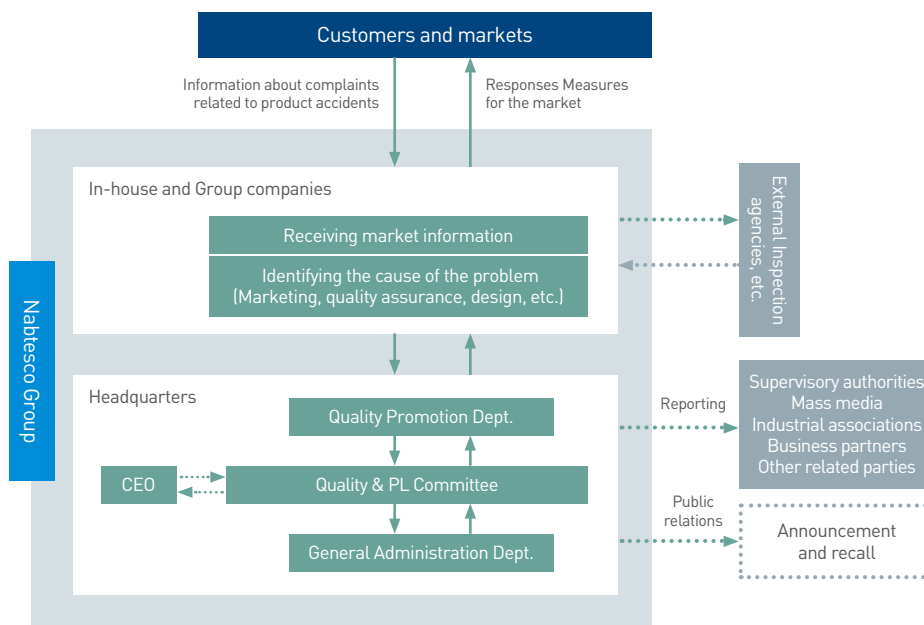
## Measures against Product Accidents

### 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.

### Response System for Product Accidents and Quality Problems



### Achievements

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

## 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. The number of certifications obtained amounts to 14 in Japan and 15 overseas right now.

### Quality and PL Activities Conducted in FY2014

#### 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.

Accordingly, during FY2014, we placed emphasis on the activity of enhancing suppliers' manufacturing quality as our main task, just as we did in FY2013. We held lectures on quality and offered suppliers instructions individually after considering their manufacturing conditions. Up to the present time, a total of 824 employees from 325 suppliers have attended our lectures.



Seminar on quality held for suppliers of the Aerospace Company



Seminar on quality held for suppliers of the Marine Control Systems Company

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

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. There are a total of 66 employees from two companies who participated in our lectures during the year.



Seminar on quality held at Jiangsu Nabtesco Hydraulic Co., Ltd., an overseas Group company

Suppliers Attendance  
at the Lectures on Quality  
(FY2014)

325  
companies

824  
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. {

)  
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.



Functionality assessment of a motor  
(Quality Management Training for young employees)

## Socially Beneficial Products and Services

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

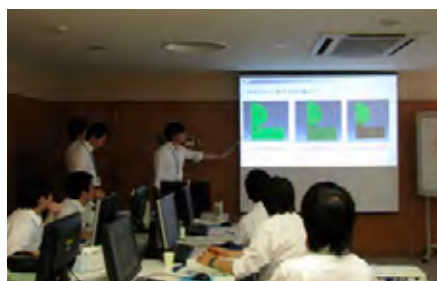
We have been holding Group-wide training seminars since 2007 to raise the product liability awareness and to encourage every employee engaging in aspects of designing, manufacturing, marketing, and servicing to apply the concepts into their daily jobs in order to deliver safety, comfort, and a sense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



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

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

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



CAE training on the finite element method

### 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.



Training on the TRIZ Theory about inventive problem solving

## Training on Software Design Quality

In response to an increase in the importance of software applied in products, 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 provide training on using the following three steps: requirement analysis, software design, and software verification.

In FY2015, we enhanced the training by adding more subjects to yield a total of five. The training topics are as follows: “requirement definition and use case,” “basics of UML,” “requirement analysis and

design,” “design and programming,” and “basic software testing.”



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) in our overseas Group company

## 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.



Human capital development to achieve higher quality: research to improve the quality of a pedometer through quality engineering

#### 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.

However, in the market, product safety has been attracting an increasing amount of public attention, as evidenced by the establishment of the Consumer Affairs Agency in Japan. Currently, 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. Not only do we promote the importance of building up a systematic framework in line

with international safety standards, we also engage in implementing necessary measures in business operations while simultaneously raising the awareness of our employees.



Research on product safety : risk assessment for an actual machine at TS Precision Co., Ltd.

## 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.

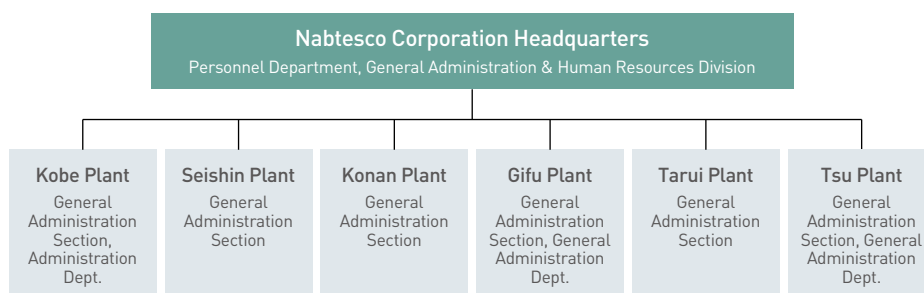


Network Japan  
WE SUPPORT

### 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 FY2014, 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. We are working to revise the rules of Group companies in order to prevent especially child labor.



## 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 1,750 members.

The labor and management of Nabtesco maintains good relations with the union by jointly discussing ways to improve the company's various systems and programs, regularly meeting to exchange

opinions regarding business management, as well as 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.



66.9%

#### 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 meeting, where the highest-level decisions are made for the Group, 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.

## 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. 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.

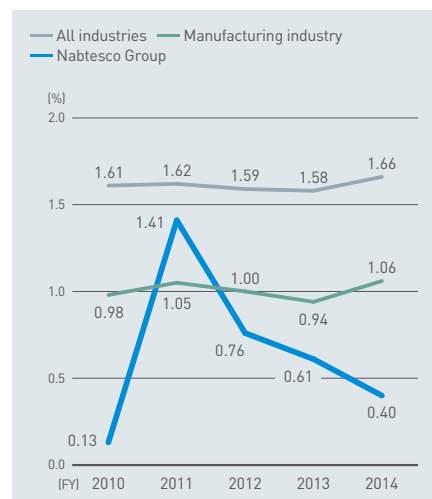
### (2) ESH Audits Carried out by the Group ESH Committee at Each Site

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.

In FY2014, we continued to foster KYT (Training on hazard prediction) and safety awareness raising activities to help employees increase their risk sensitiveness. We

also enhanced safety patrols in terms of frequency and quality to improve our safety management level. As a result, the number of lost-work time injuries slightly decreased year on year and the frequency rate also dropped from 0.61 to 0.40 for the Nabtesco Group, while outside of the Group the rate has increased for all industries including the manufacturing industry. We have had no fatal accidents for more than five years.

### Lost-Work time Injuries Frequency Rate



## Focusing on Employees' Growth and Development

### 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.

#### OHSAS 18001 Certification

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

## 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.

## Fostering Workplace Diversity

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

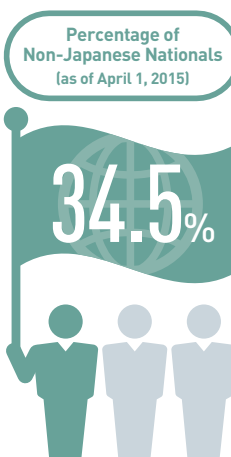
Due to the maturity of the economy and the fact that the Japanese population is decreasing as a result of the declining birthrate, we can no longer expect significant economic growth to take place in the domestic market, and therefore need to promote further globalization.

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 April 1, 2015, foreign nationals from 10 countries have joined Nabtesco's workforce.

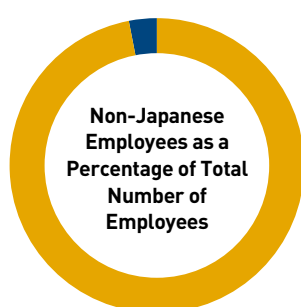
Of the 29 main career track employees who were newly recruited in FY2015, 10 are foreign nationals, accounting for 34.5% of the total, thus exceeding our goal of increasing the proportion of non-Japanese nationals to 30% of all newly recruited main career track employees.



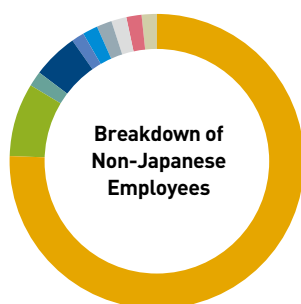
### Total Number of Newly Recruited Main Career Track Employees (New Graduates) and Percentage of Non-Japanese Nationals

(Unit: persons)

	2011	2012	2013	2014	2015
Total number of newly recruited main career track employees	19	28	41	30	29
Number of non-Japanese nationals	2	4	16	8	10
Percentage of non-Japanese nationals	10.5%	14.3%	39.0%	26.7%	34.5%



Japanese employees	97.0%
Non-Japanese employees	3.0%



(Unit: persons)

China	47
Republic of Korea	5
Malaysia	1
Vietnam	3
Germany	1
Czech Republic	1
Thailand	1
Ghana	1
India	1
U.S.A.	1

\*Employees naturalized in Japan are included in the number of those coming from their native countries, and employees and others from Hong Kong are counted as being from China.

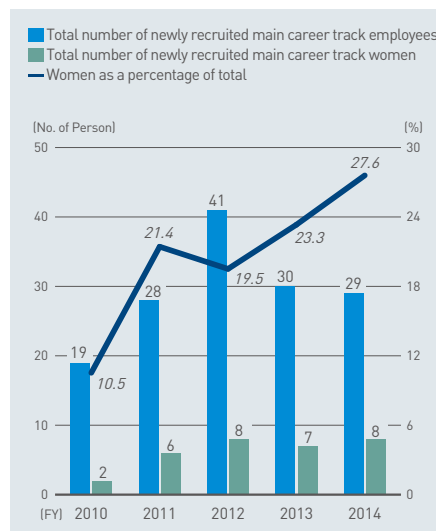


## Proactive Employment of Women

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

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

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



Women as a Percentage of Total Number of Newly Recruited Main Career Track Employees (FY2015)

27.6%



### Breakdown of Regular Employees (as of March 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	1,805	284	67	37
Female	187	1	11	9
Total	1,992	285	78	46

## Promotion of Senior Employment

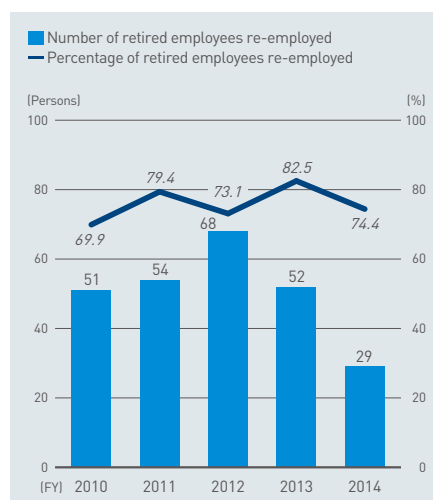
Upon enforcement of the revised Act on Stabilization of Employment of Elderly Persons, we introduced a continuous employment system and have since been working to provide experienced employees with supportive workplaces that allow them to demonstrate their full potential, including the establishment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

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 workers have expertise, knowledge and skills that have built up over many years, and therefore they encouraged to fully display their abilities even after retirement. At each production site, we encourage experienced workers to share their skills with their successors and

promote activities to turn their tacit knowledge into explicit knowledge. These activities have become an intellectual asset to support our current technical capabilities.

### Re-Employment Rate of Retired Personnel



## Focusing on Employees' Growth and Development

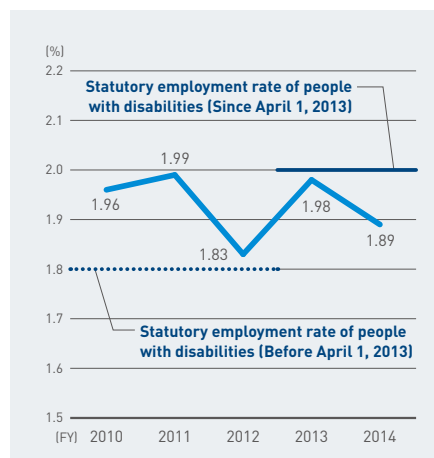
### Employment Promotion of People with Disabilities

Nabtesco is committed to employing people with disabilities.

The statutory employment rate of people with disabilities was raised from 1.8% to 2% in FY2013, and since then, we have reached slightly less than the revised rate. We will work even more proactively to employ 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 organized at the sites.

#### Employment Rate of People with Disabilities



### Work-Life Balance

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

In April 2013, we increased the number of days off that employees can take for their children during illness, thereby providing increased support for employees with children. In October 2014, 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 FY2014, the parental leave system was used by 100% of qualified female employees, and additionally by a male employee three years in a row.

In line with an increase in the elderly population in need of nursing care, employees tend to take longer leave for reasons of caregiving. In response, we revised the rules on the leave system in April 2013 to allow employees to take leave repeatedly up to a total of two years.



Futoshi Omori, a male employee at the Kobe Plant who took parental leave

## Support for Childcare and Nursing Care

1. Parental leave: Up to two years. This leave can be taken even when the spouse is devoted to full-time child-rearing.
2. Nursing care leave: Up to a total of two years per family member who needs nursing care, but if the number of days 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 child-care/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

## Focusing on Employees' Growth and Development

### Stability of the Workforce

Nabtesco promotes labor management and related measures based on employee turn-over 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 (FY2014)**

(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.

# 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.

**FY2014 Education Scheme** (Training Provided by the Human Resources Development Department)

			Mandatory	Recommendation	Open application	Recommendation & open application										
		Training by position	Training for specific purposes			Leader development training	Globalization training		Self-development							
Managers	General managers	Training for Newly Appointed General Managers				Studying at domestic and overseas business schools										
	Managers	Training for Newly Appointed Managers														
General employees	Grade 7		OJT Staff Training	Diversity Training	Training for Employee Performance Evaluation	Basic Management Program		English Writing Training (Entry Level) (Intermediate Level)	Intensive Study Camp for English Conversation	Overseas Language Study (Overseas Trainee Program)	Training before Overseas Posting	Language Courses (provided by each site)	TOEIC examination (provided by the Human Resources Development Dept.)	Correspondence Course, E-learning (provided by the Human Resources Development Dept.)	Introduction of Recommended Books (by the Human Resource Development Dept.)	Defined Contribution (DC) Plan Follow-up Seminar (held by the Personnel Dept.)
	Grade 6	Upper-level Problem-solving Training (Training for employees promoted to Grade 6)														
	Grade 5															
	Grade 4	Entry-level Problem-solving Training (Training for employees promoted to Grade 4)	Second-year Research Report & Presentation	Training for Second-year Employees	Training for Newly Employed Mid-career-hire Employees	Training for Candidate Foremen										
	Grade 3	Training for New Employees														
	Grade 2															
	Grade 1															

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

## Focusing on Employees' Growth and Development

**Number of Trainees** (FY2014 Training Provided by the Human Resources Development Department)

(Unit: persons)

Training for New Employees	54	Basic Management Program	19
Entry-Level Problem-Solving Training (for those promoted to Grade 4)	62	Seminar to analyze questions	15
Upper-Level Problem-Solving Training (for those promoted to Grade 6)	35	Studying at domestic and overseas business schools	15
Training for Newly Appointed General Managers	9	Studying overseas	2
Training for Newly Appointed Managers	24	English Writing Training	23
Training for Candidate Foremen	15	Intensive Study Camp for English Conversation	3
Training for Newly Employed Mid-Career-Hire Employees	46	English Presentation Training	17
Second-Year Research Report & Presentation	39	Training on Marketing	15
Training for Second-Year Employees	45	Training on Purchasing	8
Training for Third-Year Employees	33	Workshop on Designing	15
OJT Staff Training	47	Training for those to be transferred overseas	8
Training for Employee Performance Evaluation	37	Global Training	11

\*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.

In FY2014, we began providing employees working in a global business environment with Global Training to help them acquire the basic knowledge and cross-cultural communication skills necessary for their work.

In addition, we regularly organize training on English writing and presentation

skills to provide employees with opportunities to acquire basic skills and improve English ability that is required for global business communication. In FY2012, we introduced the "Overseas Trainee Program" to provide employees with opportunities to study and work abroad, and sent two employees overseas under this program in FY2014.



Global Training



## 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.



Training for Second-Year Employees

## 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. 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.

In 2014, the third year since the establishment of The Nabtesco Way, 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 March 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 614. We also held "The Nabtesco Way Month," which we launched in FY2013 for the second time to raise employees' awareness of The Nabtesco Way, during which meetings were held at 316 workplaces at Nabtesco, including eight Group companies in Japan, with the participation of a total of 2,980 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 FY2014

Group companies  
in Japan

8  
companies

316  
workplaces

2,980  
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

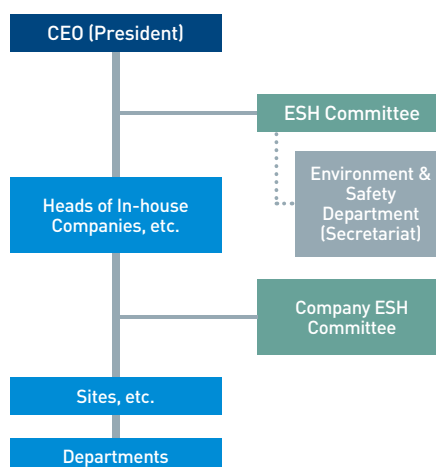
- We acknowledge that the preservation of the global environment is a crucial issue that is common to humankind. With participation by all employees, we will actively promote the establishment of targets which aim to improve the results of our environmental preservation activities, and we will actively 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 chairman and the other members of this committee are selected from the directors and appointed by the president. The members of the Committee meet at least once a year. The Environment & Safety Department serves as the secretariat for the meetings.

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 meeting, where highest-level decisions, including business strategies, are made for the Group.

## 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 Group's management team reviews the ESH management system based on the report about the results of the ESH activities, including the audit results and follow-up surveys.

### Results of FY2014 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: 4 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: 4 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.

### Situation Regarding Certification of ISO 14001

	Date of first certification	Last updated	Certification agency
Konan Plant (Hyogo Pref.)	October 22, 1999	October 1, 2014	LRQA
Tsu Plant (Mie Pref.)	March 28, 2000	March 28, 2015	ISC
Gifu Plant (Gifu Pref.)	June 1, 2001	July 1, 2013	LRQA
Tarui Plant (Gifu Pref.)	June 1, 2001	July 1, 2013	LRQA
Seishin Plant (Hyogo Pref.)	November 30, 2003	November 30, 2012	LRQA
Kobe Plant (Hyogo Pref.)	March 26, 2004	March 26, 2013	JQA

# Striving for Harmony with Global Environment

## Environmental Education

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

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

trends and revisions of important laws and regulations.



Meeting for energy conservation committees

### Number of trainees (managers and employees in charge of ESH):

(Unit: persons)

Subject	FY2012	FY2013	FY2014	Frequency
Energy conservation	68	68	76	4/year
ESH	20	15	14	1/year
Safety	14	16	13	1/year

## Topics

In FY2014, we conducted a tour of an energy-efficient factory for managers and employees engaged in energy conservation initiatives. Participants visited Panasonic

Industrial Devices SUNX Tatsuno Co., Ltd. (Tatsuno Factory) to learn more about energy conservation.

## Violation of Environmental Regulations

The Nabtesco Group identified laws and regulations applied to our business and compiled the list to prevent the occurrence of legal violations as well as confirmed the

company's compliance with them. In FY 2014, there were no breaches, penalties and sanctions against across the Group any environmental regulation during the year.

# 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 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 FY2014, we received a high evaluation (93B).

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.

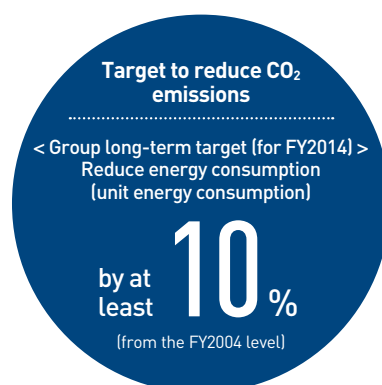
\*CDP (Carbon Disclosure Project): CDP is an international non-profit organization. It urges companies that boast the world's top-ranked total market value to disclose their climate change strategies and greenhouse gas emissions levels. Based on the information disclosed, the CDP annually evaluates the companies and announces their scores to the public. The CDP represents 767 institutional investors with total assets of 92 trillion US dollars (as of 2014 survey), and evaluates 6,000 top companies in the world, including 500 in Japan.

## Reduction of Greenhouse Gas Emissions

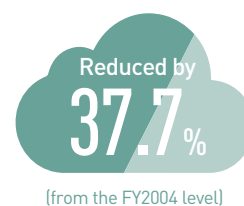
The Nabtesco Group is fostering the efficient use of energy resources across the board as a means to mitigate global warming. Specifically, we set the theme for improvement of energy conservation in the maintenance, management and operation of our equipment, and quantitatively evaluate the effectiveness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

In FY2014, our total CO<sub>2</sub> emissions increased by approximately 3% over the previous fiscal year as sales expanded. Nonetheless, as a result of repairing and updating our equipments and conducting energy conservation activities, we reduced CO<sub>2</sub> emissions per unit sales by 5.1%, and decreased emissions by 37.7% over the long term, far exceeding the target of 10% for

this parameter. Thus, we achieved both the annual and long-term targets for the fiscal year. To achieve the Group long-term target, we will further foster energy conservation by making proactive use of renewable energy and the energy monitoring system.



Reduction of CO<sub>2</sub>  
Emissions Per Unit of  
Sales in the Long Term



### Targets and Results of FY2014

CO <sub>2</sub> emissions	Targets	Results*	Status
Per unit sale in FY2014	Reduce by at least 1% over the previous fiscal year	Reduced by 5.1%	Achieved
Per unit of sales in the long term	Reduce by at least 10% over FY2004	Reduced by 37.7%	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.

# Striving for Harmony with Global Environment

## CO<sub>2</sub> Emissions in FY2014

The Nabtesco Group has been making a concerted effort to update facilities and equipments, and to improve processes in order to reduce the amount of energy, including standby electricity, used by the Group. As a result, our CO<sub>2</sub> emissions increased only by 3.0%\*<sup>2</sup> compared to the

previous fiscal year despite the fact that our sales increased by 8.6% year on year.

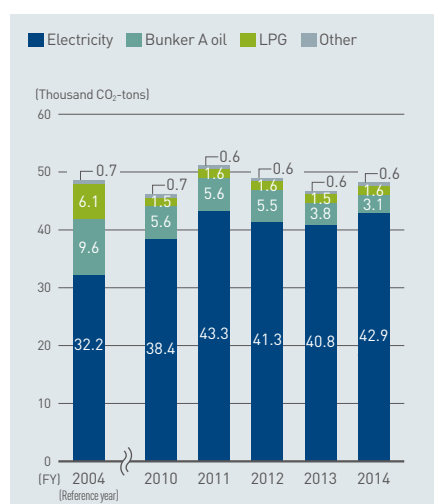
With regard to electricity, the CO<sub>2</sub> emissions calculated using the actual and adjusted CO<sub>2</sub> conversion factors published by each electric power company are as follows:

### CO<sub>2</sub> Emissions in FY2014

(Unit: t-CO<sub>2</sub>)

	FY2013	FY2014
Nabtesco Group	46,745	48,162 [*1 *2 *3]
Based on the actual emission factor	44,826	45,956 [*1 *2 *3]
Based on the adjusted emission factor	36,420	45,619 [*1 *2 *3]

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



\*1: The period subject to calculation is from April 2014 to March 2015.

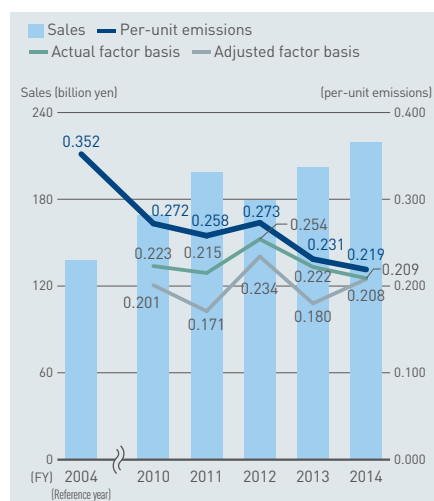
\*2: The policy and standards of the calculation are as per the Act on the Rational Use of Energy and the Act on Promotion of Global Warming Countermeasures. The calculation was made in accordance with Nabtesco's Rules on Environmental Information Management. The CO<sub>2</sub> emission factors used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

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

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

In FY2014, we reduced our per-unit CO<sub>2</sub> emissions by 5.1% compared to the previous fiscal year through activities conducted on a company-wide basis to reduce energy use. The Nabtesco Group will continue to conduct activities to reduce CO<sub>2</sub> emissions across the Group.

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

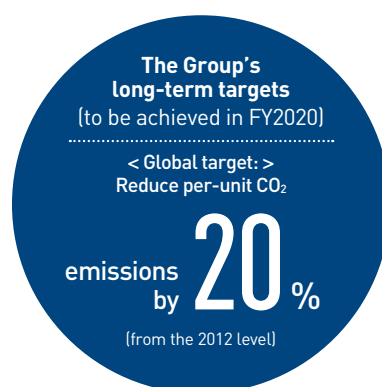
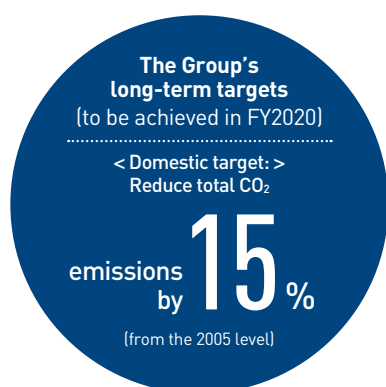




## Setting of New Long-Term Targets for the Group

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 per unit sales and aim to reduce per-unit emissions by 20% compared to FY2012 levels.



## 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 in FY2014.

Classification	Emissions (t-CO <sub>2</sub> )	Rate (%)
Direct emissions (Scope 1)*4, *5	5,220	0.6
Indirect emissions through the use of electricity and others (Scope 2)*4, *5	42,942	4.8
Emissions from the supply chain (Scope 3)*6	845,068	94.6

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

\*5: The CO<sub>2</sub> emission factors used for the calculation are basically in accordance with the Act on Promotion of Global Warming Countermeasures. However, regarding the factor for electricity, the default value of 0.555 kg-CO<sub>2</sub>/kWh is applied.

\*6: Scope of calculation: Nabtesco (non-consolidated)

The following table shows the breakdown of our Scope 3 greenhouse gas emissions. "Purchased goods and services" (category 1) accounts for the largest percentage (81.8% of the total), followed by "Upstream transportation and distribution" (category 4, 10.7%).

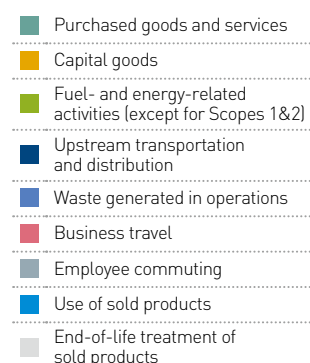
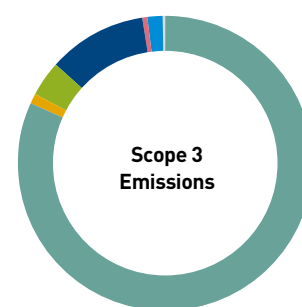
Compared to the calculation results for FY2013, the "Purchased goods and services" and "Upstream transportation and

distribution" increased following an increase in sales, whereas "Waste generated in operations" (category 5) decreased by 13% year on year thanks to waste reduction activities. We will continue to identify and reduce greenhouse gas emissions from our entire supply chain.

In order to ensure the reliability of the calculation results, we had them verified by Bureau Veritas Japan.

## Striving for Harmony with Global Environment

Category	Description	Emissions (t-CO <sub>2</sub> )	Rate (%)
1	Purchased goods and services	691,129	81.8
2	Capital goods	9,688	1.1
3	Fuel- and energy-related activities (except for Scopes 1 and 2 activities)	33,271	3.9
4	Upstream transportation and distribution	90,298	10.7
5	Waste generated in operations	1,143	0.1
6	Business travel	4,078	0.5
7	Employee commuting	1,311	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	12,400	1.5
12	End-of life treatment of sold products	1,750	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)	



The Scope 3 calculations for FY2014 were made by the following method and for the following period and scope.

- Calculation method: As shown in the basic guidelines on the calculation of greenhouse gas emissions from supply chains set by the Ministry of the Environment and the Ministry of Economy, Trade and Industry
- Targeted period: April 1, 2014 to March 31, 2015

## Energy Conservation in Freight Transportation

At Nabtesco, freight transportation increased by 29% year on year to 20.18 million ton-km, following an increase in sales. Although we are still not a specified consignee, we will continue to improve our transportation efficiency by increasing

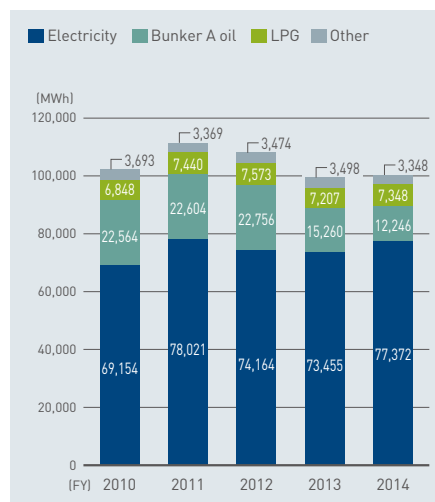
freight space efficiency, reducing transportation frequency, changing transportation routes, and making more effective use of trucks that return from delivery destinations.

## 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. The Tsu Plant achieved a 14% reduction in energy consumption despite a 6% increase in production as a result of conducting substantial energy conservation activities in FY2013. In recognition of this, the plant was commended by the head of the Chubu Bureau of Economy, Trade and Industry, Ministry of Economy in FY2014.

To foster energy conservation, the Nabtesco Group has been measuring the amount of energy consumed in its production activities. In FY2013, we had begun introducing energy monitoring systems, starting with the Tsu Plant, which is the one of the most energy intensive plants in Nabtesco Group, in our effort to identify energy waste areas and make necessary improvements. In FY2015 we will equip five other Nabtesco plants with similar monitoring systems to achieve higher energy efficiency.

### Energy Consumption



Awarded by the head of the Chubu Bureau of Economy, Trade and Industry, Ministry of Economy.

## Renewable Energy

The Nabtesco Group is promoting the use of renewable energy equipment at its facilities. In 2012, we installed 400 kW solar panels on the roof of the Tarui Plant, Gifu Prefecture and launched operations in August. In FY2014, the system generated 471 MWh of electricity. As a result, CO<sub>2</sub> emissions from the plant decreased by 261 tons. In FY2015, we will install 500kW solar power generation equipment at the Tsu Plant, Mie Prefecture. The equipment will commence operation in March 2016.



Solar panels at Tarui plant

## Striving for Harmony with Global Environment

### Mitigation of Environmental Impact Caused by Products and Services

#### Commendation System for Energy Conservation Activities

The Nabtesco Group established guidelines on the internal commendation of energy conservation activities in September 2012 with a view towards fostering energy conservation at each Group site. Based on the guidelines, commendations are given to Group sites according to a comprehensive evaluation of the extent, to which they have cut CO<sub>2</sub> emissions (absolute quantity) and improved unit consumption, and the results of their energy-saving activities. Sites that have achieved outstanding results are rewarded under the system. This commendation system targets the six plants and six affiliates of Nabtesco Corporation.

In FY2014, the Tsu Plant, Nabtesco Automotive Corporation, the Kobe Plant,

and Nabtesco Service Co., Ltd. received commendations under the system. All of the plants were evaluated positively for their cutting of CO<sub>2</sub> emissions over the year despite the rise in sales.



Commendation ceremony held at the Headquarters

#### Gold Prize

Tsu Plant and  
Nabtesco Automotive  
Corporation

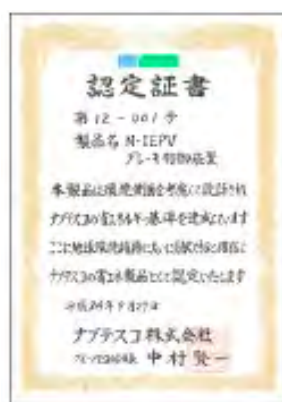
#### Silver Prize

Kobe Plant and  
Nabtesco Service  
Co., Ltd.

#### Certification System for Energy-Saving Products

We established this certification system to foster the design and the development of energy-saving products in order to promote environmental protection and the development of a sustainable society. Through this system we are contributing to the mitigation of global warming while increasing the environmental awareness of our employees.

For products that have obtained the certification, we issue certificates, approve the use of the certification mark and make announcements about the certification in our in-house magazine.



Certification mark (Nabtesco's eco label) and Certificate

#### Certification Criteria

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

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

Downsizing and  
weight reduction

By 15% or more  
compared with  
previous models

Longer life

By 20% or longer  
compared with  
previous models

Higher efficiency and  
less energy use

By 15% or more  
compared with  
previous models

Non-use of  
hazardous substances

Not contained

## Energy-Saving Products Certified in FY2014

In FY 2014, the following products of TS Precision Co., Ltd., were certified as energy-saving products.

A forming machine cuts and folds belt-like plates and transforms them into components with desired shapes. The machine

has a higher yield than a press working machine and contributes to resource saving.

The product is also certified as "MF Eco machine" by the Japan Forming Machinery Association.

Product name	Evaluation criteria			
	Downsizing and weight reduction	Higher efficiency and less energy loss	Longer life	No-use of hazardous substances
Smart Forming Machine SF-150-25	By 11% compared with previous models	By 33.7% compared with previous models	On par with previous models	Not contained



<SF-150-25>  
Smart Forming Machine



Examples of components produced by the machine

## Cost of Implementing Anti-Climate Change Measures

### Costs Related to Climate Change

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

FY2014, 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 80 million yen in total.

### Investment in R&D Related to Climate Change

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. For FY2014, our research & development expenses, including the cost of making environment-friendly products, amounted to 7.6 billion yen.



# 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.

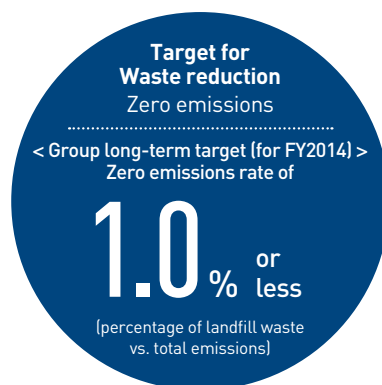
Our emissions started decreasing with a fall in production after FY2008 due to the impact of the Lehman collapse and the subsequent global recession. However, since FY2010, our production has been recovering leading to an increase in total emissions.

In regards to landfill waste, we have undertaken various efforts including the sorting of waste plastics to foster their thermal recycling. As a result, in FY2014, we reduced the amount of landfill waste by 33% compared to the previous fiscal year. The percentage of landfill waste to total emissions thereby decreased to 0.29%, meaning that we achieved the FY2014 target of 1% or less. We will make further

efforts to reduce the landfill waste rate to zero\* 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.

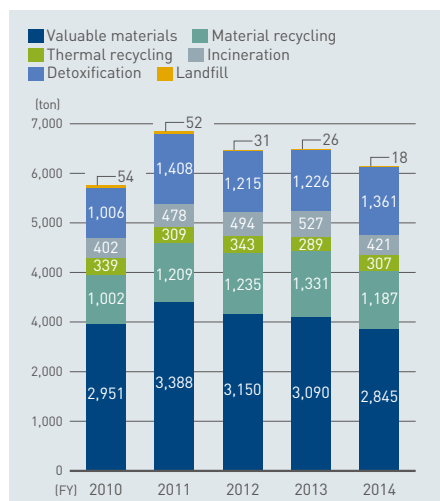
\*Here "zero" means 0.05% or lower.



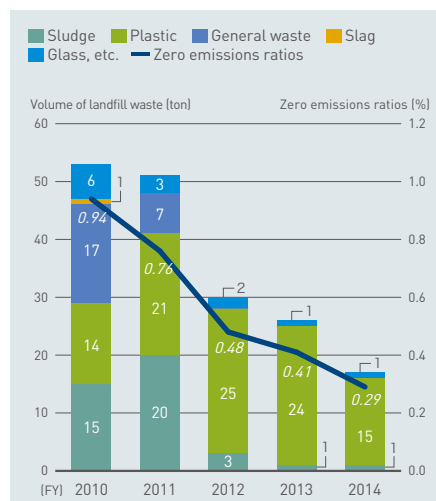
### Targets and Results of FY2014

Targets	Results	Status
1% or less of total emissions	0.29% of total emissions	Long-term target achieved

### Volume of Waste Generated



### Volume of Landfill Waste and Zero Emissions Ratios



### 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

## Measures to Reduce the Use of Raw Materials

The Nabtesco Group has been fostering the MRO (maintenance, repair, and overhaul) business for Transport Equipment Business, Aircraft Equipment Business and Industrial Equipment Business.

By reusing components and reducing

the production of new ones, we are working to minimize the use of resources.

The Nabtesco Group will expand the MRO business towards the optimized use of resources and the expansion of 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 FY2014 was 66.3 tons, down 6% from the previous fiscal year.

VOC emissions, however, increased by 6% from the FY2013 level, due to an increase in the amount of cleaning solvents used as a substitute for HCFC-225, which resulted from an increase in our production level.

Among relevant substances, in FY2014 we mainly focused on reducing the use of toluene, xylene, and HCFC-225.

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

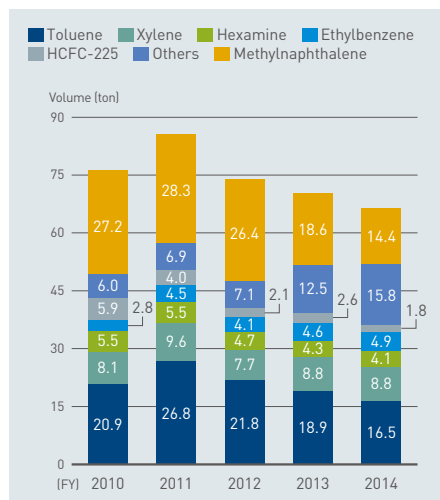
various coating processes. In order to help reduce the environmental impact, we are working in close cooperation with paint manufacturers and customers to promote a switch to alternative eco-friendly paints, water-based cleaning solvents, and one-coat processes.

In FY2014, we used a total of 27.1 tons of toluene, xylene and HCFC-225, down 3.2 tons from the previous fiscal year. We will continue to make efforts to reduce the use of toluene and xylene, and to completely discontinue the use of HCFC-225. We will also foster measures to discontinue the cleaning of electronic substrates, thereby reducing the consumption of cleaning solvents and VOC emissions.

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

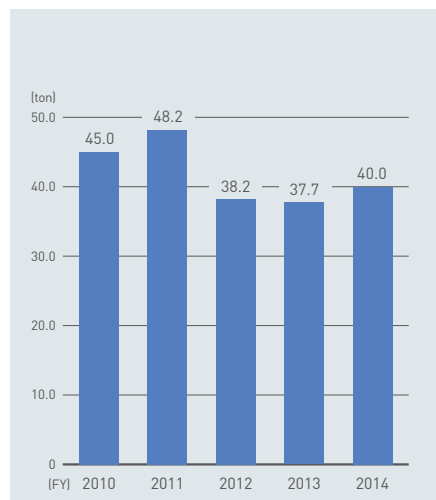
## Striving for Harmony with Global Environment

### 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



## Waste Containing PCBs (electrical facilities)

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

June 2001.

With regard to PCB waste still stored at three plants (Gifu, Tarui and Seishin Plants), we will have it treated as soon as JESCO and the designated company have made the necessary preparations for the treatment.

## 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.

At the Nabtesco Group, workers in some workplaces have had some previous contact with asbestos. We notified and recommended to all ex-employees to undergo

a health checkups in FY2006, and in response to the revision of the Act on Asbestos Health Damage Relief, sent a health checkup notice to ex-employees again in FY2009. The asbestos health checkups have been continued to be offered at medical institutions, and also support ex-employees for whom any abnormality is found during the checkup, in their procedure to receive a personal health handbook on asbestos from the authorities.

## Conservation of Water Resources

### 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.

- 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.

We measure the amount of water used and discharged by each site on a monthly basis and tabulate the results across the Group using the environmental information system. For sites that are large water users on a monthly basis, we try to identify the reasons for this and implement measures to reduce water use as necessary.

Moreover, we voluntarily check water quality every month and also have an external company conduct regular checks to enable the continuous monitoring of water quality.

### Participation in an Initiative on Water Use

To reduce water use, the Nabtesco Group has since FY2014 been replying to the CDP Water\* questionnaire in collaboration with

other companies. We will continue this activity going toward the future.

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

### Evaluation of Water-Related 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.

# Striving for Harmony with Global Environment

## Water Consumption and Water Management

The Nabtesco Group uses water mainly to cool test stands, other devices, and to melt snow in snowy regions (Yamagata and Gifu). The total volume of water used by the Nabtesco Group in FY2014 amounted to 550,000 m<sup>3</sup>, an increase of 9% (50,000 m<sup>3</sup>) compared to the previous fiscal year. Major contributors to this increase were expanded production as well as the

introduction and operation of water-cooled air conditioners at the Tarui Plant, which has abundant groundwater resources. In the future, we will examine and foster circulative use of cooling water to reduce our water use. As for water quality, the results of inspections carried out at our facilities show that we are meeting all in-house management criteria.

## Management of Wastewater

We mainly use groundwater for cooling test stands and melting snow. Groundwater used as cooling water is discharged in rivers under the strict water quality control system.

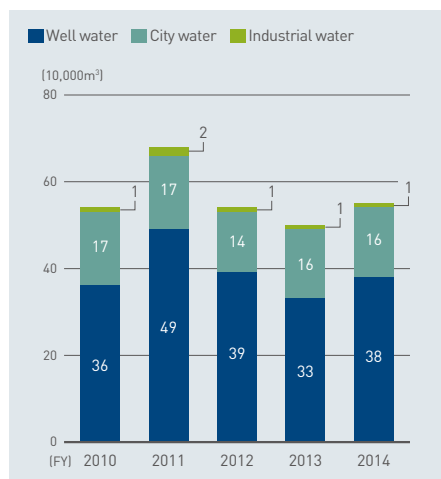
Since FY2011, the amount of wastewater discharged in rivers had been decreasing as a result of implementing measures to reduce the use of groundwater as cooling water, but in FY2014, the amount slightly increased due to the operation of air conditioners using groundwater.

Due to heavy rains 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 is concerned that hazardous substances contained in the liquids might be 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.

In FY2014, we spent around 13 million yen to enhance the rainwater discharging function, install drainage pipes, and make our facilities more water-resistant.

### Water Consumption

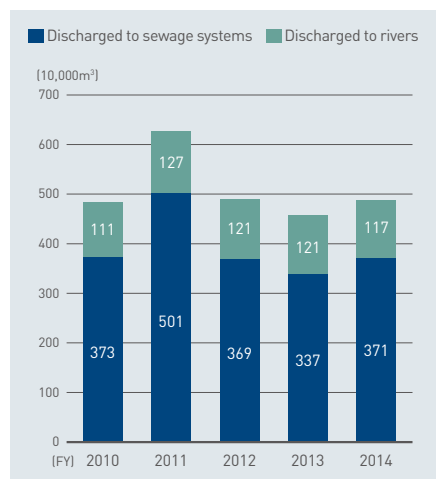


\*1: The period of tabulation is from Apr. 2014 to Mar. 2015.

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

\*3: In order to ensure the reliability of the calculation results, we had them verified by Bureau Veritas Japan.

### Wastewater Discharge





# Promote CSR through Supply Chain

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

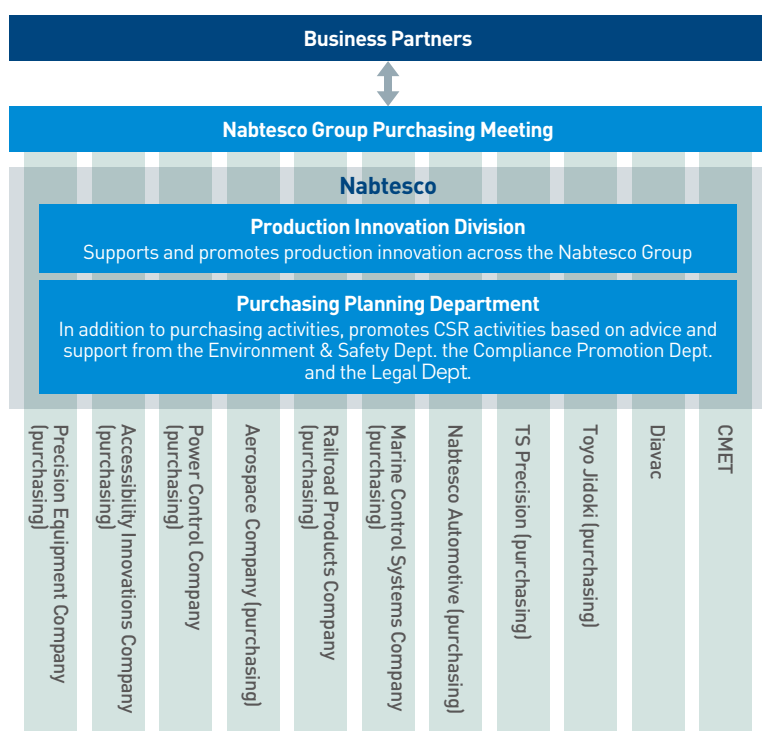
We are well aware of the importance of meeting the demands of society. By developing mutual trust relationships with business partners through fair, proper, and transparent transactions, we are

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

## Promotion Framework 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 business partners.



## 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

## 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 we briefed approximately 600 suppliers on the policy. 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.

## Self-Assessment Questionnaire Survey on Suppliers

In FY2014, 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. In conducting this survey, we used the Internet to make it easier for respondents to reply.

Also receiving support from a third-party organization, the members of our procurement departments visited some

suppliers to foster mutual communication and jointly set measures to further promote CSR activities, including making improvements on the environment- and occupational health and safety-related matters.

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 compliance, consideration to the environment

and occupational health and safety, and prohibition of bribery 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

## Participation in the United Nations Global Compact

### Leading the Supply Chain Study Group

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.

No. of Suppliers Briefed on the Policy (in FY2014)

Approx.

600  
companies



No. of Respondents to the SAQ (in FY2014)

1,105  
companies



## Implementation of Fair and Proper Business

### Identification of Greenhouse Gas Emissions across the Supply Chain, and the Emissions Reduction Activities

#### Identification of the “Scope 3”<sup>\*</sup> Emissions

Nabtesco calculates the total greenhouse gas emissions across the supply chain for each fiscal year and has the calculation

results verified by a third party (Bureau Veritas Japan) to ensure the reliability of the data.

<sup>\*</sup>The Scope 3 emissions are calculated in line with the basic guidelines on the calculation of greenhouse gas emissions across the supply chain set by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

#### Environmental Measures Implemented in the Transportation of Procured Goods

The Konan Plant has launched a joint project with suppliers to optimize the transportation of goods procured from the suppliers. Specifically, in the project, the Plant is reducing CO<sub>2</sub> emissions and the use of gasoline by reducing the frequency of truck transportation by shifting to cyclic transportation, and also reducing the use of packaging materials, such as cardboard,

while working to increase the loading efficiency. We will share this success example with the other plants of the Nabtesco Group. In June 2015, in order to optimize the transportation of goods procured from suppliers and to build “win-win” relationships with the suppliers, we joined the Japan Institute of Logistics Systems.

#### Measures for Conflict Minerals

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.

As neither Nabtesco Corporation nor its Group companies are listed on US stock markets, and therefore are not

subject to the law 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 FY2014, 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.

# 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.

## 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. So far, We have donated 230 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.



Donation to Imabari City in Ehime prefecture

## Numbers of Donated Assist Wheel® Wheelchairs

Site/Region	Local government	2008	2009	2010	2011	2012	2013	2014	2015	Total Number
Headquarters in Tokyo	Tokyo, Kanagawa Pref.	2	2	2	2	2	2	2	2	16
Tarui and Gifu Plants	Gifu Pref.	3	1	1	2	2	2	2	2	15
Tsu Plant	Mie Pref.	2	2	2	2	2	2	2	2	16
Kobe, Konan, Seishin Plant	Hyogo Pref.	4	4	4	4	4	3	3	3	29
NAM Yamagata Plant	Yamagata Pref.	2	2	2	2	2	2	2	2	16
TSP and Toyo Jidoki	Iwakuni City (Yamaguchi Pref.)		2	2	2	2	2	2	2	14
TSP Matsuyama Plant and Shikoku Marine Customer Service	Ehime Pref.	2	1	1	1	1	2	2	2	12
3 Prefectures in Tohoku	Iwate Pref.				16	5	5	5	5	36
	Miyagi Pref.				17	7	5	5	5	39
	Fukushima Pref.				17	5	5	5	5	37
Total Number of AW donated		15	14	14	65	32	30	30	30	230

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

## Consideration of Community and Society

### Exchange with Local Educational Facilities

In FY2014, the Nabtesco Group hosted 321 groups, in total of 2,337 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 began to support Asahi Shimbun's Environmental Education Program in 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 FY2015.

Under the Program, free-of-charge educational materials, which *Asahi Shimbun* created with four supporting companies including Nabtesco, will be distributed to some 250,000 children in about 3,000 elementary schools located across Japan (as of FY2014). 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. In June 2013, 69 employees of NAPT participated in the activity in which they planted 250 mangrove seedlings. Additionally in January 2015, 500 seedlings

were planted by 86 employees. 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. NAPT will continue to regularly conduct social contribution activities into the future.



NAPT employees on planting activity



Ceremonial photo at Bang Pu Nature Education Center



# Third-Party Verification Report

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

### Nabtesco Group INTEGRATED REPORT 2015 Independent Verification Report

To: Nabtesco Corporation



BUREAU  
VERITAS

June 25, 2015



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

Bureau Veritas Japan Co., Ltd. (Bureau Veritas) has been engaged by Nabtesco Corporation (Nabtesco) to conduct an independent verification of its social performance data selected for inclusion in the Nabtesco Group CSR Report 2015 (the Report), issued under the responsibility of Nabtesco. The aim of this verification is to consider the accuracy of social performance data detailed in the Report and to provide verification opinion based on objective evidence.

#### 1. Verification Outline

Social performance data in FY2014 (April 1, 2014 through March 31, 2015)

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

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

#### 2. Findings

- According to the social performance data verified, the information stated in the Report is consistent with the data collected and consolidated by Nabtesco's head office.
- There is no evidence to suggest that there are any significant errors detected in the social performance data reported by sites visited to Nabtesco's head office.

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

# Third-Party Verification Report

## Environmental Impact Data Generated through Business Operations

### Nabtesco Group INTEGRATED REPORT 2015 Independent Verification Report

To: Nabtesco Corporation

June 25, 2015



BUREAU  
VERITAS



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

Bureau Veritas Japan Co., Ltd. (Bureau Veritas) has been engaged by Nabtesco Corporation (Nabtesco) to conduct independent verification of its environmental data selected for inclusion in the Nabtesco Group INTEGRATED REPORT 2015 (the Report), issued under the responsibility of Nabtesco. The aim of this verification is to consider the accuracy of environmental data detailed in the Report and to provide a verification opinion based on objective evidence.

#### 1. Verification Outline

Environmental Impact data generated through business operations in FY2014 (April 1, 2014 through March 31, 2015)

Scope of Verification	Site Visited	Verification Methodology
CO2 emissions from energy use through business operations of 21 sites in Japan of Nabtesco and its 8 consolidated subsidiaries	- Nabtesco's head office - Nabtesco Gifu Plant - Nabtesco Tsu Plant - TS Precision Corporation	- Review of documentary evidence produced by Nabtesco's head office and the sites visited
Water consumption through business operations of 17 sites in Japan of Nabtesco and its 8 consolidated subsidiaries		- Interviews with relevant personnel of Nabtesco's head office and the sites visited
Waste generated and landfill waste through business operations of 18 sites in Japan of Nabtesco and its 8 consolidated subsidiaries		- Site inspection and review of data monitoring procedures
Chemical substances covered by PRTR Law used through business operations of 14 sites in Japan of Nabtesco and its 8 consolidated subsidiaries		- Comparison between the reported data and supporting documentary evidence
Categories 1, 2, 3, 4, 5, 6, 7, 11 and 12 of Scope 3 GHG emissions accounted in line with the GHG Protocol's 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard'	- Nabtesco's head office	- Review of documentary evidence produced by Nabtesco's head office - Interviews with relevant personnel of Nabtesco's head office - Comparison between the reported data and supporting documentary evidence

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

#### 2. Findings

Environmental Impact data generated through business operations in FY2014

- According to the environmental impact data verified, the information stated in the Report is consistent with the data collected and consolidated by Nabtesco's head office.
- There is no evidence to suggest that there are any significant errors detected in the environmental data reported by sites visited to Nabtesco's head office.

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

## Greenhouse Gas Emissions

### GREENHOUSE GAS EMISSIONS VERIFICATION STATEMENT

To: Nabtesco Corporation



**BUREAU  
VERITAS**

June 25, 2015



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

Bureau Veritas Japan Co., Ltd. (Bureau Veritas) was engaged by Nabtesco Corporation (Nabtesco) to conduct verification of the greenhouse gas (GHG) emissions reported in the Nabtesco Group INTEGRATED REPORT 2015 for FY2014.

#### 1. Scope of Verification

Nabtesco requested Bureau Veritas to verify, to a limited level of assurance, the accuracy of the following GHG information:

- 1) Scope 1 and Scope 2 GHG emissions:  
GHG emissions through business operations of 21 sites in Japan of Nabtesco and its 8 consolidated subsidiaries for the period of April 1, 2014 through March 31, 2015.
- 2) Categories 1, 2, 3, 4, 5, 6, 7, 11 and 12 of Scope 3 GHG emissions accounted and reported in line with the GHG Protocol's 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard', and the boundaries defined by Nabtesco for each category.

#### 2. Methodology

Bureau Veritas conducted the verification in accordance with the requirements of the international standard 'ISO 14064-3(2006): Greenhouse gases - Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions'.

As part of Bureau Veritas' assurance, the following activities were undertaken:

- Interviews with relevant personnel of Nabtesco responsible for the identification and calculation of GHG emissions;
- Review of Nabtesco's information systems and methodology for collection, aggregation, analysis and review of information used to determine GHG emissions; and
- Audit of a sample of source data to check accuracy of quantified GHG emissions.

#### 3. Conclusion

Based on the verification work and processes followed, there is no evidence to suggest that the GHG emissions assertions shown below:

- are not materially correct and are not a fair representation of the GHG emissions, as per the scope of work;
- are not prepared in accordance with the methodology for calculating GHG emissions established and implemented by Nabtesco.

Verified greenhouse gas emissions		
Scope 1	Scope 2	Scope 3
5,220 t-CO <sub>2</sub> e	42,942 t-CO <sub>2</sub> e	845,068 t-CO <sub>2</sub> e

The breakdown of Scope 3 emissions are as follows.

Category	t-CO <sub>2</sub> e	Category	t-CO <sub>2</sub> e	Category	t-CO <sub>2</sub> e
1	691,129	4	90,298	7	1,311
2	9,688	5	1,143	11	12,400
3	33,271	6	4,078	12	1,750

#### [Statement of independence, impartiality and competence]

Bureau Veritas is an independent professional services company that specializes in Quality, Health, Safety, Social and Environmental management with over 180 years history in providing independent assurance services. No member of the verification team has a business relationship with Nabtesco, its Directors or Managers beyond that required of this assignment. We conducted this verification independently and to our knowledge there has been no conflict of interest. Bureau Veritas has implemented a Code of Ethics across the business to maintain high ethical standards among staff in their day-to-day business activities. The verification team has extensive experience in conducting assurance over environmental, social, ethical and health and safety information, systems and processes, has an excellent understanding of Bureau Veritas standard methodology for the verification of greenhouse gas emissions data.





## BUSINESS MANAGEMENT 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

## Corporate Governance

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

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

At present, our company's Board of Directors is composed of ten persons, including two outside directors. The articles

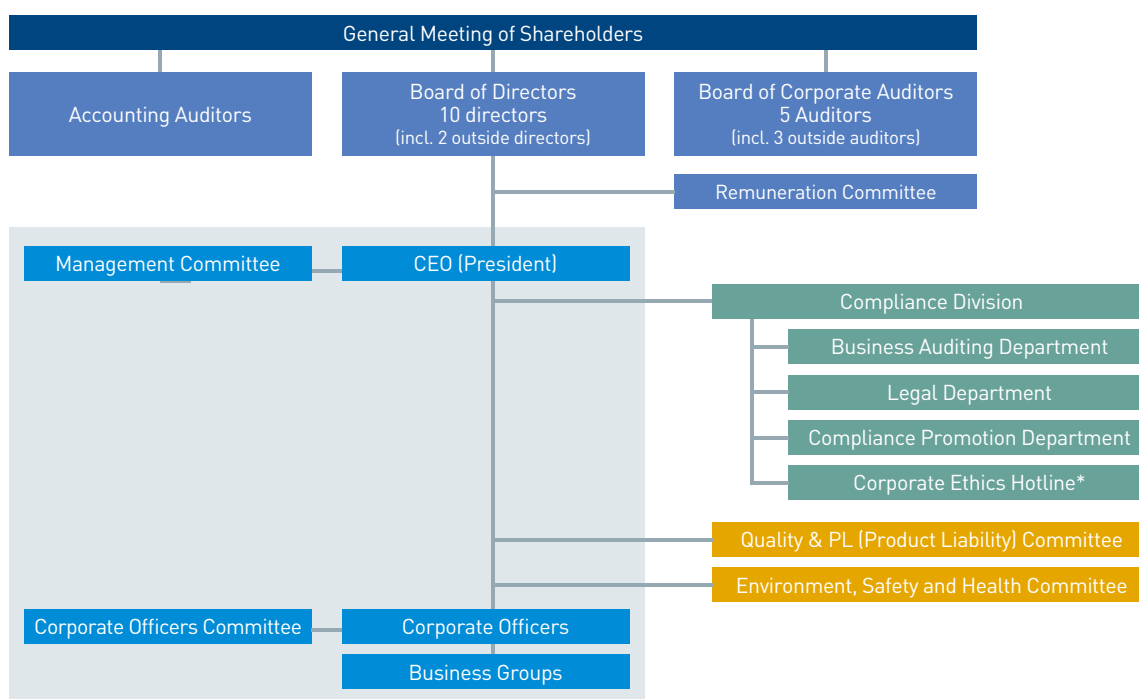
of incorporation stipulate that board directors are not allowed to sit on the Board for more than one year, a rule designed to clarify the management responsibility of board directors. Furthermore, the company has set up the Remuneration Committee, which serves as a consultative body of the Board of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

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

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



## Corporate Governance System



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



## Explanation of Company's Organizations

Organization Name	Outline
Board of Directors	The Board of Directors is composed of ten persons including two outside directors. As the organization that formulates the Group's basic policies and strategies, makes decisions about the execution of important business matters and audits the way business is carried out, it meets in principle once a month. It met 18 times during FY2014.
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 people including the corporate officers of the Group's two subsidiaries, and hold regular meetings which were held ten times during FY2014.
Board of Corporate Auditors	The Board of Corporate Auditors consists of five people including three outside auditors. The Board of Group Corporate Auditors, whose members include Corporate Auditors at Group companies, has also been established as a way of strengthening auditing across the Group. During FY2014 the Board of Corporate Auditors met 13 times and the Board of Group Corporate Auditors twice. Moreover, the members have meetings to exchange information twice a year, with an eye to enhancing cooperation between the internal control, accounting and finance, and compliance and risk management departments for better internal control.
Management Committee	In line with the policies decided by the Board of Directors, the Management Committee serves as the body that discusses important matters relating to execution of the Group's business, reports on results and the execution of business. It is composed of full-time directors and corporate officers and meets twice a month in principle. It held 23 meetings during FY2014.
Business Auditing Department	With the aim of contributing to sound management control and in an attempt to improve the effective operation and quality of Group management activities, the eight-member Business Auditing Department was established to strengthen internal business auditing. During FY2014 it has conducted internal business audits of head-quarter divisions, in-house companies and consolidated subsidiaries.
Remuneration Committee	The Remuneration Committee was established as a consultative body of the Board of Directors, and discusses the outline and operation of the policy regarding to the treatment of directors and corporate officers and contributes to their reasonable setting. The committee is composed of three people including two outside directors.

## Ensuring the Independence of Outside Directors and Outside Corporate Auditors

Nabtesco selects its outside directors and outside corporate auditors based on its own criteria, thereby ensuring the independence of the executives in an objective manner. We have two outside directors and three outside corporate auditors (five in total), who

meet the following in-house impartiality criteria and the independence criteria set by the Tokyo Stock Exchange. We have notified them as "independent directors/auditors" to the Tokyo Stock Exchange.

# Corporate Governance

## Criteria for the impartiality of Outside Directors and Outside Corporate Auditors

The Company considers an Outside Director/Corporate Auditor to be impartial, if all of the following requirements are met.

- 1) The Outside Director/Corporate Auditor is not a person who executes business of the Company or an affiliate thereof (hereinafter collectively referred to as "the Group");
- 2) The Outside Director/Corporate Auditor is not a current major shareholder\*<sup>1</sup> of the Company or a person who executes its business;
- 3) The Outside Director/Corporate Auditor is not a person who executes business of a major lender\*<sup>2</sup> of the Group;
- 4) The Outside Director/Corporate Auditor is not a major business partner (yearly transaction amount exceeds 5% of consolidated net sales) or a person who executes its business;
- 5) The Outside Director/Corporate Auditor is not a person for whom the Group is a major business partner (yearly transaction amount exceeds 5% of the counterparty's consolidated net sales) or a person who executes its business;
- 6) The Outside Director/Corporate Auditor is not a consultant, accounting professional, or a legal professional who receives a large amount of money (more than ¥6 million yearly) other than the remuneration for directorship/auditorship from the Group (including cases where the organizations such as corporation and association to which such Outside Director/Corporate Auditor belongs receive the remuneration);
- 7) The Outside Director/Corporate Auditor is not a spouse or a relative within the second degree of consanguinity of a person who executes business of the Group;
- 8) The Outside Director/Corporate Auditor has not fallen under requirements (1) through (6) for the past three years.

\*1 Major shareholder: Person who directly or indirectly holds more than 5% of all voting rights or a person who is listed among the top 10 shareholders in the most recent shareholder registry;

\*2 Major lender: A financial institution group (person who belongs to the consolidated group to which the Group's direct lender belongs) from which the Group borrows funds and the Group's total amount of borrowing from such financial institution group exceeds 2% of the Group's consolidated total assets as of the end of the previous fiscal year;

## Attendance Rate at the Board of Directors and the Board of Corporate Auditors in FY2014

Board of Directors		
Average Attendance Rate		99.4%
Average Attendance Rate of Outside Directors		97.2%
Kazuaki Kotani	Representative Director, President & CEO	100.0%
Yosuke Mishiro	Representative Director	100.0%
Tsutomu Sakamoto	Representative Director	100.0%
Hiroyuki Aoi	Director	100.0%
Nobutaka Osada	Director	100.0%
Kenichi Nakamura	Director	100.0%
Hiroaki Sakai	Director	100.0%
Toshio Yoshikawa	Director	100.0%
Nobuyoshi Yamanaka	Outside Director	94.4%
Yutaka Fujiwara	Outside Director	100.0%
Board of Corporate Auditors		
Average Attendance Rate		97.8%
Average Attendance Rate of Outside Corporate Auditors		96.3%
Nobuhiko Takahashi	Corporate Auditor	100.0%
Masao Imamura	Corporate Auditor	100.0%
Tetsuya Ishimaru	Outside Corporate Auditor	100.0%
Masahiko Yamada	Outside Corporate Auditor	100.0%
Hiroshi Mitani	Outside Corporate Auditor	88.9%

Average Attendance  
Rate of Board of Directors  
(FY2014)

99.4%

(Outside Directors 97.2%)

Average Attendance  
Rate of Board of  
Corporate Auditors  
(FY2014)

97.8%

(Outside Auditors 96.3%)

## 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 one director and two outside directors.

The remuneration system for directors is basically designed to give them incentives to strive to improve the business performance of the company on a continual and medium- to long-term basis, thereby

meeting the expectations of shareholders in line with the management policies. The system is thus expected to contribute to increasing the corporate value of the entire Nabtesco Group.

To this end, the Remuneration Committee sets the policies on the remuneration and other payments to be made to individual directors, deliberates on these issue, and then reports the results to the Board of Directors.

### 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.

Directors receive the stock compensation-type stock options as stock price-linked compensation from the standpoint of shareholders. Specifically, directors are given the stock acquisition rights, and the actual number of stocks that can be acquired is decided individually for each director based on the position of the person.

#### Total Amount of Compensation Paid to Directors and Corporate Auditors (for Fiscal 2014)

(Unit: Million JPY)

Directors/Auditors	Number of Directors and Auditors	Total Amount of Compensation	Types of Compensation	
			Monthly Compensation	Stock Compensation-Type Stock Options
Directors (Outside Directors)	12 (3)	296 (18)	231 (18)	65
Corporate Auditors (Outside Auditors)	5 (3)	71 (19)	71 (19)	—
Total	17	367	302	65

(Notes)

1. Compensation to Nabtesco's directors is composed of monthly compensation (fixed compensation and performance-linked compensation) and stock compensation-type stock options. Compensation to corporate auditors (including outside corporate auditors) is limited to fixed compensation.
2. The number of directors shown above includes two directors who resigned during the term.
3. The following upper limits are set for compensation to directors and corporate auditors.
  - (1) Monthly and other compensation: 350 million yen per year (of which 30 million yen is allocated to outside directors)
  - (2) Stock compensation-type stock options: 100 million yen per year (1): As resolved at the ninth ordinary annual meeting of shareholders held on June 26, 2012; (2) As resolved at the sixth annual general meeting of shareholders held on June 24, 2009
4. The following upper limit is set for compensation to the auditors.
 

Annual limit: 80 million yen (as resolved at the sixth annual general meeting of shareholders held on June 24, 2009)
5. In addition to the aforementioned compensation, one outside corporate auditor received 2 million yen as compensation to an outside corporate auditor from NABCO DOOR Ltd., a consolidated subsidiary of Nabtesco Corporation.

## Corporate Governance

### 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.

### 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 ensuring compliance with these by directors, corporate auditors and all Group employees.

The Chief Executive Officer (CEO) shall be the top executive responsible for the promotion of internal control, and a

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

# Risk Management

### Risk Management 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.

### Risk Management Activities of the Group

In response to the globalization of our business operations, we are conducting 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 FY2014, 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. For overseas Group

companies, we conducted risk surveys at three companies newly established in China, and re-evaluated risks at eight Group companies in China and five companies in other Asian countries.

In FY2015, we will re-evaluated risks at each of the in-house companies, Group companies in Japan, and four Group companies in Western countries to enhance our risk management activities.

## Risk Management / Compliance

### 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.

In FY2014, we reviewed and improved the BCPs created at Nabtesco Corporation and its Group companies in Japan. In FY2015, we will conduct drills to enhance responses to risks and increase the effectiveness of the BCPs, as well as make plans to formulate BCPs at overseas Group companies.

At the Headquarters we analyze the issues and improvements which had been extracted through the past three times

simulations for disaster countermeasures. Thus we will enhance the company's crisis-management system.



Simulation of disaster countermeasures held at the head office in June 2014



# 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

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 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

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 have begun to create a handbook on compliance.

# Risk Management / Compliance

## Nabtesco Group Code of Conduct

- |   |  |
|---|--|
| <ol style="list-style-type: none"> <li>1. Objective of the Code and scope of application</li> <li>2. General provisions               <ol style="list-style-type: none"> <li>(1) Compliance with laws and regulations</li> <li>(2) Prohibition of acts leading to conflicts of interest</li> <li>(3) Respect for basic human rights</li> <li>(4) Prohibition of harassment</li> </ol> </li> <li>3. Business activities               <ol style="list-style-type: none"> <li>(1) Pursuit of safety, security and comfort</li> <li>(2) Provision of comfortable workplaces</li> <li>(3) Protection of the environment</li> <li>(4) Maintenance and promotion fair and liberalized dealing</li> <li>(5) Dealing with transactions with suppliers and partners</li> <li>(6) Export and import transactions</li> </ol> </li> </ol> | <ol style="list-style-type: none"> <li>4. Relationship with shareholders and investors               <ol style="list-style-type: none"> <li>(1) Disclosure of corporate information</li> <li>(2) Prohibition of insider trading</li> </ol> </li> <li>5. Moral and Honest acts               <ol style="list-style-type: none"> <li>(1) Entertainment and gifts in moderate way</li> <li>(2) Prohibition of bribery</li> <li>(3) Elimination of any relationships with antisocial groups</li> <li>(4) Management of corporate assets</li> </ol> </li> <li>6. Appropriate management of information               <ol style="list-style-type: none"> <li>(1) Proper management and utilization information</li> <li>(2) Protection of personal information</li> <li>(3) Protection of intellectual property rights</li> </ol> </li> <li>7. Pledge</li> </ol> |
|---|--|

## 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 Managers**

In addition to the training provided by the Human Resources Development Department to employees at each level, we provided all Group managers with training, including raising awareness of human rights, during the period from the latter half of 2013 to 2014.

#### **(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 FY2015.

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

- Training for Newly Appointed Managers
- Entry-Level Problem-Solving Training
- Upper-Level Problem-Solving Training
- Training for Newly Employed Mid-Career-Hire Employees
- Training for Candidate Foremen
- Training for Second-Year Employees



Training for managers

	Total
Targeted employees	331
Completed the courses	297
Completion rate	90%

## Promotion of Compliance at Overseas Group Companies

### (1) China

As in FY2013, in FY2014 we provided compliance training twice in China, targeting 11 local Group companies with 435 and 379 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 using eye-catching materials. Moreover, we publish a bi-monthly newsletter on compliance in Chinese, and strive to foster employees' awareness of compliance.



Compliance training held in a Group company in China

### (2) Thailand

In FY2014, we held compliance training for two Group companies in Thailand, in which 89 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 as well as of human rights.

We will continue this activity to further raise local employees' compliance awareness level. In FY2015, we plan to start publishing a newsletter on compliance in Thailand.



Compliance training held in a Group company in Thailand

### Taiwan, Singapore and South Korea

In FY2014, we held the first compliance training for Group companies in Taiwan, Singapore and South Korea, in which a total of 33 employees participated.

## Information Dispatch and Enlightenment 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.

### Examples of Activities Conducted in FY2014

- Publication of the newsletter on compliance
- 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

## Risk Management / Compliance

### 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 FY2014, the CEO offered a message for the month-long campaign. Moreover, a

compliance self-check activity was also conducted. A total of 3,904 employees participated in the campaign activities for the fiscal year, including participation from Taiwan. This was the first time that a Group company outside of Japan has taken part in the campaign. In and after FY2015, we will continue to foster participation from overseas Group companies.

#### Examples of Activities Conducted in the FY2014 Corporate Ethics Month

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



Compliance meeting



Poster for Corporate Ethics Month

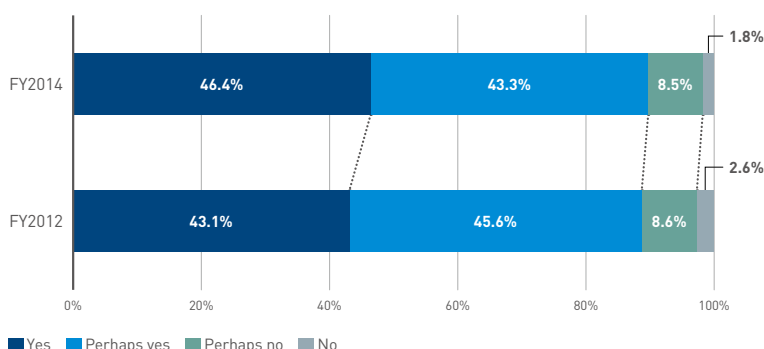
### Compliance Awareness Survey

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.

In the fifth survey, conducted in FY2014, we received replies from 4,248 employees, and have confirmed that compliance awareness among employees has been increasing to a high level since the start of the survey in 2006.

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”?



## Internal Hotline System for Reporting

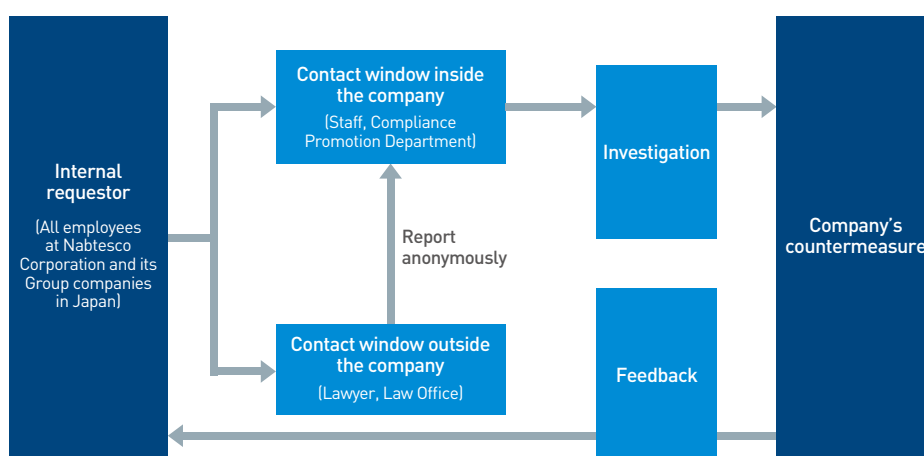
We have established a “hotline” system for the purpose of preventing and discovering legal violations, illegal acts and misconducts at an early stage, thus enhancing our “self-cleansing” function, while controlling reputational risk and maintaining trust from society.

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 through the dedicated telephone number/e-mail address or by written letter.

In FY2014, we received 32 reports/inquiries through the system (26 from the internal contact point and six from the external one), all of which were handled successfully.

### 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. 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.

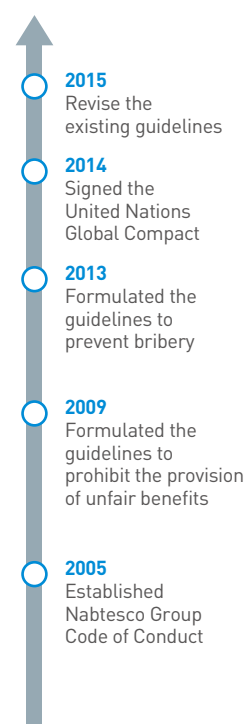
In 2013, in light of the fact that Nabtesco Corporation and its Group companies are

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 2014, we signed the United Nations Global Compact (UNGC), that are fostered by the United Nations, as a company that advocates the Ten Principles as regards the protection of human rights, elimination of unfair labor practices, environmental conservation and the prevention of corruption.

In FY2015, we will continue with our educational activities. We will also revise the guidelines established in 2009 to incorporate the changes made in society to date, including revision of related laws.

### Initiatives on Anti-Corruption Measures



# Ensuring Management Transparency

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

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

mance 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. We make such disclosures in line with laws, regulations and the timely disclosure rules set by the stock exchanges. Moreover, we also disclose non-financial information regarding our environmental and social activities (CSR-related information) in a proactive manner.

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

Nabtesco regards the General Meeting of Shareholders as a precious opportunity to meet shareholders and takes the following

measures to encourage as many shareholders as possible to attend the Meeting.

Item	Outline
1. Selection of a date on which few other companies hold their shareholders' meetings	We hold the General Meeting on a date on which few other companies hold their shareholders' meetings so as to facilitate the participation of a greater number of shareholders.
2. Introduction of an online voting system	We have been operating an online voting system for our shareholders since 2006.
3. Early dispatch of the notice of convocation	We have been sending the notice of convocation to shareholders three weeks prior to the Meeting since 2007.
4. Participation in the ICJ platform*	We have participated in the ICJ platform in 2007 to enable institutional investors and others in Japan and abroad who cannot attend the Meeting to execute their voting rights via the Internet.
5. Organization of a meeting to explain the Group's business activities	Since 2009, following the General Meeting of Shareholders, we have been holding a further meeting to explain our business activities to shareholders and deepen their understanding of the Nabtesco Group.
6. Provision of an English summary of the notice of convocation	We have been translating the summary of the notice of convocation and posting it on our website since 2011.
7. Posting of the materials used in the General Meeting of Shareholders on the website	We post the notice of convocation for the General Meeting of Shareholders, visual materials used in the Meeting, notice of the resolutions to be proposed at the Meeting, our <i>Kabunushi Tsushin</i> shareholder newsletter and the results of the resolutions on our website. With regard to the notice of convocation for the Meeting held in 2015, we posted it on the website one day before sending it to shareholders.
8. Materials containing visual presentations of data used in the General Meeting of Shareholders	In order to create easy-to-understand reports and proposals for use at the General Meeting, we are promoting the visual presentation of data used in business reports and other materials. In the Meeting held in 2014, we also used narration to increase the intelligibility of reports made to participants.

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



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

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

In FY2014, we expanded our overseas IR activities. Specifically, we conducted IR activities in Malaysia, Northern Europe and other regions in addition to the conventional activities in Europe, the United States, Canada, Singapore, Hong Kong and mainland China. We are also fostering the

engagement of our business sectors in our IR activities, and enhancing communication between these sectors and investors by such measures as holding more factory tours at our production bases in Japan and overseas. Further, we proactively participate in the briefing sessions on companies held by securities companies and others to make our company more widely known to individual investors.

IR Activities for Institutional investors	
Briefings on financial results	We organize a meeting following the end of the second and fourth quarters in which the CEO reports the financial results to participants.
Participation in IR conferences and implementation of overseas roadshows	In order to foster communication with institutional investors both in Japan and overseas, we participated in four IR conferences in Japan and three overseas, as well as holding six overseas roadshows in FY2014.
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 FY2014, we accepted over 600 requests from analysts and investors for one-on-one interviews including telephone inquiries.
Factory tours	We organize factory tours at our production bases in Japan and overseas as often as deemed appropriate.
Overseas IR activities	In FY2014, we conducted IR activities in Malaysia, Northern Europe 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.

## Dividend Policy (Enhancement of Shareholders' Return)

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

The annual dividend paid in line with this policy in FY2014 totaled 44 yen per share (interim dividend of 20 yen and year-end dividend of 24 yen).

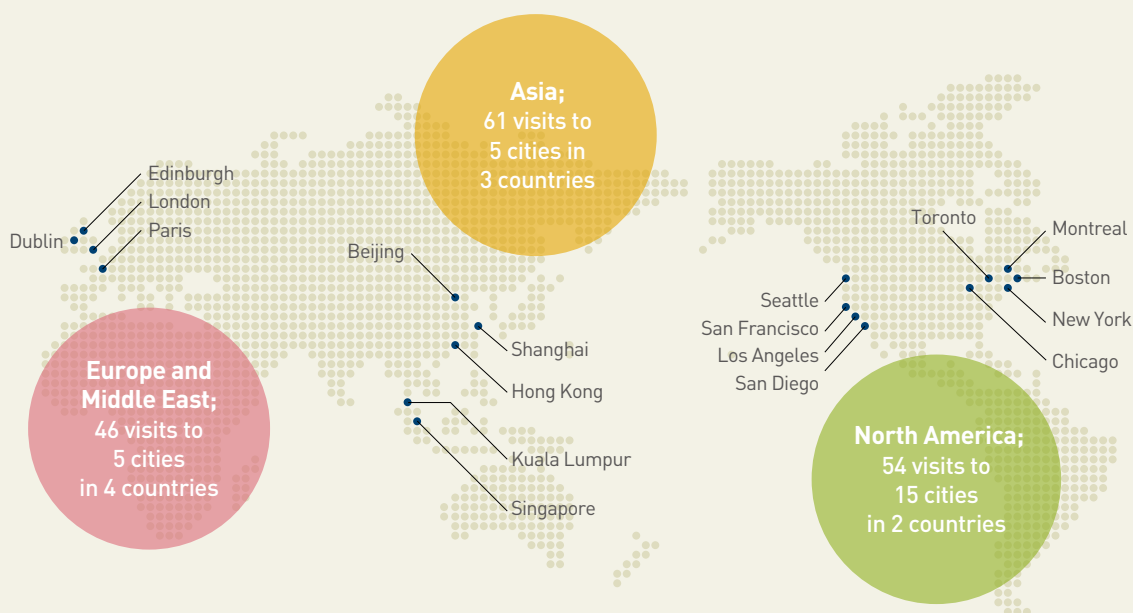
In our Mid-Term Management Plan

“Think Global! Act Local! For the Second Decade,” Nabtesco has set the consolidated payout ratio at 30% or higher, and decided not to decrease it unless it exceeds 40%.

Moreover, on May 28, 2015, we have adopted an resolution to acquire and cancel our own shares, aiming to enhance the shareholder value per share. We acquired our own shares in the number equivalent to 2.46% of the total number of outstanding shares. On December 28, 2015, we will cancel all the shares acquired as treasury shares in line with the resolution.

# Ensuring Management Transparency

## Global IR Activities



Nabtesco is proactively conducting overseas IR activities to keep in touch with overseas investors and shareholders, who account for as much as 59% ownership of the company's outstanding shares. (as of March 31, 2015)

Outside Japan, we held a total of 137 IR meetings in FY2012, a total of 125 in FY2013 and a total of 164 in FY2014. We are working to disclose information promptly in English, with a vision of our shares to be held by investors who have a long-term perspective as possible. We contact overseas pension funds and governmental funds and investors in Southeast Asia in addition to having meetings with asset management companies and investment trust companies, in our effort to foster communication with investors across the world.

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 nine years in a row, including an excellent award won in 2014.
<b>Listed Company Website Quality Ranking by Nikko Investor Relations</b>	Nikko Investor Relations Co., Ltd. evaluates the website quality of all listed company in Japan in terms of its intelligibility, usability and information quantity. Nabtesco has been receiving a high placing for nine years in a row since 2006.
<b>MSCI Japan Index</b>	The MSCI Japan Index is an index developed by U.S. organization, MSCI Inc. It is composed of shares listed on Japanese securities exchanges and is globally used as a leading investment benchmark for Japanese shares. Nabtesco has been continuously included in the index since November 2009.
<b>JPX-Nikkei Index 400</b>	Nabtesco 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.

## Active Communication with Socially Responsible Investors

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

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

As a result, Nabtesco has been included in the FTSE4Good Index Series for twelve

consecutive half-year periods since September 2009. Also, the company has been included in the DJSI Asia Pacific Index for two years in a row since September 2013. Moreover, the company was selected for the first time in the MSCI Global Sustainability Index Series in July 2015.

In the CDP survey conducted in 2014, Nabtesco scored 93 points in the top level for Japanese companies for its information disclosure on greenhouse gas emissions and climate change-related business risks and opportunities, and received a Performance Band "B" evaluation for its CO<sub>2</sub> emissions reduction measures.



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

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

With regard to IR information, we provide streaming video of meetings held for securities analysts and institutional investors, and post downloadable materials to

ensure equality of access for all stakeholders. We also send out our *Kabunushi Tsushin* shareholder newsletter twice a year. Packed with photos, illustrations and figures, this easy-to-understand newsletter helps readers deepen their understanding of our businesses.

To broaden the level of general public recognition of our company, including among individual investors, we also run television commercials.

# Management

## Board of Directors (as of June 24, 2015)



**Kazuaki Kotani**

Representative Director  
President & CEO

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



**Yosuke Mishiro**

Representative Director  
Deputy Chief Executive  
Officer  
President of Accessibility  
Innovations Company

Oct. 2004 General Manager, Planning  
Department, Power Control  
Company of Nabtesco Corporation  
Jun. 2006 Executive Officer of Nabtesco  
Corporation  
Jun. 2007 General Manager, Corporate  
Planning Department of Nabtesco  
Corporation  
Jun. 2008 Director of Nabtesco Corporation  
and Deputy General Manager,  
Corporate Planning Division  
Jun. 2009 General Manager, Corporate  
Planning Division of Nabtesco  
Corporation  
Jun. 2010 President, Accessibility Innovations  
Company of Nabtesco Corporation  
(to present)  
Jun. 2011 Managing Director and Managing  
Executive Officer of Nabtesco  
Corporation  
Jun. 2013 Director and Senior Managing  
Executive Officer of Nabtesco  
Corporation  
Jun. 2014 Representative Director of Nabtesco  
Corporation (to present)  
Jun. 2015 Deputy Chief Executive Officer of  
Nabtesco Corporation (to present)



**Nobutaka Osada**

Representative Director  
Senior Managing  
Executive Officer  
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 (to present)



**Katsuhiro Teramoto**

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**

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**

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

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)



### Daisuke Hakoda

Director  
Executive Officer  
General Manager of  
General Administration &  
Human Resources Division

- Jun. 2009 General Manager, Accounting & Finance Department of Nabtesco Corporation
- Jun. 2010 General Manager, Corporate Planning Department of Nabtesco Corporation
- Jun. 2013 Executive Officer of Nabtesco Corporation (to present) and General Manager of Shanghai Nabtesco Hydraulic Co., Ltd.
- Jun. 2015 Director and General Manager of General Administration & Human Resources Division Nabtesco Corporation (to present)



### Yutaka Fujiwara

Outside Director

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



### Norio Uchida

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 (to present)
- Jun. 2015 Director of Nabtesco Corporation (to present)

## Management

### Board of Corporate Auditors (as of June 24, 2015)

Corporate Auditor	Masao Imamura
Corporate Auditor	Takayuki Onishi
Outside Corporate Auditor	Tetsuya Ishimaru (Part-time)
Outside Corporate Auditor	Hiroshi Mitani (Part-time)
Outside Corporate Auditor	Hisao Katayama (Part-time)

### Executive Officers (as of June 24, 2015)

Chief Executive Officer	Kazuaki Kotani	
Deputy Chief Executive Officer	Yosuke Mishiro	President, Accessibility Innovations Company
Senior Managing Executive Officer	Nobutaka Osada	President, Aerospace Company
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
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	Taizo Tsuru	President, Marine Control Systems Company
Executive Officer	Kensuke Ioku	General Manager, Production Innovation Division
Executive Officer	Koji Kaminaka	Vice President, Accessibility Innovations Company (in charge of domestic business)
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)
Executive Officer	Kiyoshi Ando	Manager of Product Development Department, Precision Equipment Company



# Financial Information

## 10-Year Financial Summary

(JPY Million)

	2005/3	2006/3	2007/3	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3
Net sales	137,961	147,428	161,445	174,254	158,171	126,249	169,304	198,527	179,543	202,292	219,657
Cost of sales	105,228	111,542	123,640	132,642	124,041	97,817	127,712	148,184	134,859	148,321	158,693
Selling , general and administrative expenses (SG&A)	21,446	21,058	21,378	22,183	22,118	20,467	21,380	27,484	29,670	33,877	37,347
Operating income	11,287	14,828	16,427	19,429	12,012	7,965	20,212	22,859	15,013	20,092	23,615
Income before income taxes and minority interests	9,225	14,288	16,691	18,433	7,932	8,012	21,954	24,848	18,997	23,522	27,026
Income taxes	3,337	5,721	6,216	6,370	2,778	3,272	7,485	8,874	5,598	8,140	9,254
Minority interests	262	356	691	1,038	728	723	1,081	1,217	129	404	25
Net income	5,626	8,211	9,784	11,025	4,426	4,017	13,388	14,757	13,269	14,978	17,746

At year-end											
Current assets	75,161	82,501	95,625	99,237	84,306	89,893	119,003	123,929	112,048	134,159	139,321
Tangible fixed assets	41,949	41,934	43,610	43,346	45,207	44,102	44,442	51,509	54,475	55,225	56,877
Total assets	133,602	146,895	163,223	163,317	144,685	149,481	180,729	208,093	203,056	233,984	245,992
Current liabilities	54,233	60,138	57,098	58,183	41,209	43,611	74,892	70,897	52,322	73,161	64,830
Interest-bearing debt	25,038	19,188	26,927	23,115	19,160	19,920	20,158	31,695	26,389	26,203	16,659
Net assets	—	—	77,110	82,492	81,716	85,168	96,531	107,467	120,857	139,471	158,664
Retained earnings	23,172	30,387	38,304	47,412	49,669	52,662	64,263	74,816	83,606	94,225	107,554

Cash flows											
Cash flow from operating activities	11,103	16,406	8,293	18,249	14,055	14,892	27,997	15,104	12,952	27,597	19,949
Cash flow from investing activities	-4,570	-4,896	-6,941	-8,969	-9,329	-6,156	-4,420	-27,464	-13,693	-8,064	-7,880
Cash flow from financing activities	-7,809	-7,273	6,135	-5,748	-6,189	-684	-1,850	6,036	-10,090	-8,175	-15,888

Per share of common stock (Yen)											
Net income per share	43.70	64.05	77.10	86.77	34.82	31.70	105.91	116.74	104.57	117.95	140.24
Net assets per share	412.75	505.59	575.19	609.08	601.75	628.29	713.77	784.12	894.86	1,035.68	1,184.17
Cash dividends per share	7.00	12.00	14.00	16.00	13.00	9.00	25.00	34.00	34.00	38.00	44.00

Ratio (%)											
Operating income margin	8.2	10.1	10.2	11.2	7.6	6.3	11.9	11.5	8.4	9.9	10.8
Return on assets (ROA)	8.3	10.4	6.3	6.8	2.9	2.7	8.1	7.6	6.5	6.9	7.4
Return on equity (ROE)	11.2	14.1	14.3	14.7	5.8	5.2	15.8	15.6	12.5	12.2	12.6
Payout ratio	48.7	18.7	18.2	18.4	37.3	28.4	23.6	29.1	32.5	32.2	31.4
Equity ratio	39.3	43.7	44.8	47.4	52.9	53.1	49.9	47.6	56.2	56.0	60.9

# Financial Information

## Financial Performance

### Operating Results

The world economy moderately recovered overall in the year ended March 31, 2015. In China, where the economic growth rate continued to drop, disparities in strength between market segments were seen, along with economic stagnancy across Southeast Asia. In contrast to these weakening conditions in emerging economies, the European economy began to recover, albeit moderately. The U.S. economy also showed a relatively favorable tendency toward recovery, supported by robust employment and personal spending.

In Japan, the trend toward economic recovery continued with an increase in capital expenditure as corporate earnings expanded, backed by the government's economic policies and the monetary measures adopted by the Bank of Japan, in addition to the improvement in the export environment made possible by the cheaper yen.

Under these circumstances, the consolidated net sales of the Nabtesco Group increased to 219,657 million yen, up 17,365 million yen (8.6%) year on year. Specifically, although sales declined for hydraulic equipment and remained at the same level for commercial vehicle equipment, they expanded for precision reduction gears, railroad vehicle equipment, marine vessel equipment, and packaging machines. Also, changes in the foreign exchange market had a positive impact on the automatic door and aircraft equipment businesses.

Operating income rose by 3,522 million yen (17.5%), to 23,615 million yen year on year. At the same time, the operating margin rose 0.9 points to 10.8%.

Non-operating income decreased by 679 million yen year on year to 3,963 million yen, reflecting a decrease in investment gains from equity-method affiliates, while non-operating expenses decreased by 123 million yen, to 385 million yen following a decline in interest expenses. As a result, ordinary income grew 2,966 million yen (up 12.2%) on a year-on-year basis to 27,193 million yen.

Extraordinary gains decreased by 318 million yen from the previous year's level to 24 million yen due to a decrease in gains on sales of fixed assets. Extraordinary losses dropped 856 million yen, to 191 million yen, mainly reflecting an absence of loss on revisions to the retirement benefit.

As a result, income before income taxes and adjustments increased by 3,504 million yen year on year to 27,026 million yen. Net income per share came to 140.24 yen.

### Financial Position

**Assets:** Total assets as of 2015/3 were 245,992 million yen, an increase of 12,007 million yen from 2014/3, mainly reflecting increases of 8,431 million yen in cash and time deposits, 4,275 million yen in notes and accounts receivable, 4,246 million yen in investment securities, and 2,931 million yen in inventory assets. At the same time, the primary negative contributor was a decrease of 10,999 million yen in

marketable securities. Current assets and fixed assets came to 139,321 million yen and 106,670 million yen, respectively.

**Liabilities:** Total liabilities as of 2015/3 were 87,327 million yen, a decrease of 7,185 million yen compared to last year's level. Therefore, despite a rise of 2,342 million yen in trade notes and accounts payable and an increase of 1,988 million yen in deferred tax liabilities, total liabilities diminished, mainly due to a decrease of 10,034 million yen in long-term debts to be repaid within one year and a decrease of 1,196 million yen in income taxes payable and other liabilities. Current liabilities and long-term liabilities came to 64,830 million yen and 22,497 million yen, respectively.

**Net Assets:** Total net assets stood at 158,664 million yen as of 2015/3, including shareholders' equity of 149,862 million yen, an increase of 18,818 million yen compared to 2014/3 level. This increase was mainly attributable to a rise in earned surplus arising from net income of 17,746 million yen, an increase of 3,656 million yen in translation adjustments due to changes in foreign exchange at overseas subsidiaries, and a rise of 1,663 million yen in valuation difference on available-for-sale securities. Major negative contributors included a decrease of 5,088 million yen in earned surplus due to dividend payments. As a result, the shareholders' equity ratio increased by 4.9 points to 60.9% year on year, and net assets per share came to 1,184.17 yen. ROE and ROA rose 0.4 points to 12.6% and 0.5 points to 7.4%, respectively.

### Cash Flows

Cash and cash equivalents as of 2015/3 were 50,455 million yen, a decrease of 2,597 million yen from the previous fiscal year's level, as a result of the appropriation of 19,949 million yen generated from operating activities mainly for the repayment of long-term loans, capital expenditure, dividend payments, and other spending.

**Cash Flow from Operating Activities:** Net cash generated from operating activities totaled 19,949 million yen, mainly due to increases in income before income taxes, and despite negative factors including an increase in corporate tax payments.

**Cash Flow from Investing Activities:** Net cash used in investing activities amounted to 7,880 million yen, mainly due to the acquisition of tangible fixed assets.

**Cash Flow from Financial Activities:** Net cash used in financial activities stood at 15,888 million yen, mainly due to the repayment of long-term loans and the payment of dividends.

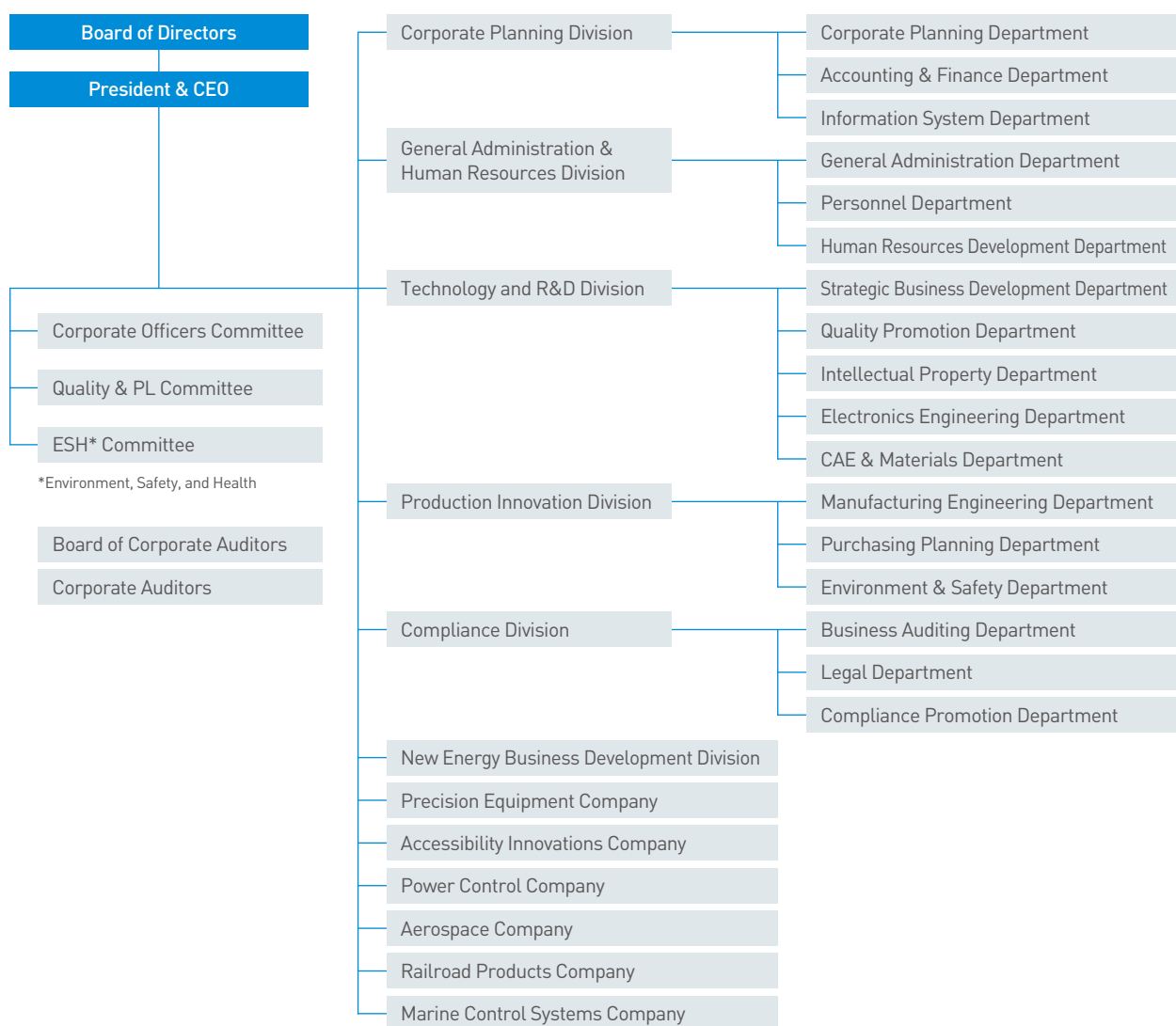
**Capital Expenditure:** In Japan, we invested in introducing equipment for new products such as automation systems, as well as to update existing equipment. Overseas, we made capital investments by focusing on equipment renewal for higher operational efficiency. Our total capital expenditure for the entire Group (investments in tangible and intangible fixed assets) was 6,918 million yen.

# Corporate Profile

## Corporate Profile (as of March 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	128,265,799
Employees	Non-consolidated: 2,102 Consolidated: 5,552
Consolidated companies	In Japan 10 (plus 6 equity method affiliates) Overseas 38 (plus 4 equity method affiliates)

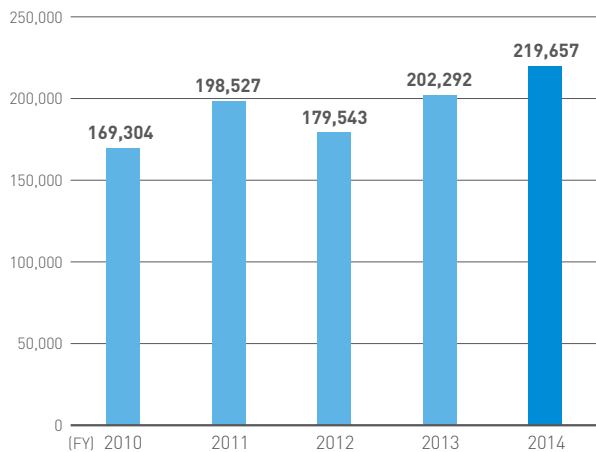
## Management Structure



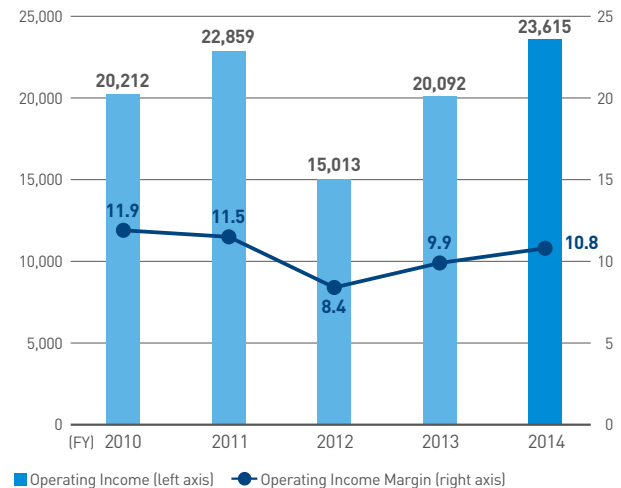
## Corporate Profile

### Business Performance Data (Consolidated)

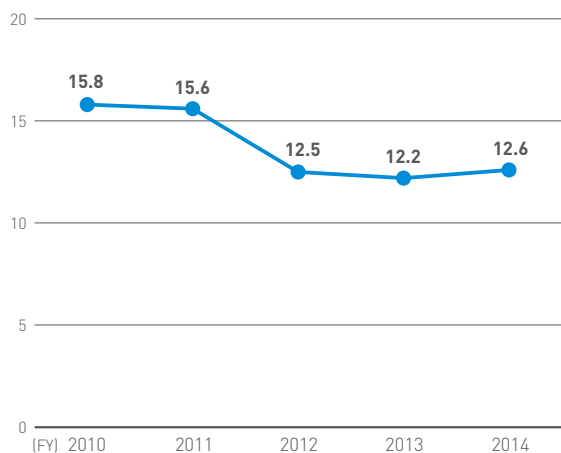
Net Sales (JPY million)



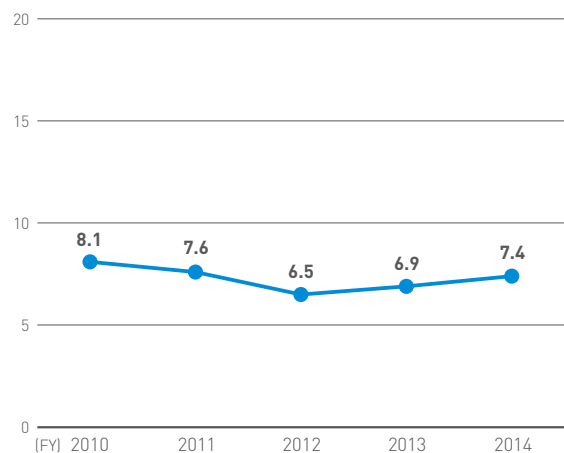
Operating Income (JPY million) and Operating Income Margin (%)



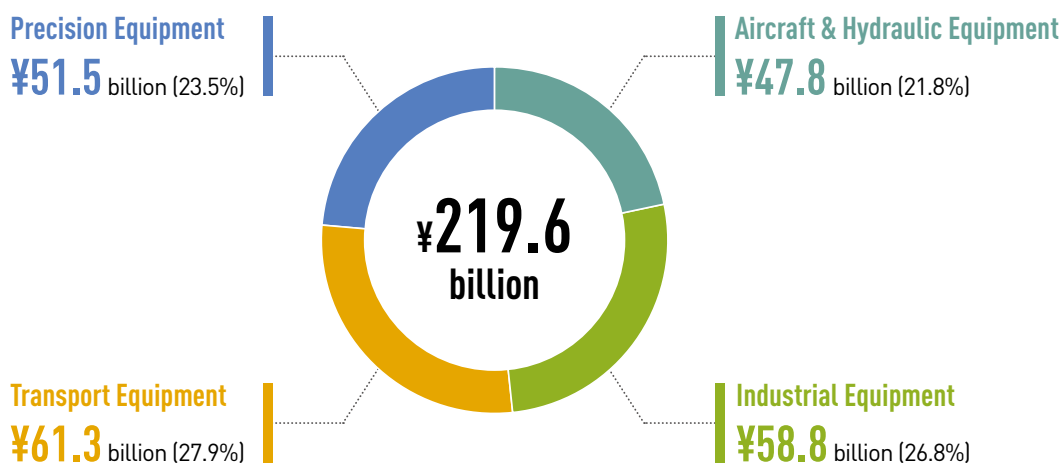
Return on Equity (ROE) (%)



Return on Assets (ROA) (%)

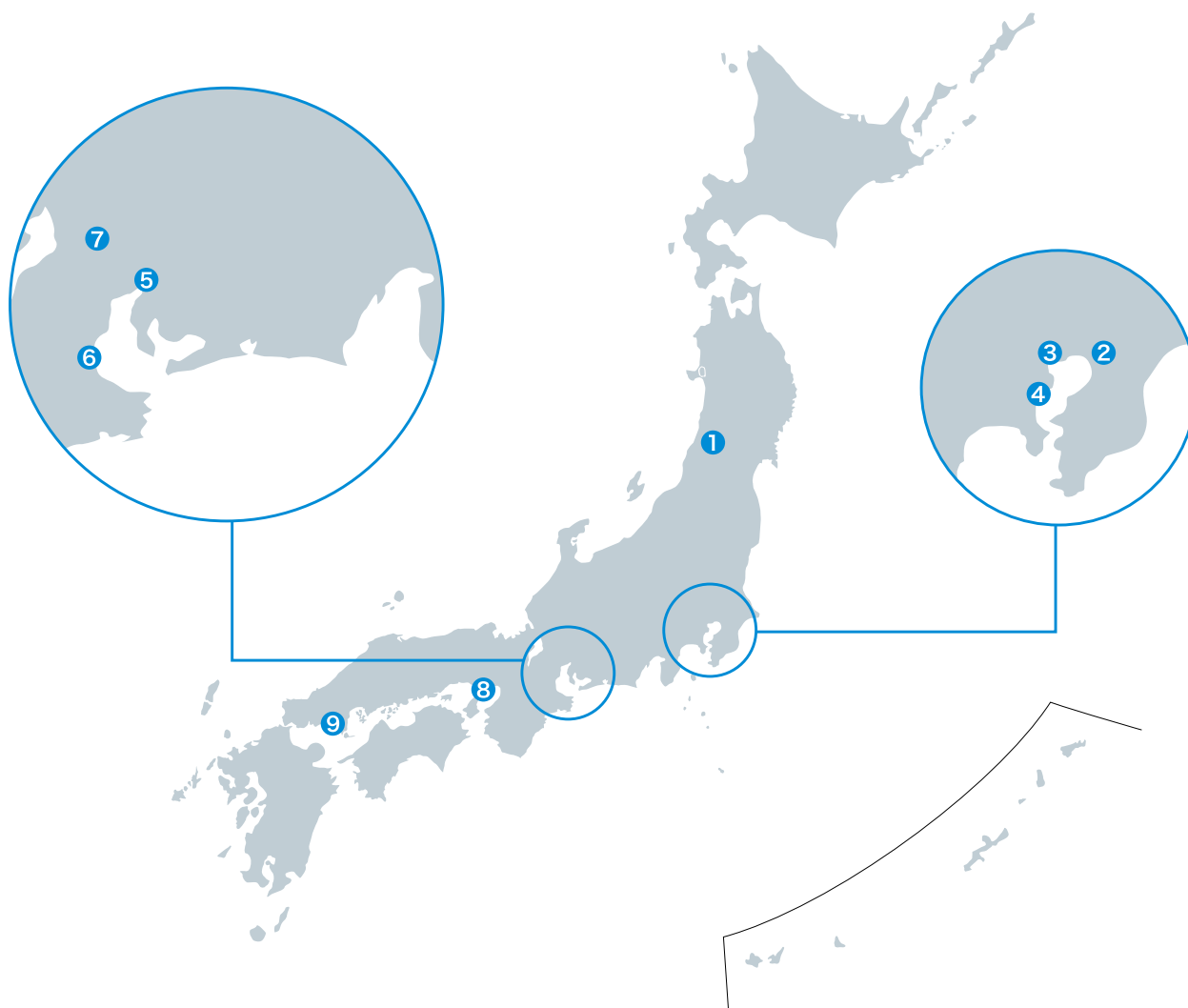


Consolidated Sales by Business Segment (FY2014)



## Domestic & Global Network

### Domestic Bases (Offices and Manufacturing Plants)

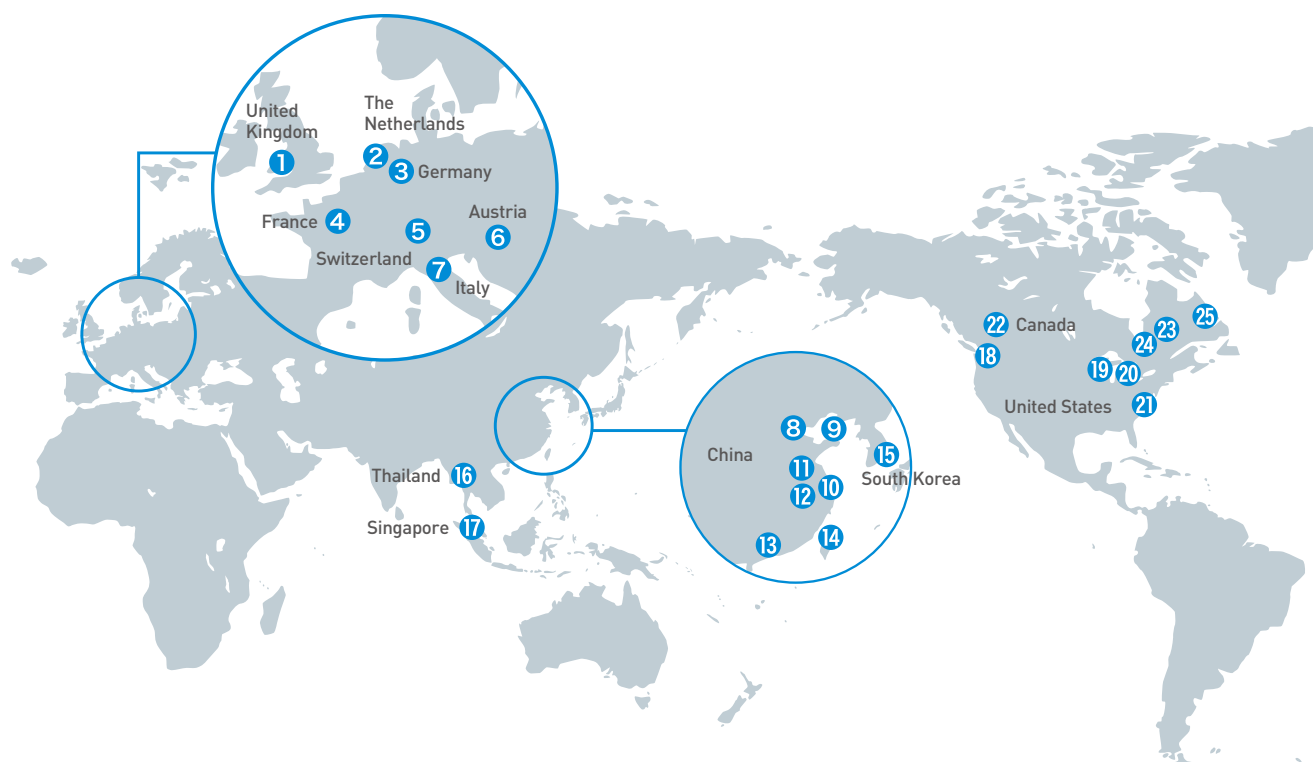


- ① Yamagata Nabtesco Automotive Corporation  
Yamagata Plant
- ② Chiba Diavac Limited
- ③ Tokyo Nabtesco Corporation Head Office  
Nabtesco Automotive Corporation  
Toyo Jidoki Co., Ltd.  
Nabtesco Service Co., Ltd.
- ④ Kanagawa CMET Inc.  
Hyst Corporation
- ⑤ Aichi Nagoya Office

- ⑥ Mie Tsu Plant
- ⑦ Gifu Gifu Plant  
Tarui Plant
- ⑧ Hyogo Kobe Plant  
Seishin Plant  
Konan Plant
- ⑨ Yamaguchi Toyo Jidoki Co., Ltd. Iwakuni Plant  
TS Precision Co., Ltd.

## Corporate Profile

### Overseas Bases (Offices and Manufacturing Plants)



① United Kingdom	Gilgen Door Systems UK Limited	⑫ Suzhou	Gilgen Door Systems (Suzhou) Co., Ltd.
② The Netherlands	NABMIC B.V.	⑬ Hong Kong	Gilgen Nabtesco (Hong Kong) Limited
③ Germany	Nabtesco Precision Europe GmbH Nabtesco Aerospace Europe GmbH Gilgen Door Systems Germany GmbH	⑭ Taiwan	Taiwan Nabtesco Service Co., Ltd.
④ France	Gilgen Door Systems France Sarl	⑮ South Korea	Nabtesco Marineteck Co., Ltd.
⑤ Switzerland	Gilgen Door Systems AG	⑯ Thailand	Nabtesco Automotive Products (Thailand) Co., Ltd. Nabtesco Power Control (Thailand) Co., Ltd.
⑥ Austria	Gilgen Door Systems Austria GmbH	⑰ Singapore	Nabtesco Marine Service Singapore Pte Ltd. Nabtesco Aerospace Singapore Pte. Ltd.
⑦ Italy	Gilgen Door Systems Italy srl Nabtesco Oclap S.r.l.	⑱ Washington	Nabtesco Aerospace, Inc.
⑧ Beijing	Nabtesco Railroad Products (Beijing) Co., Ltd. NABCO Auto Door (Beijing) Co., Ltd.	⑲ Wisconsin	NABCO Entrances, Inc.
⑨ Dalian	Dalian Toyo Jidoki Co., Ltd.	⑳ Michigan	TOYO JIDOKI AMERICA CORPORATION
⑩ Shanghai	Shanghai Nabtesco Hydraulic Co., Ltd. Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd. Shanghai Nabtesco Business Management Co., Ltd. Nabtesco Marine Machinery (Shanghai) Co., Ltd. Nabtesco Marine Control Systems (Shanghai) Co., Ltd.	㉑ Delaware	Nabtesco USA, Inc.
⑪ Changzhou	Jiangsu Nabtesco KTK Railroad Products Co., Ltd. Changzhou Nabtesco Precision Machinery Co., Ltd.	㉒ Alberta	Nabco Entrances of Western Canada Inc.
		㉓ Quebec	Porta Service Inc.
		㉔ Ontario	NABCO CANADA INC.
		㉕ New Brunswick	ROYAL DOORS LTD.



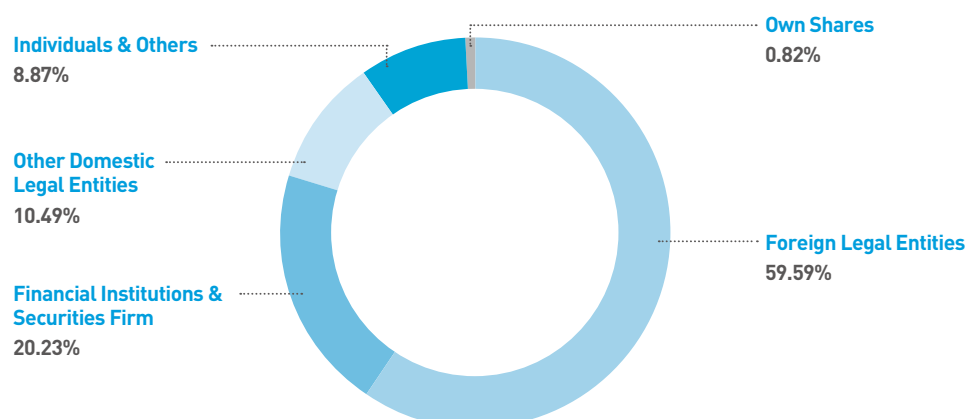
## Stock Information (as of March 31, 2015)

Authorized Number of Shares	128,265,799 shares
Number of Shareholders	12,146

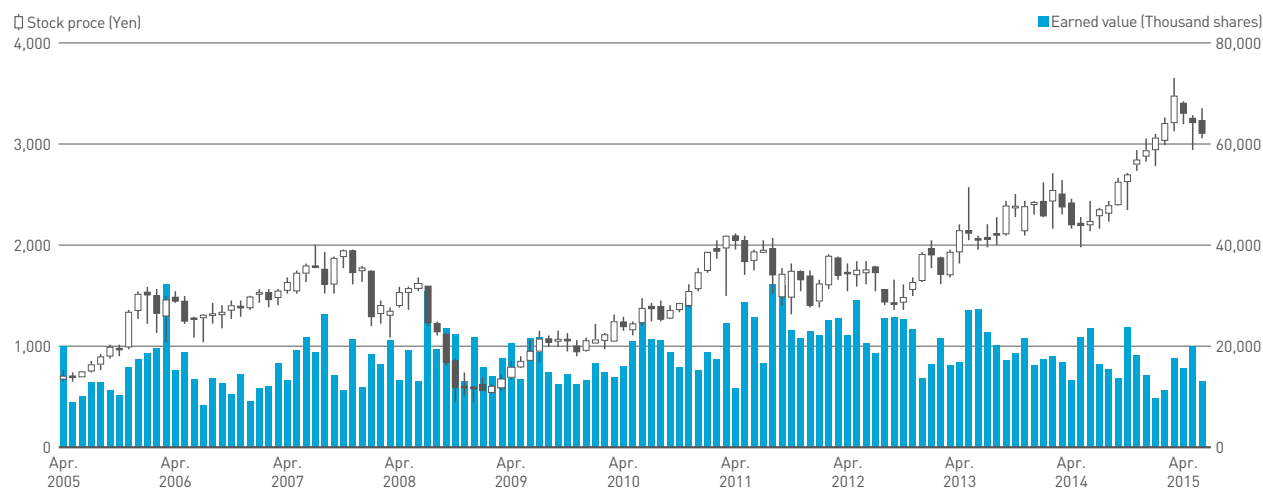
### Major Shareholders

Shareholders	No. of shares held (thousand shares)	Stockholding ratio (%)
BNP PARIBAS SEC SERVICES LUXEMBOURG / JASDEC / ABERDEEN GLOBAL CLIENT ASSETS	6,974	5.44
Central Japan Railway Company	5,171	4.03
Japan Trustee Services Bank, Ltd. (Trust Account)	4,972	3.88
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account)	4,652	3.63
JP MORGAN CHASE BANK 385632	4,093	3.19
Harmonic Drive Systems Inc.	3,265	2.55
SAJAP	2,510	1.96
TAIYO FUND, L.P.	2,365	1.84
THE BANK OF NEW YORK MELLON 140030	2,343	1.83
RBC IST 15 PCT LENDING ACCOUNT - CLIENT ACCOUNT	2,101	1.64

### Breakdown of shareholders by type of shareholder



### Stock Price Transition



**NABTESCO CORPORATION AND  
CONSOLIDATED SUBSIDIARIES**

# **CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2015 and 2014  
(With Independent Auditors' Report)

## Consolidated Balance Sheets

Nabtesco Corporation and Consolidated Subsidiaries  
March 31, 2015 and 2014

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2015	2014	2015
<b>Assets</b>			
Current assets:			
Cash and deposits (Note 4)	¥ 34,157	¥ 25,726	\$ 284,239
Notes and accounts receivable—trade	57,115	52,840	475,285
Less allowance for doubtful receivables	(194)	(209)	(1,614)
Short-term investment securities (Note 6)	17,000	27,999	141,466
Inventories (Note 7)	25,165	22,234	209,412
Deferred tax assets (Note 10)	3,020	2,905	25,131
Other current assets	3,059	2,665	25,455
Total current assets	139,322	134,160	1,159,374
Property, plant and equipment (Note 9)			
Land	14,713	14,635	122,435
Buildings and structures	48,842	47,048	406,441
Machinery and equipment	92,388	88,394	768,811
Construction in progress	1,241	938	10,327
Sub-total	157,184	151,015	1,308,014
Less accumulated depreciation	(100,307)	(95,789)	(834,710)
Property, plant and equipment, net	56,877	55,226	473,304
Investments and other assets			
Investment securities (Note 6)	25,431	21,185	211,625
Deferred tax assets (Note 10)	455	557	3,786
Goodwill (Note 19)	17,988	18,539	149,688
Other intangible assets	4,118	2,854	34,268
Net defined benefits assets (Note 12)	231	—	1,922
Other assets	1,660	1,657	13,815
Less allowance for doubtful receivables	(90)	(193)	(749)
Total investments and other assets	49,793	44,599	414,355
Total assets	¥245,992	¥233,985	\$2,047,033

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2015	2014	2015
<b>Liabilities and Net assets</b>			
Current liabilities:			
Short-term loans payable	¥ 6,491	¥ 5,826	\$ 54,015
Current portion of long-term loans payable (Note 8)	84	10,119	699
Notes and accounts payable—trade	37,608	35,266	312,957
Income taxes payable (Note 10)	4,666	5,862	38,828
Provision for product warranties	884	1,087	7,356
Provision for loss on order received	32	—	266
Other current liabilities	15,065	15,002	125,365
Total current liabilities	64,830	73,162	539,486
Long-term liabilities:			
Bonds payable (Note 8)	10,000	10,000	83,215
Long-term loans payable (Note 8)	84	259	699
Provision for director's retirement benefits	210	208	1,748
Liability for retirement benefit (Note 12)	6,687	7,112	55,646
Deferred tax liabilities (Note 10)	3,464	1,476	28,826
Other long-term liabilities	2,052	2,297	17,076
Total long-term liabilities	22,497	21,352	187,210
Net assets (Note 11)			
Common stock:			
Authorized: 400,000,000 shares,			
Issued: 128,265,799 shares	10,000	10,000	83,215
Capital surplus	18,990	19,011	158,026
Retained earnings	107,554	94,225	895,015
Treasury stock, at cost			
1,736,737 shares in 2014,			
828,516 shares in 2013	(2,928)	(2,987)	(24,365)
Total shareholders' equity	133,616	120,249	1,111,891
Accumulated other comprehensive income			
Valuation difference on other securities	3,447	1,784	28,684
Deferred gains or losses on hedges	(3)	(2)	(25)
Foreign currency translation adjustments	12,978	9,322	107,997
Remeasurements of defined benefit plans	(176)	(309)	(1,465)
Total accumulated other comprehensive income	16,246	10,795	135,191
Subscription rights to shares	391	306	3,254
Minority interests	8,412	8,121	70,001
Total net assets	158,665	139,471	1,320,337
Total liabilities and net assets	¥245,992	¥233,985	\$2,047,033

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2015	2014	2015
Net sales (Note 19)	¥219,657	¥202,292	\$1,827,885
Cost of sales (Notes 13 and 19)	158,694	148,322	1,320,579
Gross profit	60,963	53,970	507,306
Selling, general and administrative expenses (Notes 13 and 19)	37,348	33,877	310,793
Operating income	23,615	20,093	196,513
Other income (expenses):			
Interest and dividend income	336	228	2,796
Interest expenses	(200)	(225)	(1,664)
Foreign exchange gain (loss), net	916	529	7,623
Equity in earnings of affiliates	2,117	3,226	17,617
Gain on sales of property, plant and equipment	21	200	175
Gain on negative goodwill	3	—	25
Loss on disposal of property, plant and equipment	(155)	(112)	(1,290)
Gain on step acquisitions	—	104	—
Gain on sales of investments in capital	—	38	—
Loss on revision of retirement benefit plan (Note 12)	(37)	(837)	(308)
Environmental expenses	—	(65)	—
Loss on change in equity	—	(34)	—
Other, net	411	377	3,419
Total	3,412	3,429	28,393
Income before income taxes and minority interests	27,027	23,522	224,906
Income taxes (Note 10):			
Current	8,699	8,552	72,389
Deferred	556	(412)	4,627
	9,255	8,140	77,016
Income before minority interests	17,772	15,382	147,890
Minority interests	26	404	216
Net income	¥ 17,746	¥ 14,978	\$ 147,674

	(Yen)		(U.S. dollars) (Note 1)
	2015	2014	2015
Earnings per share of common stock			
Basic net income per share	¥ 140.24	¥ 117.95	\$1.17
Diluted net income per share	139.99	117.78	1.16
Net assets per share	1,184.17	1,035.68	9.85
Cash dividends applicable to the year per share	44.00	38.00	0.37

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2015	2014	2015
Income before minority interests	¥17,772	¥15,382	\$147,890
Other comprehensive income			
Valuation difference on other securities	1,658	450	13,797
Deferred gains or losses on hedges	(1)	(1)	(8)
Foreign currency translation adjustments	4,409	9,839	36,690
Remeasurements of defined benefit plans, net of tax	133	(309)	1,107
Share of other comprehensive income of associates accounted for using equity method	271	242	2,255
Total other comprehensive income	6,470	10,221	53,841
Comprehensive income	24,242	25,603	201,731
Comprehensive income attributable to:			
Owners of the parent	23,198	23,628	193,043
Minority interests	1,044	1,975	8,688

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Changes in Net Assets

Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

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

\*AP: Accounting Policy

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

\*AP: Accounting Policy

See accompanying notes to consolidated financial statements.

	Number of shares of common stock (Shares)	(Millions of yen)				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2014</b>	<b>128,265,799</b>	<b>¥10,000</b>	<b>¥19,011</b>	<b>¥ 94,225</b>	<b>¥(2,987)</b>	<b>¥120,249</b>
Cumulative Effects of Changes in AP*	—	—	—	678	—	678
<b>Balance at April 1, 2014 (Restated Balance)</b>	<b>128,265,799</b>	<b>¥10,000</b>	<b>¥19,011</b>	<b>¥ 94,903</b>	<b>¥(2,987)</b>	<b>¥120,927</b>
Cash dividends	—	—	—	(5,088)	—	(5,088)
Net income	—	—	—	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>	<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>

\*AP: Accounting Policy

	(Millions of yen)							
	Valuation difference on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total Accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
<b>Balance at April 1, 2014</b>	<b>¥1,784</b>	<b>¥(2)</b>	<b>¥ 9,322</b>	<b>¥(309)</b>	<b>¥10,795</b>	<b>¥306</b>	<b>¥8,121</b>	<b>¥139,471</b>
Cumulative Effects of Changes in AP*	—	—	—	—	—	—	—	678
<b>Balance at April 1, 2014 (Restated Balance)</b>	<b>¥1,784</b>	<b>¥(2)</b>	<b>¥ 9,322</b>	<b>¥(309)</b>	<b>¥10,795</b>	<b>¥306</b>	<b>¥8,121</b>	<b>¥140,149</b>
Cash dividends	—	—	—	—	—	—	—	(5,088)
Net income	—	—	—	—	—	—	—	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>	<b>¥3,447</b>	<b>¥(3)</b>	<b>¥12,978</b>	<b>¥(176)</b>	<b>¥16,246</b>	<b>¥391</b>	<b>¥8,412</b>	<b>¥158,665</b>

\*AP: Accounting Policy

See accompanying notes to consolidated financial statements.

	Number of shares of common stock (Shares)	(Thousands of U.S. dollars) (Note 1)				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at April 1, 2014</b>	<b>128,265,799</b>	<b>\$83,215</b>	<b>\$158,201</b>	<b>\$784,098</b>	<b>\$(24,856)</b>	<b>\$1,000,658</b>
Cumulative Effects of Changes in AP*	—	—	—	5,642	—	5,642
<b>Balance at April 1, 2014 (Restated Balance)</b>	<b>128,265,799</b>	<b>83,215</b>	<b>158,201</b>	<b>789,740</b>	<b>(24,856)</b>	<b>1,006,300</b>
Cash dividends	—	—	—	(42,340)	—	(42,340)
Net income	—	—	—	147,674	—	147,674
Purchase of treasury stock	—	—	—	—	(25)	(25)
Disposal of treasury stock	—	—	(175)	—	516	341
Staff and workers bonuses and welfare fund	—	—	—	(59)	—	(59)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at March 31, 2015</b>	<b>128,265,799</b>	<b>\$83,215</b>	<b>\$158,026</b>	<b>\$895,015</b>	<b>\$(24,365)</b>	<b>\$1,111,891</b>

\*AP: Accounting Policy

	(Thousands of U.S. dollars) (Note 1)							
	Valuation difference on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total Accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
<b>Balance at April 1, 2014</b>	<b>\$14,846</b>	<b>\$(17)</b>	<b>\$ 77,573</b>	<b>\$(2,571)</b>	<b>\$ 89,831</b>	<b>\$2,546</b>	<b>\$67,579</b>	<b>\$1,160,614</b>
Cumulative Effects of Changes in AP*	—	—	—	—	—	—	—	5,642
<b>Balance at April 1, 2014 (Restated Balance)</b>	<b>14,846</b>	<b>(17)</b>	<b>77,573</b>	<b>\$(2,571)</b>	<b>89,831</b>	<b>2,546</b>	<b>67,579</b>	<b>1,166,256</b>
Cash dividends	—	—	—	—	—	—	—	(42,340)
Net income	—	—	—	—	—	—	—	147,674
Purchase of treasury stock	—	—	—	—	—	—	—	(25)
Disposal of treasury stock	—	—	—	—	—	—	—	341
Staff and workers bonuses and welfare fund	—	—	—	—	—	—	—	(59)
Net changes of items other than shareholders' equity	13,838	(8)	30,424	1,106	45,360	708	2,422	48,490
<b>Balance at March 31, 2015</b>	<b>\$28,684</b>	<b>\$(25)</b>	<b>\$107,997</b>	<b>\$(1,465)</b>	<b>\$135,191</b>	<b>\$3,254</b>	<b>\$70,001</b>	<b>\$1,320,337</b>

\*AP: Accounting Policy

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2015	2014	2015
<b>Operating activities:</b>			
Income before income taxes and minority interests	¥ 27,027	¥23,522	\$224,906
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	6,259	7,601	52,085
Amortization of goodwill	1,225	1,501	10,194
Gain on negative goodwill	(3)	—	(25)
Share-based compensation expenses	125	122	1,040
Changes in asset and liability for retirement benefits	659	(411)	5,484
Changes in allowance for doubtful receivables	(132)	60	(1,098)
Equity in earnings of affiliates	(2,117)	(3,226)	(17,617)
Interest and dividend income	(336)	(228)	(2,796)
Interest expenses	200	225	1,664
Gain on sales of property, plant and equipment	(21)	(200)	(175)
Loss on disposal of property, plant and equipment	155	112	1,290
Gain on sales and valuation of investments in capital	—	(38)	—
Gain on step acquisitions	—	(104)	—
Loss on change in equity	—	34	—
Changes in notes and accounts receivable—trade	(2,775)	(5,026)	(23,092)
Changes in inventories	(1,605)	701	(13,356)
Changes in other assets	55	920	458
Changes in notes and accounts payable—trade	1,533	5,440	12,757
Changes in consumption tax payable	(21)	(15)	(175)
Changes in other liabilities	(63)	2,255	(524)
Others, net	(307)	(0)	(2,555)
Sub-total	29,858	33,245	248,465
Interest and dividends received	928	650	7,722
Interest paid	(207)	(238)	(1,723)
Income taxes paid	(10,630)	(6,059)	(88,458)
Net cash provided by operating activities	¥ 19,949	¥27,598	\$166,006

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	2015	2014	2015
<b>Investing activities:</b>			
Deposit in time deposits	¥ (178)	¥ (145)	\$ (1,481)
Proceeds from withdraw of time deposits	174	311	1,448
Purchases of property, plant and equipment	(5,416)	(6,331)	(45,069)
Proceeds from sales of property, plant and equipment	111	365	924
Purchases of intangible assets	(1,191)	(1,291)	(9,911)
Proceeds from sales of intangible assets	—	16	—
Purchases of investment securities	(47)	(135)	(391)
Proceeds from sales of investment securities	12	10	100
Purchases of investments in affiliates	(73)	(77)	(607)
Proceeds from sales of investments in capital	—	145	—
Purchases of investments in capital of subsidiaries	(147)	(393)	(1,223)
Purchases of investments in subsidiaries	(69)	—	(574)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	3	—
Payments for business transfer	(214)	—	(1,781)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(767)	—	(6,383)
Purchases of investments in capital of subsidiaries resulting in change in scope of consolidation	—	(464)	—
Others, net	(76)	(78)	(634)
Net cash used in investing activities	(7,881)	(8,064)	(65,582)
<b>Financing activities:</b>			
Net decrease in short-term loans payable	(59)	(1,255)	(491)
Repayments of long-term loans payable	(10,229)	(122)	(85,121)
Proceeds from stock issuance to minority shareholders	—	53	—
Purchases of treasury stock	(3)	(2,384)	(25)
Proceeds from sales of treasury stock	0	0	0
Dividends paid	(5,597)	(4,468)	(46,576)
Net cash used in financing activities	(15,888)	(8,176)	(132,213)
Effect of exchange rate changes on cash and cash equivalents	1,222	1,967	10,169
Increase (decrease) in cash and cash equivalents	(2,598)	13,325	(21,620)
Cash and cash equivalents at the beginning of the year (Note 4)	53,053	40,200	441,483
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(472)	—
Cash and cash equivalents at the end of the year (Note 4)	¥ 50,455	¥53,053	\$419,863

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Nabtesco Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

### 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 five items as applicable.

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2015, which is ¥120.17 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 4 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 March 31, 2015 and 2014.

Held-to-maturity debt securities are expected to be held to maturity and are recognized at amortized cost computed based on the straight-line method. Other securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of Net assets. Realized gains and losses on sale of such securities are computed using the moving-average cost method. Other securities with no available fair market value are stated at moving-average cost.

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

**(6) Inventories**

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

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

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

**(7) Property, plant and equipment**

Property, plant and equipment, including building and building fixtures, are stated at cost. The Company and its consolidated domestic subsidiaries calculate depreciation mainly 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.

**(Change in accounting policy and estimated method)**

The Company and its consolidated domestic subsidiaries have changed the depreciation method of property, plant, equipment other than buildings from the declining-balance method to the straight-line method from the current fiscal year.

The Company and its consolidated domestic subsidiaries reviewed their operating situation of tangible fixed assets when the mid-term management plan was formulated in the current fiscal year. According to the result of the review, the domestic operating situation is predicted to be stable due to the increase of overseas production, etc. Therefore, the Company judged the straight-line method is appropriate in the operating situation.

As result of the change, an operating income has increased by ¥1,306 million (\$10,868 thousand) and income before taxes and minority interests has increased by ¥1,310 million (\$10,901 thousand).

**(8) Lease assets**

Property, plant and equipment capitalized under finance lease arrangements are depreciated over the lease term of the respective assets. Finance leases which do not transfer ownership of the leased property to the lessee commenced before March 31, 2008 and are accounted for as operating leases.

**(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.

**(Change in accounting policy)**

Effective from the year ended March 31, 2015, the Company and its consolidated domestic subsidiaries have applied the article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012 (hereinafter, the "Statement No.26")) and the article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, March 26, 2015 (hereinafter, the "Guidance No.25")) and changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from a Straight-line to a Benefit formula basis and determining the discount rates.

In accordance with the article 37 of the Statement No.26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

As a result of the application, the liability for retirement benefit has decreased by ¥1,150 million (\$9,570 thousand) and retained earnings has increased by ¥678 million (\$5,642 thousand) at the beginning of the current fiscal year. In addition, operating income and income before income taxes and minority interests have decreased by ¥11 million (\$92 thousand), respectively, in the current fiscal year.

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

**(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.

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

#### (1) Accounting Standard for Business Combination

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
- Accounting Standard for Earnings per Share (ASBJ Statement No. 2, September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Guidance on Accounting Standard for Earnings per Share (ASBJ Guidance No. 4, September 13, 2013)
- Please also refer to the ASBJ homepage , which has a summary in English of the accounting standards.)

##### ① Summary

In the standards above, ① treatment for a change of a parent ownership interest in a consolidated subsidiary, ② treatment for M&A fee, ③ treatment for a presentation of net income and changes in presentation from Minority Interest to Non Controlling Interest, and ④ provisional application of accounting treatments were mainly amended.

##### ② Date of adoption

The Company expects to apply the standards above from the beginning of nine-month period ending December 31, 2015.

##### ③ Impact of the adoption of the standards

The Company is currently in the process to determine the impact of the adoption of these standards.

#### (2) Accounting Standard for Foreign Subsidiary

- Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Guidance No. 18, March 26, 2015)

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

##### ① Summary

This amendment contains ① treatment for a change in U.S. Accounting Standard for amortization of goodwill in January, 2015, ② treatment for Accounting Standard for Consolidated Financial Statement (ASBJ Statement No. 22, September 13, 2013) and ③ clarification of accounting treatment for Actuarial Gains/Losses on Retirement benefits.

##### ② Date of adoption

The Company expects to apply the standard above from the beginning of nine-month period ending December 31, 2015.

##### ③ Impact of the adoption of the standard

The Company is currently in the process to determine the impact of the adoption of the standard.



#### 4. 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 March 31, 2015 and 2014 is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Cash and deposits in the consolidated balance sheets	¥34,157	¥25,726	\$284,239
Time deposits with maturities extending over three months	(701)	(672)	(5,833)
Short-term investment securities	17,000	27,999	141,466
Cash and cash equivalents in the consolidated statements of cash flows	¥50,456	¥53,053	\$419,872

#### 5. 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 March 31, 2015 and 2014 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).

	(Millions of yen)		
	2015		
	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)	—

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

	(Thousands of U.S. dollars)		
	2015		
	Book value	Fair value	Difference
(1) Cash and deposits	\$ 284,239	\$ 284,239	\$ —
(2) Trade notes and accounts receivable	475,285	475,285	—
(3) Short-term and long-term investment securities			
① Held-to-maturity debt securities	141,466	141,466	—
② Other securities	65,940	65,940	—
③ Securities issued by affiliated companies	39,760	404,003	364,243
Assets	1,006,690	1,370,933	364,243
(1) Trade notes and accounts payable	312,957	312,957	—
(2) Short-term loans payable	54,015	54,015	—
(3) Current portion of long-term debt	699	699	—
(4) Bonds payable	83,215	83,798	583
(5) Long-term loans payable	699	716	17
Liabilities	451,585	452,185	600
Derivatives	(33)	(33)	—

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 and (3) 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.

(4) Bonds payable

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

(5) Long-term loans payable

The fair values of long-term bank loans are calculated based on the total present value of future principal discounted by the interest rates that would apply if similar borrowings were conducted anew. For long-term bank loans with exceptional accounting method for interest-rate swap, their fair values are calculated based on the total present value of future principal discounted by interest rates that would apply if similar borrowings were conducted anew.

#### Derivatives

Please refer to the "Derivatives" section of the notes to the financial 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)
	2015	2014	2015
		Book value	
Unlisted stocks	¥ 125	¥ 122	\$ 1,040
Securities issued by affiliate companies	12,606	11,211	104,901

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 March 31, 2015 and 2014.

<i>(Millions of yen)</i>				
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	—	—	—
Commercial paper	—	—	—	—
Total	¥108,272	¥—	¥—	¥—

<i>(Millions of yen)</i>				
2014				
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
(1) Cash and deposits	¥ 25,726	¥—	¥—	¥—
(2) Trade notes and account receivables	52,840	—	—	—
(3) Short-term and long-term investment securities				
① Held-to-maturity debt securities				
Certificate of deposit	15,000	—	—	—
Commercial paper	13,000	—	—	—
Total	¥106,566	¥—	¥—	¥—

<i>(Thousands of U.S. dollars)</i>				
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	\$284,239	\$—	\$—	\$—
(2) Trade notes and account receivables	475,285	—	—	—
(3) Short-term and long-term investment securities				
① Held-to-maturity debt securities				
Certificate of deposit	141,466	—	—	—
Commercial paper	—	—	—	—
Total	\$900,990	\$—	\$—	\$—

Note 4: Maturities of bonds payable and long-term loans payable at March 31, 2015 and 2014.

<i>(Millions of yen)</i>						
2015						
	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	¥—	¥—	¥—	¥—

<i>(Millions of yen)</i>						
2014						
	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	10,119	120	110	29	—	—
Total	¥10,119	¥120	¥10,110	¥29	¥—	¥—

<i>(Thousands of U.S. dollars)</i>						
2015						
	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	\$ —	\$83,215	\$—	\$—	\$—	\$—
Long-term loans payable	699	699	—	—	—	—
Total	\$699	\$83,914	\$—	\$—	\$—	\$—

## 6. Securities

Information on securities at March 31, 2015 and 2014 are shown below.

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2015 and 2014:

(Held-to-maturity debt securities)

(Millions of yen)			
2015			
Type	Fair value	Book value	Difference
Certificate of deposit	¥17,000	¥17,000	¥—
Total	¥17,000	¥17,000	¥—

(Millions of yen)			
2014			
Type	Fair value	Book value	Difference
Certificate of deposit	¥15,000	¥15,000	¥—
Commercial paper	¥12,999	¥12,999	¥—

(Thousands of U.S. dollars)			
2015			
Type	Fair value	Book value	Difference
Certificate of deposit	\$141,466	\$141,466	\$—
Total	\$141,466	\$141,466	\$—

(Other securities)

(1) Securities with book values exceeding acquisition costs:

(Millions of yen)			
2015			
Type	Acquisition cost	Book value	Difference
Equity securities	¥2,817	¥7,898	¥5,081
Total	¥2,817	¥7,898	¥5,081

(Millions of yen)			
2014			
Type	Acquisition cost	Book value	Difference
Equity securities	¥2,419	¥5,272	¥2,853
Total	¥2,419	¥5,272	¥2,853

(Thousands of U.S. dollars)			
2015			
Type	Acquisition cost	Book value	Difference
Equity securities	\$23,442	\$65,724	\$42,282
Total	\$23,442	\$65,724	\$42,282



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

<i>(Millions of yen)</i>			
2015			
Type	Acquisition cost	Book value	Difference
Equity securities	¥29	¥26	¥(3)
Total	¥29	¥26	¥(3)

<i>(Millions of yen)</i>			
2014			
Type	Acquisition cost	Book value	Difference
Equity securities	¥440	¥397	¥(43)
Total	¥440	¥397	¥(43)

<i>(Thousands of U.S. dollars)</i>			
2015			
Type	Acquisition cost	Book value	Difference
Equity securities	\$241	\$216	\$(25)
Total	\$241	\$216	\$(25)

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

The following tables summarize book values of securities without market prices as of March 31, 2015 and 2014:

**(Other securities)**

<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
2015	2014	2015
Unlisted equity securities	¥125	\$1,040
Total	¥125	\$1,040

Total sales of other securities and the related gain and loss in the years ended March 31, 2015 and 2014 are as follows:

<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
2015	2014	2015
Sales of other securities	¥ 0	\$ 0
Gain on sales of other securities	0	0
Loss on sales of other securities	—	—

## 7. Inventories

Inventories at March 31, 2015 and 2014 consisted of the followings:

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Finished goods	¥ 5,770	¥ 5,366	\$ 48,015
Works in process	9,473	7,906	78,830
Raw materials and supplies	9,922	8,962	82,567
Total inventories	¥25,165	¥22,234	\$209,412

## 8. Long-term Debt

Long-term debt at March 31, 2015 and 2014 consist of the followings:

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Loans, principally from banks			
due July 2014 (with interest rate of 0.45%)	¥ —	¥ 10,000	\$ —
due October 2016 (with interest rate of 4.18%)	168	221	1,398
due April 2017 (with interest rate of 3.00%)	—	25	—
due October 2017 (with interest rate of 3.00%)	—	100	—
due March 2016 (with interest rate of 2.57%)	—	32	—
Straight bonds			
due December 2016 (with interest rate of 0.64%)	10,000	10,000	83,215
Total	¥10,168	¥ 20,378	\$84,613
Less current portion	(84)	(10,119)	(699)
Long-term debt, net	¥10,084	¥ 10,259	\$83,914

Maturities of long-term debt at year end are shown in "Note 5 Financial Instruments".

## 9. Leases

### (Finance leases)

Finance leases, which do not transfer ownership of the leased property to the lessee, are capitalized except for the leases commenced before March 31, 2008 which are accounted for as operating leases. The Company and its consolidated subsidiaries do not have material lease contracts at the end of the current fiscal year. As the Company does not have such leases as of March 31, 2015 and 2014, the information of gross amount of such assets, related accumulated depreciation and carrying amount are not disclosed. Also, future lease payments are not disclosed.

Finance lease expenses for the year ended March 31, 2015 and 2014 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Lease expenses	¥—	¥1	\$—

The expenses above are also equivalent to depreciation expense.

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

### (Operating leases)

Future minimum lease payments (including the interest portion thereon) subsequent to April 1, 2015 and 2014 under non-cancelable operating leases are summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Under non-cancelable operating leases:			
Payments due within one year	¥116	¥131	\$ 965
Payments due after one year	144	165	1,199
Total	¥260	¥296	\$2,164

## 10. 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 March 31, 2015 and 2014, are summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Deferred tax assets:			
Liability for retirement benefit	¥ 2,033	¥ 2,539	\$ 16,918
Provision for director's retirement benefits	57	64	474
Other accrued expenses	838	998	6,973
Loss on devaluation of inventories	125	141	1,040
Accrued employees' bonuses	1,323	1,332	11,009
Net operating loss carry forwards	1,459	1,051	12,141
Allowance for doubtful receivables	8	20	67
Loss on devaluation of investments in securities	21	23	175
Loss on devaluation of investments in affiliates	174	192	1,448
Loss on devaluation of golf club membership rights	58	80	483
Provision for product warranties	226	344	1,881
Provision for loss on order received	10	—	83
Impairment loss	—	117	—
Others	778	664	6,474
	7,110	7,565	59,166
Less valuation allowance	(1,752)	(1,603)	(14,579)
Total deferred tax assets	5,358	5,962	44,587
Deferred tax liabilities:			
Deferred taxation on government contributions for acquisition of property, plant and equipment	(1,420)	(1,607)	(11,817)
Valuation difference on other securities	(1,748)	(1,084)	(14,546)
Effect of differences between tax rates in Japan and other countries on undistributed earnings of foreign subsidiaries	(1,483)	(1,218)	(12,341)
Others	(775)	(554)	(6,449)
Total deferred tax liabilities	(5,426)	(4,463)	(45,153)
Deferred tax assets (liabilities), net	¥ (68)	¥ 1,499	\$ (566)

The following table summarizes the significant differences between the effective tax rates and the actual tax rates for financial statements for the years ended March 31, 2015 and 2014:

	2015	2014
Effective tax rate	35.6%	38.0%
Different tax rates applied to consolidated overseas subsidiaries	(1.1)	(1.9)
Unrecognized tax benefits from losses of subsidiaries	1.4	0.7
Changes in valuation allowances	(0.1)	(0.2)
Non-deductible expenses for tax purpose such as meals and entertainment, etc.	0.2	0.3
Per capita inhabitant tax	0.3	0.3
Non-taxable income such as dividend income	(0.6)	0.3
Equity in earnings of affiliates	(1.9)	(5.2)
Tax credit for R&D costs	(2.1)	(1.8)
Foreign tax credit	(0.2)	(0.1)
Amortization of goodwill	1.6	2.4
Decrease in deferred tax assets resulting from changes in the statutory tax rates	0.8	0.7
Others	0.3	1.1
Actual tax rate	34.2%	34.6%

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the effective tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.6% for the fiscal year ended March 31, 2015 to 33.1% and 32.3%, respectively, as of March 31, 2015.

Due to these changes in effective tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥62 million (\$516 thousand), Remeasurements of defined benefit plans decreased by ¥16 million (\$133 thousand), and Net unrealized holding gains on securities increased by ¥169 million (\$1,406 thousand) as of March 31, 2015. Also, Deferred income tax expense increased by ¥215 million (\$1,789 thousand) for the fiscal year ended March 31, 2015.

## 11. Net Assets

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

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

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

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

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

## 12. Employee's Severance and Retirement Benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2015 are consisted of the followings:

Retirement benefit obligations

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Balance at the beginning of the period	¥17,753	¥21,712	\$147,732
Cumulative Effects of Changes in AP*	(1,150)	—	(9,570)
Balance at April 1, 2014 (Restated Balance)	16,603	21,712	138,162
Service cost	1,168	1,145	9,720
Interest cost	296	281	2,463
Actuarial loss (gain)	2,192	(920)	18,241
Benefits paid	(559)	(1,890)	(4,652)
Past service cost	47	(233)	391
Decrease from termination of a plan	—	(4,558)	—
The effect of changes in foreign exchange rates	372	2,216	3,096
Balance at the end of the period	¥20,119	¥17,753	\$167,421

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Balance at the beginning of the period	¥13,052	¥13,706	\$108,613
Expected return on plan assets	259	195	2,155
Actuarial loss (gain)	455	659	3,786
Contributions by the employer	394	505	3,279
Contributions by the employee	359	319	2,987
Benefits paid	(278)	(1,282)	(2,313)
Decrease from termination of a plan	—	(3,279)	—
The effect of changes in foreign exchange rates	420	2,229	3,495
Balance at the end of the period	¥14,661	¥13,052	\$122,002

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Balance at the beginning of the period	¥950	¥911	\$7,905
Retirement benefit costs	157	101	1,306
Benefits paid	(74)	(63)	(616)
Contributions to the plans	(22)	—	(183)
The effect of changes in foreign exchange rates	(15)	1	(125)
Balance at the end of the period	¥996	¥950	\$8,287

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Funded retirement benefit obligations	¥ 14,452	¥ 11,540	\$ 120,263
Plan assets	(14,661)	(13,052)	(122,002)
	(209)	(1,512)	(1,739)
Unfunded retirement benefit obligations	6,665	7,164	55,463
Adjustments of the effect of limiting a net defined asset to the asset ceiling	—	1,461	—
Total Net liability (asset) for retirement benefits at the end of the period	6,456	7,113	53,724
Liability for retirement benefits	6,687	7,113	55,646
Asset for retirement benefits	(231)	—	(1,922)
Total Net liability (asset) for retirement benefits at March 31, 2015	¥ 6,456	¥ 7,113	\$ 53,724



## (5) Retirement benefit costs

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Service cost, excluding contributions by employees	¥ 809	¥ 826	\$ 6,732
Interest cost	296	280	2,463
Expected return on plan assets	(258)	(195)	(2,147)
Net actuarial loss amortization	393	633	3,270
Past service costs amortization	47	(233)	391
Retirement benefit costs calculated by the simplified method	157	101	1,306
Others	—	4	—
Total retirement benefit costs at the end of the period	¥1,444	¥1,416	\$12,015

## (6) Remeasurements of defined benefit plans (before tax effects)

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Actuarial gains and losses	¥ 1,347	¥—	\$ 11,209
Adjustments of the effect of limiting a net defined asset to the asset ceiling	(1,505)	—	(12,524)
Others	(20)	—	(166)
Total	¥ (178)	¥—	\$ (1,481)

## (7) Cumulative remeasurements of defined benefit plans (before tax effects)

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Actuarial gains and losses that are yet to be recognized	¥319	¥(1,027)	\$2,655
Adjustments of the effect of limiting a net defined asset to the asset ceiling	—	1,456	—
Total	¥319	¥ 429	\$2,655

## (8) Plan assets

## 1. Plan assets comprise:

	2015	2014
Bonds	47%	47%
Equity securities	35%	29%
Cash and deposits	3%	10%
Others	15%	14%
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 March 31, 2015 and 2014 (expressed as weighted averages) are as follows:

	2015	2014
Discount rate:	0.8%–1.2%	1.0%–2.1%
Long-term expected rate of return:	0.0%–1.2%	0.0%–2.1%

## 3. Defined contribution plan

(Retirement benefit costs)

	(Millions of yen)		(Thousands of U.S. dollars)
	2015	2014	2015
Contributions to a defined contribution plan	¥775	¥855	\$6,449

## 13. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2015 and 2014, amount to ¥6,876 million (\$57,219 thousand) and ¥6,401 million, respectively.

## 14. 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>
	2015	2014	2015
Valuation difference on other securities			
Increase (decrease) during the year	¥2,313	¥ 698	\$19,248
Reclassification adjustments	—	—	—
Sub-total, before tax	2,313	698	19,248
Tax effect	(655)	(248)	(5,451)
Sub-total, net of tax	1,658	450	13,797
Deferred gains or losses on hedges			
Increase (decrease) during the year	(4)	(3)	(33)
Reclassification adjustments	3	0	25
Sub-total, before tax	(1)	(3)	(8)
Tax effect	(0)	2	(0)
Sub-total, net of tax	(1)	(1)	(8)
Foreign currency translation adjustments			
Increase (decrease) during the year	4,409	9,839	36,690
Remeasurements of defined benefit plans			
Adjustments arising during the year	(260)	(472)	(2,164)
Reclassification adjustments to profit or loss	440	—	3,661
Amount before income tax effect	179	(472)	1,490
Tax effect	(46)	163	(383)
Total	133	(309)	1,107
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	271	242	2,254
Total other comprehensive income	¥6,470	¥10,221	\$53,840

## 15. Derivative Financial Instruments

According to the accounting standard for derivative financial instruments, forward foreign exchange contracts and interest rate swap contracts which qualify for hedge accounting and such amounts of which are assigned to hedged assets or liabilities and are recorded on the balance sheets at March 31, 2015 and 2014, 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 March 31, 2015 and 2014.

### (1) Foreign exchange forward contracts

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

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	\$2,596	\$—	\$(33)
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	6,616	—	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, 2014 are as follows:

Hedge accounting method	Type of derivative, etc	Main hedged items	(Millions of yen)		
			Contract amount	Portion over 1 year	Fair value
Deferral hedge method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	¥441	¥—	¥1
Allocation method	Foreign exchange forward contract Sold option U.S. dollars	Trade notes and account receivable	989	—	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.

## (2) Interest rate swap contracts

The Company does not have derivative financial instruments for which hedge accounting are applied as of March 31, 2015. Derivative financial instruments for which hedge accounting were applied as of March 31, 2014 were as follows:

Hedge accounting method	Type of derivative, etc	Main hedged items	(Millions of yen)		Fair value
			Contract amount	Portion over 1 year	
Exceptional method for interest rate swap	Interest rate swap Receive floating, pay fixed	Current portion of long-term payable	¥1,000	¥—	Note

Note: Interest rate swaps for which special treatment is applied are accounted for together with long-term debt designated as a hedged item. Therefore, their fair values are included in the fair value of long-term debt.

## 16. Earnings per Share

Earnings per share for the year ended March 31, 2015 and 2014 are as follows.

	(Yen)		(U.S. dollars)
	2015	2014	2015
Basic earnings per share			
Net income	¥ 17,746	¥ 14,978	\$ 148
Weighted average number of shares issued (thousands)	126,541	126,983	126,541

	(Yen)		(U.S. dollars)
	2015	2014	2015
Basic earnings per share	¥140.24	¥117.95	\$1.17

	(Yen)		(U.S. dollars)
	2015	2014	2015
Diluted earnings per share			
Increase in common shares (thousands) Stock option rights	223	189	223

	(Yen)		(U.S. dollars)
	2015	2014	2015
Diluted earnings per share	¥139.99	¥117.78	\$1.16

Note: In accordance with (16) Retirement benefits, as a result of applying the article 37 of the Standard No. 26, Net assets per share has increased by ¥5.35 (\$0.04) and basic earnings per share and diluted earnings per share have decreased by ¥0.09.

## 17. Stock Based Compensation Plan

(1) Stock based compensation plans as of March 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	28,000	21,000	40,500	49,600	57,600

	Share subscription rights-6
Date of grant	July 31, 2014
Number of shares granted	Common stock 55,500
Grantee	Directors and corporate officer of the Companies
Exercisable period	August 21, 2014 through August 20, 2039
Outstanding at the end of the fiscal year	55,500

### Price information

Date of grant	July 30, 2009	July 30, 2010	July 29, 2011	July 31, 2012	July 31, 2013	July 31, 2014
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price upon exercise	¥2,285	¥2,285	¥2,285	¥2,285	¥2,285	¥ —
Fair value at grant date	¥1,026	¥1,285	¥1,529	¥1,393	¥1,978	¥2,241

**(2) Valuation technique used for estimating fair value of stock option granted in the fiscal year**

Valuation technique: Black-Scholes option-pricing model

Principal parameters used in the option-pricing model:

Expected volatility	33.882 %	Calculated based on the actual stock prices from November 14, 2011 to August 20, 2014.
Average expected period	2.766 years	It is estimated assuming that the options were exercised at the midpoint of the exercise period.
Expected dividends	¥38 per share	Expected dividends are based on the actual dividends for the fiscal year ended March 31, 2014.
Risk-free interest rate	0.086%	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.

**18. Investment and Rental Property**

Information about fair value of investment and rental property included in the consolidated financial statements at March 31, 2015 and 2014 are as follows:

The Company owns a portion of office building and lands in Tokyo and other area.

	(Millions of yen)			
	Book value as of April 1, 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

	(Millions of yen)			
	Book value as of April 1, 2013	Increase / (decrease)	Book value as of March 31, 2014	Fair value as of March 31, 2014
Purpose of use				
Rental property	¥3,997	¥(29)	¥3,968	¥4,159
Idle property	¥ 321	¥ —	¥ 321	¥2,616
Total	¥4,318	¥(29)	¥4,289	¥6,775

	(Thousands of U.S. dollars)			
	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	\$33,020	\$(574)	\$32,446	\$34,426
Idle property	\$ 2,671	\$ —	\$ 2,671	\$21,520
Total	\$35,691	\$(574)	\$35,117	\$55,946

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)

2015			
Rental revenues	Rental expenses	Net	Other expenses
¥294	¥96	¥198	¥12

(Millions of yen)

2014			
Rental revenues	Rental expenses	Net	Other expenses
¥296	¥97	¥199	¥13

(Thousands of U.S. dollars)

2015			
Rental revenues	Rental expenses	Net	Other expenses
\$2,447	\$799	\$1,648	\$100

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.

## 19. 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 March 31, 2015 and 2014 is as follows:

*(Millions of yen)*

	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	22,653	87,328
<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

*(Millions of yen)*

	2014						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	¥42,853	¥52,641	¥52,533	¥54,265	¥202,292	¥ —	¥202,292
Intersegment sales	56	156	1,188	224	1,624	(1,624)	—
Total sales	42,909	52,797	53,721	54,489	203,916	(1,624)	202,292
<b>Operating income</b>	6,359	6,344	3,863	3,527	20,093	—	20,093
<b>Total assets</b>	32,677	38,160	50,258	62,695	183,790	50,195	233,985
<b>Total liabilities</b>	14,179	15,844	16,256	17,773	64,052	30,461	94,513
<b>Depreciation</b>	1,896	1,457	2,921	858	7,132	468	7,600
<b>Amortization of goodwill</b>	—	410	16	1,075	1,501	—	1,501
<b>Capital expenditures</b>	918	1,703	2,323	1,229	6,173	587	6,760

(Thousands of U.S. dollars)

	2015						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial Equipment	Total	Adjustment	Consolidated
<b>Sales</b>							
External sales	\$428,959	\$510,843	\$398,252	\$489,831	\$1,827,885	\$ —	\$1,827,885
Intersegment sales	441	1,698	10,435	1,573	14,147	(14,147)	—
Total sales	429,400	512,541	408,687	491,404	1,842,032	(14,147)	1,827,885
<b>Operating income</b>	69,535	94,491	8,280	24,207	196,513	—	196,513
<b>Total assets</b>	355,896	363,327	414,413	544,329	1,677,965	369,068	2,047,033
<b>Total liabilities</b>	128,102	136,249	104,793	169,052	538,196	188,508	726,704
<b>Depreciation</b>	10,319	9,786	20,413	8,014	48,532	3,553	52,085
<b>Amortization of goodwill</b>	—	—	—	10,194	10,194	—	10,194
<b>Amortization of negative goodwill</b>	(25)	—	—	—	(25)	—	(25)
<b>Capital expenditures</b>	8,421	12,516	9,686	15,803	46,426	11,151	57,577

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 March 31, 2015 and 2014 is as follows:

(Millions of yen)

	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

(Millions of yen)

	2014						
	Japan	China	Asia (Others)	North America	Europe	Other areas	Total
Sales	¥114,527	¥27,129	¥14,162	¥15,560	¥30,364	¥550	¥202,292
Property, Plant and equipment	41,292	8,465	2,070	1,466	1,933	—	55,226

(Thousands of U.S. dollars)

	2015						
	Japan	China	Asia (Others)	North America	Europe	Other areas	Total
Sales	\$1,014,529	\$223,492	\$135,125	\$157,177	\$291,745	\$5,817	\$1,827,885
Property, Plant and equipment	348,781	71,773	18,025	18,057	16,668	—	473,304

Note: Sales are divided into country and region based on the locations of the customers.

## (3) Information about major customers

Information about major customers is omitted, since there is no major customer that makes up more than 10% of consolidated net sales.

## (Information about goodwill in reportable segments)

Information on amortization goodwill and unamortized balance in reportable segments for the fiscal year ended March 31, 2015 and 2014 is as follows:

<i>(Millions of yen)</i>						
2015						
	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	—	—	—	—	—	—

<i>(Millions of yen)</i>						
2014						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	Total
<b>Goodwill</b>						
Amortization	¥—	¥410	¥16	¥ 1,075	¥—	¥ 1,501
Balance at year-end	—	—	—	18,539	—	18,539

<i>(Thousands of U.S. dollars)</i>						
2015						
	Precision Equipment	Transport Equipment	Aircraft and Oil Hydraulic Equipment	Industrial equipment	Eliminations and General Corporate	Total
<b>Goodwill</b>						
Amortization	\$ —	\$—	\$—	\$ 10,194	\$—	\$ 10,194
Balance at year-end	—	—	—	149,688	—	149,688
<b>Negative goodwill</b>						
Amortization	\$(25)	\$—	\$—	\$ —	\$—	\$ (25)
Balance at year-end	—	—	—	—	—	—

## 20. 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 June 23, 2015:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥24 (= \$0.20) per share)	¥3,053	\$25,406

The following appropriation of retained earnings on a non-consolidated basis, which is not reflected in accompanying consolidated financial statements, was approved at the shareholders' meeting held on June 24, 2014:

	(Millions of yen)
Cash dividends (¥20 per share)	¥2,544

## 21. Subsequent events

On May 28, 2015 the Board of Directors of the Company has resolved that the item related to the acquisition of treasury stock in accordance with Article 156 of the Corporate law, which is applicable in accordance with Article 165, Paragraph 3 of the law as well as the cancellation of treasury stock in accordance with Article 178 of the law, as detailed below.

### 1. Reason for acquisition and cancellation of treasury stock

In order to enhance the shareholder's value per share, and to improve the capital efficiency through the flexible return of profits to shareholders, the Company has decided to acquire its treasury stock.

### 2. Details of the acquisition of treasury stock

- (1) Type of shares to be acquired: Common stocks of the Company
- (2) Number of shares to be acquired: Up to 4,000,000 stocks  
(3.14% of the total number of outstanding shares (excluding treasury stocks))
- (3) Total cost of acquisition: Up to ¥10,000,000,000
- (4) Acquisition period: June 1, 2015 to December 25, 2015
- (5) Method of acquisition: Purchase on the Tokyo Stock Exchange

### 3. Details of cancellation

- (1) Types of shares to be cancelled: Common stocks of the Company
- (2) Number of stocks to be cancelled: All of the shares acquired as stated 2 above
- (3) Planned date of cancellation: December 28, 2015



## **Independent Auditor's Report**

To the Board of Directors of Nabtesco Corporation:

We have audited the accompanying consolidated financial statements of Nabtesco Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nabtesco Corporation and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to the below Notes to the consolidated financial statements:

1. As stated in Change in accounting policy and estimated method, the Company and its consolidated domestic subsidiaries have changed the depreciation method of property, plant, equipment other than buildings from the declining-balance method to the straight-line method at the beginning of the current fiscal year.
2. As stated in the notes to subsequent events, the Board of Directors of the Company has resolved the acquisition and cancellation of treasury stock on May 28, 2015.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 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

June 23, 2015  
Tokyo, Japan

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