

# TOPY Report 2016



**TOPY INDUSTRIES, LIMITED**

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## Editorial Policy

### Basic Policy

Topy Report 2016 has been prepared to provide all stakeholders with information on the involvement and activities of the Topy Industries Group with respect to CSR in a comprehensive manner. This report is largely divided into two parts: the first part introduces the philosophy of the Topy Industries Group, topics of activities in the fiscal year (FY) 2015 and addresses the environmental and social responsibilities of the Topy Industries Group; the second part consists mainly of

financial information. Information which was previously introduced in the annual report has been integrated into this Topy Report 2016.

This report contains the information of "ISO26000:2010", GRI"Sustainability Reporting Guideline 2006" and Environment Reporting Guidelines 2012 of Ministry of the Environment.

### Reporting Scope

This report covers all companies listed as an affiliate of the Topy Industries Group (consolidated basis), however, some activities and data represents only Topy Industries, Limited. Activities where the scope has not been specified refer, in principle, to the Topy Industries Group. Where it is necessary to specify the applicable scope, activities by Topy Industries alone are identified within the headline or sentences as Topy Industries and activities by an individual Group company are identified by the name of the Group Company involved.



### Reporting Period

Covers mainly FY2015 (April 1, 2015 to March 31, 2016), but includes some activities that occurred after April 1, 2016.

### Date of Issue

November 2016

### Inquiries Regarding this Report

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At the Topy Industries Group, we use the phrase "One-piece Cycle" to describe our approach to building a richer, prosperous society. Our Group's most distinctive quality is our integrated production system, which covers everything from raw materials to finished products. The know-how cultivated by each of our many business divisions is shared throughout the Group, enabling us to develop technologies with greater ingenuity and to make products with greater added-value. From design to production, from raw materials to finished products, we at Topy Industries conglomerate are committed to working alongside other Topy Industries Group companies and the society that uses our products to create new ways of doing business.

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# Top Message



**Toward the 100th anniversary in 2021 of the founding of Topy Industries, Limited, we will work to promote sustainable growth and change to a decent company and become a world leading company in its respective business field.**

Topy Industries, Ltd.  
President and CEO

*Y. Fujii*

## Fulfill Corporate Social Responsibility (CSR) through business activities

Our CSR strategy serves to win the trust of stakeholders by contributing to realizing sustainable society through manufacturing activities under the group's basic philosophy expressly stated as "Win the trust of society through the continuance and development of the Topy Industries Group and the execution of one's duty as a public institution."

Topy Industries, Ltd. operates with an organic structure; special shapes steel produced by the Steel Division is processed into high value-added products such as wheels and tracks by the Wheel Division and the Undercarriage Components Division by employing original technologies. The integrated production chain from steel raw materials to finished products constitutes the ultimate strength of Topy, the synergy effect of which makes us possible to produce highly reliable products that will respond to diverse needs from

customers in terms of material properties, design and other requirements.

We have a firm belief that our efforts in addressing further improvement of corporate value through manufacturing will not only help realize a richer, livable and sustainable society but also lead to the growth of the Topy Industries Group in the future.

## Review of previous Medium-Term Management Plan "Growth & Change 2015" (G&C 2015)

Under the previous Medium-Term Management Plan started in FY2012 we have pursued various management plans focusing on "Growth" in global perspective and "Change" to facilitate building a corporate structure with high earnings. In the automotive and industrial machinery components business sector, we have expanded our overseas manufacturing bases to establish a global

supply chain, in the meantime, we have embarked on building steadily a solid business foundation in the steel business by launching a state-of-the-art steelmaking plant to assure overwhelming cost competitiveness. At the same time, in our corporate organization, we have set up a designated advisory committee and remuneration committee, introducing outside director in order to strengthen corporate governance.

Affected by the economic slowdown in China and emerging countries together with the drops in resource prices we saw a drastic decrease in demand for the undercarriage components for construction equipment and the extra-large diameter wheels for mining trucks and the situation has forced us into restructuring some of our business in the related areas. Due to this negative impact, we regret we were unable to achieve a projected earning.

## On the New Medium-Term Management Plan "Growth & Change 2018" (G&C 2018)

When we look at our business environment, there is a positive side in the expansion of demand for automobiles and steel in the world centering emerging countries, while, as a negative side, domestic demand will be unlikely to expand due to decreasing birth rate and aging of the population. As for the demand for the construction equipment and mining vehicles, recovery continues to drag and casting uncertainties in the future. However, the market will recover in the long-term perspective at a backdrop of growing world population and rapid urbanization.

Under the New Medium-Term Management Plan which covers FY2016 through 2018, we continue to promote "Growth" in the global markets and "Change" to assure high corporate earnings structure by positioning the automotive and industrial machinery components business as a driving force for growth and by accelerating business presence in the global markets in order to achieve a sustainable growth. In the meantime, we will work on exploring new approaches in utilizing our original technologies to develop new business potential.

Meanwhile, we will exert our best effort to acquire trust and sympathy of society for our business conducts and will be involved in reforming activities to nurture a corporate culture, awareness, as well as actions that can flexibly respond to the changes and create a decent corporation where human resources that are expected to carry the future of the corporation can exert their talents to the fullest extent.

## Aiming to stay a sustainable corporation in the next 100 years

Expanding our sales and manufacturing presence globally means that our managements of group companies will be involved in various changes on global basis in a greater extent. This is the circumstance that we are unable to avoid in our path to grow and we have to face with such hitches. We have to be prepared ourselves that corporate management will always be thrown into drastic changes within a short period of time, and we have to keep challenging on new attempts in order to maintain sustainability in growth even under such circumstances.

Topy Industries, Ltd. was founded in 1921 and we are going to celebrate 95th anniversary this year. In looking back its long history, we are impressed to know that we have grown big under the culture that has encouraged our challenge in deepening

technologies and cultivating new markets. We know, however, we are living in the world where just extension of the past experience does not warrant our survival. It is necessary for us to examine whether the corporate culture we know be altered or maintained and build a new corporate culture in order to remain competitive as a sustainable corporation in the next 100 years. We will look into such theme under the New Medium-Term Management Plan.



## Addressing CSR in fiscal year 2015

In this report, we have taken up, as features, the new Medium-Term Management Plan which started covering fiscal year from 2016 to 2018, The Small Group Activity focusing on effectiveness more seriously to generate motivation of employees, and "EneKatsu" or the Energy Improvement Activity producing steady results in reducing energy consumption index by paying consideration to environmental impact and working with specific problem-solving initiatives for social issues. We continue to make recognizable contribution to the environment by utilizing the state-of-the-art electric furnace (world's most efficient in energy consumption and the 200-ton furnace-the largest in the domestic electric furnace industry), which we featured in Topy Report 2015.

In the meantime, we are working on building a supply chain management that assures fair and stable procurement, responds to market and customers' needs by having a firm stance on procurement and based on individual standards at each operation. In this report, we also introduce some of the news that our performance and contribution to quality, costs and delivery have been highly appreciated by our customers.

We realize it an important issue that we respect the cultures and customs of the local communities and abide by the compliance of the host county, and look into social issues of each area, including promotion of diversity issue.

"Goanzenni!"

"Goanzenni!" is a Japanese flag slogan for "Safety First", which is adopted not only for raising awareness in safety and management at all workplaces, but also promoting activities at all phases of business developments of Topy Industries Group that encompass planning, production, business dealings, and the like.

Corporate Profile

Corporate Profile

Company name: Topy Industries, Limited

Founded: October 1921

Head office: Art Village Osaki Central Tower,  
1-2-2 Osaki, Shinagawa-ku, Tokyo

President and CEO: Yasuo Fujii

Capital: ¥20,983 million

No. of employees: 1,819 (non-consolidated)  
4,408 (consolidated)

No. of issued shares: 240,775,103 shares

No. of consolidated subsidiary companies: 23 companies

No. of equity-based affiliated companies: 2 companies

Net sales: ¥215,900 million (consolidated)

Ordinary profit: ¥8,800 million (consolidated)

(March 31, 2016)



Exterior view of the Head Office



R&D center, Topy Industries, Limited

Brief History

1921	Miya Steelworks (predecessor of Toto Steel Mfg., Co., Ltd.) was founded	1985	Topy Corporation (current Topy America, Inc.) was founded
1922	Miya Steelworks succeeded in hot-rolling of steel sashes	1987	Dunlop-Topy Wheel Ltd. (a joint venture company) was founded (U.K.) Succeeded in the practical application of high quality synthetic mica for cosmetic use
1926	Tokyo Shearing Co., Ltd. (predecessor of Toto Steel Mfg., Co., Ltd.) was founded	1988	Concluded a technical assistance agreement with PT. Pakoakuina (Indonesia)
1930	Teikoku Hatsujo Seisakusho (predecessor of Japan Motor Wheel Co., Ltd.) commenced production of prototype steel wheels for automobiles	1989	A plant for undercarriage components for construction equipment commenced operation at Toyohashi Factory
1934	Tokyo Sharin Seisakusho Co., Ltd. (predecessor of Japan Motor Wheel Co., Ltd.) was founded	1990	Akemi Plant of Toyokawa Factory commenced operation
1941	Tokyo Sharin Seisakusho and Abe Tekkosho Co., Ltd. merged to form Japan Motor Wheel Co., Ltd.	1991	Kimi to Boku Hall was completed at Toyohashi Factory
1943	Miya Steelworks and Tokyo Shearing Co., Ltd. merged to form Toto Steel Mfg., Co., Ltd.	1992	Kurate Plant of Toyokawa Factory commenced operation
1955	Toto Zoki Co., Ltd. was founded	1995	Fujian Yuan Shing Topy Ltd. (current Fujian Topy Autoparts Co., Ltd.) was founded (China) A mill for deformed concrete bars commenced operation at Toyohashi Factory
1956	Toto Tekko Co., Ltd. was founded	1998	Obtained ISO 9001 accreditation at all production sites
1958	Toyohashi Steel Mill Plant of Toto Steel Mfg., Co., Ltd. (current Toyohashi Factory of Topy Industries, Ltd.) was established	1999	Topy International, U.C.A. Inc. (current Topy America, Inc.) was founded ISO 14001 accreditation was obtained for all production sites
1961	Chigasaki Seisakusho of Toto Zoki Co., Ltd. (current Kanagawa Factory of Topy Industries, Ltd.) was established Toyokawa Plant of Japan Motor Wheel Co., Ltd. (current Toyokawa Factory of Topy Industries, Ltd.) was established Each headquarters of Japan Motor Wheel Co., Ltd., Toto Steel Mfg., Co., Ltd., Toto Zoki and Toto Tekko Co., Ltd. moved to a new location in Yonban-cho, Chiyoda-ku, Tokyo	2000	Akemi Electric Power Ltd. commenced operation
1964	Ayase Plant of Japan Motor Wheel Co., Ltd. (current Ayase Factory of Topy Industries, Ltd.) was established Japan Motor Wheel Co., Ltd, Toto Steel Mfg. Co., Ltd., Toto Zoki Co., Ltd. and Toto Tekko Co. Ltd. merged to form Topy Industries, Limited	2001	Concluded a comprehensive agreement for steel wheel production with Fergat group (Italy)
1969	Topy International, Inc. (current Topy America, Inc.) was founded	2002	Qingdao Topy Shantui Machinery Co., Ltd. (current Qingdao Topy Machinery Co., Ltd.) was founded
1972	Technology Research Center (current R&D center) was opened at Toyohashi Factory	2004	Hamura Plant of Ayase Factory commenced operation
1977	Sales of synthetic mica started	2007	Topy America, Inc. was founded (merger of Topy International, Inc., Topy Corporation, and Topy International U.C.A. Inc.) Head Office moved to Osaki, Shinagawa-ku, Tokyo
1980	Concluded a technical assistance agreement with PT. Inkoasku (Indonesia)	2008	Science Division was established Concluded an agreement with Nippon Steel Corporation to strengthen general business cooperation
1982	Concluded a technical assistance agreement with PT. Palingda Nasional (Indonesia) Developed heavy- and medium-duty truck wheels for tubeless tires at Ayase Factory Super-Giant Off-the-road Rim (SGOR®) vehicle wheels were developed	2011	Topy Undercarriage (China) Co., Ltd. was founded
		2012	Tianjin Topy Machinery Co., Ltd. was founded
		2013	PT. Topy Palingda Manufacturing Indonesia was founded PT. Topy Undercarriage Indonesia was founded Topy MW Manufacturing Mexico S.A. DE C.V. was founded
		2014	PT. Topy Undercarriage Indonesia commenced operation The new steel making plant commenced commercial operation at Toyohashi Factory
		2015	Topy Fasteners Mexico S.A. DE C.V. was founded

Office and Factory Locations

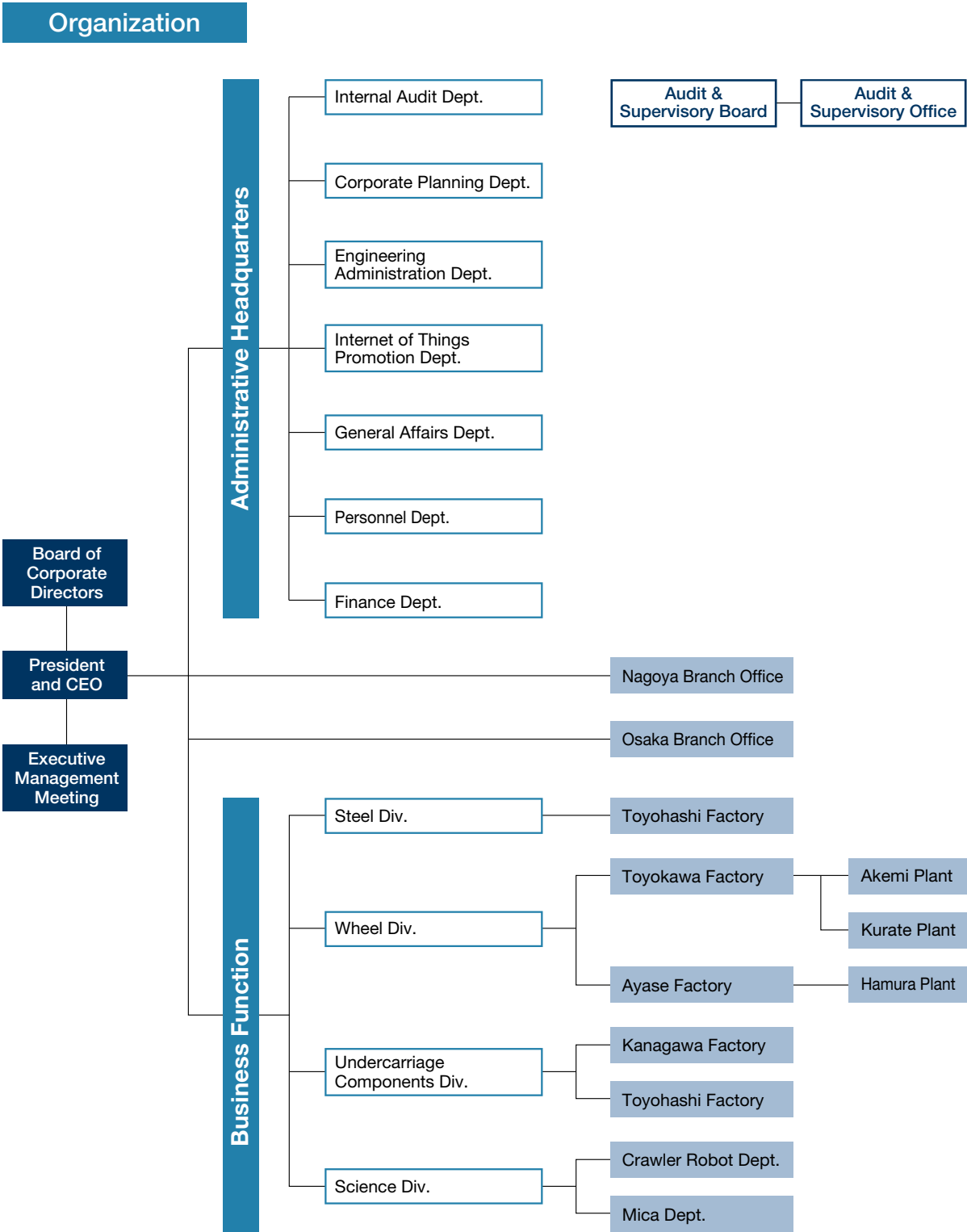


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TEL: +81-3-3493-0777 FAX: +81-3-3493-0200
- **Toyohashi Factory**  
1 Akemi-cho, Toyohashi-shi, Aichi 441-8510  
TEL: +81-532-25-1111 FAX: +81-532-25-0354

- **Toyokawa Factory**  
3-30 Honohara, Toyokawa-shi, Aichi 442-8506  
TEL: +81-533-86-5121 FAX: +81-533-89-1309
- **Ayase Factory**  
2-3-1 Ogami, Ayase-shi, Kanagawa 252-1104  
TEL: +81-467-78-1111 FAX: +81-467-76-7302
- **Nagoya Branch Office**  
2-15-22 Nishiki, Naka-ku, Nagoya-shi, Aichi 460-0003  
TEL: +81-52-201-6051 FAX: +81-52-231-2692
- **Akemi Plant**  
5-29 Akemi-cho, Toyohashi-shi, Aichi 441-8074  
TEL: +81-532-23-3191 FAX: +81-532-23-3194
- **Hamura Plant**  
3-5-10 Nagaoka, Mizuho-cho, Nishitama-gun, Tokyo 190-1232  
TEL: +81-42-579-5871 FAX: +81-42-579-5874
- **Osaka Branch Office**  
4-4-9 Koraihashi, Chuo-ku, Osaka-shi, Osaka 541-0043  
TEL: +81-6-6220-1250 FAX: +81-6-6220-1273
- **Kurate Plant**  
765-1 Aza-Iwagouchi, Oaza-Muroki, Kurate-machi, Kurate-gun, Fukuoka 807-1307  
TEL: +81-949-42-8051 FAX: +81-949-42-8048
- **Kanagawa Factory**  
830 Yabata, Chigasaki-shi, Kanagawa 253-8650  
TEL: +81-467-82-1171 FAX: +81-467-58-3566
- **R&D center**  
1 Akemi-cho, Toyohashi-shi, Aichi 441-8510  
TEL: +81-532-25-5354 FAX: +81-532-25-2384



Corporate Profile



Directors and Audit & Supervisory Board Members (Topy Industries, Ltd.)

 <p><b>President and CEO</b> <b>Yasuo Fujii</b> 1977 Joined Nippon Steel Corporation 2005 Executive Counsellor, General Superintendent, Sakai Works, Structural Division Director, Member of the Board, General Superintendent, Sakai Works, Structural Division 2006 Director, General Superintendent, Sakai Works, Structural Division 2007 Director, General Superintendent, Yawata Works 2009 Managing Director, General Superintendent, Kimitsu Works 2011 Executive Officer; Assumed role as Adviser of Topy Industries, Ltd. President and CEO (to present)</p>	 <p><b>Director</b> <b>Tsuyoshi Inoue</b> 1976 Joined Development Bank of Japan 2006 Supervisor of Development Bank of Japan 2008 Resident Auditor of Development Bank of Japan 2010 Managing Director of Japan Nuclear Fuel Limited 2013 Director and Executive Officer of Japan Nuclear Fuel Limited 2014 Representative Director and President of Value Management Institute, Inc. 2015 Auditor of Fuji Oil Co., Ltd. 2016 Director of Topy Industries, Ltd. (to present)</p>
 <p><b>Executive Vice President</b> <b>Akira Higashi</b> 1975 Joined Topy Industries, Ltd. 2000 Operating Officer, General Manager of Corporate Planning Dept. 2003 Director, Corporate Planning, Affiliated Companies; General Manager of Corporate Planning Dept. 2006 Managing Director, Corporate Planning, Affiliated Companies; General Manager of Corporate Planning Dept. 2007 Managing Director, Corporate Planning, Affiliated Companies, Overseas Planning; General Manager of Corporate Planning Dept. 2010 Senior Managing Director, Corporate Planning, Affiliated Companies, Financial Matters, Overseas Planning 2011 Executive Vice President in charge of Corporate Planning, Affiliated Companies, Financial Matters, Human Resources and Labor Relations 2013 Auditor, Qingdao Topy Machinery Co., Ltd. (present post) Auditor, Topy Undercarriage (China) Co., Ltd. (present post) 2015 Executive Vice President (to present)</p>	 <p><b>Statutory Auditor</b> <b>Masaru Yamamoto</b> 1977 Joined Topy Industries, Ltd. 2011 Operating Officer, General Manager of Science Business 2013 Councilor to General Affairs Dept. Statutory Auditor (to present)</p>
 <p><b>Executive Vice President</b> <b>Yasuto Ishii</b> 1976 Joined Topy Industries, Ltd. 2008 Operating Officer, Corporate Planning (Manager, Special Matters) 2010 Operating Officer, General Manager of Efficiency Improvement Dept. 2012 Operating Officer, General Manager of Business Reform Promotion Dept. 2013 Executive Operating Officer overseeing Safety, Quality, Environment, Technical Center, New Business Development, Business Administration Reform; General Manager of Technology Coordination and Business Administration Reform; Auditor at Fujian Topy Autoparts Co., Ltd. (present post); Auditor at Tianjin Topy Machinery Co., Ltd. (present post) Managing Director overseeing Safety, Quality, Environment, Technical Center, New Business Development, Business Administration Reform; General Manager of Technical Coordination and Business Administration Reform Dept. 2015 Auditor at PT. Topy Palingda Manufacturing Indonesia (to present) Senior Managing Director 2016 Executive Vice President (to present)</p>	 <p><b>Statutory Auditor</b> <b>Yukihiro Ogawa</b> 1982 Joined Topy Industries, Ltd. 2007 Manager of Educational Issues at Personnel Dept. 2010 Senior Manager of General Affairs Dept. (PR, IR) 2014 Deputy General Manager of General Affairs Dept. 2015 Statutory Auditor (to present)</p>
 <p><b>Senior Managing Director</b> <b>Tadashi Kojima</b> 1976 Joined Topy Industries, Ltd. 2011 Operating Officer, General Manager of Internal Audit 2014 Executive Operating Officer, General Manager of Internal Audit Managing Director 2015 Director at Topy America, Inc.; Director at Topy MW Manufacturing Mexico S.A. DE C.V. Executive Operating Officer overseeing General Affairs 2016 Senior Managing Director (to present)</p>	 <p><b>Statutory Auditor</b> <b>Masakazu Kawabata</b> 1977 Joined Fuji Bank Limited 2005 Executive Officer, Branch Manager of Shinjuku Branch of Fuji Bank Ltd. 2006 Executive Managing Officer of Fuji Bank Ltd. 2009 Representative Director, Vice President of Mizuho Research Institute Ltd. 2012 Representative Director and President of Mizuho Capital Co., Ltd. 2016 Statutory Auditor of Topy Industries, Ltd. (to present)</p>
 <p><b>Statutory Auditor</b> <b>Kazuo Shouyu</b> 1978 Joined Meiji Yasuda Life Insurance Company 2005 General Manager of Multi-life Product Development Promotion Dept. of Meiji Yasuda Life Insurance Company 2008 General Manager of Medical Department of Meiji Yasuda Life Insurance Company 2012 Statutory Auditor of Meiji Yasuda System Technology Company 2016 Statutory Auditor of Topy Industries, Ltd. (to present)</p>	

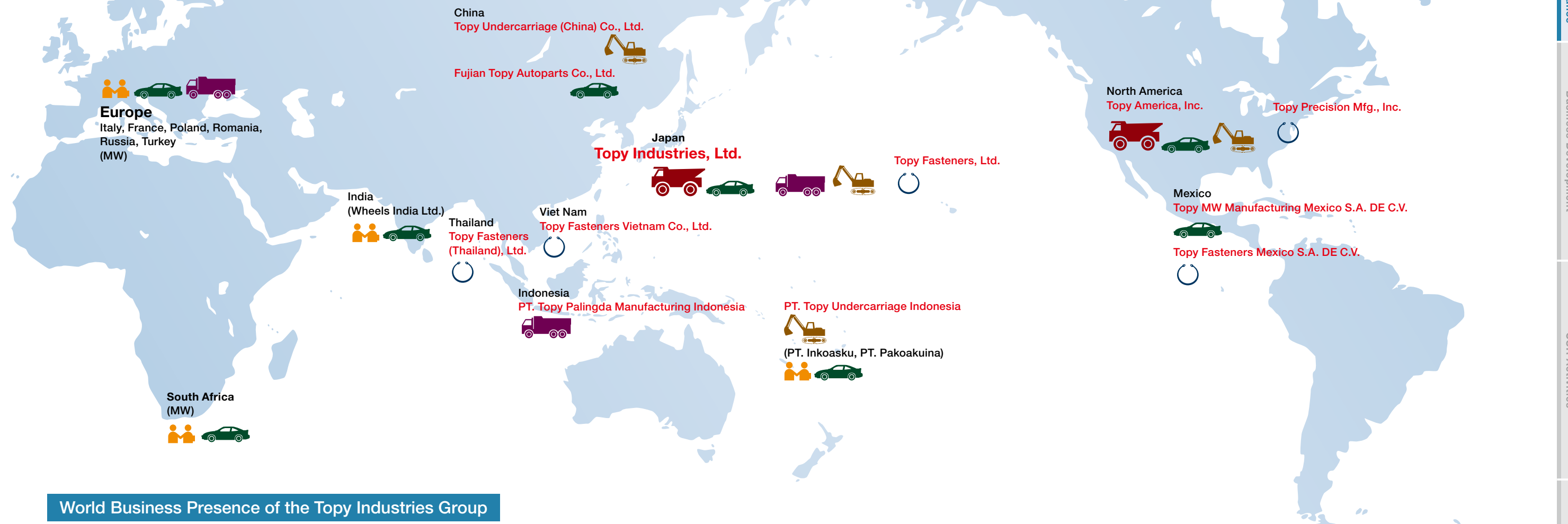
Note:  
Director Tsuyoshi Inoue is an outside director.  
Auditor Masakazu Kawabata and Kazuo Shouyu are outside statutory auditors.

# Global Development of the Topy Industries Group

The company is accelerating the establishment of an optimum global production system centering on automotive and construction machinery undercarriage components businesses.

–Deliver high quality products around the world using production systems in conformity with customer needs–

In order to build such a global optimum production system the Topy Industries Group has progressed with business developments including new production/sales bases as well as alliances with new partners. Our global optimum production system will be further reinforced with the entry into Indonesia and Mexico.



## World Business Presence of the Topy Industries Group

### South East Asia

Infrastructure development is increasingly brisk in the ASEAN countries and the Topy Industries Group meets the demand for automobile and construction machinery components there. In Indonesia, a plant for truck and bus wheels and a sales outlet for undercarriage components have been added, and industrial fasteners are produced and supplied for both two-wheeled and four-wheeled vehicles in Thailand and Viet Nam.

### China

Steel wheels for passenger cars are produced in Fujian, functioning to meet local demand and also to disperse international procurement risks. In Qingdao, we produce and sell undercarriage components for construction machinery and further solidification of business foundation continues to be undertaken.

Note: As part of business restructuring, a plant in Tianjin was closed and two plants in Qingdao were integrated into one plant.







### Japan

Factories in Japan function as mother factories to support the global development of our businesses. Wheels for passenger cars, trucks and buses as well as off-road vehicles and undercarriage components for construction machinery are produced at our four domestic bases. The latest developments include a new steelmaking plant designed to achieve drastic improvements in costs and the introduction of new processes composition to promote development of high value-added products. The benefits of these efforts are well capitalized on strengthening the competitive strengths of our overseas bases.

### North America

Operation in the U.S. started more than 20 years ago and solid operation has been maintained since. We currently have five bases for three different product categories including steel wheels for automobiles, off-road wheels/rims for construction and mining vehicles and undercarriage components for construction machinery. In 2013, we signed a joint venture company agreement with MW Italia S.p.A. to establish a plant in Mexico to manufacture and sell steel wheels for passenger cars and light trucks. The plant commenced operation from April, 2015. In the same year, Topy Fasteners Mexico S.A. DE C.V. was founded. This will enable us to meet the increasing demand in North and South American markets.

### Production and Sales Base / Product Category

 Undercarriage components for construction machinery	 Wheels and rims for off-road vehicles including SGOR®
 Wheels for trucks and buses	 Industrial fasteners
 Wheels for passenger cars	 Alliance partner

# –Special Feature– New Medium-Term Management Plan (FY2016 – 2018) Growth & Change 2018

## Realizing sustainable growth and pursuing change to a decent corporation.

Current business environment surrounding the Topy Industries Group shows a mixed picture as domestic economy does not warrant positive increase in demand due to accelerating population decrease and aging society, while expansion is expected globally in the demand for automotive and steel.

The lingering recovery in the demand for construction and mining equipment is casting uncertainty in the future, but it will regain strength for expansion in the long term in view of growing world populations and progressing urbanization.

Under the new Medium-Term Management plan, we strive to attain sustainable growth by continuously promoting both “Growth” in the global market and “Change” toward high corporate earning structure with the automotive and industrial machinery business positioned as a driving force, and accelerating business development globally. At the same time, we will take on the challenge for new business by creating new ways to utilize our original technologies, and address the changes that will facilitate establishing a decent corporation that wins the trust from society.

### Basic Policy

## Achieve sustainable growth and accelerate a change to build a decent corporation

- Place the automotive and industrial machinery components business as a driving force for growth
- Accelerate business development globally
- Create new ways to utilize our original technologies and take on the challenge for new business

### Focus Theme

- |  |  |
|--|--|
| <b>1 Sustainable business growth</b>           | <ol style="list-style-type: none"> <li>1 Enhance global presence and expand business</li> <li>2 Enlarge product group by leveraging advantages in original technologies</li> <li>3 Take on the challenges for new business by introducing technological innovation</li> </ol>  |
| <b>2 Trust and sympathy from society</b>       | <ol style="list-style-type: none"> <li>1 Promote risk management system</li> <li>2 Reinforce corporate governance</li> <li>3 Fulfill premium redemption to shareholders</li> </ol>   |
| <b>3 Fortification of corporate foundation</b> | <ol style="list-style-type: none"> <li>1 Renew main business improvement systems</li> <li>2 Build a decent corporation where middle and young staff who are expected to support the future corporation can exert their talents maximum</li> <li>3 Reform corporate culture, awareness, and behavior that in order to flexibly respond to a change</li> </ol> |

### Details of Focus Theme

## 1 Sustainable business growth

### 1 Enhance global presence and expand business

#### Automotive components business

Amid increasing fierceness in competition to grab increasing demand for automotives in the world centering on the emerging countries, automobile makers are vigorously advancing cost reduction by standardizing production platform. In order to meet such requirements, we aim

to enhance the presence of our group by expanding and strengthening our global supply network that can supply the wheels made on standard designs.

As for the industrial fasteners, we will further reinforce global production capability through the launch of a plant in Mexico, the increase in production lines in Viet Nam as well as the complementary cooperation among overseas plants, thereby securing increasing global demand.



Multi-type steel wheel for passenger cars



Wheels with large windows



Hybrid aluminum wheel



Heavy-duty steel wheels for commercial buses and trucks



Extra-large diameter wheel for mining dump trucks (SGOR®)

#### Industrial machinery components business

We will promote to explore new customers by rebuilding a global supply structure of the undercarriage components for construction equipment that includes strengthening the mother plant functions in Japan, in addition to the expansion of the production and distribution locations overseas.



- Strengthening of strategic alliances with overseas partners for wheel business
- U.S.A. : To increase production capacity of steel wheel for passenger cars at the plant
- Mexico : To increase production capacity of steel wheel for passenger cars at the plant. Inauguration of industrial fasteners plant at the plant (scheduled in January 2017)
- Viet Nam : To increase production capacity of industrial fasteners at the plant



Tracks (assembled to an equipment)



Tracks



Cutting edge



## 2 Enlarge product group by leveraging advantages in original technologies

### Steel business

While maximizing the substantial effect of a new steelmaking plant, we will explore new demand with the product group that incorporates the manufacturing technologies in special profile sections together with processing technologies, the competitive points of the Topy Industries Group.



Various shapes and sections



Deformed bars

## 3 Take on the challenges for new business by introducing technological innovation

The Topy Industries Group develops crawler robots by adopting manufacturing technologies that have been acquired through years of experience for the undercarriage components for construction equipment. Those robots are used for versatile purposes, such as in hazardous areas, under water, and other restricted areas, receiving high credit from users.

We plan to expand sales into the service industries and agricultural fields where demand is expected to increase

in the future, by developing practical moving systems that allow automatic and autonomous running.

In addition, Topy's synthetic mica, produced by applying the melting technology with the electric furnace, has superior characteristics in glossiness and chiefly used in cosmetic products. We will increase sales in the cosmetic application, and also expand sales into the industrial use, such as foods packaging films.



Cosmetic products using synthetic mica (prescription sample)



A Survey robot [Survey Runner™]

## 2 Trust and sympathy from society

### 1 Promote risk management system

In light of increasing importance of risk management, including thorough observance of compliance, safety, environment and hazard prevention, we will strengthen the risk management system that oversees whole Topy Industries Group companies.

### 2 Reinforce corporate governance

We will review and improve corporate governance system from the point of soundness, transparency, efficiency, and the like, and improve its effectiveness. In order to share the awareness for earnings with the shareholders and to inspire motivation for achieving the target, we have introduced a stock option depending on performance for the management.

### 3 Fulfill premium redemption to shareholders

With respect to the dividend to our shareholders, we have resolved to raise the consolidated dividend payout ratio from the current number targeted at 25% to the higher number targeted at 30 to 35% in order to fulfill premium redemption to shareholders. Also, we will review acquisition of own shares considering the balance between future investments and appropriateness and efficiency of equity capital.

## 3 Fortification of corporate foundation

We will fortify the corporate foundation by reforming main business systems.

To steadily promote building a decent corporation where the middle and young staff who are expected to support the corporation in the future can exert their talent

maximum, we are going to establish a Decency Promotion Committee, along with the reform to nurture a corporate culture, awareness and behavior that can flexibly respond to a change.

### Quantitative goals

	Actual performance in FY2015	Targets for FY2018	Change
Operating income to net sales	4.6%	5.6%	+1.0%
ROE	1.7%	7.7%	+6.0%
ROA	4.5%	6.1%	+1.6%
D/E ratio	0.71	0.60	(0.11)

### Numerical target plans (in billions of yen)

We plan to invest total about ¥30 billion for three years with about ¥6 billion of which for strategic investment.

	Actual performance in FY2015	Targets for FY2018	Change
Net sales	215.9	250.0	+34.1
(Overseas sales ratio)	24%	31%	+7%
Operating income	10.0	14.0	+4.0
Net income attributable to owners of parent	1.7	8.5	+6.8



# Corporate Governance

We will work on strengthening and improving corporate governance in order to establish a corporation that can earn the trust of all stakeholders.

## Basic Approach

Topy Industries, Ltd. pledges to enhance corporate value in the medium - to long - term by establishing a corporate governance system appropriate to the corporation from a standpoint of management soundness, transparency, efficiency and the like, in order to maintain and improve the trust of stakeholders. This comes from the group basic philosophy advocating, "Win the trust and respect of society through the continuance and development of the Topy Industries Group and the execution of one's duty as a public institution."

## Outline of Corporate Governance System

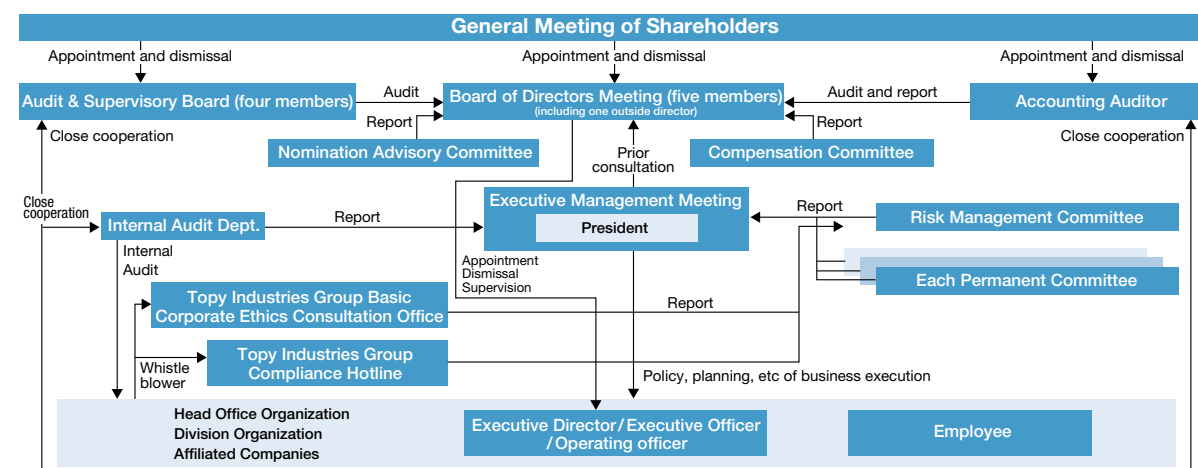
As illustrated below, we have an Audit & Statutory Board in our governance system, designed to supervise and audit the Board of Directors Meeting as well as corporate management. We have divided management functions into management decision-making functions and operating functions, and adopted an Operating Officer System to vitalize and improve the efficiency of management.

The Board of Directors (in principle, to be convened once a month or extraordinarily as needed) put an agenda before No. 122 General Meeting of Shareholders in June 2016, proposing an appointment of two outside directors, but one candidate was withdrawn due to his sudden decease and one outside director was officially approved. As a result, the current Board of Directors is made up of total five directors: four executive directors and one outside director. The Board of Directors not only resolves important issues of the company, including basic management policy, in addition to the matters required by the article of incorporation of the company, but also supervises management from independent and objective stance. In order to

ensure efficient deliberation by the Board of Directors, the Executive Management Meeting, comprising executive directors and number of designated members, is held (one a week in principle), where such matters that require the resolution at the Board of Directors will be deliberated in advance. The deliberation also includes the execution and, planning and implementation of specific business policies, thus supporting appropriate management decisions.

Furthermore, in order to respond quickly to changes in the business environment, the term of the directors and operating officers is set to one year. The Audit & Supervisory Board is constituted of two external statutory auditors and two internal auditors, conducting fair and neutral audit. Besides the statutory organizations, the company has the Compensation Committee, the Nominating Committee, the Risk Management Committee and other ad-hoc committees to strengthen managing functions. The company will set up an optional committee when needed to enhance further governance capability.

## Corporate Governance System



## Outside director and outside statutory auditor

Currently, the company has one outside director and two outside statutory auditors. There are no special interests between those personnel and the company.

Outside director, Tsuyoshi Inoue assumes representative director and president of Japan Economic Research Institute Inc., representative director and president of Value Management Institute Inc., outside statutory auditor of Mitsubishi Paper Mills Ltd., and outside statutory auditor of Fuji Oil Co., Ltd. There are no personal, capital or business transactions between these corporations and the company. He once worked for Development Bank of Japan. The company carries a loan from Development Bank of Japan for the amount less than ten percent of the total loan of the company.

Outside statutory auditor, Masakazu Kawabata assumes outside statutory auditor of Komori Corporation and outside director of Fuyo Auto Lease Co., Ltd. There are no personal, capital, or business transactions between these corporations and the company. He once worked for Mizuho Bank, Ltd. Topy Industries carries a loan from Mizuho Bank, Ltd. for the amount less than ten percent of the total loan of the company, also Mizuho Bank, Ltd. holds 3.27% in the company's shares.

Outside statutory auditor, Kazuo Shouyu assumes managing director of Meiji Yasuda Cultural Foundation. There are no personal, capital, or business transactions between this organization and the company. He once worked for Meiji Yasuda Insurance Company. The company carries a loan from Meiji Yasuda Life Insurance Company for the amount less than ten percent of the total loan of the company. Meiji Yasuda Life Insurance Company holds 4.05% in the company's share.

As for the major shareholders of the company's share, customers, institution in mutual assumption with the outside director, the party to whom the company makes a donation, the company considers their particular interest with the company and judges their independency according to the guidelines for independency defined by the Tokyo Stock Exchange. The company deems one outside director and two outside statutory auditor mentioned above having independency, and the documents submitted to the Tokyo and Nagoya Stock Exchange stating all outside director and outside statutory as independent directors have been officially accepted.

Outside director, Tsuyoshi Inoue contributes to reinforcing the decision-making functions and supervisory functions of the Board of Directors through his opinions in the decision-making process of the Board of Directors based on the rich knowledge and experience he has acquired as corporate management. Outside statutory auditors, Masakazu Kawabata and Kazuo Shouyu contribute to reinforcing audit functions through their advice and suggestion to secure validity and verification in decision-making in the board of directors and other occasions as well as opinions expressed in the auditors meeting based on their rich knowledge and experience they have acquired mainly at financial institutions.

## Strengthening of Corporate Governance

### Improvement of Risk Management and Compliance

The Risk Management Committee has been set up to extract, classify and make visible the underlying risks in the Topy Industries Group, to centralize information on high-risk matters, and for PDCA execution. The members of the Risk Management Committee are mainly general managers at the head office.

In addition, we have established an Internal Audit Department, which is under the direct control of the corporate president and currently operated by 11 staff, in order to strengthen risk management including internal control.

In order to strengthen compliance, Topy Industries, Ltd. has worked on implementing various undertakings such as setting up a contact office for whistle-blowers, publishing the Compliance Guide Book and Anti-Trust Law Manual, and formulating the Topy Industries Group Basic Philosophy and Group Code of Conduct.

In addition, in April 2012, we launched the "Topy Industry Group Basic Corporate Ethics Consultation Office," the "Topy Industries Group Compliance Hot Line," a whistle-blower system applicable to all companies of the Topy Industries Group, and distributed the revised version of the Compliance Guidebook to all employees of the Group companies in Japan. Effective from March 2013, we also launched the "Employee Ethics Seminar: Fostering personnel to support compliance" targeting all staff members of the Topy Industries Group.



Compliance Guidebook

### Group Risk Management Briefing Session

The first Group risk management briefing session was held at the headquarters of Topy Industries, Ltd. in December 2012. Employees of various Group companies participated and listened intently to the briefing pertaining to the Group Basic Philosophy, Code of Conduct and Guidebook. After this event, a similar briefing session has been held at each factories as part of our efforts to strengthen risk management and the aggregated.

## Corporate Governance

### Responsibility to Stakeholders

The business activities of the Topy Industries Group stretch over a broad range of fields including materials, motorization, land development, urban construction, electric power, distribution, sports and leisure, recycling, transportation and services, and are widely involved with society in playing an indispensable role in various aspects of people's lives. Topy's corporate message "One-piece Cycle" has been chosen to express the corporate attitude towards creating a new wave in each business area to build a better future through the concerted efforts of the Topy Industries Group and the rest of society.

The company's basic philosophy clearly state, "Win the trust and respect of society through the continuance and development of the Topy Industries Group and the execution of one's duty as a public institution." All our business behaviors come from this pledge. The Topy Industries Group will contribute to the development of society by providing customers with high quality and cost competitive products that can win their satisfaction, and fulfill our social responsibility through specific activities, including timely and appropriate disclosure of information, contribution to local communities, positive involvement in the global environmental issues, and the like. It is, therefore, our mission that, through those activities, we enhance corporate value of the Topy Industries Group as well as common interests of stakeholders.

### Information Disclosure for Highly Transparent Management

The Topy Industries Group discloses its business activities and financial conditions through various information tools in the hopes that our stakeholders will understand the high transparency of our management. Annual publication of the Topy Report which integrates CSR information such as corporate social contribution and environmental activities as well as financial information for shareholders and stakeholders started from FY2012 in order to expand investor relations. In addition, a variety of corporate information is delivered in real-time on our website (<http://www.topy.co.jp/>).



Website: Top Page



Website: Shareholders and Investors Information

### Information Tools Addressed to Stakeholders



### Business Related Risks

The risks that may impact corporate performance, stock prices and financial position of the Topy Industries Group include the following. Issues related to the future are based on estimations made by the Group as of the date the securities report was submitted (June 23, 2016).

#### (1) Changes in Economic Environment

##### 1. Sales

The primary income of the Group comes from the sales of steel products and components for automotive, mining and construction equipment. The sales of the automotive, mining and construction components are affected largely by the sales of completed vehicles and machinery which are vulnerable to the economic conditions of the respective market where such vehicles and machinery are sold. Likewise, the sales of steel-products are also affected by the business environment in the particular country or area where those products are sold. Therefore, slowdown of economy and subsequent drop

in demand for our products in major markets such as Japan, North America and Asia would adversely affect the results of business and financial status of the Topy Industries Group.

##### 2. Procurement of Raw Materials

The prices of major raw materials used to manufacture products of the Topy Industries Group such as steel material, metal scrap, and fuel oil, may fluctuate rapidly in response to changes in international business environments.

When raw material costs surge and such cost increase cannot be appropriately reflected onto the selling prices of products, there would be adverse effects on business and financial performance of the Group.

##### 3. Currency Exchange Risks

The business of the Topy Industries Group includes exports of products from Japan to North America/Asia, and the manufacture and sales of products in such regions. Fluctuations in currency exchange rates would affect the Group's business and financial performance.

##### 4. Change in Interest Rate and Reliance on Interest-bearing Debt

The Topy Industries Group has been working to reducing interest-bearing debt. However, the percentage of interest-bearing debt to the total assets remains at a high level. Therefore, the fluctuation in interest rates on interest-bearing debt would affect the Group's business and financial performance.

##### 5. Corporate Financing

The Topy Industries Group conducts corporate financing mainly by loans from financial institutions. The financing costs are affected by the interest rates and evaluation of the Group by financial rating organizations. Rise in interest rates or decline in business performance of the Group may result in the procurement of financing at higher interest rates, or difficulty in securing the financing amount needed. This would adversely affect the Group's business and financial performance.

#### (2) Risks due to Selling Price Decline

The Topy Industries Group conducts its manufacture and sales business of steel, automotive/industrial machinery components within extremely competitive markets. The Group will continue to exert efforts to secure earnings by reducing purchasing costs and improving productivity. However, if the selling price overrides our efforts, it may lead to decrease in profit ratio.

#### (3) Risks Associated with Overseas Expansion

Japan and North America had long been existing manufacture and sales activities of the Topy Industries Group. Now, with economic development in China and Asian

countries, the Group's manufacture and sales activities have expanded into these regions by way of direct investment. However, doing business in these countries brings various intrinsic risks and new challenges such as inadequate social/technical infrastructures, unexpected changes of local laws and regulations, disadvantageous political or economic factors, and difficulties in securing human resources etc.

#### (4) Risks Related to New Products and New Technology Development

It is necessary for the Topy Industries Group, which engages in manufacturing activities, to establish a firm technological position within the competitive environment in order to ensure each business segment achieves long and stable profit. Especially in the automotive/industrial machinery components business, driven by technological innovation of automotives, we must be prepared to respond to the increasingly sophisticated requirements from automobile manufacturers.

We are continually at risk for that we must gain favor of the market and customers by precisely forecasting new products and technologies, as well as successfully commercializing such products.

#### (5) Disaster Risks

The Topy Industries Group has steadily implemented various effective measures against anticipated natural disasters including strengthening our emergency communication systems, executing regular evacuation drills, anti-seismic reinforcement of facilities. However, our business operations and financial status would be adversely affected by the occurrence of any large scale earthquakes, typhoons, or other natural disasters in the vicinity of our factories.

#### (6) Risk from Product Defects

The Topy Industries Group places the safety of the products as a top priority and we products are manufactured in strict conformance with quality requirements and standards emplace by law and regulation applicable in the country where we operate. The Group is insured in terms of product liability; however, there is always the possibility of incidents not covered by insurance or large-scale recalls needed for the safety of our users and customers which may result in substantial cost that will adversely affect our financial status.

#### (7) Risks from Laws and Regulations

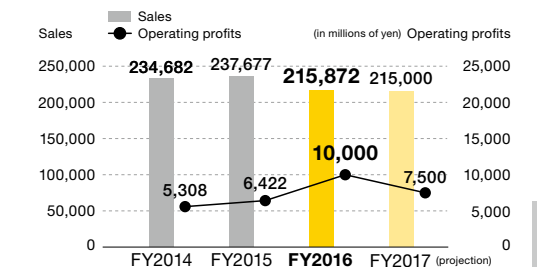
The business operations of the Topy Industries Group are subject to various laws and regulations of the country where we operate. Any changes in these laws and regulations may have adverse effects on our business performance and financial status.



# The Topy Industries Group at a Glance

We aim to build a richer and more comfortable society where we can feel greater satisfaction in our lives. The business activities of the Topy Industries Group extend over a vast area covering steel, automotives, construction machinery, robots, distribution, transportation, sports and leisure. The various products, technologies and services provided by the Topy Industries Group contribute to society through their respective roles. Our business activities are divided into four segments, namely "Steel", "Automotive and Industrial Machinery Components", "Power Generation", and "Others".

Sales, Operating Profits and Projections



## Steel Business



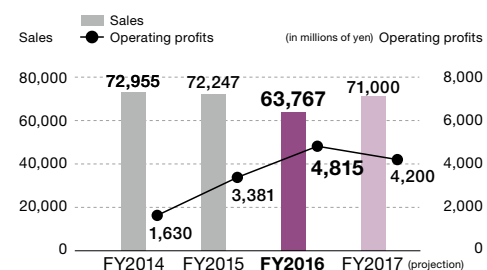
### The Topy Industries' raw material business since its foundation

Topy's steel business possesses unique manufacturing technologies for special sections, is able to respond to diverse specification requirements, and has a flexible production system for high-mix, low-volume production. These technologies enable the in-house supply of raw materials to the automotive and industrial machinery components business divisions. This integrated production system of raw materials to finished products under one corporate umbrella gives Topy an extra competitive edge over other electric furnace mills. The Topy Industries Group also possesses business units engaging in steel product fabrication, collection and recycling of scrap metal, as well as transportation, trade, and distribution. These satellite Group resources are well positioned around the steel manufacturing business and act to increase the business's competitiveness.



General steel sections/Deformed bars/Extra-thick, extra-wide flat bars/Mast rail sections for forklifts/Universal mill plates with grooves

Sales, Operating Profits and Projections



## Automotive and Industrial Machinery Components Business



### Wheel Division

#### A world top-class general wheel manufacturer

Topy responds to the various needs of the automotive and construction machinery industries by producing a comprehensive lineup of wheels for passenger cars, commercial trucks and buses, and ultra-large mining and construction equipment. While developing high quality products, we are committed to contributing to the future motorization of society by building a global supply system taking into consideration environmental and safety concerns as well as top priority issues of the automotive industry such as weight reduction and driving stability.

Steel and aluminum wheels for passenger cars/Steel wheels for commercial trucks and buses/Steel wheels and rims for construction and industrial machinery/Ultra-large diameter wheels (SGOR®) for mining dump trucks/Industrial spring steel fasteners



### Undercarriage Components Division

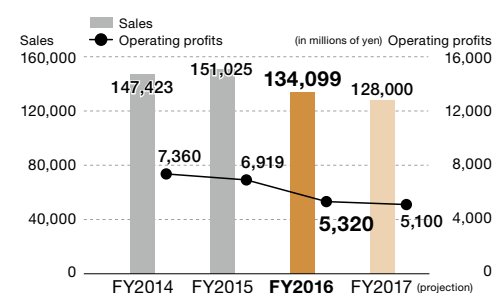
#### A general undercarriage components manufacturer

Taking full advantage of our unique heat treatment and processing technologies that have been accumulated over the years, Topy produces and sells various undercarriage components including shoes, track shoes and blade components (cutting edges) for construction machinery such as hydraulic excavators and bulldozers. Our competitiveness in QCD realized by an integrated production system from raw materials to finished products, as well as our design development and proposal capabilities are highly evaluated by our customers.

Shoes/Track shoes/Cutting edges/Links/Rollers



Sales, Operating Profits and Projections



## Power Generation Business



### Focusing on stable supply of electricity while paying utmost consideration to maintaining harmonious relations with surrounding environment

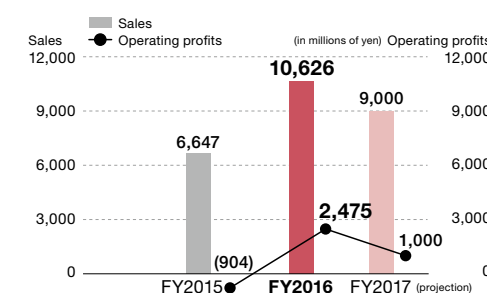
As for the power generation business, we changed supply destination since April 2015, and started supplying electricity to power producers and suppliers.

In view of increasing quantity-wise importance of this business since FY2015, power generation business has become an independent business segment.



Power Generation Business

Sales, Operating Profits and Projections



## Other Business



### New earning power

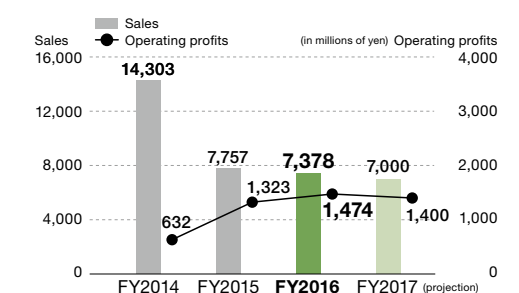
This segment includes the Science Division and other new businesses. The Science Division was established with the intent to create sources of profit for the company in science-related fields other than metal processing, and is currently developing businesses at Mica Department which sells ingredient materials for cosmetics; and the Crawler Robot Department which develops and sells remotely controlled survey robots such as those that have been utilized for the inspection of Fukushima Daiichi Nuclear Power Station. Other business includes social contribution through sports and leisure related facilities as well as indoor and outdoor advertisement.

The power generation business that had been included in the Other Business Segment became an independent segment in view of increased quantitative importance. As such, sales and operating income expressed in the graph below for the years after 2015 reflect this change.



Robots for surveying, and under floor and roof inspection/Synthetic mica/Real estate business/Sports and leisure business/Indoor and outdoor billboards

Sales, Operating Profits and Projections





# Steel Business



The new steelmaking plant at Toyohashi

We promote to build a business model for the new electric furnace operation.

## Message from the Division General Manager

The new steelmaking plant, commenced operation in March 2015, has now entered into a stage where it can exert performance almost as planned initially. The state-of-the-art electric furnace introduced at Toyohashi Factory was featured with superior energy efficiency, but we have achieved remarkable performance by our efforts in reducing electricity costs, from original projection 24% reduction to 27% reduction, accompanied by drastic improvements in electrode consumption rate and amount of the dust generation. The new continuous casting machine is equipped with a revolutionary function that can cast both billets for deformed bars and blooms for shapes at the same time, in order to support flexible production for versatile products with small lot, a selling point of our operation. Here, we have also achieved almost targeted figures in terms of total productivity combined with the furnace operation, succeeding in huge cost reduction including discontinuation of the billet supply from outside sources.

As for the business environment surrounding us, we expect domestic investment for construction will be supported by the investment related to 2020 Tokyo Olympics for the time being, but in the medium- to long-range, the investment is likely to slacken due to financial restraints by the government and aging of its population amid the extremely low birth rate. In addition, there are such issue as the excess production capacity of steel in China and lingering economic slump in emerging countries, which constitute huge concern with us in terms of demand-supply position of steel. We have worked hard to strengthen our muscle so that we are able to continue and expand our operation stably under harsh business environment. Our answers to such challenges are the refining and casting technology that can respond to production of a variety of products, technology in producing special profile sections utilizing optimal roll design and rolling technology, and the know-how on producing small lots. Those technologies have been well reflected in our original products, chiefly such as the materials for shipbuilding, rim and shoe sections for in-house use. In 2015, we embarked on the production of the materials for tunnel segment members used deep underground, a combination of our traditional technology in special profile sections and high precision processing technology that makes high value added products.

The company announced in May 2016 a Medium-Term Management Plan with specific target set in FY2018. In accordance with the plan, we have not only reviewed planning for three years but also tried to find a way for the business should-be, suitable for the corporation, which is going to celebrate 100th anniversary in 2021, the next year after 2020 Tokyo Olympics. While continuing to maintain high performance of the new steelmaking facilities to the fullest extent, we plan to step up further our technology in producing special profile sections and processing technology, and develop products that meet the needs of the times, and expand sales globally.

We do not expect our business stays on easy road in the future, as domestic demand may drop after Tokyo Olympics. However, we are determined to build a business model for the new electric furnace mill that will be continuing to grow under any adverse environment by achieving the target set out above.



**Katsuyoshi Daido**  
Operating Officer  
General Manager, the Steel Division



### Began to ship steel products for Tokyo Outer Ring Road

The Steel Division began to ship steel products for Tokyo Outer Ring Road, now under construction. We expect stable shipment continues for the next several years. The Tokyo Outer Ring Road will be constructed to ease traffic congestion in the metropolitan area and realize a smooth traffic network. Our products are used to support the important part of the tunnel constructed at Ohizumi Junction – Tohmei Junction (temporarily named).

The products are made to a complex shape with strict quality requirements satisfied in dimensional tolerances, while meeting customer request for larger sizes. Our original technology in making special profile sections accumulated over the years has materialized this product.

We will continue to supply our products by incorporating our competitive advantage to produce special profile sections to various application needs, thereby contributing to the development of society in the future.



# Automotive and Industrial Machinery Components Business

Wheel Division



Topy MW Manufacturing Mexico

We aim to enhance global presence and expand business under the basic corporate policy of “Sustainable Growth and Change to a Decent Corporation”

## Message from the Division General Manager

The Wheel Division addresses enhancement of global presence and expansion of business as priority theme along the corporate policy seeking “Sustainable Growth and Change to a Decent Corporation” as described in the new Medium-Term Management Plan.

As for the road wheels, two projects invested in 2014 and 2015, a steel wheel plant for buses and trucks in Indonesia and a steel wheel plant for passenger cars in Mexico have started operation as planned, and we expect to see tangible effect as the base of growth. We plan to strengthen strategic alliance with overseas partners by raising our capital contribution ratio, and timely implement increase in production capacity at respective facilities in U.S., Mexico and China, in order to achieve further business growth by reinforcing product supply system in the global automotive market.

For the off road wheels business for construction and mining equipment, demand for which continues to remain slow, we have taken a step to concentrate management resources by rebuilding global production structure. Meanwhile, we plan to promote sales expansion and obtain No. 1 global share both in OEM and replacement market by introducing new products and through a move into new business arena.

The Wheel Division makes up the core business of the company or a driving force for growth. We work to build a strong business foundation that can cope flexibly with changes in surrounding environment by united efforts among Japanese mother plants (Ayase Factory and Toyokawa Factory) and overseas plants, thereby enhancing further our presence as world top-class general wheel manufacturer.



**Shinichi Kijima**  
Managing Operating Officer  
General Manager, the Wheel Division



## Opening ceremony held at Topy MW Manufacturing Mexico

Topy MW Manufacturing Mexico celebrated its opening ceremony on October 29, 2015. The company commenced operation in April 2015 and made the first shipment with 2,000 wheels in July.

A grand ceremony was attended by about 150 guests including prominent personnel, such as governor of Guanajuato, mayor of Silao, mayor of Economic Development Administration, representatives from Japanese and European corporations.

The ceremony was opened with a speech by Tsuneo Watanabe, president of the company followed by congratulatory speeches by the guests, and finished with exchange of commemorative present (Japanese sake and Mexican tequila) between Yasuo Fujii, president of Topy Industries and governor of Guanajuato.

Lastly a tape-cutting ceremony and commemorative tree planting were conducted outside to congratulate the opening of the company.



Tape-cutting ceremony



# Automotive and Industrial Machinery Components Business

Undercarriage Components Division



Topy Undercarriage (China) Co., Ltd.

The Undercarriage Components Division: supporting construction machinery manufacturers and society by establishing optimal production structure globally through expansion of production and distribution sites in Japan and overseas

## Message from the Division General Manager

The Undercarriage Components Division manufactures and sells various undercarriage components for construction machinery, such as hydraulic excavators. Above all, track shoes\* for hydraulic excavators embody the “integrated production system from raw materials to finished products” featuring our strongest selling point. The integrated manufacturing system has realized high level of QCD, and our products receive excellent evaluation from our customers thanks to refined services, including VA proposals supported by advanced design development nurtured over many years.

The Division currently operates at three locations in Japan and three locations overseas in North America, China and Indonesia, making total six locations. This makes it possible to supply products with high levels of QCD from these plants to the construction machinery manufacturers at different locations, while responding to currency exchange fluctuations, meeting customer globalization by reducing inventory risk by JIT deliveries. As a result, the Division enjoys the world’s top-level market share in terms of OEM supply of track shoes and tracks\*\* for hydraulic shovels.

In recent years, demand from emerging countries remained slow. As one of strategic options to cope with changing market environment, we realigned production location by concentration in China in FY2015. The Division faces a harsh environment at present, however, in the long-term perspective, demand for construction machinery is expected to expand globally as the world population will grow and urbanization progress in the future.

Under such circumstances, we aim to be a leading company in the industry we belong to under the new Medium-Term Management Plan, develop high value-added products based on customer and market needs, improve cost competitiveness, promote sales expansion by leveraging our advantage in having global locations, and strengthen our business foundation.

\*Track shoe: Component of “tracks” manufactured by processing hot rolled steel materials. Track shoes and other components are assembled to form “tracks”.

\*\*Tracks: A general name for assembled undercarriage components of construction machinery and is a steel track belt.



**Hiroyuki Kinoshita**

Managing Operating Officer  
General Manager,  
the Undercarriage Components Division



**Sanwa Buhin Co., Ltd.  
Link Forging Press Update**

A 2,300-ton line was updated and started operating in April 2016. The updated line is built with the advanced technology capable of shortening forging time and expected to contribute to the improvement of productivity.

The company continues to work to maximize improvement effect and establish production system that can respond to a change in demand.

Sanwa Buhin is located in Bando-shi, Ibaraki-ken and produces and sells undercarriage components for construction equipment.



Renovated 2,300-ton Forging Press



## Other Business

**We intend to develop products with unique features by technological innovation and take on the challenge to expand new business.**

### Message from the Division General Manager

Last year, the Science Division reorganized its business structure by which we withdrew from the sign system business, while the outdoor advertisement business was transferred to Topy Enterprises, Ltd. to continue the business. As a result, we concentrate on the synthetic mica business and the crawler robot business.

The Mica Department has long been supplying synthetic mica as cosmetic materials to the major cosmetic companies, but we see it essential for us to develop the business overseas and explore new applications in order to achieve future growth. The synthetic mica, both cosmetic use and industrial use, is not easily replaced by low priced and low cost materials, and we plan to enhance added value of the mica by developing safe, high functional material specialized in our original technology in order to make difference with competitors' products.

The key words are safety, high function and product concept.

The Crawler Robot Department draws up customer needs and is capable of responding quickly from design to input of the products into the market. In light of the shortage of working force due to declining populations with fast developing aging society, there is increasing technological demand for the robots for more practical use in all domestic industries, including life support robots. A key to the success lies on how fast we can develop the robots and put into the market that conform to the needs by leveraging our strength in speedy response.

The key words are safety, autonomous operation, seeds and matching.

The Science Division continues working on new challenges during the New Medium-Term Management Plan through the development of unique products by technological innovation to expand new business.



**Toshiyuki Tani**  
Managing Operating Officer  
General Manager,  
the Science Division



### Topy's mica on the 7th Cosmetic Ingredients & Technology Exhibition

The Mica Department of the Science Division participated in an exhibition (CITE Japan 2015) held from June 3 through 5, 2015. The exhibition successfully gathered estimated 31 thousand visitors.

Topy's booth was exhibited with the synthetic mica powder for cosmetics and the high gloss pearl mica Helios as main product and appealed its high quality.

We continue expanding the market by participate the show like this.



Mica cluster

## New Products and Technologies

### Introducing some of Topy's next-generation products and technologies

The Topy Industries Group has been actively promoting various research and development themes that suit needs of customers and society, embodying the ideas into visible products. The items introduced below show some of new technologies and products that are expected to help boost the growth of the Topy Industries Group in the future.

#### 1 Expanding sales of high value-added product incorporated secondary processing

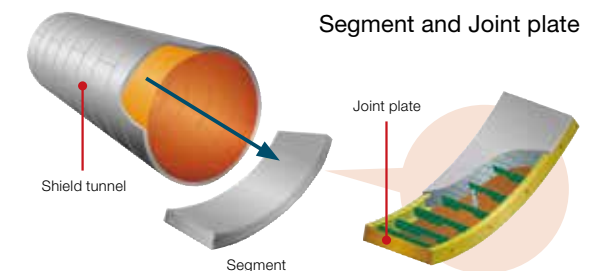
The Steel Division is strengthening involvement in secondary processing of its hot rolled steel products. On the "Automatic Processing line of Joint Plate for Tunnel Segment", a line capable of both automatic cutting by flame and bevel finishing has been installed as a means of differentiation by uniting manufacturing of special profile section to secondary processing, resulting in receiving orders for the joint plate for tunnel segment, which is going to be used at the road construction site with great depth and large section.

The line is designed to operate automatically from receiving of hot-rolled materials to shipping of the products finished with secondary processing, and is capable of securing quality requirement from customers and also of performing high productivity.

Demand for the tunnel segment at great depth and large section road construction is expected to increase in the future. We plan to improve further productivity of the automatic line and expand sales by integrating manufacturing and sales.



An automatic processing line of joint plate for tunnel segment



#### 2 Development of high anti-corrosive, machined gloss finished aluminum wheel

Fitting of cast aluminum wheels with machined gloss finish to luxurious cars is on increase, however, its condition setting has not been recommended by car manufacturers for the sales in the area where snow-melting agent is used as well as the shipments for export due to its inferior corrosion resistance compared to the traditional painted finish of cast wheels.

Topy's new painting technology with improved corrosion resistance now made it possible to clear condition setting requirements globally including salt damaged area in Europe, and mass-production started.

New painting system has improved coating film characteristics, eliminating blister of coating caused by hydrogen gas released from the coated film, improving adhesiveness and satisfying customers' requirements.

##### Conventional Technology

Solvent primer coated surface expanded without break up

Corrosion deposit and hydrogen gas generated

Push-up pressure by corrosion deposit

Adhesiveness between cast surface and painted film

Large blister generated (rust develops)

Machined gloss surface

Cast surface with coating specification

##### New Technology

Changed resin to improve adhesiveness with surface

Adjusted toughness of painted film to suppress expansion

Cut

Suppress rust development

Machined gloss finished surface

Machined gloss finished specification

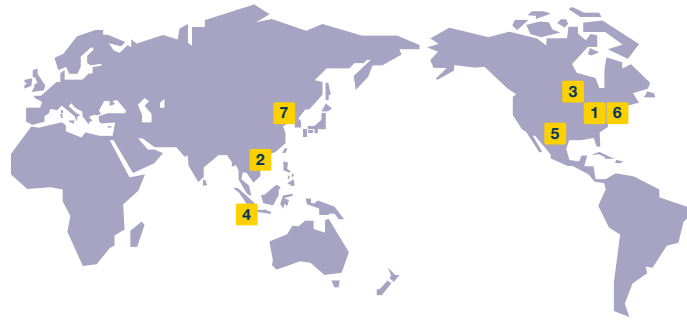
Machined gloss finished specification

# From Topy's Global Locations

The Topy Industries Group has expanded its global presence.

Here, we will introduce some of their activities.

In North America, China, and Southeast Asia, the Topy Industries Group operations are well assimilated into the local environments. Introduced here are some of the latest topics and news.



## 1 City-pad attachment line installed (The Undercarriage Department, Topy America, Inc.)

The Undercarriage Department of Topy America, Inc. manufactures and sells tracks since 2000. The operation started with only five staff, but now the staff almost tripled to fourteen.

There are three types of track belt for mini-hydraulic excavators: rubber track belt, city pad track belt, all steel track belt. So far, carrying sufficient quantities of inventory was thought to be only a viable way to meet frequent requests for different track belt from end-users.

In order to reduce inventory space required for carrying three different types of track belt and strengthen the capability to respond flexibly to the change requests, they have installed an assembly line designed to pick up independent city pads from inventory and assemble them on to steel track belt.



## 2 Education at Topy Fasteners, Viet Nam (Topy Fasteners Vietnam Co., Ltd.)

The company is relatively a new entity that commenced production in November 2012. Majorities of the employees are newly employed with limited knowledge and it poses an issue how to maintain their operating skill under increasing new employees.

There are two education programs available: one is to explain overall company issues and the other is a special education provided at each workplace. Efforts are made to prepare an environment that will facilitates easy operation, including use of photos and pictures for specific explanation, arranging tools and other necessary items as closely as possible to the workplace.

There are other education programs, such as Japanese language education, 5W1H, "Ho, Ren, So" (Reporting, Contacting and Consultation), P.D.C.A., etc. that help maintain environment to enhance skill levels and realize importance of communication.



## 3 Thickness defects reduction initiatives for transmission shims (Topy Precision Mfg., Inc.)

Topy Precision is involved chiefly in manufacturing of components to fasten inner and exterior fittings of automobiles. The shims are the components that are used inside the transmission of the cars to adjust gear clearances.

A twin-head grinding machine is used to finish thickness of the shims, and they embarked on an improvement activity in the end of last year with a target to achieve thickness defect zero percentage.

This improvement activity is intended to raise awareness and knowledge of staff involved in the grinding operation and let them acquire high specialty skill. It is encouraging that they can feel staff's awareness steadily rising toward placing value even to each small piece of fasteners.



## 4 One-year anniversary ceremony of Topy Palingda Manufacturing Indonesia (PT. Topy Palingda Manufacturing Indonesia)

One-year anniversary ceremony of founding PT. Topy Palingda Manufacturing Indonesia was conducted on July 31, 2015. A greeting was provided by Yasuo Fujii, president of Topy Industries, Ltd. and Alberto Sudarto, president of PT. PAKOAKUINA, following the opening message by Norio Akiyama, president of Topy Palingda.

A pray was submitted in accordance with Islamic manners after looking back the history of the company over the pictures and videos, followed by a ceremony of cutting of "Nasi Tumpeng" a cone shaped mountain of rice surrounded with full platter of typical Indonesian cuisine to congratulate particular event, wishing future growth of the company.



## 5 Working on the shipment to car manufacturers in highland area in Mexico (Topy MW Manufacturing Mexico S.A. DE C.V.)

The company, established in October 2013 and commenced operation in April 2015, is located in the central highland area where automotive industries are operating in concentration and its plant is situated in the Santa Fe Industrial Complex where many Japanese companies have operating sites, the location lies in the state famous for World Heritage Guanajuato. This area is now called a mini-Detroit as many Japanese, American as well as European car manufacturers concentrated in this Mexican hub area.

Following initiation ceremony for newly employed workers in January 2015, the company has progressively increased employment while conducting proto-type production, OJT, trial mass production in repetition.

A lot of effort has been spent until they made the first shipment, they somehow were able to reach a stage that allows production and set-up changeover by themselves. Currently operation stays in stable condition, although they have encountered unexpected event that workers at particular workplace suddenly quitted in large numbers.

Generally speaking, though maybe a kind of stereotype view, Mexican people look cheerful, not meticulous, adherent to religion, world most talkative, drinkers, fond of singing and dancing and generous national character. We are wishing growth of the company with such wonderful people!



## 6 Technical service activity jumping into customers grounds (Topy America, Inc.)

The OTR Department of the Topy America is engaging in sales of wheels for construction and mining vehicles. Their customers are OEM manufacturers of mining equipment and frontlines lie at the strip mines where the vehicles are in operation. It is very important for them to satisfy their customers by providing services including technical services expected by customers as well as by supplying quality products for further improvement.

They started to work on strengthening quality of their technical services by stationing their service engineer at OTR Department of Topy America since July 2015.

Frequent visits to OEM manufacturers and technical services via telephone meetings are certainly helping enhancing Topy's presence.

In addition, they make periodic visits to the mines, end users of the equipment, for technical services besides first hand on-site survey for their own. Sometimes, they are able to obtain hidden but valuable ideas from the operator down at working sites on product usability and securing of safety that OEM makers are not aware of, and the ideas that they do not have either, making it a great hint for their product development.

The OTR Department has just started addressing this service and they continue to aim at establishing better relationship with customers in the future.



## 7 Brushing up our capabilities through monthly sales meeting (Topy Enterprises (Dalian F.T.Z.) Co., Ltd.)

They prepare sales reports in Japanese for monthly sales meeting. Since the reports are submitted to the management at head office of Topy Enterprises, Tokyo, and key points are summarized into easy-to-read style. It is really not easy to summarize the events during past month activities in a couple of lines and express succinctly and clearly before the meeting in Japanese which is not their mother tongue.

They are using the sales meeting to improve our Japanese proficiencies, ability to summarize, discuss future directions and confirm each other. By doing so, they believe their ability to communicate with Japanese staff at Topy Enterprises as well as Japanese customers will gradually improve, and also it will contribute substantially to step up our sales capabilities.

The sales meeting is not used for reporting sales activities only, but it is also used, when developing new issue, to consult schemes for commercial distribution and physical distribution before making decision with participation of the Administration Department. In China, matters related with taxes are often changed without prior notice due to the nature of the laws and regulations. Therefore, extended information exchange through frequent interaction between the Administrative Department and the Sales Department is essential to realize smooth proceeding of business by the Sales Department.

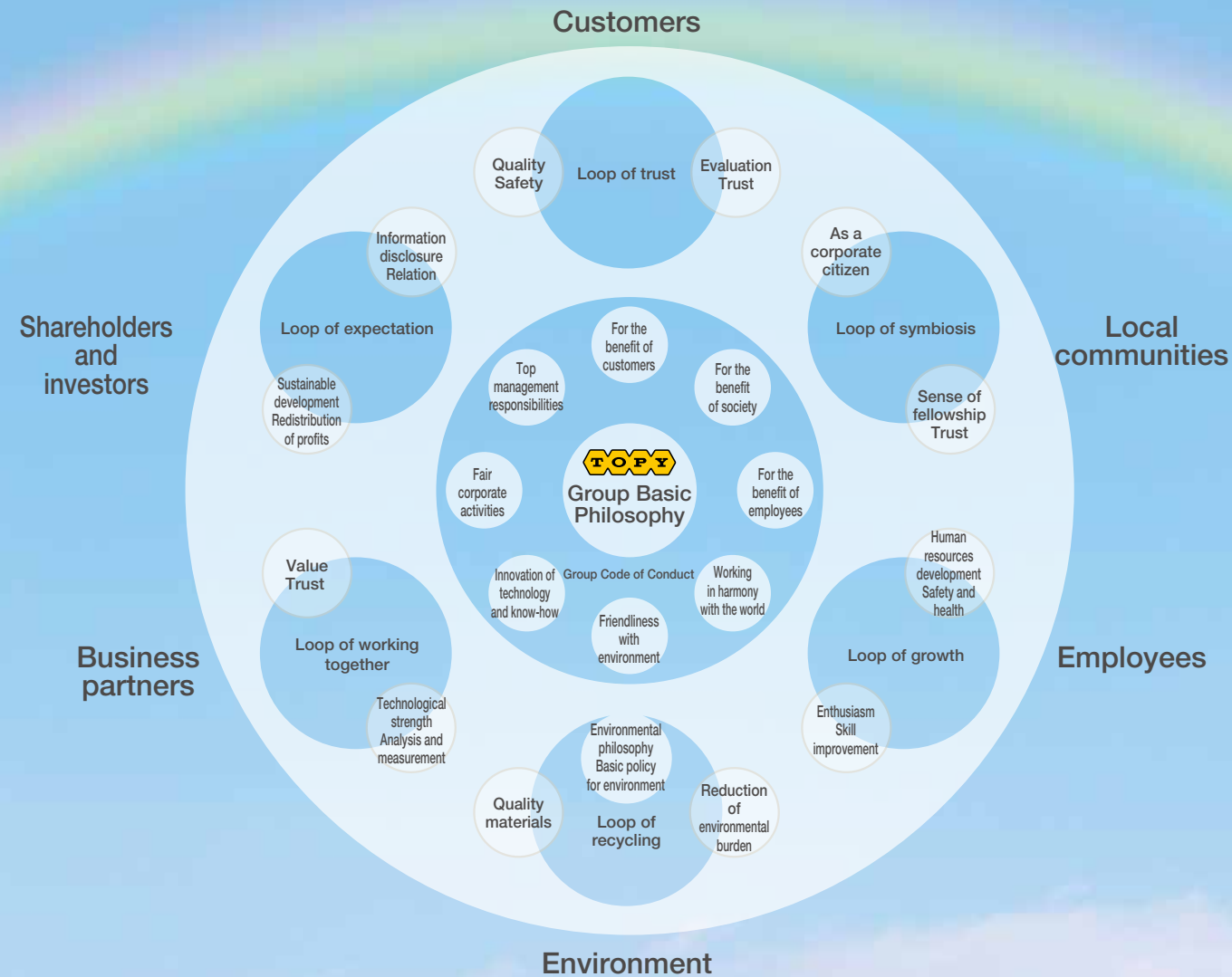
In the sales meeting, they are able to know the contents of the report to our seniors and colleagues but also to understand what are happening in the whole company. In addition, it gives their an opportunity to check the sales activities of themselves and think what they are lacking and how things are going to be progressed in the future. They are determined to work together to achieve further improvement.





# CSR of the Topy Industries Group

The Topy Industries Group understands the relationship with its stakeholders as shown below and desires to propel CSR activities by deepening two-way understanding through the six loops.



## A loop of "Expectation" with shareholders and investors

Respond to the expectations that shareholders and investors have with regards to Topy Industries through sustainable growth of business and disclosure of corporate information with high transparency and establish a win-win relationship that ensures mutual benefit.

## A loop of "Trust" with customers

Deliver customers safe and high quality products, establish an environment where customers' evaluations of our products are repeatedly fed back to the production site, and build a solid trust.

## A loop of "Symbiosis" with local communities

Fulfill responsibility as a member of the local community, actively promote communication, and create fellowship recognition to ensure co-development.

## A loop of "Working together" with business partners

Make use of technologies and values possessed by both parties through dealings in a fair and equitable manner, and establish a relationship of working together across entire value chains by actively providing information such as analysis and measuring technologies.

## A loop of "Recycling" for the environment

Take positive initiatives in promoting recycling of precious natural resources pertaining to the self-declaration that Topy Industries is a recycling corporation, and work to reduce environmental burden in social lifestyles.

## A loop of "Growth" with employees

Provide maximum consideration for the growth and safety of employees working in the Topy Industries Group and make the most of their skills and passion. Build a relationship to ensure that both employees and the corporation can grow.

Responsible behaviors by each corporate employee based on the Group Corporate Basic Philosophy and Group Corporate Code of Conduct; this is the basic position of the Topy Industries Group towards CSR.

Since the enactment of the International Standard ISO 26000 on November 1st, 2010, the recognition that every organization should fulfill its social responsibility for the sustainable development of society is spreading world-wide. CSR activities are one of the most important issues for our organization. The Topy Industries Group believes that in order to respond to the expectations and needs from stakeholders including customers and employees of the corporation, CSR should be handled as one corporate strategy. Corporations are indispensable existence for the development of economy, but at the same time, its activities have huge impacts on society and the environment. We must therefore fully recognize that continued CSR activities are essential. We desire that the Topy Industries Group continues to be a trusted organization working worldwide with global perspectives and responding to the expectation of various stakeholders including customers, consumers, shareholders, investors, local communities and employees. In other words, CSR means the "activities needed to become a trusted company". Going forward, we will look beyond short-term profits and contribute to the creation of a sustainable society through development of business activities by combining overall aspects of economy, environment and society from various angles.

In April 2009, we formulated the Group Basic Philosophy and Group Code of Conduct as the basis of CSR activities and have promoted CSR awareness to be shared by hosting



**Tadashi Kojima**  
Senior Managing Director  
General Affairs

sessions. To further strengthen our Group compliance, we have prepared a Compliance Guide Book and opened an office for consultation about corporate ethics for all Group companies.

Recently, many scandals involving large corporations have been reported. Taking this opportunity as a reminder to ourselves, the Topy Industries Group will reinforce the importance of the Group Basic Philosophy and the Code of Conduct to fulfill our responsibility to stakeholders.

We will strive to realize the Group Basic Philosophy by addressing issues along with the Group Code of Conduct, and continue to be a corporate group that is needed by society.

## The Topy Industries Group Corporate Basic Philosophy

Win the trust and respect of society through the continuance and development of the Topy Industries Group and the execution of one's duty as a public institution.

## The Topy Industries Group Corporate Code of Conduct – To win the trust and respect of society –

Under the Corporate Philosophy, the management and employees of the Topy Industries Group shall strictly abide by all applicable laws and ordinances, the spirit reflected, and the Corporate Code of Conduct, while accepting full corporate social responsibility and fostering an open-minded and creative corporate culture.

### Article 1 (For the benefit of customer)

Produce and supply, high-quality and safety-oriented merchandise and service to gain customers and consumer confidence.

### Article 2 (For the benefit of society)

1. Communicate widely with society as well as shareholders and actively disclose corporate information fairly and appropriately. Cooperate with local communities and actively work on social contribution activities as being a good corporate citizen.
2. Oppose resolutely any anti-social forces and parties posing a menace to social orders and security.

### Article 3 (For the benefit of employee)

Respect the individual character and personality of employees, and provide safe-working environments allowing them to work with enthusiasm, and attain fulfilling lives.

### Article 4 (With the world)

Pay due respect to different cultures and customs of all countries and regions, and perform business activities to contribute to the development and well being of local communities.

### Article 5 (With the environment)

Realize that a sensible approach to environmental conservation is essential to the existence and activities of the company, and behave voluntarily and actively.

### Article 6 (Technology and know-how innovation)

Seek widely for knowledge and information both domestically and internationally, and continue the innovation of technology and know-how by refining distinctive technologies and professional competence.

### Article 7 (Fairness in corporate activities)

Operate business in a fair and transparent manner under free competition and appropriately keep an arm's length distance from politics and administrative agencies.

### Article 8 (Responsibilities of top management)

1. Top management shall make example by leadership and inform the strict adherence to the Code of Conduct and ensure the compliance of the corporate ethics effectively administrating its management systems.
2. If and when any of the Code of Conduct is violated, management shall demonstrate an indomitable determination to personally solve the issue by launching an investigation and shall take actions to prevent the recurrence of such incidents. At the same time, top management shall make full disclosure within and outside the company promptly and precisely, and, upon determining the source of competence and responsibility, impose strict disciplinary action against those held responsible.







## Small Group Activity supporting workplace capability in Topy


No matter how many new technologies are developed, it does not warrant continuation of business activities. It is obvious for us to maintain quality of products and services, costs, delivery and other requirements at certain levels in order to continue manufacturing stably the products that customers want. To realize this, “Workplace Capability” of each employee working at the front line of workplace becomes essential, and improvement initiatives need to be developed with originality and ingenuity conceived across the whole workplace.

At the Topy Group, we are reviewing the said activity itself in order to vitalize the activity and step up workplace capability.

### Objectives of Small Group Activity

See the job as his or her issue and participate in the activity by making most of what they have.  **Growth of individual and self-realization**

Use the activity as an opportunity where visible effect resulting from originality and ingenuity can be expected as a whole workplace. Issues to be discussed with all employees participated on equal footing and find a solution for a theme.  **Vitalization of the workplace**

Improve quality, costs, delivery and other requirements.  **Development of the corporation**



### History of Small Group Activity in the Topy Group

1970 Small Group Activity started.

1971 The 1<sup>st</sup> all Topy presentation convention was convened.

1982 The 16<sup>th</sup> all Topy presentation convention was convened.

\*Kyushu Wheel Kogyo, Ltd. participated for the first time as a group company.

1987 The 22<sup>nd</sup> all Topy presentation convention was convened.

\*Topy Fasteners, Ltd. participated.

1989 The 1<sup>st</sup> Topy Group presentation convention was convened.

\*Topy Metali, Ltd., Kyushu Wheel Kogyo, Ltd., Hokuetsu Metal Co., Ltd. participated.

2010 The 22<sup>nd</sup> Topy Group presentation convention was convened.

\*Fujian Topy Autoparts Co., Ltd., Topy Fasteners (Thailand), Ltd. participated for the first time as overseas corporation.

2013 The 25<sup>th</sup> Topy Group presentation convention was convened.

\*Qingdao Topy Machinery Co., Ltd. participated for the first time as corporation in China.

2015 The 27<sup>th</sup> Topy group presentation convention was convened.

\*Topy Undercarriage (China) Co., Ltd. participated for the first time.



## FY2015 Convention Award Improvement Proposals “Gold”

FY2015 Convention Award for Improvement Proposals “Gold” were given to the following six presentations because of consideration to their substantial contribution to the development of the company after careful deliberations in accordance with the clause 23 (Judgment criteria) of the Proposal System Standard.

### 1 Countermeasures for tooling breakage due to scrap clogging prevention system with 3,500-ton press

#### Tire Set Tooling Center, Ayase Factory

Tooling was inclined to break due to the clogging caused by scrap. Breakage of tooling has been prevented by improving anti-scattering device for scrap.



### 2 Reduction in defect ratio with No. 5 rim line and initiatives on productivity improvement

#### Heavy-duty Group, Commercial Wheel Plant, Ayase Factory

Encouraging productivity improvement has been secured by improvements in 1) Errors in rim setting with rim end bending and die stamp punching processes, 2) Standardization of No. 5 rim line and 3) The method to identify present condition of foregoing and succeeding processes.



### 3 Cost reduction by internal welding of the disc for SW products and reviewing of the materials

#### Extra-large Diameter Wheel, Construction Wheel Plant, Ayase Factory

After many tries and errors in finding effective measures of automatic assembly line with which operating efficiency has been decreased, found a way to improve the problem, resulting in cost reduction.



### 4 Noise abatement and shortening in annealing time by improving the box exclusively used for the bush

#### Heat Treatment Group, Undercarriage Components Plant, Kanagawa Factory

Succeeded in reducing 50% in replacing work of the bush as well as reduction in annealing time.



### 5 Establishment of 100% in-house production by improving production method of hot rolling accessories

#### Roll Cutting Shop, Toyohashi Factory

The accessory guides for rolls have been outsourced, but after tries and errors, succeeded in building them by themselves and reduced costs.



### 6 Productivity improvement by stabilizing manufacturing operation of Z section steel

#### Heavy Structural Rolling Mill Shop, Toyohashi Factory

Succeeded in improving operating efficiency and yield percentages by making it possible to make three pieces of products from one bloom instead of traditional two pieces of products from one bloom.





## Measures started to vitalize the small group activity and make management efficient

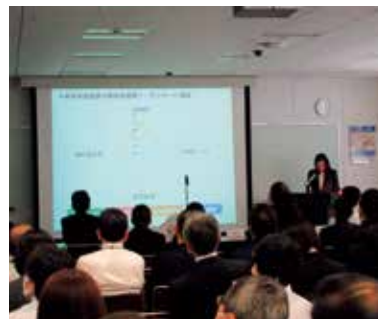
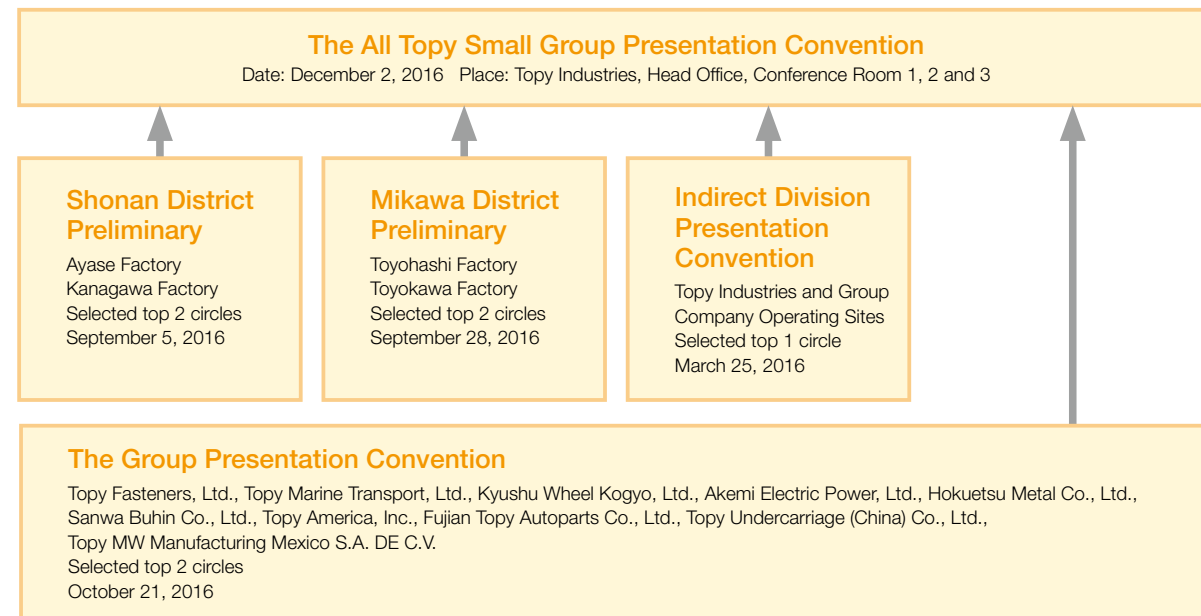
In September 2015, JK staff meeting received an instruction from the technology committee to review measures to vitalize the presentation convention, which seems to have been becoming stereotyped. Responding to this request, JK staff meeting decided to start reviewing a theme for “vitalization of the small group activity and improvement of managing efficiency”. In the first meeting held on October 7, the committee reviewed vitalization measures with 100th anniversary of the company’s founding in sight after having preliminary knowledge on “where the small group activity is placed” as well as “trend in the small group activity of other companies”.

The structure that we have followed up to the last Topy Group presentation convention was that the groups selected in the preliminary round at the factory and group business operating sites were qualified to participate to the final convention. After several reviews, we have come up with the idea that the groups that have been selected in the company or at each business site are required to win the next stage at the regional preliminary, indirect section presentation convention as well as the group presentation convention.

The circles that have been selected through these preliminaries are now qualified to present at The All Topy Small Group Activity Presentation Convention. With the introduction of this new mechanism, we plan to vitalize whole Topy Industries Group in the future, while promoting the improvement activities to the solidification of the group activities and the activities directly related to earnings.



Topy Industries Technology Committee and members of JK staff meeting



The 1<sup>st</sup> Indirect Division Presentation Convention was held on March 25, 2016 and Gladiolus Circle of the Kanagawa Factory won the First Prize for the presentation titled as “Convenience Improvement of No.4 Conference Room”.

## Changes in the small group activity presentation convention The All Topy Small Group Activity Presentation Convention

The All Topy Group Small Group Activity started with the 1st presentation convention held in 1971, had been convened twice a year on the schedule of one night and two days at the Gotenba YMCA Tozan So at the skirt of Mt. Fuji until the 24th convention, with many participants. During this period, the small group activities of the group has become active with the participation of Kyushu Wheel Kogyo, Ltd. in 1982, and in 1989, the activity changed its name to The Topy Group Small Group Activity Presentation Convention, the convening place changed to Kimi to Boku Hall (You and Me Hall) at the Toyohashi factory, celebrating 27th convention in 2015.

The convention has seen sophistication both in its presentation contents and presentation techniques, the circles that have passed preliminaries performed enthusiastic presentation toward the first prize and impressive award. However, recently, we began to see convention management somewhat stereotyped and audience seemed to lose their interests. To break this situation, we resolved to change its name to “The All Topy Small Group Activity Presentation Convention” introducing the preliminaries system beyond a framework of business site in order to vitalize JK and improvement activities and to improve convention

management efficiency, which ended up a presentation convention with representative circles.

Specifically speaking, the preliminaries are held for Shonan District Preliminary, Mikawa District Preliminary, Indirect Division Presentation Convention and The Group Presentation Convention, and the finals will be competed for the first prize by representative circles that have won the preliminaries. Along with this change, the convention place under the new name will be shifted to Head Office of Topy Industries, Ltd. to make convention management more efficient.

Topy Industries will continue to exercise improvement activities directly related to generating earnings through vitalization of the

small group activities and efficient management thereof with concerted efforts of employees, contributing to the development of entire Topy Group.



**Tsuyoshi Nakamura**

Operating Officer  
General Manager, Engineering  
Administration Dept.

## FY2016 JK-Improvement Activity Company Policy

### Basic Policy

Advance further vitalization and reform of JK Improvement Activity, step up workplace capabilities by improving competence of each employee and contribute to the development of the Topy Industries Group as well as the improvement in its earnings.

### Key Activity Items for FY2016

- 1) Implementation of improvement activities with concerted efforts of employees**
  - Implement improvement activities directly related to improving earnings.
  - Implement improvement education (QC story, improvement skill) to those assisting improvement activities.
  - Acquire ability/attitude to solve problems through problem solving experience.
  - Activate knowledge or intelligence to enhance logical thinking.
  - Vitalize passion and will-power involving surrounding.
- 2) Promotion of the activities directly related to reduction in electricity/energy costs to double the energy saving activities in coordination with Enekatsu 2020.**
- 3) Assistance to startup activities of indirect division circles**
  - Introduce N7\* tools at indirect division.
- 4) Vitalization of the Topy Industries Group Small Group Activity**
  - Provide assistance to activities as well as education at the group companies, both domestic and overseas.
  - Expand participation to the Topy Group Small Group Activity Presentation Convention.
  - 1 Enhance mutual enlightenment through District Preliminaries, Indirect Division Convention and Group Convention.
  - 2 Enhance the activities through The All Topy Small Group Activity Presentation Convention.

\*QC 7 tools: Pareto chart, histogram, control chart, scatter diagram, cause effect diagram and check sheet



In-house education for assistants  
(at each business site)



In-house education  
(at Employee Hall, one night two days)

### Provide assistance to education at the group companies.

Sanwa Buhin  
Co., Ltd.

Topy  
Fasteners, Ltd.

Kyushu Wheel  
Kogyo, Ltd.



June 24, 2016  
Conference Room  
at Sanwa Buhin



July 7, 2016  
Conference Room  
at Topy Fasteners



June 8, 2016  
Large Hall  
at Kyushu Wheel Kogyo

## Environmental Topics

## Energy Saving Initiatives 2020: “Enekatsu 2020”

## Energy saving activity with employee involvement to contribute in reducing energy consumption and conservation of the Earth's environment

Reduction of CO<sub>2</sub> emission gas by promoting energy saving is an important theme for all corporations to tackle. In addition, incessant efforts to curb electricity consumption are called for in light of structural changes occurred in the supply of electricity after the Great East Japan Earthquake and Tsunami on March 11, 2011. In order to reduce energy consumption and respond to environmental conservation, The Topy Industries Group has embarked on an energy saving activity “Enekatsu 2020” since FY2013 with employees involved. We are providing hereunder a brief report on the outline of the activity and its results.

### Promotion of company-wide energy index reduction campaign

#### 1 “Topy Energy Saving Award” : Aiming to achieve solid reduction of energy basic unit in terms of operating site unit

A competition among production site units aiming at achieving the targeted reduction defined in the Energy Saving Law (reduction of 1% from the previous year). In FY2015, total four companies, eight production site units participated in the competition, including four factories of Topy Industries, Ltd. and four domestic group companies, Kyushu Wheel Kogyo, Ltd. won the award for the first time as a group company.

#### 2 “Topy Power Saving Award” : Working on power saving each unit

A competition that invites nonproduction (indirect) business units, such as head office, branch office, administrative department of each production site. In FY2015, total 51 units participated. The Administration Office of the Toyokawa Factory was awarded for three consecutive years.

#### 3 “Topy Energy Saving Improvement Award”: Special award for superior improvement ideas on energy saving

Select and award for the idea producing greatest energy saving effect, selected from improvement ideas. In FY2015, the Circle A, Facility Section, Maintenance Group of the Toyokawa Factory proposing “Reduction in the volume of air consumption due to improved efficiency of compressor operation” was awarded.

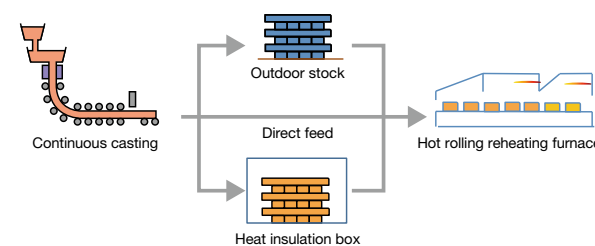
### Initiatives on energy saving at four factories of Topy Industries

Since the start of “Enekatsu 2020”, awareness for energy saving at each factory of Topy Industries, Ltd. has steadily increased. A specific improvement idea is provided below.

#### 1 Toyohashi Factory

##### Reduction in the amount of fuel used at reheating furnace by introduction of a heat insulation box for blooms

By applying to the government subsidies for business operators engaged in reduction of energy saving in FY2015, we installed a heat insulation box for blooms. Four sides of the box are enclosed with steel plate and the inside of the detachable ceiling is padded with ceramic fibers to provide thermal insulation. The blooms are temporarily stored in the box immediately after casting and fed into the rolling process with heat maintained at high temperatures, resulting in five to seven percent reduction in the amount of fuel used at the reheating furnace.



Outside of bloom heat insulation box

Storing condition of cast blooms after casting

#### 2 Toyokawa Factory

##### Reduction in the amount of air owing to the installation of a compressor line and improvement activity

The air pipe connecting the compressor room that supplies air and the steel wheel plant is about 300 m long, resulting in pressure loss of about ten percent. Installation of a new pipe line along the existing pipe line succeeded in reducing air pressure loss and electricity consumption with the compressor was reduced by about five percent. They also worked on the improvement in compressor efficiency, maintaining healthy conditions of cooling water pipes, reduction in air leakage from the air piping and achieved more than further ten percent reduction in electricity consumption with the compressor.



Huge amount of the scale found clinging inside of the cooling water pipe for compressor deteriorating the performance of the compressor.

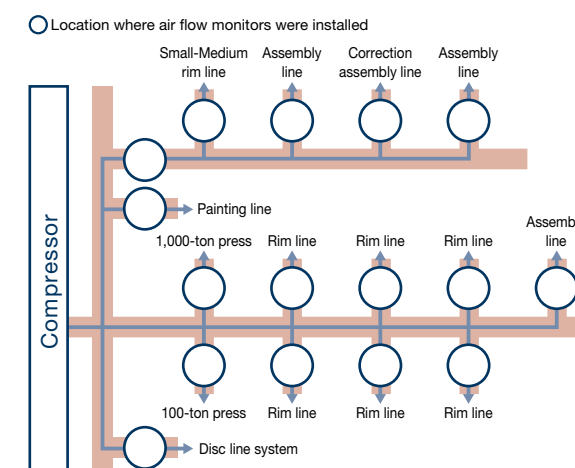


Used larger diameter pipes for cooling water and changed the pipes from steel to stainless steel pipes to prevent adhesion of the scale inside the pipes.

#### 3 Ayase Factory

##### Introduction of visualization into compressed air resulted in significant reduction in factory-wide air leakage

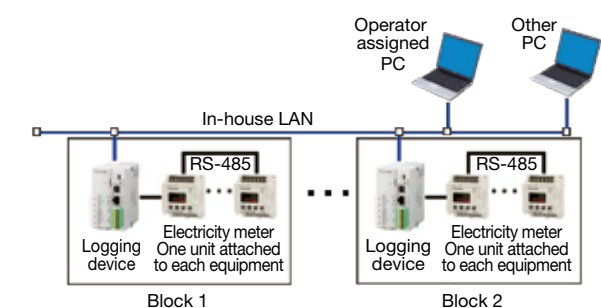
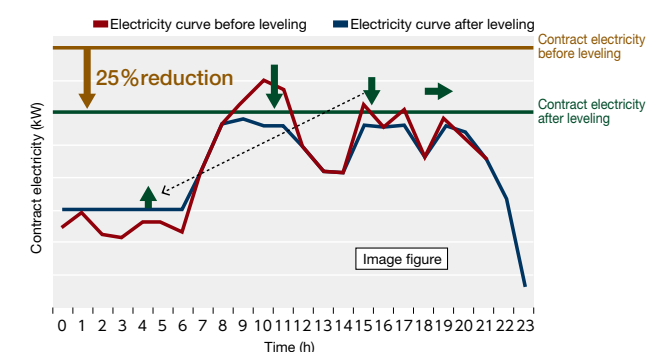
Ayase Factory has long been addressing the reduction of air leakage from factory air piping system, but they were unable to identify how much air was supplied and how much leakage occurred quantitatively due to unavailability of air flow monitors. They installed the air flow monitors on the main piping and each line, and worked on the visualization of compressed air. Through a joint work by staff and workplace operators to check the leakage of compressed air and the repair works implemented based on the data from the air flow monitors, they came up with an amazing number as much as about 60% reduction in the amount of air leakage.



#### 4 Kanagawa Factory

##### Reduction in electricity waste and variation by introducing a system that visualizes electricity

Kanagawa Factory became the first factory in Topy Industries that introduced a system to visualize electricity. This system enabled the factory to measure minimum amount of electricity needed for each equipment as well as electricity loss. In FY2015, they succeeded in suppressing peak electricity and reduce the contract amount of electricity by 25% by leveling electricity use of the entire factory.





# Environmental Activities

## Environmental Management [Topy Industries, Ltd.]

### Environmental Philosophy

We believe it is our duty to preserve a rich and beautiful world for future generations to enjoy. In partnership and solidarity with local communities we will work to promote continuous improvement in everything we make, from materials to finished products, to lay the foundation for sustainable development in our society.

### Basic Environmental Policies

As part of its duty as a corporate citizen, Topy ranks continuous improvement under the ISO 14001 environmental management system among its top management priorities. Therefore, Topy has established and implemented the following policies:

#### 1. Complying with the Law

Topy will comply with all environmental regulations, protocols, and agreements in its manufacturing activities.

#### 2. Reducing Environmental Footprint

In order to bolster environmental management, Topy will undertake cost-conscious efforts to reduce its environmental footprint by saving energy, lowering greenhouse gas emissions, using fewer resources, and recycling.

#### 3. Developing Environmentally Conscious Products

Topy will develop products that are environmentally conscious at every stage in their life cycle, from design and production to use and disposal.

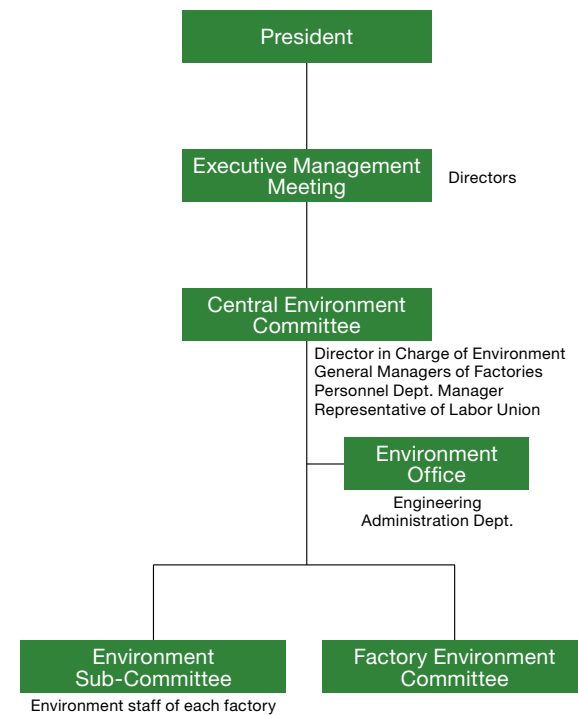
#### 4. Raising Environmental Awareness and Finding Harmony with Local Communities

Topy will promote understanding of its environmental policy and raise awareness of environmental conservation through environmental training and enrichment for its employees. Furthermore, Topy will strive to create harmony between the company and local communities.

#### 5. Conserving the Environment in Overseas Business Activities

Topy will remain mindful of its impact on local environments and implement measures in accordance with the needs of local communities.

### Environment conservation initiatives promotion structure [Topy Industries, Ltd.]



### ISO 14001 certification status

Since the Wheel Division (Toyokawa Factory) launched a certification acquisition program to promote environment conservation activities in February 1998, all Topy manufacturing sites have undertaken an ISO 14001 certification acquisition program, which was completed in June 1999.

Maintenance of our environmental management system has been confirmed by regular audits after this initial certification. We are carrying out environment-friendly production activities by promoting scheduled and systematic environmental initiatives in line with our Basic Environmental Policies.

### ISO 14001 Certification Status [Topy Industries, Ltd.]

Factory	ISO 14001 certification obtained	Transition to 2004 version
Toyohashi	Apr. 1999	Completed in Feb. 2006
Toyokawa	Nov. 1998	Completed in Oct. 2005
Ayase	Nov. 1998	Completed in Nov. 2005
Kanagawa	Jun. 1999	Completed in Jun. 2005

## Recycling [Topy Industries, Ltd.]

### Topy is a corporation that recycles

Topy Industries, Ltd. manufactures steel products using scrap iron generated over the course of consumption and production activities within society.

In this business model, we see ourselves as a com-

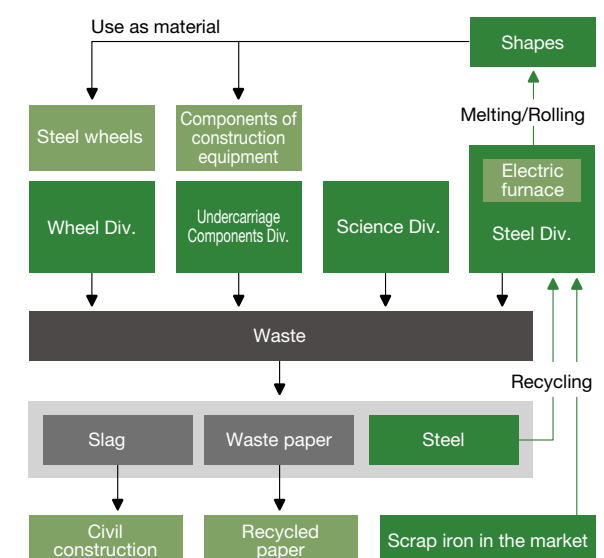
pany assigned to carry out a vital role in the production activities within the recycling system of society. Furthermore, we have implemented an original recycling system within our production flow for the reuse of resources.



### Reuse of material

At Topy's Toyohashi Factory, we produce various steel sections from molten steel made in an electric furnace. We have two sources of scrap iron, the major material for our steelmaking process; scrap gathered in-house and scrap procured from outside. A substantial quantity of steel sections produced by the Steel Division is shipped to the Wheel Division and the Undercarriage Components Division to be used as raw materials in the production of various wheels and undercarriage components.

### In-house recycling system



# Environmental Activities

## Initiatives on Waste Reduction [Topy Industries, Ltd.]

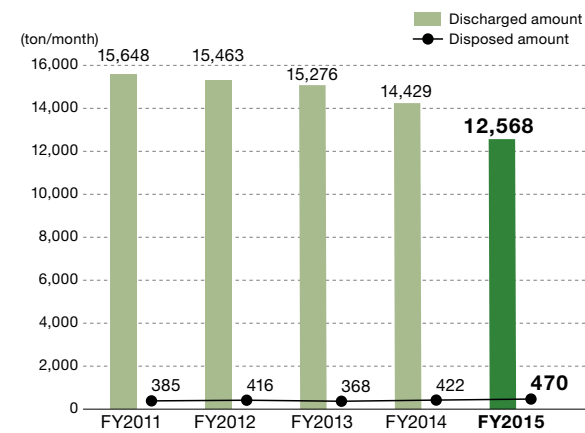
### Waste reduction and recycling

A part of the metal scrap (steel) generated during production activities is reused directly in-house as a raw material in electric furnaces. As for other waste, we are engaged in reducing ultimate disposal amount of waste through re-resourcing (e.g. collection of scrap iron, collection of zinc out of melting dust). Oxidized slag generated from steelmaking is recycled at a rate as high as 90% or more and is reused for civil construction material and concrete material.

The amount of discharged industrial waste remained almost flat since FY2010 but decreased 13% year-on-year in FY2015. Meanwhile, ultimate amount of disposed industrial waste marked 470 tons, an increase of 11% from the previous term due to disposition of long retained stock of the waste generated from mica production.

We will continue to promote recycling and reuse the ultimate disposal amount through the expansion and improvement of 3R activities.

### Transition of Discharged and Ultimate Amount of Industrial Waste Disposal



### Recycling of cutting oil by clarification treatment

Various cutting oils are being used in the production processes of our operations, and these also constitute one of our major environmental issues. At Ayase Factory, we apply clarification treatment to the used cutting oil and bring it back for reuse. We will eventually implement this at all other factories.

### Obtained revised JIS Certification for Oxidized Slag

Toyohashi Factory has established a system in which oxidized slag generated within the electric furnace during the refining process and reduced slag discharged from the ladle after continuous casting subsequent to the refinery process are completely separated, treated, processed and recycled by installation of a slag cooling facility and crushing facility. In April 2013, the factory obtained JIS A 5011-4: A slag aggregate for concrete category No.4: electric furnace slag aggregate. In addition, the factory acquired in December 2013, another certificate for Revised JIS A 5011-4 and started to produce and sell electric furnace oxidized slag aggregate for concrete.

Oxidized slag aggregate is heavier in specific gravity than natural materials such as sand and gravel that have been used as concrete aggregate materials and so we expect slag to be used for heavy concrete aggregate such as wave dissipation blocks. The sales expansion of oxidized slag aggregate for concrete has a favorable effect as it reduces the extraction of natural aggregate materials and thus its impact to natural environments and also curbs energy consumption. We will exert our continued efforts to reduce environmental load through review of our business activities.

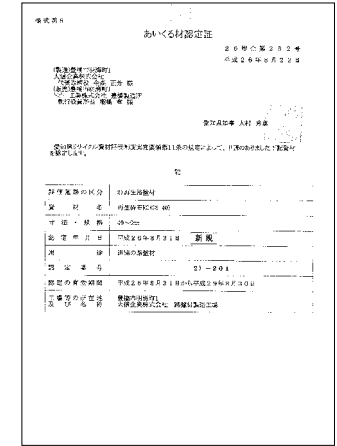
### Electric Furnace Slag for Recycled Road-bed Material ECO Stone™ obtains "AIKURU" certificate

The electric furnace slag for recycled roadbed materials (Product Name: ECO Stone™) is a recycled roadbed material made by crushing, sheaving and mixing oxidized slag and reduced slag. The ECO Stone™ obtained a license on August 31, 2014 under the Aichi Prefecture Recycle Materials Evaluation System (Pet name: AIKURU), which started in 2002. The license certifies that the materials meet quality, performance and environmental safety requirements, and that it can be used for public works. Certificate Number 2)-201.

ECO Stone™ meets the environmental criteria by a great margin in terms of elusion and inclusion of hazardous materials.

### Hazardous Materials Elusion and Inclusion Test (Analysis example)

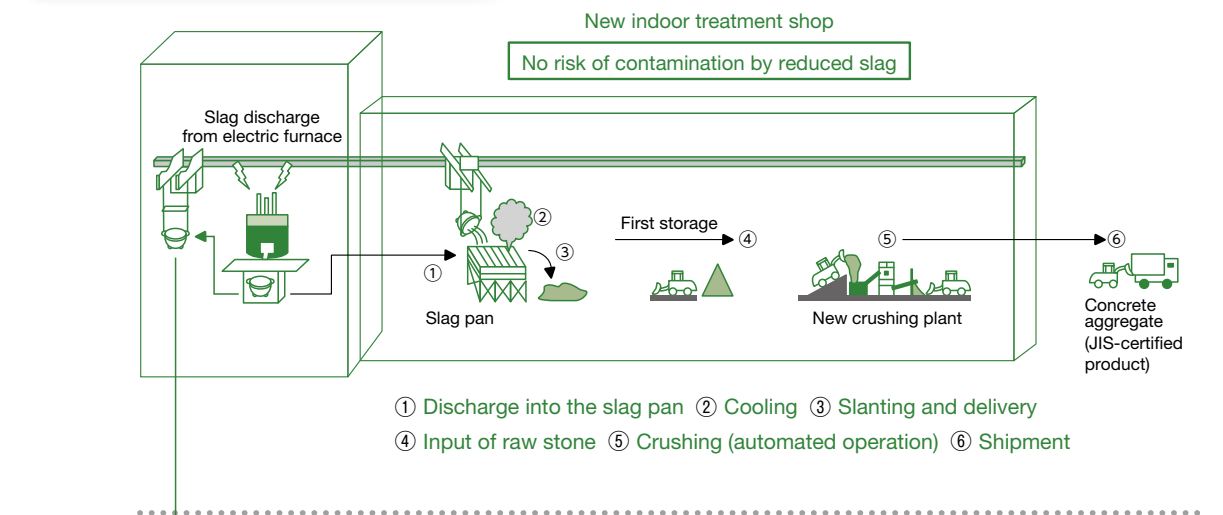
Item	Elusion Test (mg/L)		Inclusion Test (mg/kg)	
	Analysis value	Spec. value	Analysis value	Spec. value
Cadmium	< 0.001	≤ 0.01	< 5.0	≤ 150
Lead	< 0.005	≤ 0.01	6.0	≤ 250
Hexavalent Chromium	< 0.01	≤ 0.05	< 2.0	≤ 15
Arsenic	< 0.005	≤ 0.01	< 0.5	≤ 150
Total mercury	< 0.0005	≤ 0.0005	< 0.05	≤ 150
Selenium	< 0.002	≤ 0.01	< 0.5	≤ 150
Fluorine	0.05	≤ 0.8	160.0	≤ 4,000
Boron	0.19	≤ 1.0	150.0	≤ 4,000



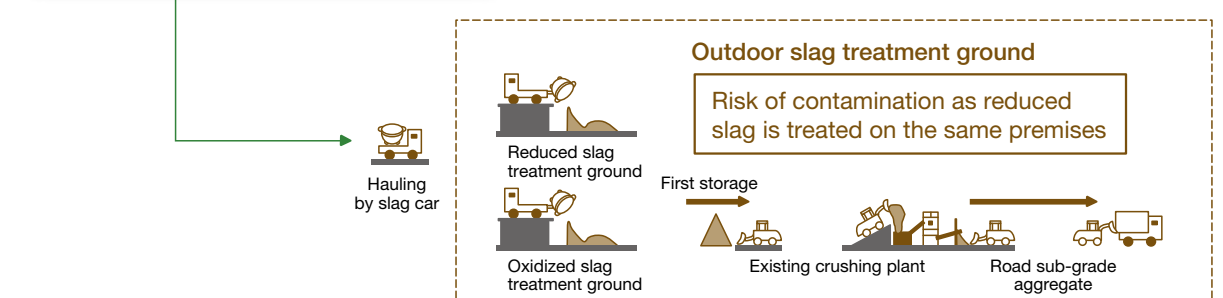
AIKURU Certificate

### New Slag Treatment Flow

#### New slag treatment for JIS certification



#### Conventional treatment





# Environmental Activities

## Initiatives on the Prevention of Global Warming [Topy Industries, Ltd.]

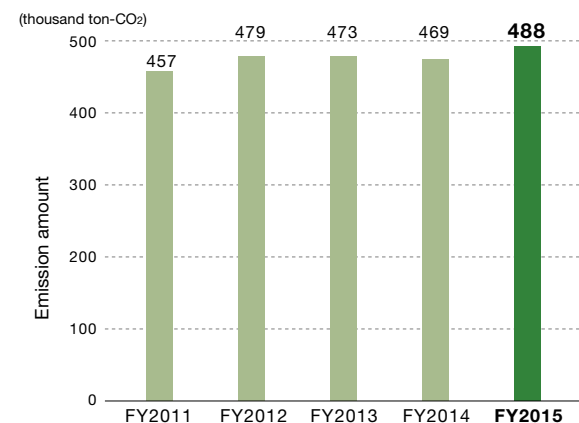
### Reduction of CO<sub>2</sub> emissions

At each factory of Topy Industries, Ltd. improvement activities are in place according to the production facilities involved toward achieving targets based on Keidanren's (Japan Business Federation) "Voluntary Action Plan on the Environment." In FY2015, the total amount of CO<sub>2</sub> emissions from energy use at Topy's facilities was 488 thousand tons, maintaining the target level below that of FY1990. However, the CO<sub>2</sub> emissions has continued to be flat since FY2010 due to the increase in production along with the recent upturn trend of the global economy.

As we anticipate an increase in the amount of energy use in the future as production volume recovers, we will pursue stringent control and improvements in order to continue to restrict the amount of energy usage.

The amount of CO<sub>2</sub> at our facilities is reported to the government authorities according to the revised Energy Saving Regulation enacted in FY2009. The report includes Topy's offices, which would usually be excluded from designated energy control factories. As for Toyohashi Factory and Toyokawa Factory in Aichi Prefecture, we have submitted a Global Warming Prevention Measures Plan according to the Aichi Prefecture Ordinance for Global Warming Prevention Measures Plan System.

### Energy Source Based CO<sub>2</sub> Emission Amount



### Pilot solar power generation facility at Toyohashi Factory

The company is propelling "Energy Saving Action 2020" as one of the objectives of "Preservation of Global Environment by Energy Saving." As part of "Promotion of Energy Saving Investment," the mainstay of such action plan, we installed a pilot solar power system facility at Toyohashi Factory and assessment has started from March 2014. The facility has a total solar panel space of 270 m<sup>2</sup> with an estimated generation power of some 46,000 kWh per year. For testing purpose three different panels (single-crystal panel, multi-crystal panel and CIS panel) were installed at the same time to compare generation power and characteristics. For another experimental purpose beside the solar facility, we laid oxidized slag aggregates produced in-house on the ground of the pilot facility to check the effectiveness of oxidized slag aggregates as a suppressor against weeds including its effects to the pilot equipment and power generation itself. We are undertaking these attempts as part of our contributions to the global environmental conservation activities.



Pilot solar power generation facility at Toyohashi Factory

## Biodiversity Conservation

[Topy Industries, Ltd.]

### Initiatives on Biodiversity

The business and manufacturing operations of Topy Industries, Ltd. do not involve activities such as deforestation and other activities that may disrupt the ecosystem. We share the recognition that conservation of biodiversity and prevention of global warming are essential for a sustainable society. As one part of biodiversity conservation and preservation of forest resources in developing countries, we encourage the use of paper made from domestic materials and recycled paper. To preserve water resources we are working on the reduction of water consumption by circulating and reusing cooling water at our factories.

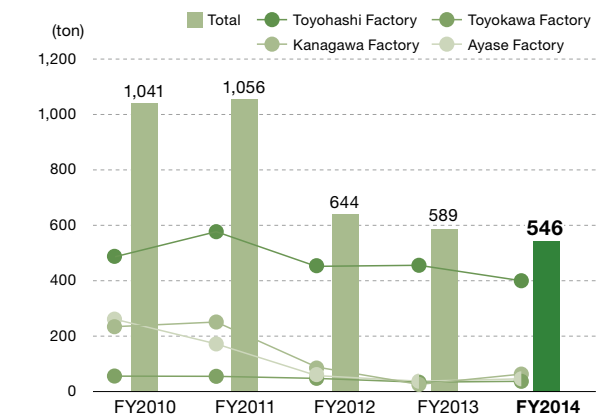
## Chemical Substance Management [Topy Industries, Ltd.]

### Emission management of materials under the PRTR Law

In accordance with the PRTR Law (the Pollutant Release and Transfer Register Act (the Act on Confirmation etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management thereof), business entities that handle chemical substances are obliged to manage and report to administrative offices the amount of environmental emission and transfer of chemical substances that are hazardous to humans and ecosystems at each of their business sites. Based on this system, we submit annual reports to the respective administration bodies, and at the same time, use this process to implement continuous management of chemical substances.

The amount of chemical substance emission depends significantly on the production volume just as the amount of CO<sub>2</sub> emission and discharge of industrial wastes do likewise. Both total emission and transfer amounts of substances subject to PRTR (Pollutant Release and Transfer Register) declined due to the global economic slump triggered by the economic crisis in 2009 but turned to an increase as business activities started to pick up. However, with the reduction of VOC (Volatile Organic Compound), such amounts in FY2012 dropped to FY2009 levels. The amounts for FY2014 decreased about 7% on a year-on-year comparison with FY2013 due to further improvement efforts.

### Transition of PRTR Applicable Total Emission Amount and Transfer Amount [Topy Industries, Ltd.]



(The results for FY2015 will be posted in Topy Report 2017.)

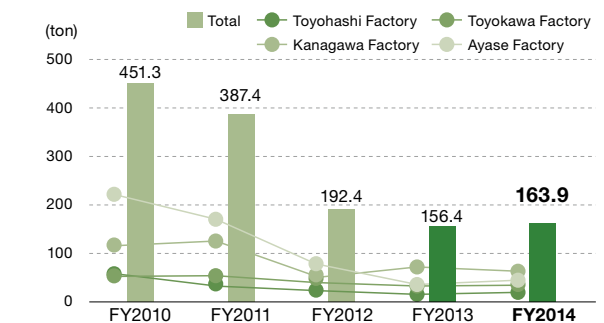
### Initiatives on air pollution prevention

With the revision of the Air Pollution Control Law in May 2004, it became necessary to respond to regulations on emission of VOC, and a reduction of 30% compared to FY2000 on a year-on-year basis was presented as the domestic reduction target by the end of FY2010.

As a proactive approach for the prevention of air pollution, Topy Industries is conducting voluntary measurement of VOC concentration from the facilities generating VOC at our four major factories as well as reviewing action items related to production technologies for the reduction of emission.

In FY2012, VOC emission dropped to half compared to the previous year due to reduction at Toyohashi Factory (due to decreased use of paint in the bridge business after announcement of business withdrawal) and Ayase Factory (emission gas treatment facilities commissioned). FY2013 posted further reduction of 20% due to paint gas emission facilities and decreased use of paint and thinner. FY2014 posted a slight increase due to increase of materials regarded as painted goods.

### VOC Total Emission Amount and Transfer Amount [Topy Industries, Ltd.]



(The results for FY2015 will be posted in Topy Report 2017.)

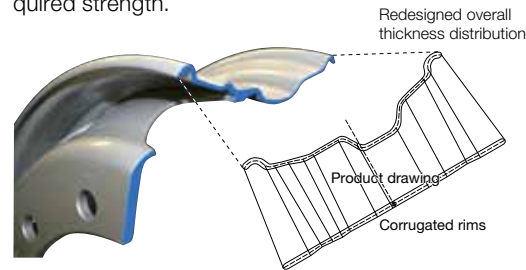
# Environmental Activities

## Development of Environmentally Friendly Products [Topy Industries, Ltd.]

### New lightweight wheels

Contribution to fuel efficiency by roughly 15% wheel weight reduction

Topy has developed ISO-compliant wheels that are about 15% lighter compared to the corresponding conventional wheels by combining a corrugated rim that uses Topy's inherent weight reduction technology with an ECOD-processed disc. The corrugated rims are produced from rim sections with uneven thickness in a corrugated shape on their tire-mounting side, allowing the sections to achieve an optimal thickness distribution when roll-formed. The rim material is produced by the Steel Division and shipped to the Wheel Division to undergo process forming into rims, capitalizing on the advantages of our integrated production system that enables us to combine our unique hot-rolling steelmaking technologies with superior analysis and design wheelmaking technologies. The ECOD discs are formed through cold spinning (rocking die forming) of a tube made of steel plate, enabling thinner and lighter discs without compromising the required strength.



### Non-chrome pre-treatment of aluminum wheel painting

An industry first for chromium-free processing

Surface treatment of aluminum alloy wheels has long been developed with a focus on long-term corrosion resistance and anti-discoloring, and treatment with chromium was thought to be vital for anti-corrosion properties. However, in view of European environmental regulations, Japanese automobile manufacturers have turned their attention to surface treatments that avoid the use of heavy metals such as chromium. Topy has spent substantial time on the study and technological development of alternative materials to replace chromium, and has succeeded in a chromium-free process for the first time in the industry.



### Hot-rolled high-strength rim material

Wheels assuring vehicle weight reduction and collision safety

Automotive manufacturers are increasing their use of high-strength steel that enables chassis weight reduction while maintaining equal strength to conventional steel as this allows the achievement of both reductions in fuel consumption due to lighter body weight and improvement in collision safety. Topy has been working on the use of high-strength hot-rolled special sections for truck and bus wheel applications. A challenging issue for raw material was how uniform strength could be attained. We have succeeded in commercial production thanks to our inherent hot-rolling technologies for controlling material thickness and temperature.



### Ultra-large diameter wheel SGOR® for mining dump trucks

The world's largest wheel contributing to efficient mining operations and hauling

SGOR® (Super Giant Off-the-road Rim) wheels are ultra-large diameter wheels that Topy has developed for dump trucks used at large-scale mining sites across the world. Currently, the largest wheels available have dimensions of 63 inches (about 1.6 m) in inner diameter, 44 inches (about 1.1 m) in width and weigh as much as 2.83 tons each, being about five times the diameter of ordinary passenger car wheels. SGOR® wheels can meet the demanding requirements of mining applications in terms of functionality and hauling capacity, contributing to the reduction of environmental burden.



## Basic Environment Policy of Topy Industries [Topy Industries, Ltd.]

### Toyohashi Factory

#### Environment Basic Policy

Toyohashi Factory engages in recycling activity of metal and non-metal production using metal scrap and related natural resources. On the other hand, we are aware that our business uses large amounts of energy and is accompanied with environmental burden. We will continue to work on the conservation of both the local and global environment.

#### Action guidelines

1. Continuous improvement of environmental management system to raise overall environmental performance.
2. Work to establish a harmonious relation with the local community by participating in a variety of environmental activities such as local environmental conservation activities and communication promotion with local communities, contributing to the maintenance and continuation of the natural environment surrounding Mikawa Bay where Toyohashi Factory is located.
3. Contribute to realizing a low carbon society through efficient use of energy, utilization of optimum technology, streamlining of production processes, efficient transportation and the like.
4. Work toward reducing waste through activities such as reining in waste generation, utilization of resources, and expanding recycling.
5. Work toward decreasing environmental impact through improvement in processes and facilities, designing and development of eco-friendly products.
6. Comply with applicable laws and regulations related to activities, products and services at Toyohashi Factory and the voluntary regulations of the Japan Iron and Steel Federation etc. or other requirements such as agreements with local communities.
7. Set up environmental objectives and targets at all departments in the management system of Toyohashi Factory and promote environmental improvement activities. Regularly review and make necessary revisions to environmental objectives and targets.
8. Enhance employee understanding and awareness at Toyohashi Factory on the environment through environmental education, in-house publicity activities and exchange with local communities. Make this environment policy public within and outside the company.

### Toyokawa Factory

#### Environment basic policy

1. Compliance with applicable legal and related requirements  
Strictly comply with applicable legal and related requirements associated with the environment and promote building a symbiotic relationship with the local community.
2. Reduction of environmental impact  
Promote energy saving, resource saving, reduction of waste and chemical substances throughout corporate activities including design, sales, purchasing and transportation and implement continuous improvement to maintain and enhance eco-friendly manufacturing. In addition, promote activities to reduce the emission of greenhouse gases and measures against global warming.
3. Supplying eco-friendly products  
Be considerate of the environment from the product design stage and reduce use of hazardous substances to supply eco-friendly products.

#### 4. Increase environmental awareness

Provide education on basic approaches and roles regarding the environment to all employees of Toyokawa Factory and increase environmental awareness.

### Ayase Factory

#### Environment basic policy

1. Comply with applicable legal and related requirements in order to build a symbiotic relationship with the local community.
2. Reduce greenhouse gases (CO<sub>2</sub>) to prevent global warming.
3. From a viewpoint of life cycle, realize environmental friendly manufacturing through all business activities, including use of optimal materials, procurement, design, production, sales, transportation, use, disposal and etc, save energy consumption and natural resources, reduce industrial wastes and chemical substances (environmental impacting substances), promote proactive measures to prevent contamination, and maintain and improve healthy environment.
4. Work toward accomplishing environmental improvement activities by setting up environmental objectives and targets, and at the same time, implement regular reviews for continuous improvement of environmental management.
5. Provide education to understand approaches and roles regarding the environment to all employees and sub-contractors working at the factory so that each and every employee can recognize their duties to the environment and thus, accomplish the targets without failure.
6. Exercise thorough routine management and remove significant waste and inconsistencies to improve quality and productivity, and realize environmental improvement directly connected to production activities.

### Kanagawa Factory

#### Environment basic policy

1. Comply with applicable laws and regulations as well as industry specific requirements and at the same time, make continuous efforts to improve environmental management by maintaining voluntary standards and job procedures according to the basic environmental policy of Topy Industries.
2. Prevent environmental pollution by chemical substances such as organic solvent. Apply effective management focusing on thinners, soluble paint and solvent.
3. Work toward reducing electric power and oil consumption by focusing on the reduction of energy for drive lines, air conditioning and lighting.
4. Promote reduction of discharges for effective utilization of resources and resource recovery, by focusing on reduction of papers, discarded packaging materials and resource recovery.
5. Promote communication by participating in local environmental conservation activities to build a symbiotic relationship with the local community.
6. As for overseas business activities and exports, make efforts to implement measures responding to requests from the local community of the host country and take into account local environmental impact.
7. In the case that any environmental issues arise from business activities, take appropriate measures to minimize such environmental impact. In addition, exercise regular emergency drill in anticipation of environmental issues.



# Social Responsibility

## Relationship with Customers [Topy Industries, Ltd.]

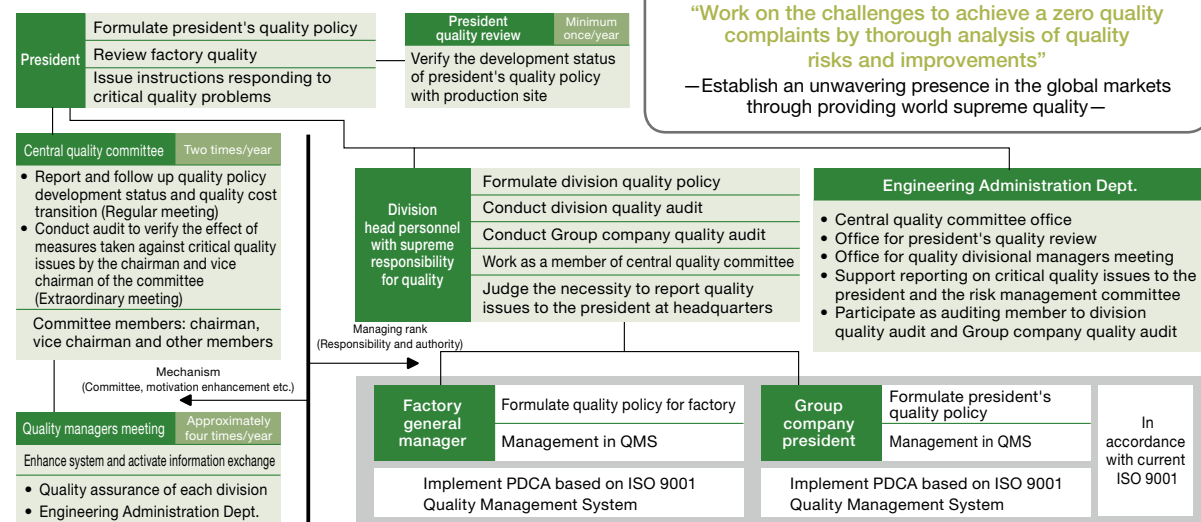
### – Customer Satisfaction and Quality Management –

#### Quality Assurance Philosophy

Topy Industries, Ltd. is devoted to placing customers as our first priority and strives to contribute to society by delivering safe and high quality products and services that always satisfy customers, while continuously improving the effectiveness of our QMS (Quality Management System).

- Always anticipate the expectations and needs of customers ahead of time, react to their requirements promptly and precisely, and continue to introduce and deliver quality products and services that satisfy customers
- Focus on building quality in design and development stages, stabilize product quality and improve reliability
- Realize the importance of education and training and enhance the quality awareness of all employees of our organization
- Notice that quality defects are caused by multiple factors, promptly investigate the true cause of the problem to make substantial improvement

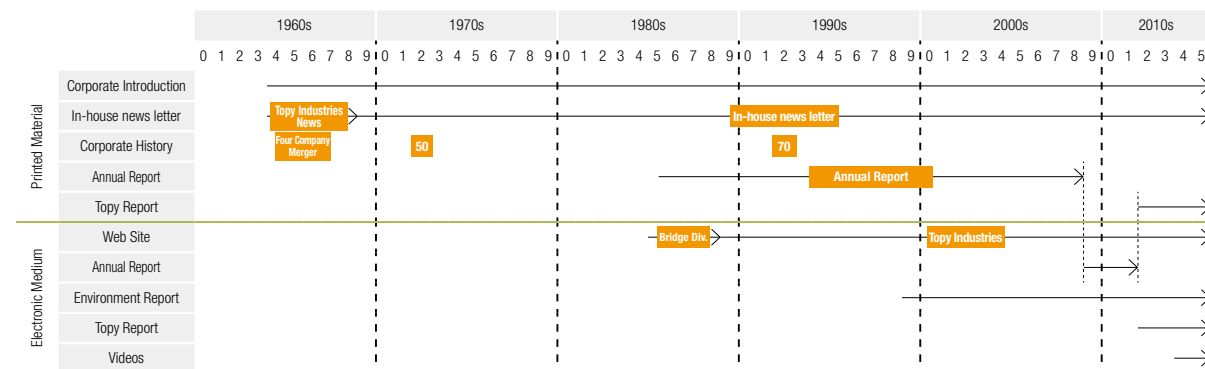
#### Quality Management Structure



#### FY2016-2017 Quality Policy

“Work on the challenges to achieve a zero quality complaints by thorough analysis of quality risks and improvements”  
— Establish an unwavering presence in the global markets through providing world supreme quality —

#### Topy Industries, Ltd. Communication Tool Chronology



## Involvement with Shareholders and Stakeholders

### Adequate information disclosure

Article 2 (For the benefit of society) of the Topy Industries Group Code of Conduct stipulates that the Topy Industries Group will “Communicate widely with society as well as shareholders and actively disclose corporate information fairly and appropriately. Cooperate with local communities and actively work on social contribution activities as being a good corporate citizen.” From the standpoint of securing management transparency we are endeavoring to disclose corporate information in a fair and equitable manner in accordance with the related laws and regulations such as the Financial Instruments and Exchange Act.



Explanation session for financial results

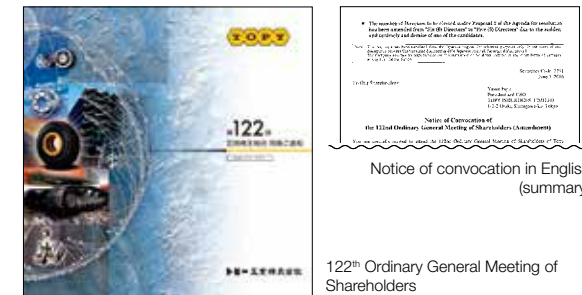
#### Participants of FY2015 Explanation Session

Date Held	Contents	Participants
Nov 19, 2015	2nd quarter financial results	29
May 26, 2016	Full year financial results	34

### Initiatives to vitalize general meetings of shareholders [Topy Industries, Ltd.]

We are taking the following initiatives to vitalize general meetings of shareholders as a place of communication between the company, shareholders, and investors to ensure that voting rights can be exercised with ease.

- 1) Enrichment and early dispatch of notice to convene general meeting of shareholders
- 2) Use of the Internet for notices to convene general meetings of shareholders
- 3) Exercise of voting rights via the Internet
- 4) Preparation of notice to convene general meetings of shareholders in English (summary)



### Explanation session for financial results [Topy Industries, Ltd.]

We believe that the opportunity for our top executives to directly explain our management plan and financial results helps us earn the trust of our investors. Such sessions are held after financial results are disclosed at the end of the second quarter and at the end of the fiscal year for analysts and institutional investors. The president himself presents our financial results as well as our medium to long-term consolidated management plans. This management plan session can be watched via streaming from our website for shareholders/investors, “IR library.”

### Shareholder special benefit plan [Topy Industries, Ltd.]

For our shareholders registered as of the end of March and September of each year a traffic accident insurance policy and/or a flower gift are provided depending on the number of shares owned. Shareholders eligible for a flower gift have an option to choose a donation to a social welfare organization instead of a flower gift, which will directly be donated by the company on behalf of shareholders.

### Stable dividends [Topy Industries, Ltd.]

In order to earn the trust of our shareholders and investors, we believe it is important to continue making stable dividends besides redistribution of profits by taking into account overall factors including business development, and strengthening corporate financial structure.

Our basic policy regarding profit distribution is to return profits to shareholders in proportion to the consolidated business results while building up retained earnings for future business development and strengthening our corporate structure. Retained earnings will be allocated to investment into new business undertakings and the development of new technologies/products for long-term business development, and thus we are committed to strengthening our corporate structure and global competitiveness. So far, we have maintained a stance that the profit return index based on consolidated business results be targeted at a payout ratio of about 25%. However, we now would like to raise the ratio to 30 to 35% as a guide in an effort to enrich profit return to shareholders. However, the decisions are to be made with careful consideration for stable continued dividends. Dividends are, in principle, paid out twice per year—an interim and year-end dividends. Regarding the body responsible for deciding dividends, it is stipulated in Topy's article of the corporation to the effect “dividends of surplus can be decided by the resolution of the Board of Directors in accordance with Section 1 of Article 459 of Companies Act.”

# Social Responsibility

## Relationship with Local Communities

– Contributions to Society –

### Junior high school students participate in experimental learning

[Topy Industries, Ltd.]

At the request from a junior high school in Chigasaki city, two male junior high school students visited Kanagawa Factory in November for two days experimental learning with intent to learn practical things needed for social life from hands-on experience.

Clad in the same uniform and safety gears as Topy's employee, their day started with a salutation "Goanzenni!" Their leaning included removing and installing chains for the first time, measuring products dimensions and hardness, letting them learn the importance of observing the rules, doing the jobs that are appreciated by others.

In their free composition, they were saying, "Maybe I'm most suited for engineering jobs in the future."



Students operate measuring equipment

### Yasuo Fujii, president of Topy Industries invited to a party hosted by U.S. Ambassador

[Topy Industries, Ltd.]

Yasuo Fujii, president of Topy Industries, Shinichi Kijima, general manager of the Wheel Division and Ichiro Takeuchi, deputy general manager of the Wheel Division attended a dinner party on April 21, 2015, hosted by Caroline Kennedy, the U.S. Ambassador to Tokyo, the party was organized to commemorate the visit of Steve Beshear, Governor of Kentucky. A deep relation between Topy Industries and State of Kentucky continues since 1985 when Topy Corporation (now Topy America, Inc.) was established as our first production site in the state.



Yasuo Fujii, president of Topy Industries in handshake with Caroline Kennedy, U.S. Ambassador to Tokyo.

### A Joint Drill with Toyohashi-shi Fire-fighting Headquarters

[Topy Industries, Ltd.]

A joint disaster drill was conducted on June 5, 2015 at the Toyohashi Factory as part of the program for Dangerous Materials Safety Week with participation of Toyohashi-shi Firefighting Headquarters and 52 Topy's in-house firefighters involving seven fire engines. The drill was performed on the assumption that we were hit by an earthquake with an intensity levels of lower 5, a fire broke out of the fuel storage tank causing our workers in inspection work of the tank injured and left behind.

With about 200 Topy employees watching, firefighting started by water spray by the in-house firefighters followed by firefighting using foam by the staff of city fire-fighting department from a special firefighting vehicle for chemical products including rescue work with an aerial ladder truck. All participants were impressed with the quick and dependable behaviors of in-house firefighters, comparable to those of City Firefighters, contributing to raising awareness of all participants to the drill.



Firefighting at an outside fuel storage tank

### Co-sponsor to "HINO TEAM SUGAWARA" in Dakar Off-Road Rally 2016

[Topy Industries, Ltd.]

Topy Industries co-sponsored "HINO TEAM SUGAWARA" in the 14-day long Dakar Off-Road Rally from January 3 through 16, 2016.

The Dakar Rally is called the toughest rally in the world. The rally 2016 started from Buenos Aires, Argentina, passing Bolivia and reaching to Rosario, Argentina after covering over 8,500 km. The course includes deserts, unbeaten paths in the mountain area. Last year, HINO TEAM SUGAWARA finished 1st and 2nd place in the class under engine displacement 10 liters. The team started with an ambition for the repeat of last year for the same class and two vehicles, modified based on Hino Ranger with a TOPY logo mark came in 1st and 2nd as expected. They finished in 13th and 31st in overall category rankings and expectation for next year is growing.



Hino trucks No.1& No. 2 in the Dakar Rally with Topy logo mark (Photo by courtesy of Hino Motors. Ltd.)

### Contribution to local community in hands in hands with the police

[Topy-Rec, Ltd.]

A joint drill participated by Johto Police Station, Fugakawa Police Station and Public Peace Riot Police staff was held on June 24, 2015 at Topy-Rec Plaza East Building. The drill was organized on the assumption that terrorists used NBC (Nuclear, Biological and Chemical).

Upon a request from Johto Police Station that they wanted to carry this drill in a place where a lot of people gather, and Topy-Rec accepted it as part of their cooperation to contribute to building a safe and secure community. Thanks to explicit explanation by the Police, the attendants understood how the police reacted to such situation and seemed relieved. The parties related to the police agency showed keen interest in the event and many visitors watched the event enthusiastically.

The company has long been providing their facilities for various campaigns, including snatching prevention, prevention of swindle practices. Their cooperation and contribution to the local community was highly appreciated, and resulted in receiving an award from the Metropolitan Police Agency on June 25, 2015.

The company continues contributing to various anti-crime and traffic safety campaigns in the future.



A drill at Topy-Rec Plaza

### A campaign for building safe and secure town

[Topy Industries, Ltd.]

A ten-day safe and secure town building, and regional safety campaign started October 11, 2015 and a female staff newly employed at the Ayase Factory participated as one-day policewoman. The female staff clad in police uniform joined in an anti-crime campaign demonstrated in front of the Yamato Railway Station, passing out leaflets calling for a safety net to be attached to the bicycle rack and other anti-theft ideas in order to raise anti-crime awareness. The factory will continue cooperating with local community to build a safe town.



Kaori Takeuchi, one-day policewoman

### A factory tour by primary school students

[Topy Industries, Ltd.]

Total of 94 fifth grader students from Tendai Primary School, Ayase-shi visited the Ayase Factory on November 10th, 2015 for plant tour.

They were taken back by the large factory site and immense size of SGOR\*, observed carefully movements of machines, touched directly the wheels with much curiosities and showed various reactions to what they saw. A lot of questions were raised during their tour showing their enthusiasm to learn as much as possible.

The factory will positively continue promoting various exchanges with the local community.



Students from Tendai Primary School

### An Anti-terrorist drill

[Topy-Rec, Ltd.]

An anti-terrorist joint drill by the Tokyo Metropolitan Police Agency and Johto Police Station was conducted on February 21, 2015, at Topy-Rec Plaza in Koto-ku. With many people associated with police activities and local community residents attended, a procedure was demonstrated how to collect a suspicious object using a special purpose vehicle with involvement of police dogs.

The Metropolitan Police Agency has reinforced their caution to the possible terrorists' acts in a place such as railway stations and large commercial facilities where many general people gather and is deploying a terror prevention campaign by the officials and the people jointly.

Topy-Rec will positively respond to such social needs and carries its management in safe and secure conditions.



A suspected explosive object is collected using an extended arm of the special purpose vehicle.

### Junior High School students visit Topy's head Office

[Topy Industries, Ltd.]

On April 15, 2016, eight students of Kohriyama Junior High School, Fukushima Pre. visited Topy's head office. Corporate visit by school students during their school excursion was designed to provide them with opportunities that they are unable to experience at school or in the areas where they live. The company gave general information on the business activities of the Topy Group while responding to the questions from the students. The students spent 90 minutes with a break in enthusiastic manner to learn.



Watching a presentation introducing Topy Group



# Social Responsibility

## Relationship with Employees [Topy Industries, Ltd.]

### – Creating a Safe and Comfortable Workplace Environment –

#### Philosophy and basic policy to develop human resources

The Topy Industries Group declares in article 3 of the Group Code of Conduct (For the benefit of employees) that it will “Respect the individual character and personality of employees, and provide safe-working environments allowing them to work with enthusiasm, and attain fulfilling lives.”

With the motto “having interests in a broad range of field beyond the job assigned and maintaining a positive attitude for learning enriches human resources,” we are focused on developing human resources to draw out the potential and motivation of each individual. Also, we offer various education systems available from the start of employment through to retirement in order to nurture human resources with rich expertise and the management faculties needed for a manufacturing company.

#### Education System Structure [Topy Industries, Ltd.]

Development step	Items to be nurtured		
	Knowledge (technical skill)	Conceptual skill	Human skill
Newly employed	<ul style="list-style-type: none"> <li>Business manners</li> <li>Individual knowledge</li> <li>Health and safety</li> </ul>		<ul style="list-style-type: none"> <li>Entry level communication ability</li> </ul>
Senior employee	<ul style="list-style-type: none"> <li>Advanced individual knowledge</li> </ul>		<ul style="list-style-type: none"> <li>Intermediate level communication ability</li> </ul>
Follower (candidate to become a leader)	<ul style="list-style-type: none"> <li>Expert knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Problem-solving ability</li> <li>Basic logical thinking</li> </ul>	<ul style="list-style-type: none"> <li>Guidance to juniors</li> </ul>
Leader	<ul style="list-style-type: none"> <li>Advanced expert knowledge</li> <li>Financial knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Applied logical thinking</li> </ul>	<ul style="list-style-type: none"> <li>Fostering juniors</li> </ul>
Manager	<ul style="list-style-type: none"> <li>Master expert knowledge</li> <li>Basic management</li> <li>Advanced management</li> </ul>	<ul style="list-style-type: none"> <li>Target-driven management</li> </ul>	<ul style="list-style-type: none"> <li>Fostering junior partners</li> <li>Senior level communication ability</li> </ul>
		<ul style="list-style-type: none"> <li>Business strategy</li> </ul>	<ul style="list-style-type: none"> <li>Organization management</li> </ul>

#### Improvement in workplace health and safety

We consider securing the health and safety of our workers to be one of the top priorities of the company.

We have implemented a variety of actions to achieve zero accidents, and at the same time conduct a monthly statistical survey for labor accidents in order to enhance the awareness of health and safety of each and every employee. The survey results are listed in the company's monthly magazine.

#### Labor Accident Statistical Survey List (Term: January 2015 through December 2015)

Factory	Total working hours	No. of accidents	Frequency	Severity
Kanagawa	440,273	1	2.27	0.00
Ayase	939,813	2	2.13	0.02
Toyohashi	1,440,023	0	0.00	0.00
Toyokawa	891,084	2	2.24	0.00
Total	3,711,193	5	1.35	0.01

#### Initiatives on work-life balance

We provide various health and welfare programs for employees to help them maintain a balance between having a career and family. We are working to broaden programs for parental and care leave. We promote the enhancement of awareness among employees about these programs by posting special reports in our in-house newsletters introducing male employees who are involved in childcare.

#### The Third Indonesian trainees join the company

Ten Indonesian trainees, the third of the program, joined the Topy Industries, Ltd. on June 17, 2015. They are learning studiously checking the dictionary when they find difficult words to understand with regard to the education on safety and work details.

They are learning jobs from senior workers at the workplace, sometime finding difficulties in handling machines, heavier weight of wheels and faster line speed than they expected. They are very positive in acquiring skills and learning technologies from the training and have a firm determination that they are going to play more important roles in their home country. This time, they are going to stay three years, three times longer than the previous team. They might encounter various unexpected challenges or hitches in every day work at the factory as well as in off-work lives during three years period. But, we hope they will overcome such adverse circumstances with helps of Japanese senior workers and other staff around them and be able to spend fulfilling days as much as possible.



10 Indonesian trainees

#### Night-shift disaster drill

A night-shift disaster drill was conducted at the Kanagawa Factory from 21:30 on March 20, 2015.

The drill started by switching off the outer lights on the premise and all lights in the factory buildings. Evacuation was lead to the general evacuation area (shelter) while checking facilities in the buildings, conditions of reflecting tapes on the wall, handling of roadside lamps and the door at emergency exit. Then, followed by roll call, contacting and reporting per the rules before activating confirmation of employees safety system. At the general evacuation area, storage place of emergency supplies, storage place of emergency ration, location of emergency generators, and which lamp to be lighted were checked by all participants. The drill was really practical for us to think of the use of emergency supplies.

It is very important that the drill is repeated in order not to be panicked when a disaster happened. There are many other things to improve and we have to steadily work on them. When the Great East Japan Earthquake hit us on March 11, 2011, we experienced repeated fears of aftershock, working in the



A board (showing a shelter) is hard to recognize at night

dark at night due to planned blackout. We should not fade away such precious experiences and must remember it every time we have a disaster drill. We will continue the drill in the future.

#### Posters and Slogans awarded for FY 2015 National Labor and Health Week

As part of the event for the National Labor and Health Week the company solicited posters and slogan from employees. The following posters and slogans have been awarded for the FY2015 contest.

##### Posters



Excellent Poster Award



Honorable Mention Award



Honorable Mention Award



Honorable Mention Award



Honorable Mention Award



Honorable Mention Award

#### Slogans (expedient translation example for reference purpose only)

[Excellent Slogan Award]  
Health check starts with  
“Hello!” “How are you?”  
High-spirited workplace begins  
with this word

[Honorable Mention Slogan]  
Don't build up stress in your  
mind  
Get yourself refreshed by  
controlling on-off switch

# Social Responsibility

## Relationship with Employees

– Creating a Safe and Comfortable Workplace Environment –

### Road safety campaign for parents and children

[Topy Fasteners, Ltd.]

A road safety class was organized and opened in the Matsumoto Plant of Topy Fasteners, Ltd. on September 27, 2015 for the parents and children of the local community. With cooperation from Matsumoto Police Station and Honda Motors Corporation, feel-danger lecture such as running into the street and involvement accident by using a textbook and an actual vehicle as well as safety guidance using a bicycle simulator were demonstrated.

The company received a letter of appreciation from the Matsumoto Police Station and the Matsumoto Traffic Safety Association for its long contribution to the program.



A lecture scene

### Kanagawa Factory receives an award from the Japan Iron and Steel Federation

[Topy Industries, Ltd.]

Kanagawa Factory received an annual zero accident and zero occupational injury award from the Japan Iron and Steel Federation for FY2015 at the 57th Iron and Steel Safety Award Ceremony announced in February 2016. The award is given to the operation site that has achieved excellent performance in overall safety and is worthy of being recognized as the model for others in order to raise safety awareness and reduce labor accident and injury. Kanagawa Factory continues to uphold firm determination for "Safety First."



Holding the award

### Topy Palingda wins the Best Suppliers Award from Hino Motors Indonesia

[PT. Topy Palingda Manufacturing Indonesia]

PT. Topy Palingda Manufacturing Indonesia received the Best Supplier Award from Hino Motors Manufacturing Indonesia Co., Ltd. in the 2016 Suppliers Meeting and Award Ceremony by Hino Motors Indonesia convened on March 30, 2016 at a hotel in Jakarta, Indonesia.

Encouraged by the award receiving,



The Best Supplier Award plaque presented by Kazushi Ebara, president of Hino Motors Manufacturing Indonesia Co., Ltd.

the company continues to promote further improvement to become a corporation trusted by customers.

### Prestigious SQEP Award from Caterpillar

[The Wheel Division and Undercarriage Component Division, Topy Industries, Ltd.]

The Wheel Division won the platinum award SQEP for 2015 from Caterpillar Corporation for four consecutive years as a supplier of off-road wheels for mining vehicles and the Undercarriage Component Division received the gold award as a supplier of undercarriage components for construction equipment.

The SQEP stands for Supplier Quality Excellence Process and is the most prestigious award given to suppliers who have met overall assessment in quality, costs, delivery and other requirements set by Caterpillar. The rank of the award is graded from the highest Platinum to Gold, Silver and Bronze. The Undercarriage Component Division improved their grade from previous Silver to Gold, achieving one rank up.

Topy will continue to further enhance its total strength and solidify customer trust on us.



The Wheel Division with the platinum award



The Undercarriage Component Division with the gold award

### Various quality awards to the Wheel Division, Topy Industries

[Wheel Division, Topy Industries, Ltd.]

In the previous Topy Report 2015, we introduced some of the Wheel Division's initiatives on quality that have been highly evaluated by our customers. Their continuous activities have brought encouraging appreciations from our customers during FY2015 as the division received awards, which include 2015 Appreciation Letter for Activities That Meet Expectations from Toyota Motors Corporation for two consecutive years, Quality Performance Excellent Award from Mazda Motor Corporation, and Quality Achievement Award from Isuzu Motors Limited.

The Division will continue pursuing high quality and enhance customer satisfaction.



An award from Toyota Motor Corporation



An award from Mazda Motor Corporation



An award from Isuzu Motors Limited

### Disaster drill at Toyokawa Factory

[Topy Industries, Ltd.]

A disaster evacuation drill was conducted at Toyokawa Factory on June 10, 2015 on the assumption that a massive earthquake struck Tokai region. The drill this time included a going home drill, a first trial, in addition to the regular program that instructs evacuation to the ground as a second evacuation area, making a highly tense atmosphere to the drill.

A risk management committee was held after the evacuation and resolved after actions measures from initial actions information and made it well known to the evacuees. After that, the participants were divided into groups according to their commuting time required, received a go-home instruction made through an in-house announcement over the PA system, confirmed their safety at the locker room, guard house and parking ground, then went home.

Avoiding damages completely from an earthquake is practically hard. The factory took a survey this time after the drill. We will continue to work on "Gensa" or reducing damages of a natural disaster even just a little by improving the items observed during the drill this time, while continuing the drill with much practical contents.



A disaster drill

### A Summer Health Festival (beach seining) on the beach

[Kanagawa Factory, Topy Industries, Ltd.]

On June 7, 2015, an annual event for beach seining was performed on Chigasaki Nishihama Beach. Chigasaki Beach has a long history as fishermen town with many popular spots like fishing boat operators and fish restaurants.

The festival site was located down straight to south along the famous "Southern Street," many company employees gathered there with their families in the beautiful weather. The catch was somewhat poor this year, but sardines, mackerels, barracudas and rays were found among the catch. To blast the atmosphere of the festival, a treasure hunting game, a bread-eating race were organized and participants enjoyed one healthy summer day. Hoping a big catch in the next year festival!



A beach seining

### 47th Walking Event in Kuwana Castle Town

[Toyohashi Factory, Topy Industries, Ltd.]

The Health Promotion Committee of the Toyohashi Factory organized 47th Walking Event on April 11, 2015 on the about 5 km long course from the Kuwana Station to Kyuka Park.

Participants visited Rokkaen, designated as national important cultural property and Ishidori Hall where the Kuwana Ishidori Festival (literally translated as "stone bringing festival", claimed to be the loudest festival in Japan, was on exhibit.

Anticipated rain stopped and the participants enjoyed relaxed healthy walking under a mild and pleasant weather.



The Rokkaen (A former resident of Seiroku Muroto)

### A Firefighting Manipulation Techniques Convention

[Ayase Factory, Topy Industries, Ltd.]

A firefighting manipulation techniques convention by Ayase-shi was conducted on July 19, 2015. Ayase team was one of the few private corporate participants while most of the rest were the fire brigades in the city. The Ayase team performed impressive operations, showing the benefits of their routine trainings by delivering precise instructions in big voices with agile movements under burning hot temperatures and ended up with encouraging results competing well against dynamic operations by other teams which used a fire engine truck.



Spraying water

### A Drill for Going Home by Walking

[Head Office, Topy Industries, Ltd.]

A drill for going home by walking was conducted for the staff working at head office on November 20, 2015, a program asking them to walk from the head office to their homes as a disaster preparedness measure. On the three hours training, the participants walked over 10 km in average. They came in fully prepared conditions, like some participants brought a sneaker from their good experience in the previous drill, some with pre-registered information on the portable map application.

They were able to improve anti-disaster consciousness by confirming their return routes, knowing dangerous areas on the course, checking a rest point, preparing for concrete actions, etc. at times of emergency.



On a way to walking home



# Corporate Data

## Annual Report Fact Book

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## Financial Highlights

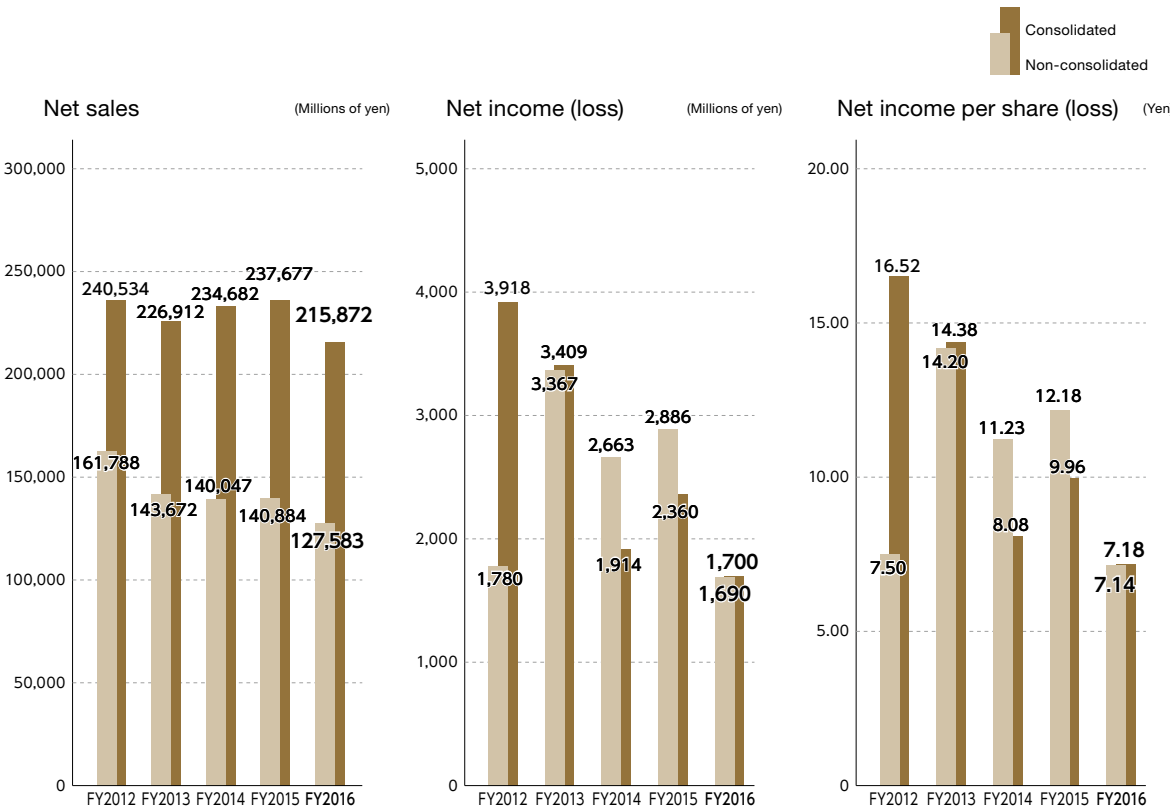
Consolidated	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Net sales	¥ 215,872	¥ 237,677	\$ 1,915,627
Net income attributable to owners of parent	1,700	2,360	15,086
Total assets	231,583	252,456	2,055,045
Net income per share (in yen and U.S. dollars)	7.18	9.96	0.064

Non-Consolidated	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Net sales	127,583	140,884	1,132,159
Net income	1,690	2,886	14,997
Total assets	171,278	187,337	1,519,904
Net income per share	7.14	12.18	0.063
Cash dividend applicable to the period (in yen and U.S. dollars)	6.00	4.00	0.053

Note: Dollar amounts are converted at the rate of ¥112.69 to U.S. 1 dollar (Year ended March 31, 2016)  
 \*Consolidated net sales and non-consolidated net sales do not include the consumption tax and related taxes (consumption tax and local consumption tax).

### Five-year Trends in Sales and Profits



## Consolidated Business Results for FY2016 (Summary)

### Analysis of Operation Results and Financial Situation

#### Business Overview

Overall, the global economy during this consolidated fiscal year under review showed a moderate recovery, reflecting stagnant economic conditions in China and emerging countries, although the U.S. economy continued to rebound and the European economy began to recover. The economy in Japan showed signs of gradual recovery supported by a lift in capital investment as company revenue improved. However, individual consumption and industrial production, among other factors, remained weak, and a temporary lull in the economy continued.

Under the conditions, the Topy Industries Group has implemented the medium-term consolidated management plan "Growth & Change 2015" with a basic principle of global "Growth" and "Change" to achieve a highly profitable business structure. As one part of this plan, the Group began manufacturing passenger car wheels at Topy MW Manufacturing Mexico S.A. DE C.V. (Guanajuato, Mexico). In the power generation business, it implemented business reforms and began supplying power to Power Producers and Suppliers (PPS). We also continued to work on maintaining an appropriate sales price of steel, establishing a production system that responds to demand, improving productivity, and lowering costs through energy-conservation activities. Meanwhile, the Group worked to restructure its construction machinery components business and mining wheels business in China. As a result, net sales for this consolidated fiscal year for the Topy Industries, Group were ¥215,872 million (year-to-year comparison, 9.2% decrease), operating income was ¥10,000 million (year-to-year comparison, 55.7% increase), ordinary income ended at ¥8,806 million (year-to-year comparison, 45.8% increase). However, due to the allocation of a loss from restructuring associated with the integration of manufacturing sites in China, the net income attributable to owner of parent ended at ¥1,700 million (year-to-year comparison, 27.9% decrease).

#### Dividend

The basic policy of the company regarding profit allocation is to return profit to shareholders depending on the consolidated business results and the fulfillment of internal reserve toward future business developments and strengthening of corporate structures. As for the internal reserve, it will be assigned to the investments into new businesses as well as new technologies and new products in order to achieve a stable business development in the long term, thus aiming to strengthen corporate structure and global competitiveness. The index of profit returning according to the consolidated business results is targeted at somewhere around dividend payout ratio of \*25%. However, it will be decided after paying careful consideration to the continuation of stable dividends in the future.

As for the dividends payable at the end of this consolidated fiscal year, we plan to pay ¥5 per share after

comprehensive consideration to stable continuation of dividends to shareholders. Accordingly, the total annual dividends payable to shareholders will become ¥6 per share including ¥1 per share paid as interim dividends.

\*Currently targeted at 30 to 35%.

#### Outlook for the future and issues to be resolved

In the past four years up to fiscal year 2015, the Topy Industries Group has steadily executed its business along the basic policy aiming to attain "Growth" on the global markets and promote "Change" to high earning corporate structures as outlined in the previous Medium-Term Management Plan. Specifically, we have expanded production base overseas to establish a global supply chain of the automotive and industrial machinery components business and commenced operating a new steelmaking facilities designed to realize overwhelming cost competitiveness, steadily progressing forward to build solid foundation toward further growth in the future.

Meanwhile, we observed a drastic decline in demand for the construction machinery components and off-road wheels for mining vehicles reflecting the slow down of economy in China and emerging countries and lingering drop in the prices of mineral resources. To cope with such situation, the company has undertaken promptly a measure to restructure the business but we regret we were unable to achieve the earning targets.

The world demand for automotive and steel is expected to expand in the future while domestic demand does not warrant expansion due to decreasing numbers in population with advancing aging society. There are uncertainties in the world demand for the construction machinery and mining equipment as the market is still on a slow recovery track, but the demand is expected to grow in the long-term perspective against a backdrop of growing world populations and advancing urbanization.

Under such circumstances, the Topy Industries Group has formulated a new management plan "Growth & Change 2018" (G&C 2018) covering the period starting from FY2016 and ending in FY2018. Under this new medium-term management plan, we will continue promoting "Growth" in global dimensions and "Change" in the corporate structure that will allow us to generate high earnings by putting the automotive and industrial machinery business into a driving position and accelerate business development globally to achieve sustainable growth of business. At the same time, we continue working to find ways to make best use of our original technologies in our efforts to explore new business.

Topy Industries, Ltd.  
President and CEO

*Y. Fujii*

### Businesses by segment

#### Steel Business

#### Business Results

In the steel industry, production of crude steel decreased from the previous years, reflecting waning demand among construction and manufacturing companies. Harsh business environments also continued in the electric furnace industry because demand for steel materials remained weak and the steel market declined.

In this environment, net sales of the Topy Industries Group came to ¥63,767 million (year-to-year comparison, 11.7% decrease) due to decrease in the sales price. On the other hand, and although affected by the slowdown in demand for steel material towards the automotive and industrial machinery components business, as a result of securing export volume, etc., maintaining an appropriate sales price, realizing the positive impact of the new steel making facilities and other intensive cost reduction efforts, operating income ended at ¥4,815 million (year-to-year comparison, 42.4% increase).

#### Issues to be addressed

We aim at becoming a leading company in the segment of steel industry we belong to by building up the highest levels of cost competitiveness in the market and focusing on special shapes and sections featured with our originalities.

At the same time, we work to maximize the designed output effect out of the new steelmaking facilities and

explore new demand for the product group that will best utilize production technologies in the special shapes and sections coupled with processing technologies.

#### Research and development

We are involved in the enhancement of quality level of hot rolled products, reduction of industrial wastes and improvement in environmental issues such as recycling while implementing development of new shapes and new grade of steels.

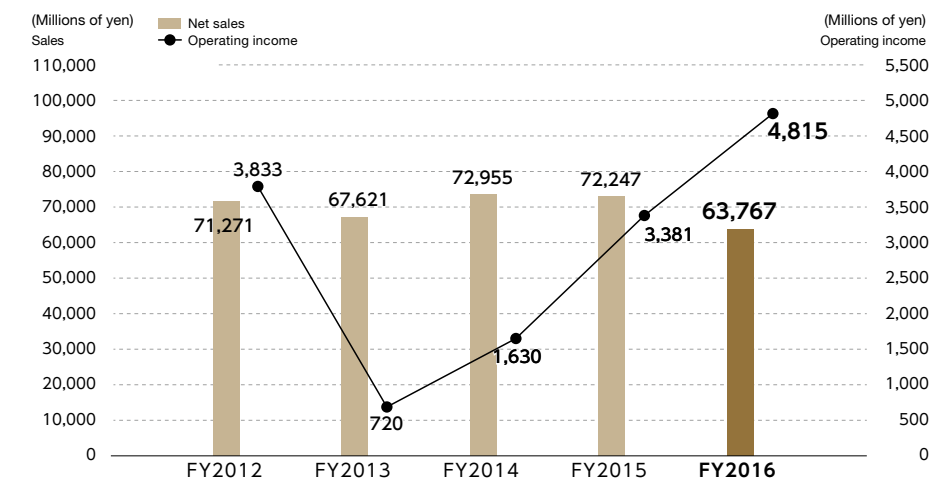
On going achievements include orders received for new shapes, reduction in power intensity rate on conventional products, development of technology on industrial wastes and recycling of resources.

We spent ¥5 million on these R&D activities.

#### Companies included in this business segment

<b>Manufacturing:</b>	Topy Industries, Ltd. Akemi Recycling Center, Ltd.
<b>Sales and services:</b>	Topy Industries, Ltd. Topy Enterprises, Ltd. Topy Marine Transport, Ltd. Tojitu Co., Ltd. NE-Tojitsu Ltd.

#### Net sales, Operating income





## Corporate Data

### Business by Segment

#### Automotive and Industrial Machinery Components Business

##### Business Results

Domestic automotive production declined from a year ago, chiefly because of sluggish sales associated with the light vehicle tax hike and decrease in exports of trucks etc. On the other hand, demand for automotives remained strong. As for the construction machinery industry, the Chinese and Southeast Asian markets continued to contract and demand for mining machinery remained slow.

In this environment, the Group continued to take every step to improve the situation. However, net sales declined to ¥134,099 million (year-to-year comparison, 11.2% decrease), and operating income fell to ¥5,320 million (year-to-year comparison, 23.1% decrease), reflecting the impact of a decrease in the sales quantity of wheels for mini vehicles, in addition to a significant drop in the sales of undercarriage components for construction machinery against backdrop of a sluggish demand for construction machinery in China and other emerging countries.

##### Issues to be addressed

We aim to enhance our presence as a “World Top-Class General Wheel Maker” by establishing a global supply chain that enables us to deliver the wheels with common designs to any part of the world.

At the same time, we plan to explore new markets through rebuilding of global supply chain by reinforcing the functions of mother factory in Japan in addition to the expansion of production and distribution sites overseas in order to solidify the position as a “General Undercarriage Components Maker of Construction Machinery”.

##### Research and development activities

We are involved in weight saving, quality improvements, cost reduction, speed up of development time and development of new products.

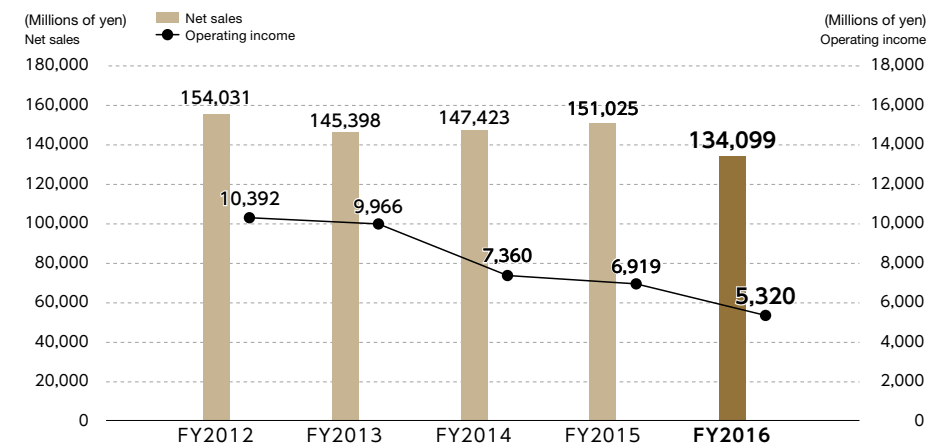
Ongoing achievements related to steel and aluminum wheels for passenger cars include improvement in the accuracy of analysis and evaluation technology, development and commercial production of new products, cost reduction, and quality improvement of conventional products.

Achievements associated with construction and mining equipment components include cost reduction in forging process of ultra-large diameter wheels, quality improvements and cost reduction in heat treatment processes of rollers and shoes for hydraulic excavators.

We spent ¥457 million on these R&D activities.

Companies included in this segment	
<b>Manufacturing:</b>	Topy Industries, Ltd. Topy Fasteners, Ltd. Kyushu Wheel Kogyo, Ltd. Sanwa Buhin Co., Ltd. Topy America, Inc. Topy Precision Mfg., Inc. Topy Fasteners (Thailand), Ltd. Fujian Topy Autoparts Co., Ltd. Topy Undercarriage (China) Co., Ltd. Topy Fasteners Vietnam Co., Ltd. PT. Topy Palingda Manufacturing Indonesia PT. Topy Undercarriage Indonesia Topy MW Manufacturing Mexico S.A. DE C.V.
<b>Sales and Services:</b>	Topy Enterprises, Ltd. Autopia Ltd.

##### Net sales, Operating income



#### Power Generation Business

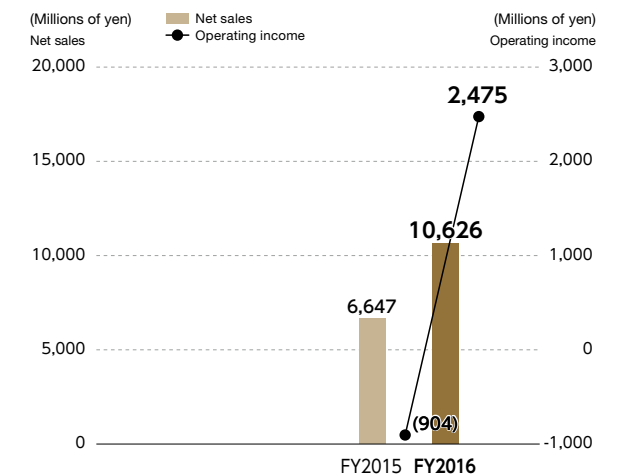
##### Business by Segment

We have changed the supply destination of electricity to Power Producer and Suppliers, and have continued stable electric supply following our business plan. Net sales were ¥10,626 million (year-to-year comparison, 59.9% increase) and operating income was ¥2,475 million (compared with ¥904 million operating deficit a year ago).

##### Issue to be addressed

We continue to maintain solid production system and stable supply of electricity by operating power generation plant while paying the maximum consideration to keep harmonious relationship with surrounding environment.

##### Net sales, Operating income



#### Other Business

##### Business by Segment

The Topy Industries Group also engages in manufacture and sales of synthetic mica used in cosmetics and other products, the manufacture and sales of crawler robots, indoor and outdoor sign systems, civil engineering and construction, leasing of real estate such as Topy-Rec Plaza (Minami-Suna, Koto-ku, Tokyo), and the operation of the sports club OSSO. Net sales were ¥7,378 million, and operating income was ¥1,474 million.

##### Issue to be addressed

We work to expand sales through product developments that catch customer needs in our efforts to develop versatile businesses including synthetic mica, crawler robots, various services and other businesses.

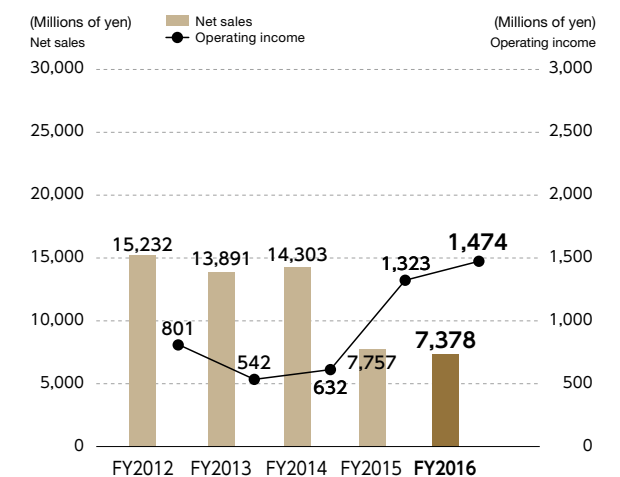
##### Research and development activities

We work on positive promotion of university-industry cooperation in new areas. The Science Division is involved in the development of new products using high gloss synthetic mica as well as crawler robots. R&D center is involved in the development of basic element technology related to each business.

We spent ¥597 million on these activities.

Companies included in this segment	
<b>Manufacturing:</b>	Topy Industries, Ltd. Topy Enterprises, Ltd.
<b>Sales and services:</b>	Topy Industries, Ltd. Topy-Rec, Ltd.

##### Net sales, Operating income



\*Sales and operating income attributable to Power Generation shown above are included the above figures until FY2015.

Corporate Data

Major Subsidiaries & Affiliates [Topy Industries, Ltd.]

Company name	Head office location	Capital (millions of yen)	Business segment	Holding voting right or owned by (%)
(Consolidated Subsidiaries) Topy Enterprises, Ltd.	Shinagawa-ku, Tokyo	480	Steel, Automotive and Industrial Machinery Components, Other	100
Topy Marine Transport, Ltd.	Toyohashi-shi, Aichi Pref.	225	Steel	100
Topy Fasteners, Ltd.	Matsumoto-shi, Nagano Pref.	310	Automotive and Industrial Machinery Components	100
Topy-Rec, Ltd.	Koto-ku, Tokyo	300	Others	100
Kyushu Wheel Kogyo, Ltd.	Miyako-gun, Fukuoka Pref.	100	Automotive and Industrial Machinery Components	100
Tojitu Co., Ltd.	Toyohashi-shi, Aichi Pref.	80	Steel	100 (100)
NE-Tojitsu, Ltd.	Urayasu-shi, Chiba Pref.	34	Steel	100 (100)
Autopia, Ltd.	Koto-ku, Tokyo	30	Automotive and Industrial Machinery Components	100 (100)
Akemi Recycling Center, Ltd.	Toyohashi-shi, Aichi Pref.	200	Steel	100 (30)
Sanwa Buhin Co., Ltd.	Bando-shi, Ibaraki Pref.	200	Automotive and Industrial Machinery Components	100
Akemi Electric Power, Ltd.	Toyohashi-shi, Aichi Pref.	205	Power Generation	100
Topy America, Inc.	Kentucky, U.S.A.	600 U.S. dollars	Automotive and Industrial Machinery Components	100
Topy Precision Mfg., Inc.	Illinois, U.S.A.	50 thousand U.S. dollars	Automotive and Industrial Machinery Components	100 (100)
Topy Fasteners (Thailand), Ltd.	Chonburi, Thailand	50 million baht	Automotive and Industrial Machinery Components	75 (40)
Qingdao Topy Machinery Co., Ltd.	Qingdao, China	60 million yuan	Automotive and Industrial Machinery Components	95 (10)
Fujian Topy Autoparts Co., Ltd.	Fujian, China	194 million yuan	Automotive and Industrial Machinery Components	100

Company name	Head office location	Capital (millions of yen)	Business segment	Holding voting right or owned by (%)
Topy Undercarriage (China) Co., Ltd.	Qingdao, China	491 million yuan	Automotive and Industrial Machinery Components	100
Topy Fasteners Vietnam Co., Ltd.	Jung Yen, Viet Nam	6.24 million U.S. dollars	Automotive and Industrial Machinery Components	100 (80)
Tianjin Topy Machinery Co., Ltd.	Tianjin, China	103 million yuan	Automotive and Industrial Machinery Components	100
PT. Topy Palingda Manufacturing Indonesia	Jawa Barat, Indonesia	330 billion rupiah	Automotive and Industrial Machinery Components	70
PT. Topy Undercarriage Indonesia	West Java, Indonesia	300 thousand U.S. dollars	Automotive and Industrial Machinery Components	100 (30)
Topy MW Manufacturing Mexico S.A. DE C.V.	State of Guanajuato, Mexico	173 million pesos	Automotive and Industrial Machinery Components	75
Topy Fasteners Mexico, S.A. DE C.V.	State of San Luis Potosi, Mexico	81 million pesos	Automotive and Industrial Machinery Components	100 (100)
(Unconsolidated subsidiary accounted for under the equity method) Hokuetsu Metal Co., Ltd.	Nagaoka-shi, Niigata Pref.	1,969	Steel	36.0 (1.4)
Nippon Steel Topy Bridge Co., Ltd.	Kitakyushu-shi, Fukuoka Pref.	100	Others	35
(Other Affiliates) Nippon Steel & Sumitomo Metal Corporation	Chiyoda-ku, Tokyo	419,524	Manufacture and sales of steel products and engineering	0.1 (Owned by) 20.5 (0.1)

As of March 31, 2016

Notes:

1. Respective business segments are listed in the "business segment" column (excluding other affiliated companies).

2. Topy America, Inc. and Topy Precision Mfg., Inc. have paid premiums of U.S. \$62,999,400 and U.S. \$4,950,000, respectively, aside from the capital mentioned above, totaling capital of U.S. \$63,000,000 and U.S. \$5,000,000 respectively.

3. Topy Enterprises, Ltd., Topy America, Inc., Fujian Topy Autoparts Co., Ltd., Topy Undercarriage (China) Co., Ltd. and PT. Topy Palingda Manufacturing Indonesia are categorized as special subsidiary companies.

4. Hokuetsu Metal Co., Ltd. and Nippon Steel & Sumitomo Metal Corporation issue an official financial statement separately.

5. The sales ratio of Topy Enterprises, Ltd. as a proportion of the consolidated sales of Topy Industries Group exceeds 10% (excluding internal sales among consolidated Topy Industries Group companies).

Major financial information

(1) Net sales	¥89,040 million
(2) Operating income	¥1,214 million
(3) Net profit	¥764 million
(4) Net assets	¥7,513 million
(5) Gross assets	¥31,965 million

6. The values in parentheses under the "holding voting right or owned by" column represent indirect holding percentages.

Directors, Auditors & Operating Officers [Topy Industries, Ltd.]

Position	Name	Titles or responsibilities
President and CEO	Yasuo Fujii	Representative Director
Director, Executive Vice President	Akira Higashi	In charge of Corporate Planning, Personnel Dept. & Finance Dept.
Director, Executive Vice President	Yasuo Ishii	In charge of Engineering Administration Dept. and Internet of Things Promotion Dept.
Senior Managing Director	Tadashi Kojima	In charge of General Affairs Dept.
Director	Tsuyoshi Inoue	Outside Director
Statutory Auditor	Masaru Yamamoto	
Statutory Auditor	Yukihiro Ogawa	
Statutory Auditor	Masakazu Kawabata	Outside Auditor
Statutory Auditor	Kazuo Shouyu	Outside Auditor
Managing Operating Officer	Norio Saito	General Manager of the Corporate Planning Dept.
Managing Operating Officer	Toshiyuki Tani	General Manager of the Science Div.
Managing Operating Officer	Satoshi Kumazawa	General Manager of Personnel Dept.
Managing Operating Officer	Hiroyuki Kinoshita	General Manager of the Undercarriage Components Div., in charge of Automotive and Industrial Machinery Components Business
Managing Operating Officer	Shinichi Kijima	General Manager of the Wheel Div., in charge of Automotive and Industrial Machinery Components Business
Managing Operating Officer	Ichiro Takeuchi	Deputy General Manager of the Wheel Div.
Operating Officer	Kazuhisa Nakayama	Deputy General Manager of the Wheel Div.
Operating Officer	Katsuyoshi Daido	General Manager of the Steel Div., in charge of Steel Business
Operating Officer	Masayuki Yamaguchi	General Manager of General Affairs Dept.
Operating Officer	Koichi Sakamoto	General Manager of Finance Dept. (Topy Undercarriage (China) Co., Ltd.)
Operating Officer	Masayoshi Takezawa	General Manager of Internet of Things Promotion Dept.
Operating Officer	Tsuyoshi Nakamura	General Manager of Engineering Administration Dept.
Operating Officer	Hiroji Kobayashi	General Manager of Internal Audit Dept.

As of July 1, 2016



## Corporate Data

## Consolidated Financial Statements

## ◆ Consolidated Balance Sheets (Assets)

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Assets			
Current assets			
Cash and deposits	¥ 24,997	¥ 22,048	\$ 221,821
Notes and accounts receivable-trade	39,586	43,988	351,282
Merchandise and finished goods	12,806	13,324	113,639
Work in process	4,305	4,418	38,202
Raw materials and supplies	9,506	9,910	84,355
Deferred tax assets	1,546	2,079	13,719
Other	4,480	5,737	39,755
Allowance for doubtful accounts	(43)	(34)	(382)
Total current assets	97,186	101,471	862,419
Non-current assets			
Property, plant and equipment			
Buildings and structures	85,096	85,547	755,134
Accumulated depreciation	(54,746)	(52,932)	(485,811)
Buildings and structures, net	30,349	32,615	269,314
Machinery, equipment and vehicles	189,985	191,503	1,685,908
Accumulated depreciation	(141,842)	(139,852)	(1,258,692)
Machinery, equipment and vehicles, net	48,142	51,651	427,207
Land	18,260	18,479	162,037
Leased assets	4,288	4,314	38,051
Accumulated depreciation	(1,627)	(1,199)	(14,438)
Leased assets, net	2,661	3,114	23,614
Construction in progress	1,558	4,450	13,826
Other	32,897	33,385	291,925
Accumulated depreciation	(30,946)	(31,290)	(274,612)
Other, net	1,951	2,095	17,313
Total property, plant and equipment	102,924	112,406	913,338
Intangible assets			
Other	1,372	1,417	12,175
Total intangible assets	1,372	1,417	12,175
Investments and other assets			
Investment securities	24,992	33,359	221,777
Long-term loans receivable	620	607	5,502
Deferred tax assets	2,689	1,302	23,862
Other	1,854	1,937	16,452
Allowance for doubtful accounts	(55)	(46)	(488)
Total investments and other assets	30,101	37,161	267,113
Total non-current assets	134,397	150,985	1,192,626
Total assets	231,583	252,456	2,055,045

## ◆ Consolidated Balance Sheets (Liabilities / Net Assets)

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Liabilities			
Current liabilities			
Notes and accounts payable - trade	¥ 19,445	¥ 26,707	\$ 172,553
Electronically recorded obligations - operating	10,606	8,263	94,117
Short-term loans payable	22,603	21,954	200,577
Current portion of bonds	300	5,300	2,662
Lease obligations	438	403	3,887
Income taxes payable	1,657	1,750	14,704
Other	11,579	10,861	102,751
Total current liabilities	66,632	75,241	591,286
Non-current liabilities			
Bonds payable	23,800	23,600	211,199
Long-term loans payable	23,367	26,662	207,357
Lease obligations	2,336	2,729	20,729
Deferred tax liabilities	78	1,544	692
Provision for corporate officers' retirement benefits	159	140	1,411
Reserve for repairs	171	518	1,517
Net defined benefit liability	11,011	9,574	97,711
Asset retirement obligations	235	257	2,085
Liabilities from application of equity method	809	838	7,179
Other	3,007	3,409	26,684
Total non-current liabilities	64,977	69,274	576,600
Total liabilities	131,609	144,515	1,167,885
Net assets			
Shareholders' equity			
Capital stock	20,983	20,983	186,201
Capital surplus	18,824	18,824	167,042
Retained earnings	54,152	53,399	480,540
Treasury shares	(931)	(925)	8,262
Total shareholders' equity	93,028	92,281	825,521
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	4,995	10,399	44,325
Deferred gains or losses on hedges	(13)	(8)	(115)
Foreign currency translation adjustments	1,927	3,796	17,100
Remeasurements of defined benefit plans	(1,044)	(281)	(9,264)
Total accumulated other comprehensive income	5,865	13,906	52,045
Non-controlling interests	1,080	1,753	9,584
Total net assets	99,973	107,941	887,151
Total liabilities and net assets	231,583	252,456	2,055,045

## Corporate Data

## Consolidated Financial Statements

## ◆ Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Consolidated Statements of Income			
Net sales	¥ 215,872	¥ 237,677	\$ 1,915,627
Cost of sales	178,201	202,762	1,581,338
Gross profit	37,670	34,915	334,280
Selling, general and administrative expenses	27,669	28,492	245,532
Operating income	10,000	6,422	88,739
Non-operating income			
Interest income	89	69	790
Dividends income	706	575	6,265
Share of profit of entities accounted for using equity method	232	12	2,059
Insurance income	128	570	1,136
Other	419	415	3,718
Total non-operating income	1,577	1,643	13,994
Non-operating expenses			
Interest expenses	1,137	1,124	10,090
Foreign exchange losses	951	332	8,439
Other	683	570	6,061
Total non-operating expenses	2,772	2,028	24,599
Ordinary income	8,806	6,037	78,144
Extraordinary income			
Gain on sales of non-current assets	19	16	169
Gain on sales of investment securities	1,089	80	9,664
Subsidy income	448	—	3,976
Total extraordinary income	1,558	96	13,826
Extraordinary losses			
Loss on sales of non-current assets	69	40	612
Loss on retirement of non-current assets	308	243	2,733
Loss on reduction of non-current assets	440	—	3,905
Loss on valuation of investment securities	—	37	—
Restructuring loss	4,864	—	43,163
Impairment loss	—	1,334	—
Other	0	1	0
Total extraordinary losses	5,683	1,657	50,430
Income before income taxes and minority interests	4,681	4,476	41,539
Income taxes-current	2,798	2,862	24,829
Income taxes-deferred	536	(500)	4,756
Total income taxes	3,335	2,361	29,595
Net income	1,345	2,115	11,935
Net income (loss) attributable to non-controlling interests	(354)	(244)	(3,141)
Net income (loss) attributable to owners of parent	1,700	2,360	15,086

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Consolidated Statements of Comprehensive Income			
Net income	1,345	2,115	11,935
Other comprehensive income			
Valuation difference on available-for-sale securities	(5,372)	4,894	(47,671)
Deferred gains or losses on hedges	(5)	(6)	(44)
Foreign currency translation adjustment	(2,036)	3,441	(18,067)
Remeasurements of defined benefit plans, net of tax	(760)	1,907	(6,744)
Share of other comprehensive income of associates accounted for using equity method	(30)	65	(266)
Total other comprehensive income	(8,205)	10,301	(72,810)
Comprehensive income	(6,860)	12,416	(60,875)
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	(6,340)	12,486	(56,261)
Comprehensive income attribute to non-controlling interests	(519)	(70)	(4,606)



## Corporate Data

## Consolidated Financial Statements

## ◆ Consolidated Statement of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Shareholders' equity			
Capital stock			
Balance at the beginning of year	¥ 20,983	¥ 20,983	\$ 186,201
Changes of items during period			
Total changes of items during period	—	—	—
Balance at the end of year	20,983	20,983	186,201
Capital surplus			
Balance at the beginning of year	18,824	18,824	167,042
Changes of items during period			
Disposal of treasury shares	0		0
Total changes of items during period	0	—	0
Balance at the end of year	18,824	18,824	167,042
Retained earnings			
Balance at the beginning of year	53,399	51,695	473,858
Cumulative efforts of changes in accounting policies		53	
Restated balance	53,399	51,749	473,858
Changes of items during period			
Dividends of surplus	(947)	(710)	(8,404)
Net income attributable to owners of parent	1,700	2,360	15,086
Total changes of items during period	752	1,649	6,673
Balance at the end of year	54,152	53,399	480,540
Treasury stock			
Balance at the beginning of year	(925)	(919)	(8,208)
Changes of items during period			
Purchase of treasury shares	(6)	(5)	(53)
Disposal of treasury shares	0		0
Total changes of items during period	(6)	(5)	(53)
Balance at the end of year	(931)	(925)	(8,262)
Total shareholders' equity			
Balance at the beginning of year	92,281	90,584	818,893
Cumulative efforts of changes in accounting policies		53	
Restated balance	92,281	90,637	818,893
Changes of items during period			
Dividends of surplus	(947)	(710)	(8,404)
Net income attributable to owners of parent	1,700	2,360	15,086
Purchase of treasury shares	(6)	(5)	(53)
Disposal of treasury shares	0		0
Total changes of items during period	746	1,643	6,620
Balance at the end of year	93,028	92,281	825,521

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of year	¥ 10,399	¥ 5,447	\$ 92,280
Changes of items during period			
Net changes of items other than shareholders' equity	(5,403)	4,951	(47,946)
Total changes of items during period	(5,403)	4,951	(47,946)
Balance at the end of year	4,995	10,399	44,325
Deferred gains or losses on hedges			
Balance at the beginning of year	(8)	(4)	(71)
Changes of items during period			
Net changes of items other than shareholders' equity	(5)	(3)	(44)
Total changes of items during period	(5)	(3)	(44)
Balance at the end of year	(13)	(8)	(115)
Foreign currency translation adjustment			
Balance at the beginning of year	3,796	534	33,685
Changes of items during period			
Net changes of items other than shareholders' equity	(1,869)	3,262	(16,585)
Total changes of items during period	(1,869)	3,262	(16,585)
Balance at the end of year	1,927	3,796	17,100
Remeasurements of defined benefit plants			
Balance at the beginning of year	(281)	(2,196)	(2,494)
Changes of items during period			
Net changes of items other than shareholders' equity	(763)	1,915	(6,771)
Total changes of items during period	(763)	1,915	(6,771)
Balance at the end of year	(1,044)	(281)	(9,264)
Total accumulated other comprehensive income			
Balance at the beginning of year	13,906	3,779	123,401
Changes of items during period			
Net changes of items other than shareholders' equity	(8,041)	10,126	(71,355)
Total changes of items during period	(8,041)	10,126	(71,355)
Balance at the end of year	5,865	13,906	52,045
Minority interests			
Balance at the beginning of year	1,753	1,855	15,556
Changes of items during period			
Net changes of items other than shareholders' equity	(672)	(101)	(5,963)
Total changes of items during period	(672)	(101)	(5,963)
Balance at the end of year	1,080	1,753	9,584
Total net assets			
Balance at the beginning of year	107,941	96,219	957,858
Cumulative efforts of changes in accounting policies		53	
Restated balance	107,941	96,272	957,858
Changes of items during period			
Dividends from surplus	(947)	(710)	(8,404)
Net income attributable to owners of parent	1,700	2,360	15,086
Purchase of treasury shares	(6)	(5)	(53)
Disposal of treasury shares	0	10,024	0
Net changes of items other than shareholders' equity	(8,714)	—	(77,327)
Total changes of items during period	(7,967)	11,668	(70,698)
Balance at the end of year	99,973	107,941	887,151

## Corporate Data

## Consolidated Financial Statements

## Consolidated Cash Flow Statement

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Cash Flows from operating activities			
Income (loss) before income taxes and non-controlling interests	¥ 4,681	¥ 4,476	\$ 41,539
Depreciation	11,321	10,315	100,461
Loss on business restructuring	4,480	—	
Impairment loss	—	1,334	
Increase (decrease) in allowance for doubtful accounts	17	(36)	151
Increase (decrease) in allowance for executive directors' retirement benefits	19	41	169
Increase (decrease) in allowance for periodic repairs	(347)	39	(3,079)
Increase (decrease) in net defined benefit liability	363	1,170	3,221
Interest and dividend income	(796)	(644)	(7,064)
Interest expenses	1,137	1,124	10,090
Insurance income	(128)	(570)	(1,136)
Share of (profit) loss of entities accounted for using equity method	(232)	(12)	(2,059)
Loss (gain) on sales of short-term and long-term investment securities	(1,089)	(80)	(9,664)
Loss (gain) on valuation of short-term and long-term investment securities	—	37	—
Loss (gain) on sales and retirement of property, plant and equipment	358	268	3,177
Subsidy income	(448)	—	(3,976)
Loss on reduction of non-current assets	440	—	3,905
Decrease (increase) in notes and accounts receivable-trade	4,198	2,949	37,253
Decrease (increase) in inventories	857	(277)	7,605
Increase (decrease) in notes and accounts payable-trade	(4,736)	22	(42,027)
Increase/decrease in other assets/liabilities	2,409	1,576	21,377
Subtotal	22,506	21,735	199,716
Interest and dividend income received	830	665	7,365
Interest expenses paid	(1,147)	(1,145)	(10,178)
Proceeds from Insurance income	128	570	1,136
Income taxes paid	(3,060)	(2,398)	(27,154)
Income taxes refund	88	11	781
Net cash provided by (used in) operating activities	19,346	19,440	171,675
Cash flows from investing activities			
Net decrease (increase) in time deposits	(91)	(145)	(808)
Purchase of property, plant and equipment	(9,428)	(28,870)	(83,663)
Proceeds from sales of property, plant and equipment	99	103	879
Purchase of investment securities	(26)	(338)	(231)
Proceeds from sales of investment securities	1,600	106	14,198
Proceeds from sales of shares of subsidiaries and associates	—	228	—
Payments of loans receivable	(28)	(30)	(249)
Collection of loans receivable	15	20	133
Purchase of intangible assets	(133)	(138)	(1,180)
Proceeds from subsidy income	448	—	3,931
Other, net	13	(76)	115
Net cash provided by (used in) investing activities	(7,529)	(29,141)	(66,812)

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	
Cash Flows from financing activities			
Net increase (decrease) in short-term loans payable	¥ (406)	¥ (636)	\$ (3,603)
Proceeds from long-term loans payable	3,638	15,486	32,283
Repayment of long-term loans payable	(5,299)	(5,418)	(47,023)
Proceeds from issuance of bonds	485	9,928	4,304
Redemption of bonds	(5,300)	(5,000)	(47,032)
Increase (decrease) in deposit received through CMS	(12)	(60)	(107)
Repayments of lease obligations	(387)	(389)	(3,434)
Purchase of treasury shares	(6)	(5)	(53)
Proceeds from disposal of treasury shares	0	—	0
Proceeds from share issuance to non-controlling shareholders	—	107	—
Cash dividends paid	(948)	(713)	(8,413)
Dividends paid to non-controlling interests	(153)	(139)	(1,358)
Net cash provided by (used in) financing activities	(8,391)	13,157	(74,461)
Effect of exchange rate change on cash and cash equivalents	(558)	791	(4,952)
Net increase (decrease) in cash and cash equivalents	2,865	4,247	25,424
Cash and cash equivalents at the beginning of year	21,733	17,485	192,857
Cash and cash equivalents at the end of year	24,599	21,733	218,289



# Corporate Data

## Notes to Consolidated Financial Statements

### Basic significant matters to prepare consolidated financial statement

#### 1. Scope of consolidation

##### (1) Consolidated subsidiary companies: 23 companies

Topy Enterprises, Ltd., Topy Marine Transport, Ltd., Topy Fasteners, Ltd., Topy-Rec, Ltd., Kyushu Wheel Kogyo, Ltd., Tojitu Co., Ltd., Autopia, Ltd., Akemi Recycle Center Ltd., Topy Precision Mfg., Inc., Sanwa Buhin Co., Ltd., Akemi Electric Power, Ltd., Topy Fasteners (Thailand), Ltd., Topy America, Inc., NE-Tojitsu Co., Ltd., Qingdao Topy Machinery Co., Ltd., Fujian Topy Autoparts Co., Ltd., Topy Undercarriage (China) Co., Ltd., Topy Fasteners Vietnam Co., Ltd., Tianjin Topy Machinery Co., Ltd., PT. Topy Palingda Manufacturing Indonesia, PT. Topy Undercarriage Indonesia and Topy MW Manufacturing Mexico S.A. DE C.V., Topy Fasteners Mexico S.A. DE C.V.

Topy Fasteners Mexico, S.A. DE C.V. was newly established during FY2015 and therefore, is included in the scope of consolidated accounting.

##### (2) A major non-consolidated subsidiary

Topy Agency, Ltd.

##### (3) Reason for exclusion from consolidation

Total assets, sales, net profits (in proportion to equity) and retained surplus (in proportion to equity) and other performances of those non-consolidated subsidiary companies are relatively marginal in scale and have insignificant impact on overall consolidated statements, and therefore, those companies are excluded from the scope of consolidation.

#### 2. Subsidiaries and affiliated companies by the equity method

##### (1) Non-consolidated affiliated companies by the equity method: 2 companies

Hokuetsu Metal Co., Ltd.

Nippon Steel Topy Bridge Co., Ltd.

##### (2) A major company among non-consolidated subsidiaries and affiliated companies to which the equity method is inapplicable

Topy Agency, Ltd.

##### (3) Reason that the equity method is inapplicable

Those non-consolidated affiliated companies and subsidiaries, to which the equity method is inapplicable, posted relatively marginal performances in net income (in proportion to equity) and retained earnings (in proportion to equity), and its impact to consolidated financial statements is limited and insignificant as a whole, and therefore, those companies are excluded from the scope that the equity method is applied.

#### 3. Fiscal term of consolidated subsidiaries

The following companies settle their accounts on December 31 each year.

Topy Precision Mfg., Inc., Topy Fasteners (Thailand), Ltd., Topy America, Inc., Qingdao Topy Machinery Co., Ltd., Fujian Topy Autoparts Co., Ltd., Topy Undercarriage (China) Co., Ltd., Topy Fasteners Vietnam Co., Ltd., Tianjin Topy Machinery Co., Ltd., PT. Topy Palingda Manufacturing Indonesia, PT. Topy Undercarriage Indonesia, Topy MW Manufacturing Mexico S.A. DE C.V., Topy Fasteners Mexico S.A. DE C.V.

Consolidated financial statements are prepared based on the financial data available as of the account settling day of respective companies. However, necessary adjustments are made on the consolidated statements for the business transactions of material importance that occurred between January 1 and March 31.

#### 4. Accounting standards

##### (1) Evaluation criteria and evaluation method of material assets

###### a) Securities

###### Other securities

Securities with running prices

Running prices to be calculated based on the market prices or other applicable prices quoted on the account settling date (evaluation difference to be reported as component of shareholders' equity and selling costs to be calculated by moving average method).

Securities without running prices

Cost methods are based on moving average method

###### b) Derivative

Market price method

###### c) Inventories

Merchandise

Total average method or last invoice method depending on the classification of merchandise (values on balance sheet to be calculated by writing down book value due to reduced profitability)

Finished goods, semi-finished goods, raw materials, work in process

Primarily moving average method (values on balance sheet to be calculated by writing down book value due to reduced profitability)

###### Supplies

Rolls by individual identification cost and others primarily by moving average method (values on balance sheet to be calculated by writing down book value due to reduced profitability)

##### (2) Material depreciation assets and depreciation method

###### a) Tangible fixed assets (except for leasing assets)

Depreciation of property, plant and equipment is calculated by the declining balance method or the straight-line method, and others by the declining balance method, and consolidated subsidiaries adopt the declining balance method or the straight-line method. However, for buildings acquired in Japan after April 1, 1998 (except for auxiliary facilities of building), depreciation is calculated by the straight-line method.

The principal estimated useful lives:

Buildings and structures	10-47 years
Machinery and transportation equipment	4-14 years
Others	2-10 years

###### b) Intangible fixed assets (except for leasing assets)

The straight-line method is adopted.

For software (for in-house use), the straight-line method is adopted based on the estimated useful life in the company.

###### c) Leasing assets

The Company regards the leasing term as estimated useful lives and adopts the straight-line method with eventual residual value reduced to zero. For the finance lease agreements stipulating the transfer of ownership and the agreements that started before March 31, 2008, accounting process in accordance with standard lease transactions is adopted.

##### (3) Accounting basis for significant allowance

###### a) Allowance for uncollectable accounts

To prepare for possible losses due to uncollectable accounts such as accounts receivable, the Company has posted estimated uncollectable accounts by using actual rate of uncollectable accounts for general credit accounts and also by checking individual possibility of collection for special accounts such as doubtful accounts.

###### b) Allowance for operating officers' retirement benefits

To prepare for the payment of retirement benefits for the operating officers of the Company, the Company has posted payable amount at the end of consolidated fiscal year in accordance with the in-house standards for the benefits.

##### (4) Changes in accounting concerning payment for employees' retirement benefits

###### a) Attribution method for projected retirement benefits

In calculating retirement benefits obligations, the benefit formula basis is adopted to attribute projected retirement benefits for the period up to the current consolidated accounting term.

###### b) Processing cost calculating method of actual gains or losses arising from gaps between theory and practice

Actual gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees (principally 15 years).

##### (5) Significant assets or liabilities in foreign currencies and conversion criteria into Japanese Yen.

Monetary credits and debts in foreign currencies have been transferred to yen at the spot exchange rate on the closing date of consolidated financial statements. Translation differences have been disposed as profits or losses.

Assets, liabilities and earnings, expenses of subsidiaries overseas have been transferred to yen based on the spot exchange rate on the closing date of consolidated financial statements and translation differences are included in currency exchange transfer adjustment account of net assets and equity by minor shareholders.

##### (6) Significant hedge accounting method

###### a) Hedge accounting method

The Company principally has adopted the deferral hedge accounting. The deferral accounting is adopted for exchange forward contracts and currency swaps when accounting requirements are met and special accounting is adopted for interest rates swaps when accounting requirements are met.

###### b) Hedging methods and hedging items

Hedging methods and hedging items to which hedging accounting has been employed for this consolidated fiscal term are as stated below.

Hedging method: Exchange contract and currency swap

Hedging item: Foreign currency denominated credits and foreign currency forecast transaction

Hedging method: Commodity futures

Hedging item: Commodity physical transaction

Hedging method: Interest rate swap

Hedging item: Borrowing rate

###### c) Hedging policy

The Company hedges against a fluctuation in exchange rates, commodity prices and interest rates in accordance with internal standards.

###### d) Evaluation method of hedging effectiveness

The Company compares the total fluctuations in cash flow as hedging item and the total fluctuations in cash flow as hedging method for the period from hedge implementation to hedge effectiveness judgment and make a judgment based on the fluctuation amount of both factors. However, for the swapping of interest rates by special accounting, effectiveness evaluation is omitted.

##### (7) Consolidated cash flow statement and scope of funds

Scope of funds covers cash in hands, deposit with unrestricted withdrawal and short-term investments with high liquidity with maturity of three months or less and minimal risks against fluctuations in values.

##### (8) Accounting process for consumption tax

The Company has adopted tax-exclusion system as accounting process for consumption tax.

(Change in accounting policy)

Application of accounting standard related to corporate mergers and acquisitions

· Accounting Standard for Business Combination (Corporate Accounting Standard No. 21 dated September 13, 2013), Accounting Standard for Consolidated Financial Statement (Corporate Accounting Standard No.22 dated September 13, 2013) and related standards are applied effective from the consolidated accounting term from the fiscal year under review and the changes in presentation methods of net income in the fiscal term under review as well as the changes in presentation methods from minority interests to non-controlling interests are adopted. To reflect these changes in the presentation methods the consolidated financial statements had been rearranged in the preceding consolidated fiscal year.

Accounting Standard unapplied

· Application Guide Line for Collectability of Deferred Tax Assets

(Corporate Accounting Standard No. 26 dated March 28, 2016)

#### 1. Outline

The Application Guide Line for Collectability of Deferred Tax Assets

In connection with the transferring of practical accounting guide line and auditing guide line (the part related to account processing) with regard to tax effect accounting from the Japan Certified Public Accountant Association to the Corporate Accounting Standard Committee, the Corporate Accounting Standard Committee has divided corporations into five categories with regard to the guide lines related to the collectability of deferred tax asset chiefly defined among the said practical guide in the Japan Certified Public Accountant Association report No. 66: auditing processing concerning the judgment on the collectability of deferred tax assets, basically followed the framework that estimates the allocated amount of deferred tax assets according to the categories and conducted necessary review on the category requirements and part of processing of allocated

amount of deferred tax assets, and defined the guide line when the Accounting Standard Related to Tax Effect Accounting with regard to the collectability of deferred tax assets is applied.

Category requirements and reviewing of the processing of allocated amount of deferred tax assets.

· Processing of the corporation that does not meet any of the requirements under category (1) through category (5).

· Category requirements related to category (2) and category (3).

· Processing of future deductible amount that is difficult to be scheduled in the corporations under category (2).

· Processing of rational estimating period of taxable income before tax adjustments including temporary differences in the future in the corporation under category (3).

· Processing of the corporation when the corporation meets the requirements of category (4) and also falls under category (2) or category (3).

#### 2. Scheduled date of application

To be applied effective from the beginning of the new consolidated fiscal year starting on and after April 1, 2016.

#### 3. Impacts from the application of the said accounting standard and related requirements

The impacts by the application of The Guide Related to Collectible Deferred Tax Assets on the consolidated financial statement are being assessed at present.

## Corporate Data

## Segment Information (2016)

(Millions of yen)

	Segment				Other Business	Total	Adjustments	Consolidated total
	Steel Products Business	Automotive and Industrial Machinery Components Business	Power Generation Business	Total				
Sales								
External sales	63,767	134,099	10,626	208,493	7,378	215,872	—	215,872
Intra-segment sales and transfer	13,391	—	—	13,391	—	13,391	(13,391)	—
Total	77,159	134,099	10,626	221,884	7,378	229,263	(13,391)	215,872
Segment income	4,815	5,320	2,475	12,611	1,474	14,086	(4,085)	10,000
Segment assets	84,742	101,744	5,894	192,381	15,555	207,936	23,646	231,583
Other items								
Depreciation and amortization	4,457	5,737	621	10,816	436	11,253	68	11,321
Increase in tangible and intangible assets	974	5,601	1,832	8,408	376	8,785	30	8,815

(Thousands of U.S. dollars)

	Segment				Other Business	Total	Adjustments	Consolidated total
	Steel Products Business	Automotive and Industrial Machinery Components Business	Power Generation Business	Total				
Sales								
External sales	565,862	1,189,981	94,294	1,850,146	65,472	1,915,627	—	1,915,627
Intra-segment sales and transfer	118,830	—	—	118,830	—	118,830	(118,830)	—
Total	684,701	1,189,981	94,294	1,968,977	65,472	2,034,457	(118,830)	1,915,627
Segment income	42,728	47,209	21,963	111,909	13,080	124,998	(36,250)	88,739
Segment assets	751,992	902,866	52,303	1,707,170	138,034	1,845,204	209,832	2,055,045
Other items								
Depreciation and amortization	39,551	50,910	5,511	95,980	3,869	99,858	603	100,461
Increase in tangible and intangible assets	8,643	49,703	16,257	74,612	3,337	77,957	266	78,223

Note: Dollar amounts are converted at the rate of ¥112.69 to U.S. 1 dollar  
(Year ended March 31, 2016)

## Consolidated Financial Statement for the Past 10 Years

Fiscal year	2007	2008	2009	2010
Net sales	285,058	296,629	290,333	196,848
Operating income	13,173	12,888	6,686	355
Ordinary profit	13,866	11,784	6,010	626
Net income (loss)	7,826	6,366	2,384	(1,032)
Comprehensive income	—	—	—	—
Net assets	84,269	83,217	80,942	81,884
Total net assets	252,888	231,887	202,995	201,138
Net assets per share (yen)	379.03	371.40	334.16	337.53
Net income per share (loss) (yen)	35.60	28.90	10.39	(4.30)
Dividends per share (yen)	6.0	8.0	5.0	2.0
Equity ratio (%)	33.0	35.3	39.6	40.3
Return on equity (%)	9.4	7.7	2.9	(1.3)
Price/earnings ratio	13.3	9.8	13.9	—
Net cash provided by (used in) operating activities	13,999	9,405	21,547	12,010
Net cash provided by (used in) investing activities	(3,862)	(8,447)	(15,908)	(7,507)
Net cash provided by (used in) financing activities	(8,217)	(4,266)	(287)	(2,236)
Cash and cash equivalents at the end of current period	15,942	13,130	18,293	20,547
No. of employees [temporary employees] (persons)	4,107 [712]	4,133 [556]	4,125 [471]	4,242 [422]

(Millions of yen)

	2011	2012	2013	2014	2015	2016
	221,413	240,534	226,912	234,682	237,677	215,872
	7,006	10,554	6,990	5,308	6,422	10,000
	5,241	7,304	6,234	4,485	6,037	8,806
	2,072	3,918	3,409	1,914	2,360	1,700
	(340)	4,459	8,222	7,566	12,416	(6,860)
	80,165	83,096	91,258	96,219	107,941	99,973
	203,956	212,828	208,781	232,714	252,456	231,583
	335.16	347.37	377.47	398.39	448.36	417.60
	8.64	16.52	14.38	8.08	9.96	7.18
	4.0	4.0	4.0	2.0	4.0	6.0
	39.0	38.7	42.9	40.5	42.1	42.7
	2.6	4.8	4.0	2.1	2.4	1.7
	25.2	15.6	15.3	22.5	28.0	30.9
	6,236	16,010	16,770	7,251	19,440	19,346
	(3,681)	(7,703)	(14,770)	(17,478)	(29,141)	(7,529)
	(1,952)	(4,983)	(4,997)	7,538	13,157	(8,391)
	18,741	22,124	19,798	17,485	21,733	24,599
	4,151 [432]	4,135 [428]	4,374 [491]	4,515 [538]	4,596 [573]	4,408 [597]