

Shaping a better future

| Message from the President |

In order to ensure our future survival, JTEKT must continue contributing to the advancement of society. In FY2016, in addition to our existing four businesses, we announced the development of power assist suits as a new business contributing to society capable of only a company such as JTEKT. At the same time, as defensive management, we maintain a healthy sense of risk and continue to promote management considerate of ESG (*) as our company's foundation. To all our stakeholders, I ask that you bestow upon us your continued support and encouragement.

* ESG The first letters of "Environment", "Social" and "Governance". Items a company must consider when rolling out its businesses as corporate responsibility.

JTEKT Corporation Company President

Tetsuo Agata

The Future JTEKT Aims For

Eleven years ago, JTEKT was born from a merger between Koyo Seiko and Toyoda Machine Works, which were established in 1921 and 1941 respectively, thus making it a "Young Company with Rich History." In order for our company to survive the next ten, twenty years, the JTEKT group must use its strengths as the driving power to solve the issues that society faces in order to contribute to the advancement of society and grow further itself at the same time.

The world currently faces a variety of issues. For example, environment problems exemplified by global warming, drying up of energy resources, securing water and food in line with economic development and increasing populations in newly emerging nations, addressing aging society issues faced by developed nations, etc. are all extremely important issues. Continuously helping to solve these issues through business activities will prove the value of JTEKT's existence and is the only way to achieve sustainable growth, therefore this is what we see to be our future goal.

Our strengths are being able to offer energy-saving, better fuel efficiency, low environmental burden and man-power reductions through products and services which our four main businesses provide for a variety of industries, including automotive. Another one of JTEKT's strengths is that we offer

value not only in Japan, but also globally through over 130 companies located in 28 countries.

We will leverage these strengths to take up new challenges with sincerity so that we may continue to solve social issues, earn the trust of society and contribute to people's happiness and an abundant society through *monozukuri*.

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JTEKT GROUP VISION

I believe that, in order for JTEKT to be recognized by society though resolving social issues, in other words, recognized for added value only JTEKT is capable of offering, we must continue to offer No. 1 and Only One products and services. In line with the growth of manufacturers in newly emerging nations, every type of product is being commoditized at a pace even faster than before. If we, JTEKT, allow ourselves to become complacent and satisfied with our current achievements, we will be overtaken by other companies, as though we are standing on a downwards-moving escalator. The realization of No.1 & Only One requires possessing a healthy sense of risk and uniting as one solidified group in order to continue pursuing values only JTEKT can provide. This is an extremely tough challenge however I and every other employee of the JTEKT group is meeting this challenge head-on and constantly exerting effort to produce No. 1 and

Only One products, one after the next.

We have established “Building Value,” “Building Excellent Products” and “Building Professionals” as the key elements of activities necessary for achieving this goal. To put it briefly, “Building Value” is about further pairing of the “seeds” possessed by JTEKT with the “needs” of the world. For example, this fiscal year our accomplishment was the development of a power assist suit. This is a new value conceived by fusing the need to alleviate rising burden in the workplace due to a decrease in the working population with our reaction force control technology accumulated through JTEKT’s steering business. I am anticipating producing our second accomplishment, followed by our third, and so on and so forth. In order to be able to achieve this, we need to further strengthen our R&D capabilities as well as strengthen our marketing activities so we may promptly grasp how the world will change in the mid-to-long term and what needs will emerge as a result of such change. In particular, currently our R&D budget is around 3.7 percent of our net sales, which is the average for most manufacturers. I would like to see this rise to 4 percent in the future.

“Building Excellent Products” is about taking those products produced as a result of “Building Value” and converting them into highly competitive products that astonish the world. I believe that JTEKT, given its position as a manufac-

turer, can only achieve competitive strength by realizing world-class *monozukuri*. To achieve this, at the same time as promoting JPS (*) and automation, labor-saving through the sophistication of production activities, we are endeavoring to further streamline indirect work tasks so that we may achieve “*monozukuri* that astonish the world” through a companywide effort.

“Building Professionals” is the foundation that supports “Building Value” and “Building Excellent Products” and, as such, the most difficult and critical component. “Building Professionals” is having a corporate culture whereby each and every employee believes it only natural that they “think and act” for themselves. In order to achieve this, I believe the role of the management team is to set challenge goals convincing for all employees and ensure all employees work hard to achieve these goals at the same time as creating a cycle whereby the results of employees’ efforts can be properly accepted. To this end, we formulated JTEKT WAY in 2016 as a set of values we believe we must share globally. JTEKT WAY’s true essence is about fostering a culture in which employees “think and act” for themselves. In addition to our efforts to firmly establish this culture, we are concurrently promoting business reforms including strengthening policy management based on the Management Model newly established this fiscal year, reviewing



trainings by grade by steadily breaking down higher level policy, and promoting diversity so that the many different individualities of our personnel can be combined to form our strengths and raising the level of standardization of daily tasks, and ultimately enhance organizational capability. Also, even if we achieve the above, we will be still only by a “ready-made” mold, therefore I hold “town meetings” between myself and JTEKT employees so I can hear their frank viewpoints on various topics, ranging from our company’s future to issues that concern them day to day. Recently I feel our employees are really opening up to me and speaking their minds unreservedly, however I hope to further deepen mutual understanding so that we may unite in the pursuit of a common dream.

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* JPS JTEKT Production System

JTEKT Businesses

Currently, JTEKT is a company comprising the four businesses of steering, driveline, bearing and Machine Tools & Mechatronics. I would like to ensure we do not reduce the number of businesses we are involved in moving forward but, on the contrary, increase businesses created through the joining of new “seeds” and market “needs”, such as that represented by our recently announced new business of developing power assist suits. In addition to the power assist suit, we are working on producing our second and third new business from the potential we currently have available to us. At the same time, led by the heads of each business headquarters, we will exert every effort to contribute to society through the further expansion of our four flagship businesses. In concrete terms, our steering and driveline businesses will contribute to safer, more energy-saving transportation as well as ensure transportation with certainty through autonomous driving support technology in societies with declining populations. In our bearing business, we will contribute to society by further refining our tribology technology to better achieve low-friction, longer life bearing products and reducing the environmental burden caused by machinery and equipment, etc.

In our Machine Tools & Mechatronics business, we will further refine our IoE technology to realize smart *monozukuri* through automation and labor-saving so that we can contribute to the preservation and advancement of industries’ production activities in societies with declining populations.

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FY2016 Results and FY2017 Outlook

Appreciation of the yen and other factors had the effect of significantly reducing sales in FY2016, resulting in net sales of 1 trillion 318.3 billion yen, which is around 81.6 billion yen reduction from one year earlier. Due to factors such as reduced income, appreciation of the yen, etc., operating profit was also down by around 4.4 billion yen year-over-year at 77.4 billion yen. However, we maintained the same dividend level as last year, at 42 yen per share.

In FY2017, we have established the targets of 1 trillion 300 billion yen for net sales and 68 billion yen for sales profit. We plan on maintaining dividends at 42 yen per share. The global economy is forecasted to continue growing moderately next financial year however our business management environment is predicted to continue changing due to the Japanese economy being affected by factors including a fluctuating exchange rate caused by geopolitical risk, etc. In addition to flexibly responding to changes in the global economic conditions such as political instability of various nations, crucial issues for JTEKT to keep on top of are accelerating the rate at which we produce results from structural reforms promoted by each of our businesses and improving stand-alone profitability. JTEKT will stand united in promoting countermeasures whilst accelerating development of high-value-added products in order to maintain our competitive edge into the future, sophisticating work styles with a focus on changes in workplace environments resulting from Japan’s declining birth-rate and aging population and focusing our strengths on establishing such environments.

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Together with Society

Earlier I mentioned that, in order to achieve our goal of being a No. 1 & Only One company, JTEKT must possess a healthy sense of risk, however I believe this also applies from the perspective of ESG.

Firstly, regarding the issue of governance, JTEKT has established a verification system for our management with external output by appointing Outside Directors and outside members of the Audit & Supervisory Board. However, with the firm belief that, no matter how superior a system is, it is worthless without the proper enrichment of its content, we have strived to improve the effectiveness of our governance. For example, we have a system to correct any imbalance in the amount of information between outside and internal officers by having members of the executing



division provide advance explanations on the agenda content of board meetings at the Liaison Meeting for Outside Directors and Members of the Audit & Supervisory Board attended by Outside Directors and members of the Audit & Supervisory Board (including Outside Auditors), which ensures outside officers proactively provide input at board meetings. Moreover, we hold monthly meetings between the Chairperson, President and members of the Audit & Supervisory Board where we identify and list management issues. We then share this list with all directors and officers in management meetings and decide on the director or officer in charge of each issue. Until each of these issues is resolved, we continue to monitor their status in management meetings. If issues remain outstanding after six months, we request the director or officer in charge to report on the progress of that particular issue's solution. No doubt this level of scrutiny places officers under significant pressure but I believe this is precisely why it will lead to stronger governance. In regards to the environmental aspect, every year society's demands relating to the reduction of greenhouse gases and better energy efficiency are intensifying. JTEKT's electric power steering (EPS) products and bearings are precisely the kind of products that contribute to the environment and we will continue efforts to ensure they further help to reduce environmental burden as top-runner products. We are also promoting the ongoing reduction of environmental burden created by business activities through improvements. However, there is a possibility we may no longer be able to meet society's demands if we focus on these initiatives alone. JTEKT is one of only a handful of companies that manufactures both machines and the parts which make up such machines. As such, we will leverage both of these strengths and rise to the challenge of promoting innovative actions that will enable us to significantly reduce environmental burden. In regards to the social aspect, we will continue exerting effort to build and maintain good relationships with all of our stakeholders that support us through information disclosure, etc. At the same time, rather than only providing unidirectional dissemination of information as we have to date, we wish to co-create JTEKT's corporate value together with all of our stakeholders through a cycle of information exchange and dialogue.

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By adopting a healthy sense of risk that we won't exceed society's expectations if we merely meet the standard requirements and using this as our driving force, the JTEKT group will take a united stance in its aim to contribute to the advancement of society and achieve sustainable growth together with society. To all our stakeholders, I humbly ask you for your ongoing support and encouragement in our upcoming ventures.

Actions to enforce compliance

The JTEKT group underwent an inspection by the Fair Trade Commission in July 2011, and was consequently recognized as having violated the Anti-Monopoly Act. We JTEKT take this very seriously, and are engaging in policies to strengthen our compliance framework and raise awareness in each and every employee. The operational status of each policy is periodically checked and ascertained, and improvements are implemented through the reflection of opinions from work sites within the policies.

Activity progress

[Implementation of immediate notification rules]

To avoid delayed response to compliance-related incidents, in April 2015 we began implementation of reporting compliance violations (including possible violations), in principle, immediately after their occurrence or discovery.

[Summarization and presentation of compliance violation case examples]

Each month, we summarize case examples of compliance violations (accidents/near misses) that occurred within the JTEKT group, and report these at a meeting attended by top-level management. We also present these case examples to group companies in an effort to prevent recurrence.

[Compliance check]

Inquiries which investigate the status of management regarding compliance are implemented periodically and include management of group companies.

[Reports concerning contact with competitors]

It is mandatory for all employees to submit an application before contact with competitors as well as a report after contact to the Legal Department.

[Training and educational activities]

In addition to conducting testimonies (signatures) on the observance of laws and internal company regulations, we also implemented officer and director compliance training (twice a year) and trainings by grade, as well as education for our sales division. We also enforce awareness to prevent corruption (bribery).

[Anti-monopoly consultation desk]

* No events corresponding to those that must be reported

Contact with competitors	11
Collection and handling of information	20
Total	31