

These documents have been translated from Japanese originals for reference purposes only. In the event of any discrepancy between these translated documents and the Japanese originals, the originals shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translations.

(Securities code: 6268)
March 2, 2020

To Shareholders with Voting Rights:

Katsuhiko Teramoto
Representative Director and
President
Nabtesco Corporation
7-9, Hirakawa-cho 2-chome,
Chiyoda-ku, Tokyo, Japan

**NOTICE OF CONVOCATION OF
THE 17TH ANNUAL GENERAL MEETING OF SHAREHOLDERS**

- 1. Date and Time:** Tuesday, March 24, 2020 at 10:00 a.m. (JST)
(Reception begins at 9:00 a.m. (JST))
- 2. Venue:** Cosmos Hall, 3F Toshi Center Hotel Tokyo, located at
4-1, Hirakawa-cho 2-chome, Chiyoda-ku, Tokyo, Japan
- 3. Meeting Agenda:**
Matters to be reported:
1. The Business Report, Consolidated Financial Statements for the Company's 17th Fiscal Year (from January 1, 2019 to December 31, 2019) and results of audits by the Financial Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements
 2. Non-consolidated Financial Statements for the Company's 17th Fiscal Year (from January 1, 2019 to December 31, 2019)

Proposals to be resolved:

- Proposal No. 1:** Distribution of Surplus
Proposal No. 2: Election of Ten Directors
Proposal No. 3: Election of Three Audit & Supervisory Board Members

4. Exercising Voting Rights When You Are Unable to Attend the Meeting

If you are unable to attend the meeting, you may exercise your voting rights in writing or via Internet. Please read the Reference Documents for the General Meeting of Shareholders (described hereinafter), and cast your vote by 6:00 p.m. on Monday, March 23, 2020 (JST) by (1) indicating your vote for or against the proposals on the enclosed Voting Rights Exercise Form and return it, or (2) visiting the Company's designated voting rights exercise website (<https://www.web54.net>).

Notes:

1) Among the documents to be provided on this Convocation Notice, the following matters are posted on the Company's website in accordance with provisions of laws and regulations as well as Article 16 of the Articles of Incorporation:

- (1) "Subscription Rights to Shares" and "The System to Ensure the Appropriateness of the Business" of the Business Report;
- (2) "Consolidated Statement of Changes in Equity" and "Notes to the Consolidated Financial Statements" of the Consolidated Financial Statements; and
- (3) "Non-consolidated Statement of Changes in Equity" and "Notes to the Non-consolidated Financial Statements" of the Non-consolidated Financial Statements.

The Business Report that was audited by the Audit & Supervisory Board Members and the Consolidated Financial Statements and Non-consolidated Financial Statements that were audited by the Financial Auditor and the Audit & Supervisory Board Members are comprised of each reference document contained in this Notice, and the matters listed above which are posted on the Company's website.

Shareholders who wish to receive copies of the portion posted on the Company's website by postal mail are kindly requested to contact the General Administration Department of the Company (+81-3-5213-1133).

Website address on which the matters listed above are posted:

https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html



2) Any updates to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Consolidated Financial Statements and Non-consolidated Financial Statements will be posted on the Company's website.

The Company's website: <https://www.nabtesco.com/en/>

We do not provide souvenirs to the shareholders attending the General Meeting of Shareholders. We appreciate your understanding.

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal No. 1: Distribution of Surplus

The Company's basic policy is to appropriately distribute its corporate earnings to maintain stable dividends and an appropriate balance between strategic investment for supporting business growth, securing of a sound financial position and return of profits to shareholders, based on the business performance of the Company and the entire Nabtesco Group.

Also, as a dividend policy during the period of the current Medium-term Management Plan, the Company sets its target consolidated payout ratio at 35% or higher, aiming to continuously increase the amount of dividend per share, without upper limit.

Based on this basic policy, the Company hereby proposes its year-end dividends for the fiscal year ended December 31, 2019 as follows:

Matters concerning year-end dividends

1. Type of assets to be paid as dividends

Cash

2. Matters concerning allotment of property dividends to shareholders and the total amount

Divided per share of common stock: 37 yen

Total amount of dividends: 4,600,959,805 yen

3. Effective date for distribution of surplus

March 25, 2020

The annual dividend for the fiscal year ended December 31, 2019 including the interim dividend of 36 yen per share, will be 73 yen per share (the consolidated payout ratio of 50.5%).

(Reference)

	Annual dividend per share (Yen)	Payout ratio (%)
FY 2015 J-GAAP (9 mo.)	44	49.5
FY 2016 IFRS	50	35.1
FY 2017 IFRS	72	35.3
FY 2018 IFRS	73	43.0
FY 2019 IFRS (current)	73	50.5

Proposal No. 2: Election of Ten Directors

The terms of office of all ten Directors (including three Outside Directors) will expire at the conclusion of this Annual General Meeting of Shareholders.

Accordingly, the election of ten Directors (including four Outside Directors) is proposed.

Each candidate for Director was chosen by the Board of Directors upon receipt of reports from the Nominating Committee, which acts as an advisory body to the Board of Directors.

Please refer to page 19 for the policy and procedure of the election of Directors, and the criteria for the independence of Outside Directors.

The candidates for Directors are as follows:

No.	Name		Current position and assignment at the Company	Term of office	Attendance at the Board of Directors meetings
1	Katsuhiro Teramoto	Re-elected	Representative Director President Chief Executive Officer	4 years and 9 months	100% (16 meetings /16 meetings)
2	Shinji Juman	Re-elected	Representative Director Senior Managing Executive Officer, Component Solution Segment President, Power Control Company, and in charge of Production Innovation	3 years	100% (16 meetings /16 meetings)
3	Daisuke Hakoda	Re-elected	Representative Director Senior Managing Executive Officer President, Accessibility Innovations Company	4 years and 9 months	100% (16 meetings /16 meetings)
4	Toshiaki Akita	Re-elected	Director Managing Executive Officer Senior General Manager, Technology and R&D Division	2 years	100% (16 meetings /16 meetings)
5	Shigeru Naoki	Re-elected	Director Managing Executive Officer President, Railroad Products Company	1 year	100% (12 meetings /12 meetings)
6	Kazumasa Kimura	Re-elected	Director Executive Officer, Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication	1 year	100% (12 meetings /12 meetings)
7	Yutaka Fujiwara	Re-elected Outside Independent	Outside Director	6 years and 9 months	100% (16 meetings /16 meetings)
8	Norio Uchida	Re-elected Outside Independent	Outside Director	4 years and 9 months	100% (16 meetings /16 meetings)
9	Mari Iizuka	New candidate Outside Independent	—	—	—
10	Naoko Mizukoshi	New candidate Outside Independent	—	—	—

Re-elected: Candidate for Director to be re-elected

New candidate: Candidate for Director to be newly elected

Outside: Candidate for Outside Director

Independent: Candidate for independent director

- (Notes) 1. The term of office and the age of each candidate for Director under this Proposal refer to those at the time of completion of this Annual General Meeting of Shareholders.
2. Since Mr. Shigeru Naoki and Mr. Kazumasa Kimura assumed office as Director on March 26, 2019, the number of the Board of Directors meetings to be attended on and after that day was 12.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
1	Katsuhiro Teramoto (Dec. 13, 1955, 64 years old) Re-elected Term of office: 4 years and 9 months Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)	Jun.	2007	General Manager, Sales Department No. 1, Precision Equipment Company of Nabtesco Corporation	11,400 shares
		Jul.	2008	General Manager, Overseas Sales Department, Precision Equipment Company of Nabtesco Corporation	
		Jun.	2009	General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation	
		Jun.	2011	Executive Officer of Nabtesco Corporation	
		Oct.	2011	Vice President and General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation	
		Feb.	2013	Deputy Senior General Manager, Corporate Planning Division, and General Manager, Corporate Planning Department of Nabtesco Corporation	
		Jun.	2015	Representative Director (to present), Managing Executive Officer and Senior General Manager of Corporate Planning Division of Nabtesco Corporation	
		Mar.	2017	President and Chief Executive Officer (CEO) of Nabtesco Corporation (to present)	
		Mar.	2018	President of Nabtesco Corporation (to present)	
<p>Reasons for nomination as a candidate for Director</p> <p>Mr. Katsuhiro Teramoto has served as Representative Director since June 2015, and has appropriately led and supervised management. In addition, after serving as Vice President of Accessibility Innovations Company and Senior General Manager of Corporate Planning Division, he currently serves as the President, a position bearing the highest responsibilities for business execution, and has broad experience at the Company and extensive insight concerning global business. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company requests the continued appointment of Mr. Katsuhiro Teramoto as Director.</p>					

(Note) No conflict of interest exists between Mr. Katsuhiro Teramoto and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
2	<p>Shinji Juman (Aug. 28, 1957, 62 years old)</p> <p>Re-elected</p> <p>Term of office: 3 years</p> <p>Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)</p>	Jan.	2006	General Manager, Cost Control Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	8,700 shares
		Jun.	2006	General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	
		Jun.	2009	Plant Manager, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	
		Jun.	2011	Executive Officer of Nabtesco Corporation and President, Nabtesco Automotive Corporation	
		Jun.	2014	President, Precision Equipment Company of Nabtesco Corporation	
		Jun.	2015	Managing Executive Officer of Nabtesco Corporation	
		Mar.	2017	Director of Nabtesco Corporation	
		Jan.	2018	In charge of Production Innovation of Nabtesco Corporation (to present)	
		Mar.	2018	Representative Director of Nabtesco Corporation (to present)	
		Jan.	2019	Managing Executive Officer, Component Solution Segment of Nabtesco Corporation (to present)	
Jan.	2020	President, Power Control Company of Nabtesco Corporation (to present)			
Jan.	2020	Senior Managing Executive Officer of Nabtesco Corporation (to present)			
<p>Reasons for nomination as a candidate for Director</p> <p>Mr. Shinji Juman has engaged in management of the Company as Director since March 2017, and has effectively fulfilled its roles and duties. After serving as President of Nabtesco Automotive Corporation and President of Precision Equipment Company, he currently serves as Managing Executive Officer, Component Solution Segment, President of Power Control Company and is in charge of Production Innovation, and has broad experience and extensive insight as a corporate manager. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company requests the continued appointment of Mr. Shinji Juman as Director.</p>					

(Note) No conflict of interest exists between Mr. Shinji Juman and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
3	Daisuke Hakoda (Oct. 25, 1957, 62 years old) Re-elected Term of office: 4 years and 9 months Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)	Jun.	2007	President of Nabtesco Aerospace, Inc.	18,021 shares
		Jun.	2009	General Manager, Accounting & Finance Department of Nabtesco Corporation	
		Jun.	2010	General Manager, Corporate Planning Department of Nabtesco Corporation	
		May	2013	General Manager, Shanghai Nabtesco Hydraulic Co., Ltd.	
		Jun.	2013	Executive Officer of Nabtesco Corporation	
		Jun.	2015	Director and Senior General Manager, General Administration & Human Resources Division of Nabtesco Corporation	
		Mar.	2017	Managing Executive Officer, Senior General Manager, Corporate Planning Division and Senior General Manager, General Administration & Human Resources Division of Nabtesco Corporation	
		Jan.	2018	Managing Executive Officer, Corporate Planning, Accounting & Finance, Information System, Corporate Communication and Human Resources of Nabtesco Corporation	
		Mar.	2018	Representative Director of Nabtesco Corporation (to present)	
		Jan.	2019	President, Accessibility Innovations Company of Nabtesco Corporation (to present)	
Jan.	2020	Senior Managing Executive Officer of Nabtesco Corporation (to present)			
Reasons for nomination as a candidate for Director Mr. Daisuke Hakoda has engaged in management of the Company as Director since June 2015, and has effectively fulfilled its roles and duties. After being engaged mainly in the areas of corporate planning as well as accounting and finance for many years, he currently serves as President of Accessibility Innovations Company, and has broad experience and extensive insight as a corporate manager. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company requests the continued appointment of Mr. Daisuke Hakoda as Director.					

(Note) No conflict of interest exists between Mr. Daisuke Hakoda and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
4	<p>Toshiaki Akita (Jun. 6, 1957, 62 years old)</p> <p>Re-elected</p> <p>Term of office: 2 years</p> <p>Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)</p>	Jul.	2008	General Manager, Engineering Management Department, Railroad Products Company of Nabtesco Corporation	2,993 shares
		Oct.	2010	General Manager, Engineering Promotion Department, Railroad Products Company of Nabtesco Corporation	
		Jul.	2012	General Manager, Planning Department, and General Manager, Engineering Promotion Department, Railroad Products Company of Nabtesco Corporation	
		Jun.	2014	Deputy Senior General Manager (Engineering), Technology and R&D Division of Nabtesco Corporation	
		Jun.	2015	Executive Officer of Nabtesco Corporation	
		Mar.	2016	President, NABTEC Co., Ltd.	
		Jan.	2018	Senior General Manager, Technology and R&D Division of Nabtesco Corporation (to present)	
		Mar.	2018	Director of Nabtesco Corporation (to present)	
		Jan.	2019	Managing Executive Officer of Nabtesco Corporation (to present)	
<p>Reasons for nomination as a candidate for Director</p> <p>Mr. Toshiaki Akita has engaged in management of the Company as Director since March 2018, and has effectively fulfilled its roles and duties. After serving as General Manager of Engineering Promotion Department, Railroad Products Company and Deputy Senior General Manager of Technology and R&D Division, etc., he currently serves as Senior General Manager of Technology and R&D Division, and has broad experience and extensive insight concerning technology overall. Additionally, he has experience as a corporate manager, including his role as President of NABTEC Co., Ltd. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company requests the continued appointment of Mr. Toshiaki Akita as Director.</p>					

(Note) No conflict of interest exists between Mr. Toshiaki Akita and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
5	Shigeru Naoki (Oct. 21, 1958, 61 years old)	Jul.	2013	Plant Manager, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	4,200 shares
	Re-elected	Jun.	2014	Executive Officer of Nabtesco Corporation	
	Term of office: 1 year	Mar.	2017	Vice President, Railroad Products Company of Nabtesco Corporation	
	Attendance at the Board of Directors meetings: 100% (12 meetings/12 meetings)	Aug.	2017	President, Railroad Products Company of Nabtesco Corporation (to present)	
		Mar.	2018	Managing Executive Officer of Nabtesco Corporation (to present)	
		Mar.	2019	Director of Nabtesco Corporation (to present)	
<p>Reasons for nomination as a candidate for Director</p> <p>Mr. Shigeru Naoki has engaged in management of the Company as Director since March 2019, and has effectively fulfilled its roles and duties. After serving as Plant Manager of Tsu Plant of Precision Equipment Company, he currently serves as President of Railroad Products Company, and has experience and extensive insight as the manager of a broad range of business areas at the Company. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company requests the continued appointment of Mr. Shigeru Naoki as Director.</p>					

- (Notes)
1. No conflict of interest exists between Mr. Shigeru Naoki and the Company.
 2. Since Mr. Shigeru Naoki assumed office as Director on March 26, 2019, the number of the Board of Directors meetings to be attended on and after that day was 12.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
6	Kazumasa Kimura (Aug. 17, 1961, 58 years old) Re-elected Term of office: 1 year Attendance at the Board of Directors meetings: 100% (12 meetings/12 meetings)	Jun.	2011	General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	1,679 shares
		Jun.	2012	General Manager, Manufacturing Department, Tarui Plant, Power Control Company of Nabtesco Corporation	
		Apr.	2015	Representative Director and Vice President of Hiest Corporation (merged into Nabtesco Corporation in Apr. 2016)	
		Mar.	2016	General Manager, Production Management Department, Power Control Company of Nabtesco Corporation	
		Mar.	2017	Executive Officer (to present) and President, Power Control Company of Nabtesco Corporation	
		Jan.	2019	Executive Officer, Corporate Planning, Accounting & Finance, Information System and Corporate Communication of Nabtesco Corporation (to present)	
		Mar.	2019	Director of Nabtesco Corporation (to present)	
Reasons for nomination as a candidate for Director Mr. Kazumasa Kimura has engaged in management of the Company as Director since March 2019, and has effectively fulfilled its roles and duties. After serving as General Manager of Manufacturing Department, Precision Equipment Company, General Manager of Production Management Department, Power Control Company and President of Power Control Company, he is currently in charge of Corporate Planning, Accounting & Finance, Information Systems as well as Corporate Communication, and has broad experience at the Company and extensive insight concerning production. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company requests the continued appointment of Mr. Kazumasa Kimura as Director.					

- (Notes)
1. No conflict of interest exists between Mr. Kazumasa Kimura and the Company.
 2. Since Mr. Kazumasa Kimura assumed office as Director on March 26, 2019, the number of the Board of Directors meetings to be attended on and after that day was 12.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held	Number of shares of the Company held
7	Yutaka Fujiwara (Apr. 20, 1951, 68 years old) Re-elected Candidate for Outside Director Candidate for independent director Term of office: 6 years and 9 months Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)	<p>Apr. 1974 Joined MODEC, Inc.</p> <p>Nov. 1987 Joined The Yasuda Trust & Banking Co., Ltd. (current Mizuho Trust & Banking Co., Ltd.)</p> <p>Aug. 1994 Deputy General Manager, New York Branch of Yasuda Trust & Banking Co., Ltd.</p> <p>Jun. 1996 General Manager, Chicago Branch of Yasuda Trust & Banking Co., Ltd. (retired in Jul. 1998)</p> <p>Aug. 1998 Joined OMRON Corporation</p> <p>Jul. 2001 General Manager, Corporate Planning Department, Corporate Strategic Planning Group, Kyoto Head Office of OMRON Corporation</p> <p>Oct. 2002 General Manager, Corporate IR Department, Corporate Planning Division of OMRON Corporation</p> <p>Jun. 2005 Executive Officer and General Manager, Financial IR Department of OMRON Corporation</p> <p>Mar. 2007 Executive Officer and General Manager, Group Strategy Department of OMRON Corporation</p> <p>Jun. 2008 Managing Officer and General Manager, Group Strategy Department of OMRON Corporation</p> <p>Dec. 2008 Managing Officer and General Manager, IR & Corporate Information Department of OMRON Corporation (retired in Jun. 2011)</p> <p>Aug. 2011 President & CEO of Cross-Border Bridge Corporation</p> <p>Jun. 2013 Director of Nabtesco Corporation (to present)</p> <p>Jun. 2017 Outside Director of KITZ Corporation (to present)</p> <p>Apr. 2018 Representative of Cross-Border Bridge Corporation (to present)</p> <p>Significant positions concurrently held Representative of Cross-Border Bridge Corporation Outside Director of KITZ Corporation</p>	500 shares
<p>Reasons for nomination as a candidate for Outside Director</p> <p>Mr. Yutaka Fujiwara has worked overseas for a number of years and has broad experience and extensive knowledge and insight on global business. He has expertise in advanced corporate strategies and financial affairs, having been in charge of the financial affairs and investor relations sectors of a listed company, and as an Outside Director of the Company from June 2013, he has appropriately supervised management. The Company, having high regard for his experience and insight, requests the continued appointment of Mr. Yutaka Fujiwara as Outside Director, so that he provides supervision and advice utilizing his knowledge.</p>			

- (Notes)
1. No conflict of interest exists between Mr. Yutaka Fujiwara and the Company.
 2. Mr. Yutaka Fujiwara is a candidate for Outside Director.
 3. There are no transactions between Cross-Border Bridge Corporation, where Mr. Yutaka Fujiwara serves as Representative, and the Group.
 4. Mr. Yutaka Fujiwara satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 19).
The Company has already designated Mr. Yutaka Fujiwara as independent director under the provisions set forth by the Tokyo Stock Exchange.
 5. Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company has concluded a limited liability agreement with Mr. Yutaka Fujiwara and plans to retain the agreement, if his reappointment is approved.
The agreement will limit his liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
8	Norio Uchida (Oct. 22, 1950, 69 years old) Re-elected Candidate for Outside Director Candidate for independent director Term of office: 4 years and 9 months Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)	Apr. 1973 Jun. 1980 Feb. 1989 Oct. 1994 Jun. 2003 Jul. 2003 Jun. 2005 Jun. 2007 Jun. 2010 Jun. 2011 Jun. 2013 Jun. 2015 Sep. 2015	Joined Tokyo Optical Co., Ltd. (current TOPCON CORPORATION) General Manager of Topcon Singapore Pte. Ltd. President of Topcon Australia Pty Ltd. Senior Vice President of Topcon Laser Systems, Inc. (current Topcon Positioning Systems, Inc.) Executive Officer of TOPCON CORPORATION President and Director of Topcon Sales Co., Ltd. (current Topcon Sokkia Positioning Japan Co., Ltd.) Director and Executive Officer of TOPCON CORPORATION Director, Managing Executive Officer, Supervising Sales Promotion Group, and Chief of Positioning Business Unit of TOPCON CORPORATION Director, Senior Managing Executive Director and Supervising Corporate Planning Group of TOPCON CORPORATION President & Representative Director of TOPCON CORPORATION Advisor of TOPCON CORPORATION (retired in June 2015) Director of Nabtesco Corporation (to present) External Director of ULVAC, Inc. (to present) Significant positions concurrently held External Director of ULVAC, Inc.	0 shares
Reasons for nomination as a candidate for Outside Director Mr. Norio Uchida has served as Representative Director of TOPCON CORPORATION and has broad experience and extensive knowledge and insight as a corporate manager, and as an Outside Director of the Company from June 2015, he has appropriately supervised management. The Company, having high regard for his experience and insight, requests the continued appointment of Mr. Norio Uchida as Outside Director, so that we may seek his supervision and advice on technical development and global business overall.				

- (Notes)
1. No conflict of interest exists between Mr. Norio Uchida and the Company.
 2. Mr. Norio Uchida is a candidate for Outside Director.
 3. Mr. Norio Uchida satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 19).
The Company has already designated Mr. Norio Uchida as independent director under the provisions set forth by the Tokyo Stock Exchange.
 4. Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company has concluded a limited liability agreement with Mr. Norio Uchida and plans to retain the agreement, if his reappointment is approved.
The agreement will limit his liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
9	Mari Iizuka (Mar. 29, 1959, 60 years old)	Apr.	1982	Joined Henkel Hokusui Corporation (current Henkel Japan Ltd.)	0 shares
	New candidate	Aug.	1987	Joined The World Bank	
		Jul.	1992	Assistant Professor of Asian Institute of Management Graduate School of Business	
	Candidate for Outside Director	Apr.	2005	Assistant Professor of Ritsumeikan Asia Pacific University Graduate School of Management	
		Apr.	2007	Associate Professor of Ritsumeikan Asia Pacific University Graduate School of Management	
	Candidate for independent director	Apr.	2008	Professor of Ritsumeikan Asia Pacific University Graduate School of Management	
		Apr.	2010	Professor of Doshisha Business School (to present)	
Term of office: —	Significant positions concurrently held Professor of Doshisha Business School				
Attendance at the Board of Directors meetings: —					
<p>Reasons for nomination as a candidate for Outside Director</p> <p>Although Ms. Mari Iizuka has not been directly involved in corporate management, she has a high level of expertise in the fields of global management human resources and international management strategies as a Professor of Doshisha Business School. She also held various posts including Chair of Japan Global Compact Academic Network, which was established for collaboration between business and academia for achievement of Sustainable Development Goals (SDGs). The Company, having high regard for her experience and insight, requests the appointment of Ms. Mari Iizuka as Outside Director, so that we may seek her supervision and advice utilizing her expertise and insight based on the above.</p>					

- (Notes)
1. No conflict of interest exists between Ms. Mari Iizuka and the Company.
 2. Ms. Mari Iizuka is a candidate for Outside Director.
 3. There are no transactions between The Doshisha, where Ms. Mari Iizuka belongs, and the Company, and there are no donations to the organization from the Company.
 4. Ms. Mari Iizuka satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 19). The Company plans to designate Ms. Mari Iizuka as independent director under the provisions set forth by the Tokyo Stock Exchange, if her appointment is approved under this Proposal.
 5. Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company plans to conclude a limited liability agreement with Ms. Mari Iizuka if her appointment is approved.
The agreement will limit her liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held	Number of shares of the Company held
10	Naoko Mizukoshi (Sep. 23, 1967, 52 years old) New candidate Candidate for Outside Director Candidate for independent director Term of office: — Attendance at the Board of Directors meetings: —	Apr. 1995 Registered at Osaka Bar Association Joined Miyazaki Law Firm Apr. 1998 Registered at Yokohama Bar Association (current Kanagawa Bar Association) Joined Nomura Research Institute, Ltd. Sep. 1999 Registered at Dai-ni Tokyo Bar Association Joined Autodesk Co., Ltd. Sep. 2002 Registered at the State of California Bar Joined Microsoft Co., Ltd. (current Microsoft Japan, Co., Ltd.) Nov. 2006 Joined TMI Associates Jan. 2008 Partner of TMI Associates Mar. 2010 Partner of Endeavour Law Office Jun. 2018 External Director of TIS Inc. (to present) Dec. 2018 Partner of Leftright Law & IP (to present) Significant positions concurrently held Partner of Leftright Law & IP External Director of TIS Inc.	0 shares
<p>Reasons for nomination as a candidate for Outside Director</p> <p>Although Ms. Naoko Mizukoshi has not been involved in corporate management except as an outside director, she has a high level of expertise as an attorney-at-law. She also held various posts including outside officers of other business entities and posts in public offices including a member of Unfair Competition Prevention Subcommittee, Intellectual Property Committee, Industrial Structure Council, Ministry of Economy, Trade and Industry. The Company, having high regard for her experience and insight, requests the appointment of Ms. Naoko Mizukoshi as Outside Director, so that we may seek her supervision and advice from decisions from an objective and legal viewpoint based on the above.</p>			

- (Notes)
1. No conflict of interest exists between Ms. Naoko Mizukoshi and the Company.
 2. Ms. Naoko Mizukoshi is a candidate for Outside Director.
 3. There are no transactions between Endeavour Law Office, where Ms. Naoko Mizukoshi served as Partner; and Leftright Law & IP, where she serves as Partner, and the Group.
 4. Ms. Naoko Mizukoshi satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 19). The Company plans to designate Ms. Naoko Mizukoshi as independent director under the provisions set forth by the Tokyo Stock Exchange, if her appointment is approved under this Proposal.
 5. Name of Ms. Naoko Mizukoshi recorded in the family register is Naoko Suzuki.
 6. Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company plans to conclude a limited liability agreement with Ms. Naoko Mizukoshi if her appointment is approved.
The agreement will limit her liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

Proposal No. 3: Election of Three Audit & Supervisory Board Members

The terms of office of three Audit & Supervisory Board Members, i.e. Audit & Supervisory Board Member Kensuke Ioku, Audit & Supervisory Board Member (Independent) Zenzo Sasaki and Audit & Supervisory Board Member (Independent) Takemi Nagasaka will expire at the conclusion of this Annual General Meeting of Shareholders.

Accordingly, the election of three Audit & Supervisory Board Members (including two Audit & Supervisory Board Members (Independent)) is proposed.

Each candidate for Audit & Supervisory Board Member was chosen by the Board of Directors upon receipt of reports from the Nominating Committee, which acts as an advisory body to the Board of Directors.

Please refer to page 19 for the policy and procedure of the election of Audit & Supervisory Board Member, and the criteria for the independence of Audit & Supervisory Board Member (Independent).

The Audit & Supervisory Board has already approved this Proposal.

The candidates for Audit & Supervisory Board Members are as follows:

No.	Name (Date of birth)	Career summary, position and significant positions concurrently held		Number of shares of the Company held	
1	Isao Shimizu (Sep. 3, 1960, 59 years old)	Apr.	2008	General Manager, Production Control Department, Gifu Plant, Aerospace Company of Nabtesco Corporation	600 shares
	New candidate	Jul.	2010	General Manager, Materials Department, Gifu Plant, Aerospace Company of Nabtesco Corporation	
		Jul.	2011	General Manager, Supply Chain Management Department, Gifu Plant, Aerospace Company of Nabtesco Corporation	
	Term of office: —	Jun.	2012	General Manager, Gifu Plant, Aerospace Company of Nabtesco Corporation	
	Attendance at the Board of Directors meetings: —	Mar.	2016	General Manager, Production Innovation Division of Nabtesco Corporation	
	Attendance at the Audit & Supervisory Board meetings: —	Mar.	2018	Executive Officer of Nabtesco Corporation (to present)	
Reasons for nomination as a candidate for Audit & Supervisory Board Member Mr. Isao Shimizu has served as General Manager of Production Control Department and Materials Department of Gifu Plant, Aerospace Company, General Manager of Gifu Plant, Aerospace Company, and General Manager of Production Innovation Division. He has also served as Chairman of ESH (Environment, Safety & Health) Committee of the Nabtesco Group, and has expertise and experience concerning production, mainly production technology and management, as well as environment and safety and health. The Company has determined that his experience and high level of insight qualify him for the duties of Audit & Supervisory Board Member, and requests the appointment of Mr. Isao Shimizu as Audit & Supervisory Board Member.					

(Notes) 1. No conflict of interest exists between Mr. Isao Shimizu and the Company.

2. The age of Mr. Isao Shimizu is as of the time of completion of this Annual General Meeting of Shareholders.

No.	Name (Date of birth)	Career summary, position and significant positions concurrently held	Number of shares of the Company held
2	<p>Zenzo Sasaki (Nov. 1, 1952, 67 years old)</p> <p>Re-elected</p> <p>Candidate for Audit & Supervisory Board Member (Independent)</p> <p>Candidate for independent auditor</p> <p>Term of office: 4 years</p> <p>Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)</p> <p>Attendance at the Audit & Supervisory Board meetings: 100% (13 meetings/13 meetings)</p>	<p>Apr. 1979 Appointed Public Prosecutor</p> <p>Apr. 2000 Deputy General Manager, Special Investigation Department of Tokyo District Public Prosecutor's Office</p> <p>Sep. 2002 Manager, Facilities Division, Minister's Secretariat of Ministry of Justice</p> <p>Jan. 2004 General Manager, Public Safety Department and General Manager, Transportation Department of Tokyo District Public Prosecutor's Office</p> <p>Aug. 2006 Chief Public Prosecutor of Wakayama District Public Prosecutor's Office</p> <p>Jan. 2008 Public Prosecutor of Supreme Public Prosecutor's Office</p> <p>Oct. 2008 Chief Public Prosecutor of Mito District Public Prosecutor's Office</p> <p>Jul. 2010 Chief Public Prosecutor of Sendai District Public Prosecutor's Office</p> <p>Aug. 2011 Chief Public Prosecutor of Kyoto District Public Prosecutor's Office</p> <p>Nov. 2012 Retired as Public Prosecutor</p> <p>Feb. 2013 Registered with Tokyo Bar Association Joined Harumi-kyowa Law Offices (to present)</p> <p>Mar. 2016 Audit & Supervisory Board Member of Nabtesco Corporation (to present)</p> <p>Significant positions concurrently held Attorney-at-law of Harumi-kyowa Law Offices</p>	0 shares
<p>Reasons for nomination as a candidate for Audit & Supervisory Board Member (Independent)</p> <p>Although Mr. Zenzo Sasaki has not been directly involved in corporate management, he has many years of service as a public prosecutor, with a high level of legal knowledge, along with extensive insights and abilities regarding organizational management overall. The Company, having high regard for his experience and insight, requests the continued appointment of Mr. Zenzo Sasaki as Audit & Supervisory Board Member (Independent), so that we may seek his fair decisions based on the above, and objectiveness and neutrality toward management to strengthen our corporate governance and maintain and improve compliance.</p>			

- (Notes)
1. No conflict of interest exists between Mr. Zenzo Sasaki and the Company.
 2. Mr. Zenzo Sasaki is a candidate for Audit & Supervisory Board Member (Independent).
 3. There are no transactions between Harumi-kyowa Law Offices, where Mr. Zenzo Sasaki belongs, and the Company.
 4. Mr. Zenzo Sasaki satisfies the conditions defined by the Company in the "Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)" (please refer to page 19). The Company has already designated Mr. Zenzo Sasaki as independent auditor under the provisions set forth by the Tokyo Stock Exchange.
 5. Article 36 of the Company's Articles of Incorporation permits the Company to conclude an agreement limiting the liability of a Audit & Supervisory Board Member (Independent) for damages in order to allow the Audit & Supervisory Board Member (Independent) to fully perform the roles expected thereof. Accordingly, the Company has concluded a limited liability agreement with Mr. Zenzo Sasaki and plans to retain the agreement, if his reappointment is approved.
The agreement will limit his liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.
 6. The age of Mr. Zenzo Sasaki is as of the time of completion of this Annual General Meeting of Shareholders.

No.	Name (Date of birth)	Career summary, position and significant positions concurrently held		Number of shares of the Company held	
3	Takemi Nagasaka (Jan. 24, 1956, 64 years old)	Oct.	1978	Joined Musashi Audit Corporation (current Ernst & Young ShinNihon LLC)	500 shares
	Re-elected	Aug.	1981	Joined Sony Corporation	
		Sep.	1986	Sony Corporation of America/Director, Tax Department	
	Candidate for Audit & Supervisory Board Member (Independent)	Apr.	2004	Audit & Supervisory Board Member of Sony Financial Holdings Inc.	
		Jun.	2004	General Manager, Accounting Department of Sony Corporation	
	Candidate for independent auditor	Jun.	2004	Audit & Supervisory Board Member of Sony Computer Entertainment Inc. (current Sony Interactive Entertainment Inc.)	
		Jun.	2006	Auditor of Sony Music Entertainment (Japan) Inc.	
	Term of office: 4 years	Apr.	2007	Senior General Manager, Accounting Division of Sony Corporation	
		Jun.	2010	Senior Vice President, Corporate Executive, Senior General Manager, Accounting Division of Sony Corporation	
	Attendance at the Board of Directors meetings: 100% (16 meetings/16 meetings)	Jun.	2013	Director of Sony Financial Holdings Inc.	
Jun.		2015	Senior Advisor of Sony Corporation		
Mar.		2016	Audit & Supervisory Board Member of Nabtesco Corporation (to present)		
Attendance at the Audit & Supervisory Board meetings: 100% (13 meetings/13 meetings)	Jun.	2016	Audit & Supervisory Board Member of DAIO Paper Corporation (to present)		
	Significant positions concurrently held Audit & Supervisory Board Member of DAIO Paper Corporation				
Reasons for nomination as a candidate for Audit & Supervisory Board Member (Independent) Mr. Takemi Nagasaka has specialized knowledge regarding accounting and finance and experience in management. The Company, having high regard for his experience and insight, requests the continued appointment of Mr. Takemi Nagasaka as Audit & Supervisory Board Member (Independent), so that we may seek his fair decisions based on the above, and objectiveness and neutrality toward management to strengthen our corporate governance.					

- (Notes)
1. No conflict of interest exists between Mr. Takemi Nagasaka and the Company.
 2. Mr. Takemi Nagasaka is a candidate for Audit & Supervisory Board Member (Independent).
 3. Mr. Takemi Nagasaka satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 19). The Company has already designated Mr. Takemi Nagasaka as independent auditor under the provisions set forth by the Tokyo Stock Exchange.
 4. Article 36 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of a Audit & Supervisory Board Member (Independent) for damages in order to allow the Audit & Supervisory Board Member (Independent) to fully perform the roles expected thereof. Accordingly, the Company has concluded a limited liability agreement with Mr. Takemi Nagasaka and plans to retain the agreement, if his reappointment is approved.
The agreement will limit his liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.
 5. The age of Mr. Takemi Nagasaka is as of the time of completion of this Annual General Meeting of Shareholders.

(P22)

(Reference)

If the Proposal is approved as proposed, the Audit & Supervisory Board will consist of the following members.

Name	Position at the Company	Term of office
Kenichi Kikuchi	Audit & Supervisory Board Member	1 year
Isao Shimizu	Audit & Supervisory Board Member	—
Zenzo Sasaki Independent Independent auditor	Audit & Supervisory Board Member (Independent)	4 years
Takemi Nagasaka Independent Independent auditor	Audit & Supervisory Board Member (Independent)	4 years
Tetsuro Hirai Independent Independent auditor	Audit & Supervisory Board Member (Independent)	1 year

Independent: Audit & Supervisory Board Member (Independent)

Independent auditor: Independent auditor

(Note) The term of office of each Audit & Supervisory Board Member is as of the time of completion of this Annual General Meeting of Shareholders.

(P23)

(Reference)

“Policy and Procedure of the Election of Directors and Audit & Supervisory Board Members”

The Company has established the Nominating Committee as a consultative body of the Board of Directors to deliberate the nomination of candidates for Director, Audit & Supervisory Board Member, President (CEO) and Representative Director positions, as well as a President (CEO) succession plan and other matters and report to the Board of Directors.

The Nominating Committee comprises at least three members but no more than five members, the majority of whom shall be Independent Outside Directors/ Audit & Supervisory Board Members (Independent).

[Directors]

- The number of the Board of Directors of the Company shall be no more than ten, two or more of whom shall be Independent Outside Directors.
- With the aim of maximizing the functions of Directors in order to fulfill the roles and responsibilities of the Board of Directors, the Company shall have the Board comprised of highly diverse members in terms of business backgrounds, areas of expertise, gender, international experience and shall elect candidates from both inside and outside of the Company, who have excellent character, insight, capabilities, superior expertise and ethics as well as ample experience as Directors.

[Audit & Supervisory Board Members]

- The Audit & Supervisory Board comprises no more than five Audit & Supervisory Board Members, the majority of whom shall be Audit & Supervisory Board Members (Independent).
- With the aim of maximizing the functions of Audit & Supervisory Board Members to fulfill the roles and responsibilities of the Audit & Supervisory Board, the Company shall elect candidates from both inside and outside of the company, who have excellent character, insight, capabilities, financial, accounting and legal knowledge necessary for audit, superior expertise and ethics as well as ample experience; one or more of whom shall have a sufficient degree of knowledge and experience in the fields of finance and accounting.

“Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)”

The Company considers an Outside Director/Audit & Supervisory Board Member (Independent) to be independent, if all of the following requirements are met, in addition to the requirements for independent directors as defined by the Tokyo Stock Exchange.

- 1) The Outside Director/Audit & Supervisory Board Member (Independent) is not a current major shareholder (*) of the Company or a person who executes its business;
*Person who directly or indirectly holds more than 5% of all voting rights or a person who is listed among the top 10 shareholders in the most recent shareholder registry;
- 2) The Outside Director/Audit & Supervisory Board Member (Independent) is not a person who executes business of a major lender (*) of Nabtesco Group;
*A financial institution group (person who belongs to the consolidated group to which Nabtesco Group’s direct lender belongs) from which Nabtesco Group borrows funds and Nabtesco Group’s total amount of borrowing from such financial institution group exceeds 2% of Nabtesco Group’s consolidated total assets as of the end of the previous fiscal year;
- 3) The Outside Director/Audit & Supervisory Board Member (Independent) is not a major business partner (yearly transaction amount exceeds 1% of consolidated net sales) or a person who executes its business;
- 4) The Outside Director/Audit & Supervisory Board Member (Independent) is not a person for whom Nabtesco Group is a major business partner (yearly transaction amount exceeds 1% of the counterparty’s consolidated net sales) or a person who executes its business;
- 5) The Outside Director/Audit & Supervisory Board Member (Independent) is not a consultant, accounting professional, or a legal professional who receives a large amount of money (more than ¥6 million yearly) other than the remuneration for directorship/auditorship from Nabtesco Group (including cases where the organizations such as corporation and association to which such Outside Director/Audit & Supervisory Board Member (Independent) belongs receive the remuneration);
- 6) The Outside Director/Audit & Supervisory Board Member (Independent) is not a person who executes business of an organization such as corporation and association that receives a large amount of donation (more than ¥6 million yearly) from Nabtesco Group;
- 7) The Outside Director/Audit & Supervisory Board Member (Independent) is not a spouse or a relative within the second degree of consanguinity of a person who executes business of Nabtesco Group;
- 8) The Outside Director/Audit & Supervisory Board Member (Independent) has not fallen under requirements 1) through 6) for the past three years; and
- 9) The Outside Director/Audit & Supervisory Board Member (Independent)’s term of office as an Outside

Director/Audit & Supervisory Board Member (Independent) of the Company does not exceed eight years in total.

(P24)

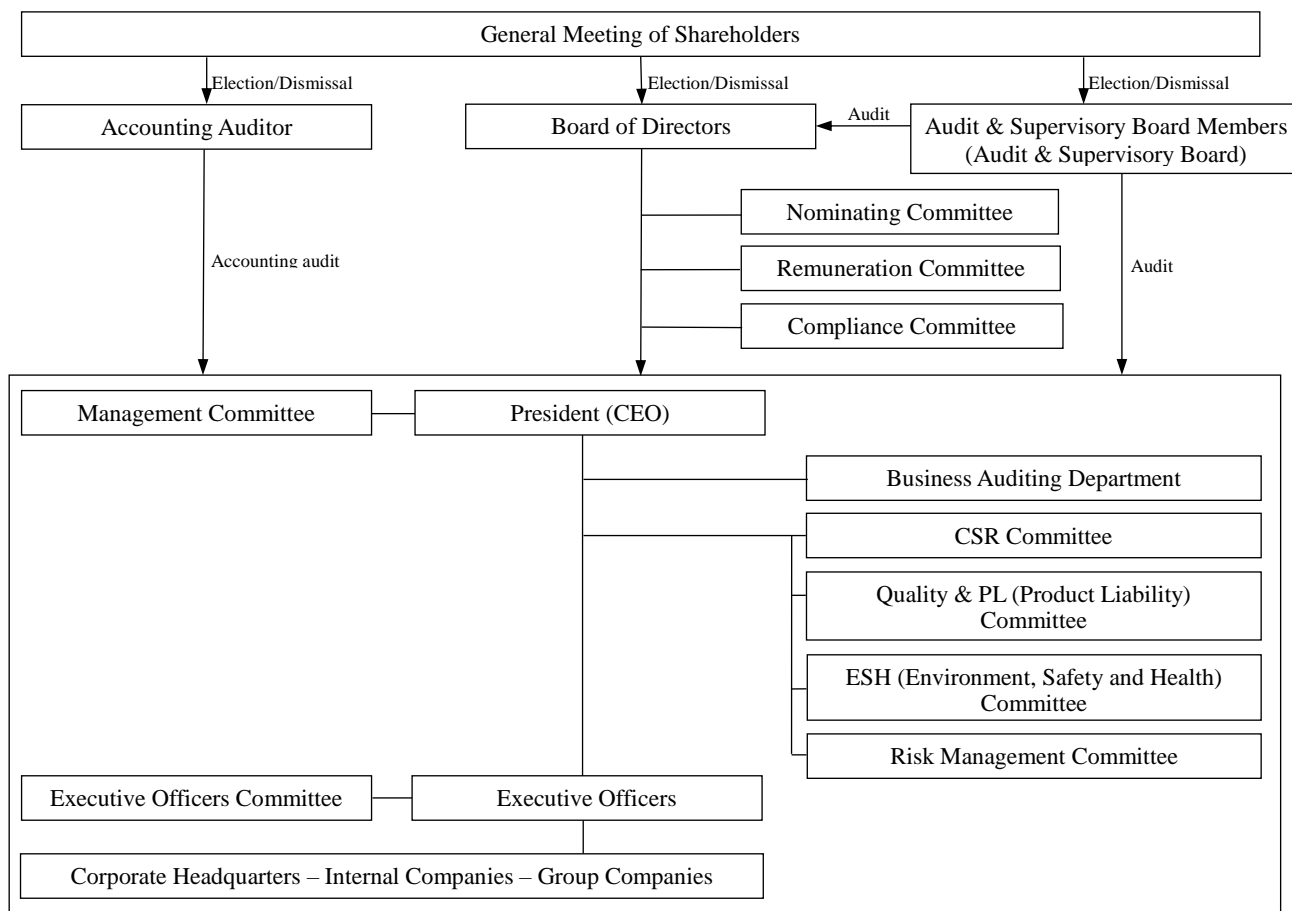
(Reference)

Initiatives to Improve Corporate Governance

The Company implements each principle of the Corporate Governance Code published by the Tokyo Stock Exchange and has established the “Nabtesco Corporate Governance Basic Policy” based on the resolution of the Board of Directors to set out the basic approach, framework and policy with regard to corporate governance (posted in full on the following website: <https://www.nabtesco.com/en/ir/policy/governance.html>). Based on this “Nabtesco Corporate Governance Basic Policy,” the Company is working to improve its corporate governance with the aim of realizing its sustainable growth, enhancing its medium- to long-term corporate value and earning the greater trust of its stakeholders.

Specifically, in order to strengthen supervision from an independent and objective perspective, the Company has been working to increase the number of Independent Outside Directors. If Proposal No. 2 is approved at this General Meeting of Shareholders, there will be four (40% of the total) Independent Outside Directors out of a total of 10 Directors. Furthermore, the Company has established the Nominating Committee and the Remuneration Committee as consultative bodies of the Board of Directors, the majority of which comprise Independent Outside Directors/ Audit & Supervisory Board Members (Independent). In addition, measures to enhance the corporate governance system are put in place annually including the assessment of the effectiveness of the Board of Directors and training for Directors and Audit & Supervisory Board Members.

Corporate Governance System



(P25)

Organizations of the Company

Organization	Roles and responsibilities
Board of Directors	Formulates the Group's basic policies and strategies, makes decisions about the execution of important business matters and supervises the way business is carried out. The number of the members of the Board of Directors shall be no more than ten, two or more of whom shall be Independent Outside Directors.
Nominating Committee	As a consultative body of the Board of Directors, deliberates the nomination of candidates for Director, Audit & Supervisory Board Member, the President (CEO) and Representative Director positions, as well as a President (CEO) succession plan and other matters and reports to the Board of Directors. The Nominating Committee comprises at least three members but no more than five members, the majority of whom shall be Independent Outside Directors/Audit & Supervisory Board Members (Independent).
Remuneration Committee	As a consultative body of the Board of Directors, deliberates the remuneration, etc. of management personnel and reports to the Board of Directors. The Remuneration Committee comprises at least three members but no more than five members, the majority of whom shall be Independent Outside Directors/Audit & Supervisory Board Members (Independent).
Compliance Committee	As a consultative body of the Board of Directors, deliberates the formulation and revision of the Nabtesco Group Code of Ethics and important matters concerning the Group's compliance system and reports to the Board of Directors. The Compliance Committee comprises members including Independent Outside Directors/Audit & Supervisory Board Members (Independent) and external experts.
Audit & Supervisory Board Members (Audit & Supervisory Board)	Audit the execution of Directors' duties and prepares audit reports, while also working to reinforce audit functions by establishing the Group Audit & Supervisory Board with members including Audit & Supervisory Board Members of Group companies as a way to strengthen management of the Group. The Board comprises no more than five Audit & Supervisory Board Members, the majority of whom shall be Audit & Supervisory Board Members (Independent).
Executive Officers (Committee)	The Executive Officer system has been adopted to concentrate on the execution of business under the policies, strategies and supervision of the Board of Directors.
Management Committee	The Management Committee is established mainly comprising the President (CEO), Presidents of Companies, Executive Officers of Corporate Headquarters and Senior General Managers to deliberate important matters concerning the Group's business execution and to report on the performance and execution of business based on the policies determined by the Board of Directors.
Business Auditing Department	As an organization that directory reports to the President (CEO), conducts internal business audits of Corporate Headquarters, internal Companies and Group companies.

(P27)

Business Report (from January 1, 2019 to December 31, 2019)

1. Overview of Consolidated Business Activities

(1) Developments and results of business activities

The consolidated operating results of the Group for FY 2019 were ¥289,808 million of net sales and ¥25,320 million of operating income, due to a decline in demand for precision reduction gears that were affected by sluggish capital investment resulting from U.S.-China trade frictions, etc., while enjoying strong performance of the automatic doors business. Profit before taxes was ¥27,979 million and profit attributable to owners of the parent came to ¥17,931 million.

Net sales ¥289.8 billion Down 1.6% year on year	Operating income ¥25.3 billion Up 15.7% year on year
Profit before taxes ¥28.0 billion Down 6.6% year on year	Profit attributable to owners of the parent ¥17.9 billion Down 14.7% year on year

Segment information

	Net sales (Million yen)	Operating income (Million yen)
Component Solutions	107,188	15,897
Transport Solutions	83,994	5,778
Accessibility Solutions	79,971	8,565
Others	18,654	2,551
Corporate or elimination	—	(7,470)
Total	289,808	25,320

(P28)

(2) Segment information

Operating results by segment were as follows.

[Component Solutions]

Net sales composition 37.0%

	FY 2018	FY 2019 (current)
Net sales (Million yen)	119,280	107,188
Operating income (Million yen)	20,197	15,897

The amount of orders received for component solutions was ¥110,919 million, down 3.3% year on year. Net sales were ¥107,188 million, down 10.1% and operating income was ¥15,897 million, down 21.3%.

Sales of precision reduction gears decreased year on year, due to a decline in demand that was affected by sluggish capital investment resulting from persistent U.S.-China trade frictions, etc.

Sales of hydraulic equipment were nearly at the same level as the previous fiscal year, due to a slump in the Southeast Asian market despite strong sales in the Chinese market.

Main lines of business

Precision reduction gears

Hydraulic equipment

(Reference)

Precision Reduction Gears: RV Component Type

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

Traveling Unit for Crawlers

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

(P.29)

Business Report

[Transport Solutions]

Net sales composition 29.0%

	FY 2018	FY 2019 (current)
Net sales (Million yen)	81,863	83,994
Operating income (Million yen)	2,007	5,778

The amount of orders received for transport solutions was ¥84,326 million, down 2.8% year on year. Net sales were ¥83,994 million, up 2.6% and operating income was ¥5,778 million, up 187.8%.

In the railroad vehicle equipment business, sales were nearly at the same level as the previous fiscal year, due to robust sales for subway projects in China.

In the aircraft equipment business, sales increased year on year, due to an increase in production for commercial aircrafts.

In the commercial vehicle equipment business, sales were nearly at the same level as the previous fiscal year thanks to robust performance in the Japanese market, which offset a slump in the Southeast Asian Market.

In the marine vessel equipment business, sales increased year on year thanks to a continued modest recovery trend in the market.

In the current fiscal year, the Group reported goodwill impairment loss of ¥1,268 million related to consolidated subsidiary OVALO GmbH, due mainly to an increase in business assets as a result of the application of IFRS 16 “Leases” (a new lease accounting standard).

Main lines of business

Railroad vehicle equipment

Aircraft equipment

Commercial vehicle equipment

Marine vessel equipment

(Reference)

Unit Brakes for Railroad Vehicles

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

Flight Control Actuation System

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

Air Dryers for Commercial Vehicles

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

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

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

(P30)

[Accessibility Solutions]

Net sales composition 27.6%

	FY 2018	FY 2019 (current)
Net sales (Million yen)	75,957	79,971
Operating income (Million yen)	4,625	8,565

The amount of orders received for accessibility solutions was ¥81,318 million, up 8.6% year on year. Net sales were ¥79,971 million, up 5.3% and operating income was ¥8,565 million, up 85.2%.

In the automatic doors business, sales increased year on year thanks to the favorable demand in Japan and overseas.

Main lines of business

Automatic doors

(Reference)

Automatic Doors for Buildings and for Industrial Use

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

Automatic Platform Doors

Automatic platform doors are now used worldwide to ensure passenger safety at railway stations. Demand for these doors is fast expanding over the world.

Electric Wheelchair “Assist Wheel”

The grip sensor detects the force being used to operate the wheelchair, and the electric motor assists the caregiver on slopes and pebbled paths. The electric wheelchair thus reduces the burden imposed on caregivers.

(P31)

Business Report

[Others]

Net sales composition 6.4%

	FY 2018	FY 2019 (current)
Net sales (Million yen)	17,527	18,654
Operating income (Million yen)	2,458	2,551

The amount of orders received for others was ¥17,861 million, down 3.0% year on year. Net sales were ¥18,654 million, up 6.4% and operating income was ¥2,551 million, up 3.8%.

In the packaging machinery business, sales increased year on year, on account of strong performance in the Japanese food market.

Main lines of business

Packaging machinery

(Reference)

Super High-Speed Automatic Filler/Sealer

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

(3) Issues to be addressed

The Group has formulated a Medium-Term Management Plan for the four-year period started in FY 2017.

(i) Basic Policy of the Medium-Term Management Plan

“Move forward! Challenge the future!”
~ Create “New Value 2020” ~

(P32)

(ii) Commitment in the Medium-term Management Plan

The Company is committed to achieve and maintain ROE of 15% by FY 2020.

During the period of the relevant Medium-term Management Plan, the Company also sets a target consolidated payout ratio of 35% or higher.

The Company focuses on solving ESG-related issues.

(iii) Mid- to Long-Term Management Strategies

During the period of the Medium-term Management Plan, we will engage in our trinity of “Market Creation,” “Technology Innovation,” and “Operational Excellence,” and implement strategies toward the realization of “Global Partner with Best Solutions.”

■ Generating new businesses through “Market Creation”

- * The Group will further promote overseas business expansion, including through M&A.
- * By utilizing cutting-edge technology, including ICT/IoT, the Group will further strengthen and expand our after-service business (MRO).

■ Creating new solutions through “Technology Innovation”

- * The Group will expand our business domain from components to provision of system solutions.
- * The Group will establish a new competitive advantage with “production innovation,” including the development of new work methods.
- * By modernizing and converting domestic plants into smart plants, the Group will realize highly efficient production, high environmental performance and a comfortable working environment.
- * The Group aims to acquire new technologies by scouting for disruptive ventures through corporate venture capital (CVC) activities.

■ Enhancing corporate value in a sustainable manner by improving profitability and efficiency based on “Operational Excellence”

- * The Group will enhance profitability by reinforcing our operations base through production reforms and business reforms.
- * The Group will pursue greater efficiency in business management and synergies among the Company’s businesses.
- * By adding ROIC (return on invested capital) to our internal performance indicators, the Group will steadily create cash while improving capital efficiency.
- * The Group will implement a flexible return of profits to shareholders by maintaining a stable pay-out ratio of 35% or higher on a consolidated basis.
- * Investments for future growth will focus on 1) the modernization of domestic plants to increase production; 2) the promotion of R&D; and 3) the reserve of funds for strategic M&A.
- * The Group positions policies to “Ensure management transparency (governance)” and “Provide safety, comfort and a sense of security (environment and society)” as materiality (material CSR issues) and promotes systematic efforts to address a broad range of ESG issues.

(iv) Initiatives to Address Challenges

We position the achievement of the Medium-term Management Plan as our immediate top priority, and will focus on the following challenges the Company faces, in order to respond to an ever-changing, diversifying global market:

















- * Establish business models to match the market needs; Expand and enhance the profitability of overseas businesses
- * Develop products that respond to customer needs; Develop products that differentiate themselves by utilizing a wide range of technologies
- * Establish decision-making and management systems to enable flexible and swift responses
- * Secure and cultivate human resources to respond to our global business
- * Strengthen corporate governance; Improve risk management capabilities

(P33)

(Reference)

Initiatives to Solve ESG-Related Issues

In order to “Focus on solving ESG-related issues,” the Company is promoting systematical efforts based on materiality (material CSR issues) with a core policy to “Ensure management transparency” and “Provide safety, comfort and a sense of security.”

ESG category	Materiality (material CSR issues)	Major SDGs of relevance	Initiatives in FY 2019
Governance 	Strengthen corporate governance		<ul style="list-style-type: none"> Abolished the advisor system Promoted systematic risk management globally Completion of development of global whistleblower systems Held ESG briefings
	Promote risks management and compliance behavior	 	
	Ensure proactive dialogue with stakeholders		
Society 	Enhance customer satisfaction		<ul style="list-style-type: none"> Promotion of open innovation Nurturing of a quality and safety culture Reinforcement of human rights management Strengthened business continuity capabilities across the supply chain Established the Policy on Corporate Citizenship Activities
	Ensure quality and safety		
	Develop human capital and promote workplace diversity	 	
	Provide safe and comfortable workplaces	 	
	Respect human rights	 	
	Prevent corruption		
Environment 	Fair, proper and transparent procurement activities		<ul style="list-style-type: none"> Accelerated PDCA cycle aimed at long-term targets for CO₂ reduction Proactive implementation of environmental capital investment Promoted cross-organizational projects for TCFD
	Local community development		
	Countermeasures for climate change	 	
	Environmentally friendly manufacturing	 	
	Reduction of environmental impact through products and services		
	Recycling, reuse and remanufacture of products		

Topics

Selected for DJSI World Index, an ESG investment stock index, for the fourth consecutive year

The Dow Jones Sustainability Indices (DJSI) were jointly developed by the U.S.-based S&P Dow Jones Indices and RobecoSAM, a Swiss company that specializes in investigation of sustainability investments. It evaluates highly sustainable companies by quantifying the companies’ performance based on three elements: “economy,” “environment,” and “society.”

- **Established “Nabtesco Global Hotline,” a global whistleblower system**

As a means of achieving compliance management, the Company has developed and launched a global whistleblower system, which is available in 8 languages for 17 countries and regions, in order to prevent and discover misconduct at an early stage at overseas Nabtesco Group companies.

- **Recognized for the first time under the Certified Health and Productivity Management Outstanding Organizations Recognition Program (White 500)**

Nabtesco and the Nabtesco Group Health Insurance Society were recognized for the first time as the 2019 Certified Health and Productivity Management Outstanding Organizations (White 500) in the Large Enterprise Category, as organizations focusing on various health initiatives for their employees.

- **Acquired “the certification for organizations contributing to national resilience (Resilience Certification)” at major group bases**

The Nabtesco Group has renewed its business continuity plan (BCP) with the aim of continuing its businesses even in the event it suffers severe damage, and as a company working on an effective BCP, it acquired the Resilience Certification, supervised by the National Resilience Promotion Office, Cabinet Secretariat of Japan, at eight additional bases. Practices for effective BCP are being implemented not only for the Group’s business continuity, but also for its suppliers, which are its business partners. The Group will continue to work on an effective BCP from a supply chain perspective.

- **Endorsed the Task Force on Climate-related Financial Disclosures (TCFD)**

Nabtesco has endorsed the TCFD established by the Financial Stability Board (FSB). The TCFD promotes disclosure of the financial impact of risks and opportunities brought by climate change, and works to enhance disclosure of relevant information.

Topics

Awarded highest ratings from CDP in the Climate Change sector

The Company was selected for the highest rank “A List” by CDP, an NGO that evaluates corporate efforts related to the environment, for the fourth consecutive year in the field of climate change. The Company will continue to work on the solutions to various environmental and social issues and promote various activities to achieve a sustainable society.

(P35)

Business Report

(4) Financial highlights

Classification	FY 2015 The 13th fiscal year J-GAAP (9 months)	FY 2016 The 14th fiscal year IFRS	FY 2017 The 15th fiscal year IFRS	FY 2018 The 16th fiscal year IFRS	FY 2019 The 17th fiscal year IFRS
Net sales (Million yen)	187,000	244,968	282,422	294,626	289,808
Operating income (Million yen)	15,294	25,982	29,468	21,889	25,320
Operating margin	8.2%	10.6%	10.4%	7.4%	8.7
Profit attributable to owners of the parent (Million yen)	11,059	18,606	25,146	21,029	17,931
Total basic earnings per share (Yen)	88.85	150.64	203.85	169.65	144.50
Total equities (Million yen)	148,924	155,904	177,002	189,255	199,133
Equities attributable to owners of the parent per share (Yen)	1,150.41	1,193.79	1,355.72	1,438.64	1,508.53
Total assets (Million yen)	233,381	256,973	301,557	328,568	344,558
Return on equity (ROE)	7.6%	13.0%	15.9%	12.1%	9.8
Return on assets (ROA)	4.6%	7.6%	9.0%	6.7%	5.3

(Notes)

1. Starting from the 15th fiscal year, the Group has adopted the International Financial Reporting Standards (IFRS) on a voluntary basis. For a comparison purpose, figures for the 14th fiscal year have been restated based on IFRS.
2. Figures above are shown based on the terms in accordance with IFRS. Under J-GAAP, the following IFRS-based terms are presented as following: “profit attributable to owners of the parent” as “net income attributable to owners of the parent,” “total basic earnings per share” as “net income per share,” “total equities” as “net assets,” “equities attributable to owners of the parent per share” as “net assets per share,” “total assets” as “total assets,” “return on equity (ROE)” as “return on shareholders’ equity (ROE)” and “return on assets (ROA)” as “return on assets (ROA).”
3. Figures of less than one unit for the amounts based on J-GAAP have been truncated.
4. Total basic earnings per share is calculated based on the average number of shares outstanding during the fiscal year. The average number of shares outstanding during the fiscal year is calculated after deducting the number of treasury shares from the total number of shares issued.
5. The 13th fiscal year was a transitional period for a change in accounting period, in which the consolidated operating results covered nine months (April 1, 2015 to December 31, 2015) for companies that close their accounts in March, as opposed to twelve months (January 1, 2015 to December 31, 2015) for companies that close their accounts in December.

(P37)

Business Report

(5) Research and development activities

The amount used for research and development activities by the Group in FY 2019 was ¥9,919 million.

(6) Capital investment

The total amount of capital investment by the Group in FY 2019 was ¥16,388 million. The Group promoted capital investment mainly for increasing its production capacity in component solutions to increase production.

	FY 2018	FY 2019 (current)
Research and development (Million yen)	10,214	9,919
Capital investment (Million yen)	20,288	16,388

(Reference)

Test equipment at Nabtesco R&D Center

A 3D printer installed at the Nabtesco R&D Center.

This printer contributes to shortening development time by producing 3D models and reducing the amount of time to create prototypes to be used in demonstration experiments.

Additional installation of solar power generation facilities at Tsu Plant

As part of the Group's effort to reduce environmental impacts, solar panels capable of generating approximately 3,000kW were installed in September 2019. Combined with existing equipment, it is the largest photovoltaic power generation system in Japan for in-house use.

(7) Financing

The Group procured necessary funds by using its own capital and loans from financial institutions.

Interest-bearing debt at the end of FY 2019 was ¥43,936 million.

(P38)

(8) Major subsidiaries

(i) Major subsidiaries

Corporate name	Capital stock	Equity ratio of the Company (%)	Main business	Location of head office
NABCO DOOR Ltd.	¥848 million	100.0	Sales, installation, and after sales service of automatic door systems, etc.	Nishi-ku, Osaka, Osaka
Nabtesco Automotive Corporation	¥450 million	100.0	Manufacturing and sales of commercial vehicle equipment	Chiyoda-ku, Tokyo
Nabtesco Service Co., Ltd.	¥300 million	100.0	Sales, installation, and after sales service of transport equipment	Shinagawa-ku, Tokyo
NABCO SYSTEMS Co., Ltd.	¥300 million	85.9	Sales, installation, and after sales service of automatic door systems, etc.	Chiyoda-ku, Tokyo
TOYO JIDOKI Co., Ltd.	¥245 million	100.0	Manufacturing and sales of various types of integrated packaging systems	Minato-ku, Tokyo
Nabtesco (China) Precision Equipment Co., Ltd.	US\$50,000 thousand	67.0	Manufacturing and sales of precision reduction gears	Jiangsu, China
Jiangsu Nabtesco KTK Railroad Products Co., Ltd.	¥1,800 million	50.0	Manufacturing and sales of brake systems and door operating systems for railroad vehicles	Jiangsu, China
Shanghai Nabtesco Hydraulic Co., Ltd.	US\$14,500 thousand	55.0	Manufacturing, sales and after sales service of hydraulic equipment	Shanghai, China
Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd.	¥100 million	67.0	Sales of hydraulic equipment	Shanghai, China
Nabtesco Aerospace, Inc.	US\$1,000 thousand	100.0 [100.0]	Manufacture, sales and after sales service of aircraft equipment	WA, U.S.A.
NABCO Entrances, Inc.	US\$0.2 thousand	100.0 [100.0]	Manufacturing and sales of automatic doors	WI, U.S.A.
Gilgen Door Systems AG	CHF2,001 thousand	100.0	Manufacturing, sales, and after sales service of automatic doors for buildings and platform doors for railways	Bern, Switzerland
Nabtesco Precision Europe GmbH	EUR51 thousand	100.0 [100.0]	Sales of precision reduction gears	Düsseldorf, Germany
Nabtesco Power Control (Thailand) Co., Ltd.	THB700,000 thousand	70.0	Manufacturing and sales of hydraulic equipment	Chonburi, Thailand

(Note)

Figures in brackets under “Equity ratio of the Company” indicate indirect investment ratios.

(ii) Specified wholly owned subsidiaries at the closing date of the fiscal year

Not applicable

(P39)

Business Report

(9) Principal offices

Nabtesco Corporation

Office name	Location
Head Office	Chiyoda-ku, Tokyo
Nagoya Office	Nakamura-ku, Nagoya, Aichi
Nabtesco R&D Center	Shimogyo-ku, Kyoto, Kyoto
Tarui Plant	Tarui-cho, Fuwa-gun, Gifu
Gifu Plant	Tarui-cho, Fuwa-gun, Gifu
Tsu Plant	Tsu, Mie
Kobe Plant	Nishi-ku, Kobe, Hyogo
Seishin Plant	Nishi-ku, Kobe, Hyogo
Konan Plant	Higashinada-ku, Kobe, Hyogo

(Note)

The office names and locations of head offices of major subsidiaries are stated in “(8) Major subsidiaries” above.

(10) Employees

Number of employees	Year-on-year change
7,736	+23

(Note)

The number of employees includes only full-time employees. The number of temporary employees is omitted since it is less than 10% of the total.

(11) Principal lenders

Lender	Outstanding loans payable (Million yen)
Mizuho Bank, Ltd.	12,425
MUFG Bank, Ltd.	8,162
Sumitomo Mitsui Banking Corporation	5,738

(P40)

2. Stock Information

(1) Total number of shares authorized to be issued	400,000,000 shares
(2) Total number of shares issued	125,133,799 shares (including 783,534 treasury shares)
(3) Number of shareholders	20,030

■ Shareholder composition (as of December 31, 2019)

	Number of shares held (thousand shares)	Shareholding ratio (%)
Financial institutions & securities firms	29,022	23.19%
Financial instruments business operators	7,288	5.82%
Other domestic legal entities	15,670	12.52%
Foreign legal entities	60,130	48.05%
Individuals & others	12,240	9.78%
Own shares	784	0.63%

(4) Major shareholders (Top 10)

Shareholders	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,200	5.79
Japan Trustee Services Bank, Ltd. (Trust Account)	6,057	4.87
Central Japan Railway Company	5,171	4.16
SSBTC CLIENT OMNIBUS ACCOUNT	4,758	3.83
FANUC CORPORATION	3,760	3.02
Harmonic Drive Systems Inc.	3,265	2.63
SMBC Nikko Securities Inc.	2,677	2.15
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,362	1.90
Japan Trustee Services Bank, Ltd. (Trust Account 7)	2,079	1.67
THE BANK OF NEW YORK MELLON 140044	1,988	1.60

(Note)

The shareholding ratio is calculated after deducting the number of treasury shares (783,534 shares).

(5) Other important matters relating to stock

Not applicable

(6) Subscription rights to shares

Matters regarding “Subscription Rights to Shares” are posted on the Company’s website (https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html) in accordance with provisions of laws and regulations as well as Article 16 of the Articles of Incorporation.

(P41)

Business Report

3. Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members

Position	Name	Assignment and significant positions concurrently held	
		As of December 31, 2019	As of January 1, 2020
Representative Director	Katsuhiro Teramoto	President and Chief Executive Officer (CEO)	(Same as left)
Representative Director	Shinji Juman	Managing Executive Officer; Component Solution Segment; President, Power Control Company; in charge of Production Innovation	Senior Managing Executive Officer; Component Solution Segment; President, Power Control Company; in charge of Production Innovation
Representative Director	Daisuke Hakoda	Managing Executive Officer; President, Accessibility Innovations Company	Senior Managing Executive Officer; President, Accessibility Innovations Company
Director	Goro Hashimoto	Managing Executive Officer, General Administration, Human Resources and Legal & Compliance	
Director	Toshiaki Akita	Managing Executive Officer; Senior General Manager, Technology and R&D Division	(Same as left)
Director	Shigeru Naoki	Managing Executive Officer; President, Railroad Products Company	(Same as left)
Director	Kazumasa Kimura	Executive Officer, Corporate Planning, Accounting & Finance, Information System and Corporate Communication	(Same as left)
Director	Yutaka Fujiwara	Representative, Cross-Border Bridge Corporation; Outside Director, KITZ Corporation	
Director	Norio Uchida	External Director, ULVAC, Inc.	
Director	Naoko Yamazaki	External Director, Oporun Co., Ltd.; Outside Director, TOPCON CORPORATION; Representative Director, Space Port Japan Association	
Audit & Supervisory Board Member	Kensuke Ioku		
Audit & Supervisory Board Member	Kenichi Kikuchi		
Audit & Supervisory Board Member (Independent)	Zenzo Sasaki	Attorney-at-law (Harumi-kyowa Law Offices)	
Audit & Supervisory Board Member (Independent)	Takemi Nagasaka	Outside Audit & Supervisory Board Member, DAIO PAPER CORPORATION	
Audit & Supervisory Board Member (Independent)	Tetsuro Hirai	Technical Supervisor of Toyota Tsusho Corporation	

(Notes)

1. The Company has changed the Directors' duties on January 1, 2020. Therefore, the status of the assignment of the Directors as of January 1, 2020 is presented along with the status as of December 31, 2019.
2. Messrs. Shigeru Naoki and Kazumasa Kimura were newly elected and assumed office as Director at the 16th Annual General Meeting of Shareholders held on March 26, 2019.
3. Messrs. Kenichi Kikuchi and Tetsuro Hirai were newly elected and assumed office as Audit & Supervisory Board Member at the 16th Annual General Meeting of Shareholders held on March 26, 2019.

4. Messrs. Yutaka Fujiwara, Norio Uchida, and Ms. Naoko Yamazaki are Outside Directors.
5. Messrs. Zenzo Sasaki, Takemi Nagasaka and Tetsuro Hirai are Audit & Supervisory Board Members(Independent).
6. There is no special relationship between the Company and any of the companies at which Outside Directors and Audit & Supervisory Board Members(Independent) of the Company concurrently hold managerial positions including that of officer.
7. Mr. Takemi Nagasaka, Audit & Supervisory Board Member, is a certified public accountant who additionally has a considerable length of experience in corporate finance and accounting sectors and broad insight in the fields of finance and accounting.
8. The Company designates Outside Directors Messrs. Yutaka Fujiwara, Norio Uchida and Ms. Naoko Yamazaki, and Audit & Supervisory Board Members(Independent) Messrs. Zenzo Sasaki, Takemi Nagasaka and Tetsuro Hirai, as independent directors/auditors under the provisions set forth by the Tokyo Stock Exchange.

(P42)

(2) Outline of limited liability agreement

As the Company stipulates in the Articles of Incorporation provisions to enable the conclusion of limited liability agreements with Outside Directors and Audit & Supervisory Board Members (Independent), a limited liability agreement has been concluded with Outside Directors Messrs. Yutaka Fujiwara, Norio Uchida and Ms. Naoko Yamazaki, and Audit & Supervisory Board Members (Independent) Messrs. Zenzo Sasaki, Takemi Nagasaka and Tetsuro Hirai.

The details of the agreement are as follows.

- Liability for damages under the agreement will be limited to 10 million yen or the amount set forth by laws and regulations, whichever is higher.
- The limitation of liability mentioned above applies only if the Outside Director or Audit & Supervisory Board Member(Independent) acts in good faith and without gross negligence when performing their duties.

(3) Total amount of compensation paid to Directors and Audit & Supervisory Board Members

(i) Total amount of compensation by managerial position, total amount of compensation by type of compensation, and number of recipients

Directors/ Audit & Supervisory Board Members	Total amount of compensation (million yen)	Types of compensation (million yen)				Number of Directors and Audit & Supervisory Board Members
		Fixed compensation	Performance-linked compensation			
			Monthly compensation	Board Benefit Trust (BBT)		
		Tenure grant		Retirement grant		
Directors [Outside Directors]	350 [30]	184 [30]	65 —	21 —	80 —	12 [3]
Audit & Supervisory Board Members [Audit & Supervisory Board Members (Independent)]	78 [24]	78 [24]	— —	— —	— —	7 [4]
Total	427	262	65	21	80	19

(Notes)

1. The “Number of Directors and Audit & Supervisory Board Members” for Directors includes two Directors who retired during the fiscal year under review.
The “Number of Directors and Audit & Supervisory Board Members” for Audit & Supervisory Board Members includes two Audit & Supervisory Board Members who retired during the fiscal year under review.
2. Monthly compensation consists of basic compensation and short-term performance-linked compensation paid out in total on a monthly fixed basis.
3. The Board Benefit Trust (BBT) amount is the amount expensed during the fiscal year under review according to J-GAAP, based on the number of share grant points awarded or expected to be awarded during the fiscal year under review.
4. The upper limit on compensation as resolved at the 14th Annual General Meeting of Shareholders (March 28, 2017) is set at 400 million yen per year for Directors (of which 50 million yen is for Outside Directors), and 90 million yen for Audit & Supervisory Board Members.
5. In addition to the compensation amounts stated above, the Company has introduced a Board Benefit Trust (BBT) system for Directors (excluding Outside Directors) as resolved at the 14th Annual General Meeting of Shareholders (March 28, 2017). Based on the Regulations for Provision of Shares to Officers established under this system, the Company is making contributions to the Trust, with upper limits of 450 million yen (for three business years) for the tenure grant, and 420 million yen (for three business years) for the retirement grant, respectively. With regard to this system, upper limits for share grants were set at 56,000 points for the tenure grant (for a single fiscal year) and 51,000 points for the retirement grant (for a single fiscal year) separately from the upper limits on compensation stated in 4. above at the 14th Annual General Meeting of Shareholders (March 28, 2017).

(ii) Policy on the determination of compensation amounts of Directors and Audit & Supervisory Board Members or their calculation methods as well as determination method of the policy

- Basic policy on compensation system

- The system shall ensure that shareholders and management share common interests by strengthening the link between compensation and the Company's performance and share value.
- The system shall function as an incentive to improve the medium- to long-term performance of the Group.
- The process of determining the compensation system shall be highly objective and transparent.

(P43)

Business Report

■ Structure of the compensation system

- 1) Compensation to Directors is composed of monthly compensation, comprising fixed basic compensation and short-term performance-linked compensation, and the Board Benefit Trust (BBT), which is stock compensation based on the degree of achievement of the Medium-term Management Plan as well as share value.
- 2) Basic compensation is fixed compensation according to the position of each Director, and is paid as monthly compensation.
- 3) The amount of performance-linked compensation (monthly compensation) to be paid is determined according to the following formula, based on the degree of achievement of annual results.

[Short-term performance-linked compensation]

$$\begin{array}{l} \text{Short-term} \\ \text{performance-linked} \\ \text{compensation} \end{array} = \begin{array}{l} \text{Standard payment amount by} \\ \text{position} \end{array} \times \begin{array}{l} \text{Performance evaluation} \\ \text{coefficient} \end{array}$$

* Performance evaluation coefficient: Determined by a matrix table using ROIC and profit (attributable to owners of the parent) for the previous fiscal year within a certain threshold as indicators (coefficient: 0.00 – 3.00)

For Directors in charge of internal companies, short-term performance-linked compensation is adjusted based on factors including the net sales growth rate, degree of improvement of operating income, degree of ROIC improvement, R&D indicators, and environmental indicators of the relevant companies.

- 4) Stock compensation is paid using the Board Benefit Trust (BBT) mechanism, and the amount of payment is determined according to the following formula, based on the degree of achievement of the Medium-term Management Plan.

[Tenure grant-type stock compensation]

$$\begin{array}{l} \text{Tenure grant-type} \\ \text{stock} \\ \text{compensation} \end{array} = \begin{array}{l} \text{Share grant points} \\ \text{by position} \end{array} \times \begin{array}{l} \text{Performance} \\ \text{evaluation} \\ \text{coefficient} \end{array} \times \begin{array}{l} \text{Medium-term Management Plan} \\ \text{achievement coefficient} \end{array}$$

* Performance evaluation coefficient: Determined by a matrix table using ROIC and profit (attributable to owners of the parent) for the previous fiscal year within a certain threshold as indicators (coefficient: 0.00 – 3.00)

* Medium-term Management Plan achievement coefficient: Set based on the degree of achievement of the net sales and operating income stated in the Medium-term Management Plan (0 – 0.5)

Grant points will be vested on the day of the Annual General Meeting of Shareholders relating to the final fiscal year ending within three years from the awarding of points.

[Retirement grant-type stock compensation]

Retirement grant-type stock compensation = Share grant points by position

Grant points will be vested on the day that the Director retires.

- 5) The composition of Directors' compensation emphasizes the link with performance and shareholder value.

Position	Fixed compensation	Performance-linked compensation		
	Basic compensation	Short-term performance-linked compensation	Tenure grant-type stock compensation	Retirement grant-type stock compensation
Chairman of the Board/President	30%	30%	20%	20%
Director	35%	30%	20%	15%

* The above table shows model compositions, where the figures are the median by position with the target achievement rate for performance-linked compensation set at 100%.

- 6) Compensation, etc., for Outside Directors and Audit & Supervisory Board Members consists only of fixed compensation, with no performance-linked compensation, as these officers are in a position independent from business execution.
- 7) As a result of having to revise the financial results of past fiscal years due to inappropriate accounting, etc., the Company has set compensation regulations so as to demand the return of all or part of performance-linked compensation in the event of material revisions in the performance of past fiscal years which was the basis of the calculation of performance-linked compensation, or in the event that the Company incurs material loss due to an officer's wrongful or illegal act.

(P44)

■ Nabtesco's approach to indicators for performance-linked compensation

The basic indicators for performance-linked compensation paid to Directors (excluding Outside Directors) are ROIC and profit (attributable to owners of the parent), which reflect the fruits of all employee activity and are principal indicators linked to the improvement of ROE. In this way, the Company encourages all Directors to take note of capital costs and payout ratio, and promotes management that is mindful of the sustainable growth of the Group. Furthermore, indicators for Directors in charge of businesses have the added functions of incentivizing them to improve performance in the medium to long term by including R&D indicators to encourage the creation of intellectual property and environmental indicators showing how much CO₂ emission was reduced, in addition to management indicators such as the degree of ROIC improvement.

Furthermore, net sales and operating income are adopted as indicators for the degree of achievement of the Medium-term Management Plan, as they reflect the business activities of all Directors and employees, with the aim of aligning all business activities in one direction.

However, in case of impacts from events not triggered by the Company's management decisions, above indicators may be adjusted.

[Actual performance of principal indicators related to performance-linked compensation]

ROIC	Net sales	Operating income	Profit
7.5%	294,626 million yen	21,889 million yen	15,305 million yen

Performance-linked compensation for the fiscal year under review is calculated based on the figures in the financial results as of December 31, 2018. However, in the fiscal year under review, Harmonic Drive Systems Inc., an equity-method affiliate of the Group, acquired additional shares in its own equity-method affiliate, resulting in equity in earnings of affiliates. Therefore the relevant income was subtracted from the results figures stated above in the indicator adopted.

■ Method, etc. for determining compensation

The Board of Directors determines the policy regarding compensation, etc., of Directors, compensation system, level, and amount paid to each Director, based on the deliberations and reporting of the Compensation Committee, which is composed of one internal Director and two Independent Outside Directors/Audit & Supervisory Board Members (Independent).

Compensation, etc. of Audit & Supervisory Board Members is decided upon consultation with Audit & Supervisory Board Members.

The activities of the Committee, etc. during the fiscal year under review that deliberated and determined compensation, etc. of Directors are as follows.

[Number of meetings of the Committee, etc. (January 2019 to December 2019)]

Committee, etc.	Number of meetings
Remuneration Committee	2
Board of Directors	2

(P45)

Business Report

(4) Outside Directors and Audit & Supervisory Board Members (Independent)

(i) Relation between an entity, for which the Company's officers hold significant concurrent positions, and the Company

As stated in "(1) Directors and Audit & Supervisory Board Members," there is no special relationship between the Company and any of the companies at which Outside Directors and Audit & Supervisory Board Members (Independent) of the Company concurrently hold managerial positions including that of officer.

(ii) Main activities during the fiscal year

Directors/ Audit & Supervisory Board Members	Name	Attendance rate at the Board of Directors meetings	Attendance rate at the Audit & Supervisory Board meetings	Main activities
Director	Yutaka Fujiwara	100%	—	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight in global business.
Director	Norio Uchida	100%	—	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight as a corporate manager.
Director	Naoko Yamazaki	100%	—	She posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on her rich experience and deep insight in risk management.
Audit & Supervisory Board Members	Zenzo Sasaki	100%	100%	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight as an attorney-at-law.
Audit & Supervisory Board Members	Takemi Nagasaka	100%	100%	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight in accounting and finance.
Audit & Supervisory Board Members	Tetsuro Hirai	100%	100%	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight in manufacturing.

(Notes)

1. The number of Board of Directors meetings and number of Audit & Supervisory Board meetings held in the fiscal year were 16 and 13, respectively.
2. Since Mr. Tetsuro Hirai assumed office as Audit & Supervisory Board Members (Independent) on March 26, 2019, the number of Board of Directors meetings and number of Audit & Supervisory Board meetings to be attended on and after that day were 12 and 10, respectively.

(P46)

4. Financial Auditor

(1) Name of the Financial Auditor

KPMG AZSA LLC

(2) Remuneration paid or payable to the Financial Auditor

Category	Remuneration paid for works concerning audit certification (million yen)	Remuneration paid for non-auditing works
The Company	94	–
Subsidiaries	17	–
Total	110	–

(Notes)

1. The audit agreement between the Company and the Financial Auditor does not separate remuneration concerning the audit under the Companies Act from remuneration concerning the audit under the Financial Instruments and Exchange Act, and such separation would be impossible to manage in practical terms. Accordingly, the amount described above represents the total amount of these remunerations.
2. The Audit & Supervisory Board checked and reviewed whether the details of the audit results and audit plans for the previous fiscal year, the performance of duties for the accounting audit, and the basis for calculating the estimated remuneration were appropriate, based on the “Practical Guidance for Cooperation with Accounting Auditor” announced by the Japan Audit & Supervisory Board Members Association. As a result, the Audit & Supervisory Board agreed on the remuneration paid to the Financial Auditor pursuant to Article 399, Paragraph 1 of the Companies Act.
3. From among major subsidiaries of the Company, NABCO SYSTEMS Co., Ltd., Gilgen Door Systems AG, Nabtesco Precision Europe GmbH, Nabtesco Aerospace, Inc., NABCO Entrances, Inc., Shanghai Nabtesco Hydraulic Co., Ltd., Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd., Jiangsu Nabtesco KTK Railroad Products Co., Ltd., Nabtesco Power Control (Thailand) Co., Ltd., and Nabtesco (China) Precision Equipment Co., Ltd. are audited by audit corporations other than the Financial Auditor of the Company.

(3) Policy for determining the dismissal or non-reappointment of the Financial Auditor

If the Audit & Supervisory Board recognizes any problems with the performance of duties by the Financial Auditor or otherwise judges it to be necessary, the Audit & Supervisory Board will propose the dismissal or non-reappointment of the Financial Auditor as an agenda item at the general meeting of shareholders.

In addition, if the Financial Auditor is deemed to fall under any of the items of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board will dismiss the Financial Auditor subject to the unanimous approval of the Audit & Supervisory Board Members. In this case, a Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the fact of dismissal of the Financial Auditor and the reasons thereof at the first general meeting of shareholders convened after the dismissal.

(P47)

Business Report

5. Outline of the Operational Status of the Systems to Ensure the Appropriateness of the Business

Details of the matters resolved at the Board of Directors regarding the system to ensure the appropriateness of the business of the Company (Basic Policy on Establishment of Internal Control System) are posted on the Company's website (https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html) in accordance with provisions of laws and regulations as well as Article 16 of the Articles of Incorporation.

Following is an outline of the operational status of the systems to ensure the appropriateness of the business for the current fiscal year.

(i) Compliance system

- 1) The Company strives to communicate the importance of compliance and ensure its thorough implementation within the Group, based on the Nabtesco Group Code of Ethics that was established by a resolution of the Company's Board of Directors.
- 2) The Company assigns a Chief Compliance Officer and a Compliance Officer at our in-house companies, Corporate Headquarters, and domestic and overseas subsidiaries. In addition, the Compliance Committee, an advisory body of the Board of Directors, met three times during the fiscal year under review to deliberate important matters concerning compliance. Furthermore, Compliance Liaison Meetings were held in Japan and all overseas areas (China, Asia, North America, Europe) where the Company operates with the aim to disseminate compliance-related measures throughout the Group.
- 3) The Company continuously provides various training and awareness activities on compliance for officers and employees of the Group. During the fiscal year under review, the Company provided training for the purpose of appropriately managing labor hours and preventing cartel and bribery.
- 4) In order to raise employees' awareness of compliance, the Company holds free discussion meetings on the theme of compliance at each workplace once a year. In addition, the Company sets October as the corporate ethics month, delivers a video message on compliance from the Company's CEO and conducts compliance awareness surveys.
- 5) The Company has set internal rules in accordance with social conditions and law revisions. During the fiscal year under review, the Company has newly established a code of behavior for officers and employees regarding receipt of business entertainment and gifts.
- 6) The Company has established, for the Company and its domestic subsidiaries, points of contact of a whistleblower system (corporate ethics hotline) both inside and outside the Company and appropriately operates the hotline, and ensures that employees are aware of the hotline, with the main aim of preventing and discovering violations of laws and regulations and misconduct at an early stage. We also ensure that employees are aware of the Audit & Supervisory Board Member's Hotline established by the Audit & Supervisory Board.

Global whistleblower systems for overseas subsidiaries were practically completed during the fiscal year under review, and are being appropriately operated.

(P48)

(ii) Risk management system

- 1) For the purpose of grasping and managing various risks in connection with business activities of the Group and limiting losses incurred to a minimum when they occur, we are endeavoring to strengthen the Group's risk management system by formulating internal regulations, including risk management regulations.
- 2) The Company has established cross-company organizations such as the Risk Management Committee, the Group Quality & PL (Product Liability) Committee and the Group ESH (Environment, Safety and Health) Committee, and deliberates measures concerning material risks.
During the fiscal year under review, the Risk Management Committee met twice and risk assessment of the Company and its domestic and overseas subsidiaries was implemented. Furthermore, the Group Quality & PL (Product Liability) Committee and the Group ESH (Environment, Safety and Health) Committee met once each during the fiscal year.
- 3) The Group is promoting the development and enhancement of an effective BCP (business continuity plan at the time of a critical accident and disaster), and nine of its main business bases have acquired the certification for organizations contributing to national resilience (Resilience Certification). (Note)
- 4) Expert staff members of the Head Office mainly from within the Business Auditing Department conduct internal audits to give appropriate guidance toward operational improvement, etc.

(iii) Execution of duties by Directors

Sixteen meetings of the Board of Directors of the Company were held in the fiscal year under review to deliberate and determine important matters relating to the execution of business operations and to supervise the execution of duties by Directors and Executive Officers. The minutes of the Board of Directors meetings and other important documents and materials relating to the execution of duties by Directors are appropriately prepared, stored, and managed.

(iv) Execution of duties by Audit & Supervisory Board Members

Thirteen meetings of the Audit & Supervisory Board were held in the fiscal year under review to report, discuss and resolve important matters relating to audits. In addition, the Audit & Supervisory Board Members attend the Board of Directors meetings, the Management Committee meetings, the Executive Officers Committee meetings and other important conferences, and hold meetings to exchange opinions with Representative Directors, meetings to exchange opinions with the Financial Auditor, the Audit Council meetings with the Business Auditing Department, and meetings of the Group Audit & Supervisory Board attended by Audit & Supervisory Board Members of the Company's subsidiaries, and thereby rigorously monitor the execution of duties by Directors, Executive Officers, and employees. Moreover, to ensure the effectiveness of the audits by the Audit & Supervisory Board Members, the Company grants the Audit & Supervisory Board Members the right to access all of the management information databases and assigns two support personnel to the Audit & Supervisory Board Members at their request. In addition, the Audit & Supervisory Board Member's Hotline, an internal reporting system with Audit & Supervisory Board Members serving as a point of contact, was established and is being appropriately operated.

(Note) Resilience Certification is a system established in February 2016 by the National Resilience Promotion Office, Cabinet Secretariat of Japan, based on the Guidelines for the Certification for Organizations Contributing to National Resilience. Under the system, the Association for Resilience Japan certifies various organizations including companies, local governments, schools, and hospitals that support the objectives of national resilience with a concept of building a country resilient to disasters or critical events and are actively engaged in initiatives toward business continuity, as an Organization Contributing to National Resilience.

/////////
(Note) In the amount, ratios and other figures stated in the Business Report, all fractions are rounded off to the nearest units, unless otherwise noted.

Consolidated Financial Statements

Consolidated Statement of Financial Position

(Million yen)

Description	(Reference) The 16th Fiscal Year (As of December 31, 2018)	The 17th Fiscal Year (As of December 31, 2019)
(Assets)		
Current assets	179,124	179,154
Cash and cash equivalents	54,039	58,686
Trade receivables	74,952	69,175
Contract assets	1,650	1,000
Other receivables	1,643	1,300
Inventories	43,592	41,257
Other financial assets	280	4,752
Other current assets	2,969	2,984
Non-current assets	149,443	165,404
Property, plant and equipment	80,573	87,083
Intangible assets	5,076	5,127
Right-of-use assets	–	9,004
Goodwill	15,512	14,161
Investment property	5,382	3,928
Investments accounted for using the equity method	29,641	31,952
Other financial assets	9,558	11,210
Deferred tax assets	2,012	1,868
Other non-current assets	1,690	1,072
Total assets	328,568	344,558

(Million yen)

Description	(Reference) The 16th Fiscal Year (As of December 31, 2018)	The 17th Fiscal Year (As of December 31, 2019)
(Liabilities)		
Current liabilities	112,558	109,614
Trade payables	50,297	45,021
Contracts liabilities	5,232	5,579
Bonds and borrowings	34,067	30,719
Other payables	11,809	14,405
Income tax payables	3,479	4,040
Provisions	1,625	1,162
Lease liabilities	–	2,236
Other financial liabilities	–	13
Other current liabilities	6,048	6,439
Non-current liabilities	26,755	35,810
Bonds and borrowings	11,243	13,217
Lease liabilities	–	6,568
Liabilities for retirement benefit	9,142	9,569
Deferred tax liabilities	4,881	4,540
Other non-current liabilities	1,490	1,916
Total liabilities	139,313	145,424
(Equities)		
Equity attributable to owners of the parent	178,702	187,398
Share capital	10,000	10,000
Share premium	15,096	14,932
Retained earnings	155,133	163,794
Treasury shares	(2,903)	(2,536)
Other components of equities	1,377	1,208
Non-controlling interests	10,553	11,735
Total equities	189,255	199,133
Total liabilities and equities	328,568	344,558

Consolidated Statement of Income

(Million yen)

Description	(Reference) The 16th Fiscal Year (From January 1, 2018 to December 31, 2018)	The 17th Fiscal Year (From January 1, 2019 to December 31, 2019)
Net sales	294,626	289,808
Cost of sales	(215,043)	(212,105)
Gross profit	79,583	77,703
Other operating income	1,582	1,795
Selling, general and administrative expenses	(53,184)	(51,998)
Other expenses	(6,093)	(2,180)
Operating income	21,889	25,320
Financial income	366	766
Financial costs	(1,473)	(971)
Equity in earnings of affiliates	9,181	2,864
Profit before taxes	29,962	27,979
Income tax expenses	(6,997)	(8,028)
Profit	22,965	19,951
Profit attributable to:		
Owners of the parent	21,029	17,931
Non-controlling interests	1,935	2,020
Profit	22,965	19,951

Non-consolidated Financial Statements

Non-consolidated Balance Sheet

(Million yen)

Description	(Reference) The 16th Fiscal Year (As of December 31, 2018)	The 17th Fiscal Year (As of December 31, 2019)
(Assets)		
Current assets	104,416	100,506
Cash and time deposits	16,926	14,725
Notes receivable	3,573	2,996
Trade accounts receivable	47,225	40,537
Marketable securities	10,000	16,000
Goods and products	3,535	2,488
Products in progress	7,074	6,995
Raw materials and stored goods	6,679	6,815
Other accounts receivable	2,846	1,714
Advances paid	4,861	5,920
Other current assets	1,696	2,316
Fixed assets	123,954	122,781
Tangible fixed assets	53,485	59,461
Buildings	14,503	17,884
Structures	573	714
Machinery and equipment	20,026	20,933
Vehicles and transport equipment	80	75
Tools, apparatus and furniture	2,671	2,830
Land	9,103	9,103
Construction in progress	6,530	7,920
Intangible fixed assets	3,223	2,997
Software	1,551	1,470
Goodwill	1,513	1,157
Other intangible fixed assets	159	370
Investments and other assets	67,246	60,324
Investments in securities	5,712	5,786
Shares of subsidiaries and associates	33,842	33,842
Investments in capital of subsidiaries and associates	21,770	15,718
Long-term loans receivable from subsidiaries and associates	4,201	2,713
Long-term prepaid expenses	108	192
Deferred tax assets	1,033	1,338
Other investments and other assets	613	760
Allowance for doubtful accounts	(34)	(24)
Total assets	228,370	223,288

(Million yen)

Description	(Reference) The 16th Fiscal Year (As of December 31, 2018)	The 17th Fiscal Year (As of December 31, 2019)
(Liabilities)		
Current liabilities	90,036	86,948
Trade accounts payable	9,179	8,163
Electronically recorded obligations - trade	31,296	28,668
Short-term loans payable	24,350	22,198
Other accounts payable	6,010	8,719
Income taxes payable	1,881	1,605
Accrued expenses	2,567	2,610
Advances received	99	92
Deposits received	13,997	14,294
Allowance for product warranty	540	539
Provision for loss on order received	82	33
Other current liabilities	35	26
Long-term liabilities	16,727	19,234
Long-term loans payable	–	2,191
Bonds payable	10,000	10,000
Provision for retirement bonus	5,843	6,083
Other long-term liabilities	884	960
Total liabilities	106,763	106,182
(Net assets)		
Shareholders' equity	119,602	115,233
Capital stock	10,000	10,000
Capital surplus	26,274	26,274
Legal capital surplus	26,274	26,274
Earned surplus	86,231	81,495
Legal earned surplus	1,077	1,077
Other earned surplus	85,155	80,418
Reserve for advanced depreciation of assets	211	207
Earned surplus brought forward	84,944	80,211
Treasury stock	(2,903)	(2,536)
Valuation and translation adjustments	1,665	1,714
Valuation difference on other securities	1,665	1,714
Subscription rights to shares	340	159
Total net assets	121,607	117,106
Total liabilities and net assets	228,370	223,288

Non-consolidated Statement of Income

(Million yen)

Description	(Reference) The 16th Fiscal Year (From January 1, 2018 to December 31, 2018)	The 17th Fiscal Year (From January 1, 2019 to December 31, 2019)
Net sales	168,761	159,180
Cost of sales	134,293	128,331
Gross profit	34,469	30,849
Selling, general and administrative expenses	20,521	20,450
Operating income	13,948	10,399
Non-operating income	4,528	5,585
Interest income	120	105
Dividend income	3,992	4,913
Rent income	307	478
Other non-operating income	109	89
Non-operating expenses	731	1,011
Interest expenses	58	81
Loss on partnerships	123	218
Foreign exchange losses	481	478
Rent property expenses	–	163
Other non-operating expenses	69	71
Ordinary income	17,745	14,973
Extraordinary gains	1,572	56
Insurance income	171	47
Reversal of allowance for doubtful accounts	1,390	–
Gain on sales of fixed assets	11	8
Extraordinary losses	187	7,764
Loss on disaster	49	–
Loss on sales and retirement of non-current assets	107	174
Loss on sales of shares of subsidiaries and associates	30	–
Loss on valuation of investments in capital of subsidiaries and associates	–	7,591
Income before income taxes and adjustments	19,131	7,264
Income taxes - current	3,392	3,218
Income taxes - deferred	(113)	(327)
Net income	15,852	4,373