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(Securities code: 6268)
March 4, 2019

To Shareholders with Voting Rights:

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

**NOTICE OF CONVOCATION OF
THE 16TH ANNUAL GENERAL MEETING OF SHAREHOLDERS**

- 1. Date and Time:** Tuesday, March 26, 2019 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 16th Fiscal Year (from January 1, 2018 to December 31, 2018) 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 16th Fiscal Year (from January 1, 2018 to December 31, 2018)

Proposals to be resolved:

- Proposal No. 1:** Distribution of Surplus
Proposal No. 2: Election of Ten Directors
Proposal No. 3: Election of Two Statutory Auditors

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 25, 2019 (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 (https://www.nabtesco.com/ir/stock/shareholders_meeting.html) 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 Statutory Auditors and the Consolidated Financial Statements and Non-consolidated Financial Statements that were audited by the Financial Auditor and the Statutory Auditors 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).

- 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 (<https://www.nabtesco.com>).

Starting from this year, no souvenirs will be provided 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, 2018 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: 4,597,437,220 yen

3. Effective date for distribution of surplus

March 27, 2019

The annual dividend for the fiscal year ended December 31, 2018 including the interim dividend of 36 yen per share, will be 73 yen per share (the consolidated payout ratio of 43.0%).

(Reference)

	Annual dividend per share (Yen)	Payout ratio (%)
FY 2014 J-GAAP	44	31.4
FY 2015 J-GAAP (9 mo.)	44	49.5
FY 2016 IFRS	50	35.1
FY 2017 IFRS	72	35.3
FY 2018 IFRS (current)	73	43.0

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 three 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 18 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	3 years and 9 months	100% (18 meetings /18 meetings)
2	Shinji Juman	Re-elected	Representative Director Managing Executive Officer, Component Solution Segment President, Power Control Company, and in charge of Production Innovation	2 years	100% (18 meetings /18 meetings)
3	Daisuke Hakoda	Re-elected	Representative Director Managing Executive Officer President, Accessibility Innovations Company	3 years and 9 months	100% (18 meetings /18 meetings)
4	Goro Hashimoto	Re-elected	Director Managing Executive Officer, General Administration, Human Resources and Legal & Compliance	3 years and 9 months	100% (18 meetings /18 meetings)
5	Toshiaki Akita	Re-elected	Director Managing Executive Officer Senior General Manager, Technology and R&D Division	1 year	100% (14 meetings /14 meetings)
6	Shigeru Naoki	New candidate	Managing Executive Officer President, Railroad Products Company	—	—
7	Kazumasa Kimura	New candidate	Executive Officer, Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication	—	—
8	Yutaka Fujiwara	Re-elected Outside Independent	Outside Director	5 years and 9 months	89% (16 meetings /18 meetings)
9	Norio Uchida	Re-elected Outside Independent	Outside Director	3 years and 9 months	100% (18 meetings /18 meetings)
10	Naoko Yamazaki	Re-elected Outside Independent	Outside Director	3 years	100% (18 meetings /18 meetings)

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

(Note) 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.

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, 63 years old) Re-elected Term of office: 3 years and 9 months Attendance at the Board of Directors meetings: 100% (18 meetings/18 meetings)	Jun.	2007	General Manager, Sales Department No. 1, Precision Equipment Company of Nabtesco Corporation	9,400 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	Shinji Juman (Aug. 28, 1957, 61 years old) Re-elected Term of office: 2 years Attendance at the Board of Directors meetings: 100% (18 meetings/18 meetings)	Jan.	2006	General Manager, Cost Control Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	7,300 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 (to present)	
		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) President, Power Control Company 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 from 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, 61 years old) Re-elected Term of office: 3 years and 9 months Attendance at the Board of Directors meetings: 100% (18 meetings/18 meetings)	Jun.	2007	President of Nabtesco Aerospace, Inc.	16,921 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 (to present), 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 Systems, 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)			
<p>Reasons for nomination as a candidate for Director</p> <p>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.</p>					

(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	Goro Hashimoto (Feb. 7, 1957, 62 years old)	Jan.	2009	General Manager, Legal Department of Nabtesco Corporation	1,800 shares
	Re-elected	Jun.	2015	Director (to present), Executive Officer and Senior General Manager, Compliance Division of Nabtesco Corporation	
	Term of office: 3 years and 9 months	Jan.	2018	Executive Officer, General Administration, Legal & Compliance of Nabtesco Corporation (to present)	
	Attendance at the Board of Directors meetings: 100% (18 meetings/18 meetings)	Jan.	2019	Managing Executive Officer (to present), Human Resources (to present) of Nabtesco Corporation	
<p>Reasons for nomination as a candidate for Director</p> <p>Mr. Goro Hashimoto has engaged in management of the Company as Director since June 2015, and has effectively fulfilled its roles and duties. After serving as General Manager of Legal Department, he is currently in charge of General Administration, Human Resources and Legal & Compliance, and has broad experience and extensive insight concerning general administration, legal matters, compliance, and risk management. 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. Goro Hashimoto as Director.</p>					

(Note) No conflict of interest exists between Mr. Goro Hashimoto 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	<p>Toshiaki Akita (Jun. 6, 1957, 61 years old)</p> <p>Re-elected</p> <p>Term of office: 1 year</p> <p>Attendance at the Board of Directors meetings: 100% (14 meetings/14 meetings)</p>	Jul.	2008	General Manager, Engineering Management Department, Railroad Products Company of Nabtesco Corporation	2,593 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	
6	Shigeru Naoki (Oct. 21, 1958, 60 years old) New candidate Term of office: — Attendance at the Board of Directors meetings: —	Jul.	2013	Plant Manager, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	3,400 shares
		Jun.	2014	Executive Officer of Nabtesco Corporation	
		Mar.	2017	Vice President, Railroad Products Company of Nabtesco Corporation	
		Aug.	2017	President, Railroad Products Company of Nabtesco Corporation (to present)	
		Mar.	2018	Managing Executive Officer of Nabtesco Corporation (to present)	
<p>Reasons for nomination as a candidate for Director</p> <p>After serving as Plant Manager of Tsu Plant of Precision Equipment Company, Mr. Shigeru Naoki 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 appointment of Mr. Shigeru Naoki as Director.</p>					

(Note) No conflict of interest exists between Mr. Shigeru Naoki and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held	
7	Kazumasa Kimura (Aug. 17, 1961, 57 years old) New candidate Term of office: — Attendance at the Board of Directors meetings: —	Jun.	2011	General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	1,479 shares
		Jun.	2012	General Manager, Manufacturing Department, Tarui Plant, Power Control Company of Nabtesco Corporation	
		Apr.	2015	Representative Director and Vice President of Hyst 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 Systems and Corporate Communication of Nabtesco Corporation (to present)	
Reasons for nomination as a candidate for Director 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, Mr. Kazumasa Kimura 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 appointment of Mr. Kazumasa Kimura as Director.					

(Note) No conflict of interest exists between Mr. Kazumasa Kimura and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held	Number of shares of the Company held
8	Yutaka Fujiwara (Apr. 20, 1951, 67 years old) Re-elected Candidate for Outside Director Candidate for independent director Term of office: 5 years and 9 months Attendance at the Board of Directors meetings: 89% (16 meetings/18 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>	100 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 Statutory Auditors (Independent)” (please refer to page 18).
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
9	Norio Uchida (Oct. 22, 1950, 68 years old) Re-elected Candidate for Outside Director Candidate for independent director Term of office: 3 years and 9 months Attendance at the Board of Directors meetings: 100% (18 meetings/18 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 Statutory Auditors (Independent)” (please refer to page 18).
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
10	Naoko Yamazaki (Dec. 27, 1970, 48 years old) Re-elected Candidate for Outside Director Candidate for independent director Term of office: 3 years Attendance at the Board of Directors meetings: 100% (18 meetings/18 meetings)	<p>Apr. 1996 Joined the National Space Development Agency of Japan (currently Japan Aerospace Exploration Agency (JAXA)) (retired in Aug. 2011)</p> <p>Sep. 2001 Certified as International Space Station (ISS) onboard astronaut</p> <p>May 2004 Acquired certification for Flight Engineer, Soyuz Spacecraft</p> <p>Feb. 2006 Acquired certification for Mission Specialist, Space Shuttle</p> <p>Apr. 2010 Crew Member of Space Shuttle Discovery as Mission Specialist, participated in Construction and Supply for ISS</p> <p>Sep. 2011 Honorary Chairperson of the National Soroban Education Association (to present)</p> <p>Apr. 2012 Visiting Professor of Ritsumeikan University (to present)</p> <p>Jul. 2012 Member of Committee on National Space Policy, Cabinet Office (to present)</p> <p>May 2013 Visiting Professor of Joshibi University of Art and Design (to present)</p> <p>Jul. 2015 President of Japanese Rocket Society (to present) and Chairperson of Sorajo Committee (to present)</p> <p>Dec. 2015 Advisory Board Member of International Robot Competition Executive Committee (to present)</p> <p>Jan. 2016 Specialist Member of Council on Science Technology and Academics (Marine Resource Development Subcommittee)</p> <p>Mar. 2016 Director of Nabtesco Corporation (to present)</p> <p>Jul. 2016 Member of the Long-term Global Warming Countermeasures Platform, Ministry of Economy, Trade and Industry (to present)</p> <p>Nov. 2016 Ambassador of WINDS (Women's Initiative in Developing STEM Career), Ministry of Foreign Affairs of Japan</p> <p>Sep. 2017 External Director of Oporun Co., Ltd. (to present)</p> <p>Jun. 2018 Outside Director of TOPCON CORPORATION (to present)</p> <p>Jul. 2018 Representative Director of Space Port Japan Association (to present)</p> <p>Significant positions concurrently held External Director of Oporun Co., Ltd. Outside Director of TOPCON CORPORATION Representative Director of Space Port Japan Association</p>	0 shares
<p>Reasons for nomination as a candidate for Outside Director</p> <p>Ms. Naoko Yamazaki has broad insight as an engineer regarding the latest aerospace engineering and the field of manned space machinery systems including robotic arms. As an astronaut, she has experience in conducting crisis management in the harsh, resource-limited environment of spacecraft, etc., has extensive skills in risk management and, as an Outside Director of the Company from March 2016, she has appropriately supervised management. The Company, having high regard for her experience and insight, requests the continued appointment of Ms. Naoko Yamazaki as Outside Director, so that we may seek her supervision and advice from decisions based on an objective and fair viewpoint.</p>			

- (Notes)
1. No conflict of interest exists between Ms. Naoko Yamazaki and the Company.
 2. Ms. Naoko Yamazaki is a candidate for Outside Director.
 3. There are no transactions between Space Port Japan Association, where Ms. Naoko Yamazaki serves as Representative Director, and the Group.
 4. Ms. Naoko Yamazaki satisfies the conditions defined by the Company in the "Criteria for the Independence of Outside Directors and Statutory Auditors (Independent)" (please refer to page 18).
The Company has already designated Ms. Naoko Yamazaki 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 Ms. Naoko Yamazaki and plans to retain the agreement, if her reappointment 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 Two Statutory Auditors

The terms of office of two Statutory Auditors, i.e. Statutory Auditor Takayuki Onishi and Statutory Auditor (Independent) Hisao Katayama will expire at the conclusion of this Annual General Meeting of Shareholders.

Accordingly, the election of two Statutory Auditors is proposed.

Each candidate for Statutory Auditor 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 18 for the policy and procedure of the election of Statutory Auditor, and the criteria for the independence of Statutory Auditors (Independent).

The Audit & Supervisory Board has already approved this Proposal.

The candidates for Statutory Auditors are as follows:

No.	Name (Date of birth)	Career summary, position and significant positions concurrently held		Number of shares of the Company held
1	Kenichi Kikuchi (Dec. 18, 1959, 59 years old) New candidate Term of office: — Attendance at the Board of Directors meetings and the Audit & Supervisory Board meetings: —	Apr. 2015 Jul. 2017	Senior Manager, Accounting & Finance Department of Nabtesco Corporation General Manager, Business Auditing Department of Nabtesco Corporation (to present)	 0 shares
Reasons for nomination as a candidate for Statutory Auditor After being engaged mainly in the finance and accounting segment for many years, Mr. Kenichi Kikuchi currently serves as General Manager of Business Auditing Department, and has a high level of expertise and experience concerning accounting and finance. The Company has determined that his experience and insight qualify him for the duties of Statutory Auditor, and requests the appointment of Mr. Kenichi Kikuchi as Statutory Auditor.				

- (Notes) 1. No conflict of interest exists between Mr. Kenichi Kikuchi and the Company.
 2. The age of Mr. Kenichi Kikuchi 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	Tetsuro Hirai (Dec. 19, 1955, 63 years old)	Apr. 1980	Joined Toyota Motor Co., Ltd. (current Toyota Motor Corporation)	0 shares
	New candidate	Jan. 2006	General Manager, Vehicle Planning Department, Global Strategic Production Planning Division and Project General Manager of China Division of Toyota Motor Corporation	
	Candidate for Statutory Auditor (Independent)	Jan. 2008	General Manager, Machinery Division, Motomachi Plant of Toyota Motor Corporation (retired in Jun. 2010)	
	Candidate for independent auditor	Jun. 2010 Jun. 2011	Executive Officer of Toyota Tsusho Corporation Managing Executive Officer of Toyota Tsusho Corporation	
	Term of office: —	Apr. 2018	Technical Supervisor of Toyota Tsusho Corporation (to present)	
	Attendance at the Board of Directors meetings and the Audit & Supervisory Board meetings: —	Significant positions concurrently held Technical Supervisor of Toyota Tsusho Corporation		
<p>Reasons for nomination as a candidate for Statutory Auditor (Independent)</p> <p>Mr. Tetsuro Hirai has broad experience and extensive knowledge and insight on production. Additionally, he has experience as a corporate manager. The Company requests the appointment of Mr. Tetsuro Hirai as Statutory Auditor (Independent), so that we may seek his fair decisions based on the above, and objectiveness and neutrality toward management to strengthen our corporate governance.</p>				

- (Notes)
1. No conflict of interest exists between Mr. Tetsuro Hirai and the Company.
 2. Mr. Tetsuro Hirai is a candidate for Statutory Auditor (Independent)
 3. Toyota Tsusho Corporation, where Mr. Tetsuro Hirai serves as Technical Advisor, has trading relationships with the Group. However, since the annual transaction amount for the past three fiscal years was minimal, accounting for less than 1% of the consolidated net sales of both the Company and Toyota Tsusho, Toyota Tsusho is not considered a major business partner.
 4. Mr. Tetsuro Hirai satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Statutory Auditors (Independent)” (please refer to page 18). The Company plans to designate Mr. Tetsuro Hirai as independent auditor under the provisions set forth by the Tokyo Stock Exchange, if his appointment is approved under this Proposal.
 5. Article 36 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of a Statutory Auditor (Independent) for damages in order to allow the Statutory Auditor (Independent) to fully perform the roles expected thereof. Accordingly, the Company plans to conclude a limited liability agreement with Mr. Tetsuro Hirai if his appointment 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. Tetsuro Hirai is as of the time of completion of this Annual General Meeting of Shareholders.

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(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
Kensuke Ioku		Statutory Auditor	3 years
Kenichi Kikuchi		Statutory Auditor	—
Zenzo Sasaki	Independent Independent auditor	Statutory Auditor (Independent)	3 years
Takemi Nagasaka	Independent Independent auditor	Statutory Auditor (Independent)	3 years
Tetsuro Hirai	Independent Independent auditor	Statutory Auditor (Independent)	—

Independent: Statutory Auditor (Independent)

Independent auditor: Independent auditor

(Note) The term of office of each Statutory Auditor is as of the time of completion of this Annual General Meeting of Shareholders.

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(Reference)

“Policy and Procedure of the Election of Directors and Statutory Auditors”

The Company has established the Nominating Committee as a consultative body of the Board of Directors to deliberate the nomination of candidates for Director, Statutory Auditor, 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/Statutory Auditors (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.

[Statutory Auditors]

- The Audit & Supervisory Board comprises no more than five Statutory Auditors, the majority of whom shall be Statutory Auditors (Independent).
- With the aim of maximizing the functions of Statutory Auditors 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 Statutory Auditors (Independent)”

The Company considers an Outside Director/Statutory Auditor (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/Statutory Auditor (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/Statutory Auditor (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/Statutory Auditor (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/Statutory Auditor (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/Statutory Auditor (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/Statutory Auditor (Independent) belongs receive the remuneration);
- 6) The Outside Director/Statutory Auditor (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/Statutory Auditor (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/Statutory Auditor (Independent) has not fallen under requirements 1) through 6) for the past three years; and
- 9) The Outside Director/Statutory Auditor (Independent)’s term of office as an Outside Director/Statutory Auditor (Independent) of the Company does not exceed eight years in total.

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(Reference)

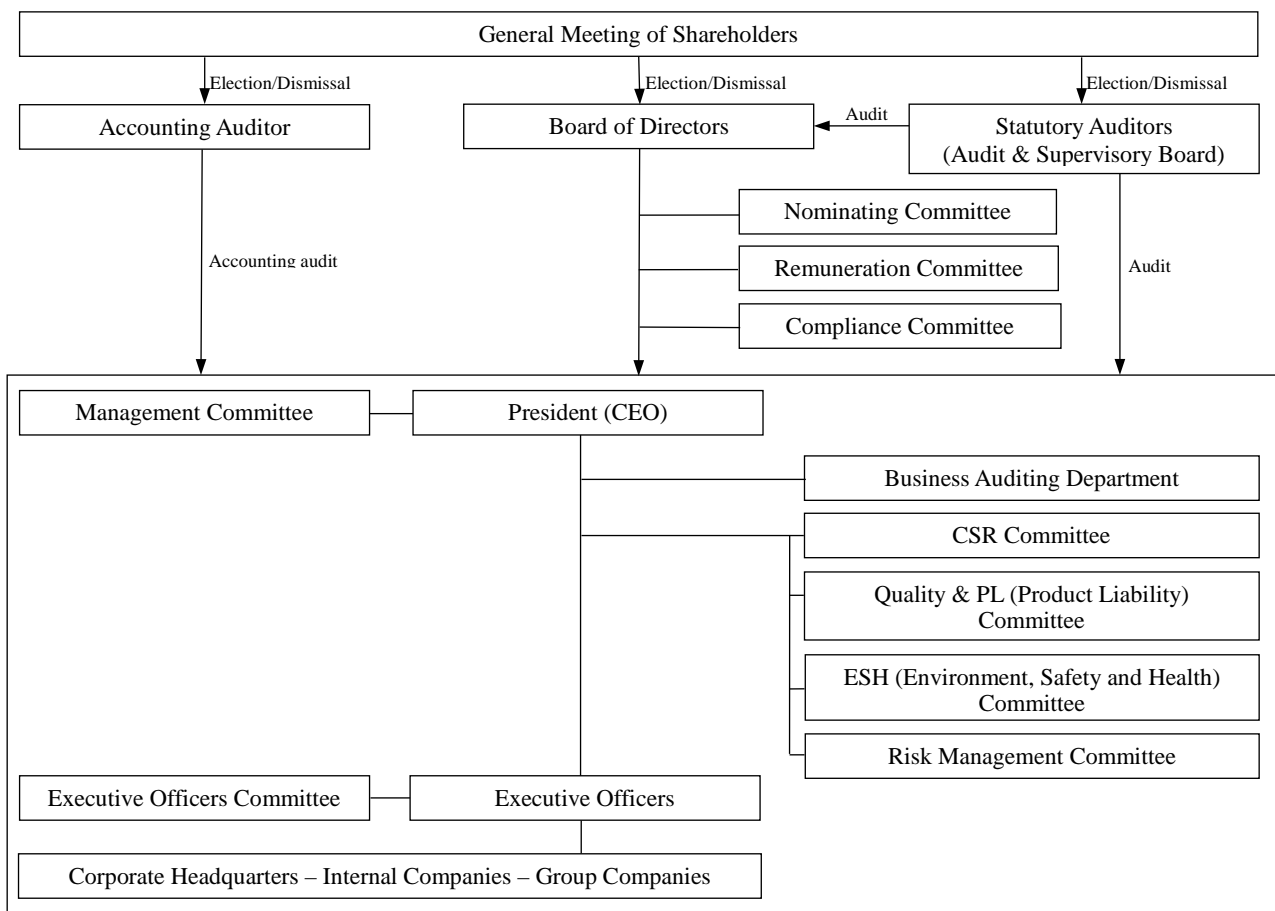
Initiatives to Improve Corporate Governance

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/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 elects six (40% of the total) Independent Outside Directors/Statutory Auditors (Independent) out of a total of 15 Directors and Statutory Auditors. Furthermore, the Company has established the Nominating Committee and the Remuneration Committee as consultative bodies of Directors, the majority of which comprise Independent Outside Directors/Statutory Auditors (Independent). In addition, measures to enhance the corporate governance system are put in place including the annual assessment of the effectiveness of the Board of Directors and training for Directors and Statutory Auditors.

Corporate Governance System



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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, Statutory Auditor, 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/Statutory Auditors (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/Statutory Auditors (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/Statutory Auditors (Independent) and external experts.
Statutory Auditors (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 Statutory Auditors of Group companies as a way to strengthen management of the Group. The Board comprises no more than five Statutory Auditors, the majority of whom shall be Statutory Auditors (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.

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Business Report (from January 1, 2018 to December 31, 2018)

1. Overview of Consolidated Business Activities

(1) Developments and results of business activities

The consolidated operating results of the Group for FY 2018 increased revenue year on year with net sales of ¥294,626 million and operating income of ¥21,889 million, due to favorable demand for construction machinery in China and emerging countries and for subway projects in China, as well as strong performance of the automatic doors business mainly in Japan. Profit before taxes was ¥29,962 million as a result of an increase in equity in earnings of affiliates. Profit attributable to owners of the parent came to ¥21,029 million.

Net sales ¥294.6 billion Up 4.3% year on year	Operating income ¥21.9 billion Down 25.7% year on year
Profit before taxes ¥30.0 billion Down 14.2% year on year	Profit attributable to owners of the parent ¥21.0 billion Down 16.4% year on year

Segment information

	Net sales (Million yen)	Operating income (Million yen)
Component Solutions	119,280	20,197
Transport Solutions	81,863	2,007
Accessibility Solutions	75,957	4,625
Others	17,527	2,458
Corporate or elimination	—	(7,400)
Total	294,626	21,889

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(2) Segment information

Operating results by segment were as follows.

[Component Solutions]

Net sales composition 40.5%

	FY 2017	FY 2018 (current)
Net sales (Million yen)	113,885	119,280
Operating income (Million yen)	20,432	20,197

The amount of orders received for component solutions was ¥114,716 million, down 4.0% year on year. Net sales were ¥119,280 million, up 4.7% and operating income was ¥20,197 million, down 1.1%.

Sales of precision reduction gears decreased year on year, due to the postponement of capital investment for automobiles from the second quarter onwards, among others, despite strong sales during the first quarter on the back of automation and laborsaving needs of production facilities.

Sales of hydraulic equipment increased year on year, due to continued high-level demand for construction machinery in the Chinese market and emerging countries.

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.27)

Business Report

[Transport Solutions]

Net sales composition 27.8%

	FY 2017	FY 2018 (current)
Net sales (Million yen)	79,134	81,863
Operating income (Million yen)	8,383	2,007

The amount of orders received for transport solutions was ¥86,790 million, up 8.3% year on year. Net sales were ¥81,863 million, up 3.4% and operating income was ¥2,007 million, down 76.1% due mainly to goodwill impairment loss of ¥5,223 million related to consolidated subsidiary OVALO GmbH.

In the railroad vehicle equipment business, sales increased year on year, due to an increase in sales for subway projects in China and an increase of maintenance, repair and overhaul (MRO) services in Japan and overseas, which offset the sales decrease in the Japanese market.

In the aircraft equipment business, sales decreased year on year, due to a decline in sales to the Ministry of Defense.

In the commercial vehicle equipment business, sales increased year on year thanks to robust performance in the Japanese market and recovery in the Southeast Asian Market.

In the marine vessel equipment business, as the marine transport market saw a modest recovery trend, sales increased year on year.

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.

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[Accessibility Solutions]

Net sales composition 25.8%

	FY 2017	FY 2018 (current)
Net sales (Million yen)	72,374	75,957
Operating income (Million yen)	5,168	4,625

The amount of orders received for accessibility solutions was ¥74,906 million, down 5.7% year on year. Net sales were ¥75,957 million, up 4.9% and operating income was ¥4,625 million, down 10.5%.

In the automatic doors business, sales increased year on year thanks to the favorable sales of platform doors.

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.

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Business Report

[Others]

Net sales composition 5.9%

	FY 2017	FY 2018 (current)
Net sales (Million yen)	17,029	17,527
Operating income (Million yen)	1,983	2,458

The amount of orders received for others was ¥18,416 million, down 1.0% year on year. Net sales were ¥17,527 million, up 2.9% and operating income was ¥2,458 million, up 23.9%.

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

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” ~

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(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

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(Reference)

Initiatives to Solve ESG-Related Issues in FY 2018 (16th Fiscal Year)

By practicing The Nabtesco Way, the Nabtesco Group strives to ensure management transparency, provide safety, comfort and a sense of security, and fulfill its corporate social responsibilities, thereby contributing to solving environmental and social issues and seeking to enhance corporate value on a sustainable basis.

Governance

Strengthening governance

Revised the Corporate Governance Basic Policy	Stipulated the policy to reduce strategic shareholdings, management focusing on capital costs, participation of the Board of Directors in CEO succession planning, etc.
Enhanced risk management	Carried out systematic risk assessment throughout the Group, identified and implemented measures for serious company-wide risks through the Risk Management Committee
Strengthened compliance system	Promoted educational activities by thoroughly communicating the Group Code of Ethics and the Global Anti- Bribery Policy

Society

Promotion of workstyle reforms	Improved the personnel system to cover diverse work-styles and promoted increase in productivity through the use of IT
Reinforcement of human rights management	Carried out a risk survey on human rights based on the Nabtesco Group Human Rights Policy, and confirmed that there are no material risks
Established the Policy on Corporate Citizenship Activities	Stipulated the goals and priority areas for proactive promotion of corporate citizenship activities.

Environment

Accelerated PDCA cycle aimed at long-term targets for CO₂ reduction

Long-term Group Targets

<Global Targets>

CO₂ emissions (per unit of sales)

FY 2030 30% reduction

FY 2050 80% reduction

(compared with FY 2015)

Proactive implementation of environmental capital investment

(Million yen; approx)

FY 2016	500
FY 2017	1,200
FY 2018	1,200
FY 2019 (plan)	1,900

Major investments

- Solar power generation facilities
- High-efficiency machining equipment
- Early observance of the Act on Rational Use and Appropriate Management of Fluorocarbons

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Topics

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

The Dow Jones Sustainability Indices (DJSI) were jointly developed by the U.S.-based S&P Dow Jones Indices and the Swiss-based RobecoSAM. It evaluates companies' economic, environmental and social initiatives to select those with outstanding overall performance, taking market capitalization into account. The 2018 World Index includes 317 companies (of which 34 are Japanese) chosen from around 3,400 major companies. In the Machinery and Electrical Equipment sector, where the Company operates, 11 companies were selected, including two based in Japan.

The Company was also selected six years in a row for the Asia Pacific Index which comprises Asia and Pacific region companies.

Topics

Awarded highest ratings in three sectors from CDP 2018

The Company was awarded highest ratings in three sectors by CDP, namely, Climate Change, Water Security and the Supplier Engagement leader board.

Representing 650 institutional investors worldwide with total operating assets of US\$87 trillion, CDP is an international NGO that gathers information on and evaluates corporate efforts related to the environment. In 2018, more than 7,000 companies that account for over 50% of the world's market capitalization disclosed environmental information through CDP.

Of these, 126 companies were selected for the Climate Change A List, 27 for the Water Security A List, and 128 for the Supplier Engagement leader board.

Regarding the climate change sector, the Company set its long-term CO₂ emission reduction target towards 2030 and 2050 in December 2016, which have been officially approved by the Science Based Targets Initiative (SBTi) for its consistency with the 2 degree Celsius target set in the Paris Agreement. The Group is striving to mitigate CO₂ emissions and climate change risks through concerted efforts with business partners involving the supply chain.

Regarding the Water Security sector, in addition to implementing multiple water-related risk assessments within its direct operation and supply chain, the Company has also expanded the consideration of water-related risks and opportunities to overseas bases and set quantitative and qualitative targets for water-related activities.

The Company will continue to work on environmental issues to realize a sustainable society.

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Business Report

(4) Financial highlights

Classification	FY 2014 The 12th fiscal year J-GAAP	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
Net sales (Million yen)	219,657	187,000	244,968	282,422	294,626
Operating income (Million yen)	23,615	15,294	25,982	29,468	21,889
Operating margin	10.8%	8.2%	10.6%	10.4%	7.4%
Profit attributable to owners of the parent (Million yen)	17,746	11,059	18,606	25,146	21,029
Total basic earnings per share (Yen)	140.24	88.85	150.64	203.85	169.65
Total equities (Million yen)	158,664	148,924	155,904	177,002	189,255
Equities attributable to owners of the parent per share (Yen)	1,184.17	1,150.41	1,193.79	1,355.72	1,438.64
Total assets (Million yen)	245,992	233,381	256,973	301,557	328,568
Return on equity (ROE)	12.6%	7.6%	13.0%	15.9%	12.1%
Return on assets (ROA)	7.4%	4.6%	7.6%	9.0%	6.7%

(Notes)

1. Starting from the 15th fiscal year, the Group decided to adopt 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.

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Business Report

(5) Research and development activities

The amount used for research and development activities by the Group in FY 2018 was ¥10,214 million.

(6) Capital investment

The total amount of capital investment by the Group in FY 2018 was ¥20,288 million. The Group promoted capital investment mainly for increasing its production capacity in component solutions and transport solutions to increase production.

	FY 2017	FY 2018 (current)
Research and development (Million yen)	8,731	10,214
Capital investment (Million yen)	15,187	20,288

(Reference)

Nabtesco R&D Center

The Group integrated the Technology and R&D Division organizations and established an open innovation-oriented research and development system in October 2017

Building for actuators of the Gifu Plant

An actuator production building was completed on October 23, 2018 in addition to the buildings for precision components and surface treatment that were completed in 2016. (Total floor area: 8,263m²)

(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 2018 was ¥45,310 million.

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(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.	Minato-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 million	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\$14.5 million	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 million	100.0 [100.0]	Manufacture, sales and after sales service of aircraft equipment	WA, U.S.A.
NABCO Entrances, Inc.	US\$200	100.0 [100.0]	Manufacturing and sales of automatic doors	WI, U.S.A.
Gilgen Door Systems AG	CHF2 million	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 million	70.0	Manufacturing and sales of hydraulic equipment	Chonburi, Thailand

(Notes)

1. Figures in brackets under “Equity ratio of the Company” indicate indirect investment ratios.
2. NABCO Systems Co., Ltd. has moved the location of its head office to Chiyoda-ku, Tokyo on January 21, 2019.

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

Not applicable

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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
7,713	+122

(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.	13,557
MUFG Bank, Ltd.	8,206
Sumitomo Mitsui Banking Corporation	5,903

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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 878,739 treasury shares)
(3) Number of shareholders	24,521

■ Shareholder composition (as of December 31, 2018)

	Number of shares held (thousand shares)	Shareholding ratio (%)
Financial institutions & securities firms	26,027	20.80%
Financial instruments business operators	8,139	6.50%
Other domestic legal entities	15,755	12.59%
Foreign legal entities	60,045	47.98%
Individuals & others	14,288	11.42%
Own shares	879	0.70%

(4) Major shareholders (Top 10)

Shareholders	Number of shares held (thousand shares)	Shareholding ratio (%)
SSBTC CLIENT OMNIBUS ACCOUNT	8,221	6.62
Japan Trustee Services Bank, Ltd. (Trust Account)	6,713	5.40
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,784	4.65
Central Japan Railway Company	5,171	4.16
FANUC CORPORATION	3,760	3.03
Harmonic Drive Systems Inc.	3,265	2.63
SMBC Nikko Securities Inc.	3,088	2.49
GOLDMAN, SACHS & CO. REG	2,377	1.91
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,134	1.72
Japan Trustee Services Bank, Ltd. (Trust Account 7)	2,005	1.61

(Note)

The shareholding ratio is calculated after deducting the number of treasury shares (878,739 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/ir/stock/shareholders_meeting.html) in accordance with provisions of laws and regulations as well as Article 16 of the Articles of Incorporation.

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3. Directors and Statutory Auditors

(1) Directors and Statutory Auditors

Position	Name	Assignment and significant positions concurrently held	
		As of December 31, 2018	As of January 1, 2019
Chairman of the Board	Kazuaki Kotani		
Representative Director	Katsuhiro Teramoto	President and Chief Executive Officer (CEO)	(Same as left)
Representative Director	Shinji Juman	Managing Executive Officer; President, Precision Equipment Company; in charge of Production Innovation	Managing Executive Officer; Component Solution Segment; President, Power Control Company; in charge of Production Innovation
Representative Director	Daisuke Hakoda	Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Corporate Communication, Human Resources	Managing Executive Officer; President, Accessibility Innovations Company
Director	Koji Kaminaka	Managing Executive Officer; President, Accessibility Innovations Company	
Director	Goro Hashimoto	Executive Officer, General Administration, Legal & Compliance	Managing Executive Officer, General Administration, Human Resources and Legal & Compliance
Director	Toshiaki Akita	Executive Officer; Senior General Manager, Technology and R&D Division	Managing Executive Officer; Senior General Manager, Technology and R&D Division
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	
Statutory Auditor	Takayuki Onishi		
Statutory Auditor	Kensuke Ioku		
Statutory Auditor (Independent)	Hisao Katayama	Outside Director, YUSHIRO CHEMICAL INDUSTRY CO., LTD.	
Statutory Auditor (Independent)	Zenzo Sasaki	Attorney-at-law (Harumi-kyowa Law Offices)	
Statutory Auditor (Independent)	Takemi Nagasaka	Outside Audit & Supervisory Board Member, DAIO PAPER CORPORATION	

(Notes)

1. The Company has changed the Directors' duties on January 1, 2019. Therefore, the status of the assignment of the Directors as of January 1, 2019 is presented along with the status as of December 31, 2018.
2. Messrs. Koji Kaminaka and Toshiaki Akita were newly elected and assumed office as Director at the 15th Annual General Meeting of Shareholders held on March 27, 2018.
3. Messrs. Yutaka Fujiwara, Norio Uchida, and Ms. Naoko Yamazaki are Outside Directors.
4. Messrs. Hisao Katayama, Zenzo Sasaki and Takemi Nagasaka are Statutory Auditors (Independent).
5. Mr. Yutaka Fujiwara, Director, assumed office as Representative of Cross-Border Bridge Corporation on April 1, 2018. He was President & CEO of Cross-Border Bridge Corporation until March 31, 2018.
6. Ms. Naoko Yamazaki, Director, assumed office as Outside Director of TOPCON CORPORATION on June 27, 2018 and as Representative Director of Space Port Japan Association on July 13, 2018.

7. Mr. Kazuaki Kotani, Director, is scheduled to assume office as Outside Director of Maruka Machinery Co., Ltd. on February 21, 2019.
8. There is no special relationship between the Company and any of the companies at which Outside Directors and Statutory Auditors (Independent) of the Company concurrently hold managerial positions including that of officer.
9. Mr. Takayuki Onishi, Statutory Auditor, has a considerable length of experience in the finance and accounting sectors of the Company and broad insight in the fields of finance and accounting.
10. Mr. Takemi Nagasaka, Statutory Auditor, 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.
11. The Company designates Outside Directors Messrs. Yutaka Fujiwara, Norio Uchida and Ms. Naoko Yamazaki, and Statutory Auditors (Independent) Messrs. Hisao Katayama, Zenzo Sasaki and Takemi Nagasaka, as independent directors/auditors under the provisions set forth by the Tokyo Stock Exchange.

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(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 Statutory Auditors (Independent), a limited liability agreement has been concluded with Outside Directors Messrs. Yutaka Fujiwara, Norio Uchida and Ms. Naoko Yamazaki, and Statutory Auditors (Independent) Messrs. Hisao Katayama, Zenzo Sasaki and Takemi Nagasaka.

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 Statutory Auditor (Independent) acts in good faith and without gross negligence when performing their duties.

(3) Total amount of compensation paid to Directors and Statutory Auditors

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

Directors/ Statutory Auditors	Total amount of compensation (million yen)	Types of compensation (million yen)				Number of Directors and Statutory Auditors
		Fixed compensation	Performance-linked compensation		Board Benefit Trust (BBT)	
			Monthly compensation	Tenure grant		
Directors	424	195	106	35	87	12
[Outside Directors]	(30)	(30)	—	—	—	[3]
Statutory Auditors	78	78	—	—	—	5
[Statutory Auditors (Independent)]	(24)	(24)	—	—	—	[3]
Total	501	273	106	35	87	17

(Notes)

1. The “Number of Directors and Statutory Auditors” for Directors includes two Directors 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 Statutory Auditors.
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 Statutory Auditors 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.

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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 Statutory Auditors 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.

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■ 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
12.5%	282,422 million yen	29,468 million yen	25,146 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, 2017.

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/Statutory Auditor (Independent).

Compensation, etc. of Statutory Auditors is decided upon consultation with Statutory Auditors.

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 2018 to December 2018)]

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

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(4) Outside Officers

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

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

(ii) Main activities during the fiscal year

Directors/ Statutory Auditors	Name	Attendance rate at the Board of Directors meetings	Attendance rate at the Audit & Supervisory Board meetings	Main activities
Director	Yutaka Fujiwara	89%	—	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.
Statutory Auditor	Hisao Katayama	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 a corporate manager.
Statutory Auditor	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.
Statutory Auditor	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.

(Note)

The number of Board of Directors meetings and number of Audit & Supervisory Board meetings held in the fiscal year were 18 and 13, respectively.

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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	109	–
Subsidiaries	16	–
Total	125	–

(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 Statutory Auditors. In this case, a Statutory Auditor 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.

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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/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.

1) Compliance system

- (i) 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.
- (ii) For the purpose of providing guidance to every director, officer and employee of the Group on the performance of business activities in an appropriate and fair manner, the Company continuously provides training and awareness activities on compliance.
During the fiscal year under review, the Company provided e-Learning on prevention of insider trading for officers and employees who are likely to have access to insider information, and e-Learning on bribery prevention for employees of the Company and its domestic subsidiaries. We conducted compliance training including raising awareness of the Nabtesco Group Code of Ethics and the Nabtesco Group Global Anti-Bribery Policy at subsidiaries in China, North America and Europe. Furthermore, a compliance awareness survey was conducted for employees of the Company and its domestic subsidiaries, and a video message on compliance from the Company's CEO was distributed to the Company and its domestic and overseas subsidiaries.
- (iii) 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 Statutory Auditor's Hotline established by the Audit & Supervisory Board.
Whistleblower systems for overseas subsidiaries were practically completed during the fiscal year under review, and have commenced operation.
- (iv) Under our organizational structure, the Company assigns a Chief Compliance Officer and a Compliance Officer for assistance at our internal companies, Corporate Headquarters, and domestic and overseas subsidiaries. The Compliance Committee, an advisory body of the Board of Directors established with the aim of strengthening the Group's compliance promotion system, met twice during the fiscal year under review to deliberate important matters concerning compliance.

2) Risk management system

- (i) 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. In addition, we have 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.
- (ii) In the fiscal year under review, the Risk Management Committee met three times 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.
- (iii) 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. In addition, in the fiscal year under review, a special quality audit was conducted by the chair of the Group Quality & PL (Product Liability) Committee.

3) Execution of duties by Directors

Eighteen 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. For the purpose of ensuring a more efficient business execution system, the Company carried out an organizational reform of its Head Office on January 1, 2018.

4) Execution of duties by Statutory Auditors

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 Statutory Auditors 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 Statutory Auditors of the Company's subsidiaries, and thereby rigorously monitor the execution of duties by Directors and employees. Moreover, to ensure the effectiveness of the audits by the Statutory Auditors, the Company grants the Statutory Auditors the right to access all of the management information databases and assigns two support personnel to the Statutory Auditors at their request. In addition, the Statutory Auditor's Hotline, an internal reporting system with Statutory Auditors serving as a point of contact, was established and is being appropriately operated.

(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 15th Fiscal Year (As of December 31, 2017)	The 16th Fiscal Year (As of December 31, 2018)
(Assets)		
Current assets	165,695	179,124
Cash and cash equivalents	44,121	54,039
Trade receivables	76,874	74,952
Contract assets	–	1,650
Other receivables	1,216	1,643
Inventories	40,298	43,592
Other financial assets	190	280
Other current assets	2,996	2,969
Non-current assets	135,863	149,443
Property, plant and equipment	70,700	80,573
Intangible assets	5,850	5,076
Goodwill	21,310	15,512
Investment property	5,404	5,382
Investments accounted for using the equity method	20,184	29,641
Other financial assets	8,547	9,558
Deferred tax assets	1,633	2,012
Other non-current assets	2,236	1,690
Total assets	301,557	328,568

(Million yen)

Description	(Reference) The 15th Fiscal Year (As of December 31, 2017)	The 16th Fiscal Year (As of December 31, 2018)
(Liabilities)		
Current liabilities	96,934	112,558
Trade payables	57,148	50,297
Contracts liabilities	–	5,232
Bonds and borrowings	16,365	34,067
Other payables	12,492	11,809
Income tax payables	4,550	3,479
Provisions	732	1,625
Other financial liabilities	7	–
Other current liabilities	5,641	6,048
Non-current liabilities	27,621	26,755
Bonds and borrowings	11,355	11,243
Liabilities for retirement benefit	9,339	9,142
Deferred tax liabilities	4,801	4,881
Other non-current liabilities	2,127	1,490
Total liabilities	124,556	139,313
(Equities)		
Equity attributable to owners of the parent	167,537	178,702
Share capital	10,000	10,000
Share premium	14,956	15,096
Retained earnings	143,349	155,133
Treasury shares	(3,600)	(2,903)
Other components of equities	2,831	1,377
Non-controlling interests	9,465	10,553
Total equities	177,002	189,255
Total liabilities and equities	301,557	328,568

Consolidated Statement of Income

(Million yen)

Description	(Reference) The 15th Fiscal Year (From January 1, 2017 to December 31, 2017)	The 16th Fiscal Year (From January 1, 2018 to December 31, 2018)
Net sales	282,422	294,626
Cost of sales	(201,982)	(215,043)
Gross profit	80,440	79,583
Other operating income	1,351	1,582
Selling, general and administrative expenses	(51,285)	(53,184)
Other expenses	(1,038)	(6,093)
Operating income	29,468	21,889
Financial income	632	366
Financial costs	(109)	(1,473)
Equity in earnings of affiliates	4,915	9,181
Profit before taxes	34,907	29,962
Income tax expenses	(8,338)	(6,997)
Profit	26,569	22,965
Profit attributable to:		
Owners of the parent	25,146	21,029
Non-controlling interests	1,423	1,935
Profit	26,569	22,965

Non-consolidated Financial Statements

Non-consolidated Balance Sheet

(Million yen)

Description	(Reference) The 15th Fiscal Year (As of December 31, 2017)	The 16th Fiscal Year (As of December 31, 2018)
(Assets)		
Current assets	99,558	104,416
Cash and time deposits	17,353	16,926
Notes receivable	2,434	3,573
Trade accounts receivable	49,045	47,225
Marketable securities	6,000	10,000
Goods and products	3,164	3,535
Products in progress	6,539	7,074
Raw materials and stored goods	6,537	6,679
Other accounts receivable	1,931	2,846
Advances paid	5,000	4,861
Other current assets	1,556	1,696
Fixed assets	110,315	123,954
Tangible fixed assets	43,815	53,485
Buildings	14,062	14,503
Structures	542	573
Machinery and equipment	17,221	20,026
Vehicles and transport equipment	51	80
Tools, apparatus and furniture	2,534	2,671
Land	8,823	9,103
Construction in progress	582	6,530
Intangible fixed assets	3,759	3,223
Software	1,794	1,551
Goodwill	1,869	1,513
Other intangible fixed assets	95	159
Investments and other assets	62,741	67,246
Investments in securities	5,031	5,712
Shares of subsidiaries and associates	34,203	33,842
Investments in capital of subsidiaries and associates	17,760	21,770
Long-term loans receivable from subsidiaries and associates	5,462	4,201
Long-term prepaid expenses	138	108
Deferred tax assets	874	1,033
Other investments and other assets	700	613
Allowance for doubtful accounts	(1,425)	(34)
Total assets	209,874	228,370

(Million yen)

Description	(Reference) The 15th Fiscal Year (As of December 31, 2017)	The 16th Fiscal Year (As of December 31, 2018)
(Liabilities)		
Current liabilities	78,619	90,036
Trade accounts payable	10,192	9,179
Electronically recorded obligations - trade	32,300	31,296
Short-term loans payable	11,350	24,350
Other accounts payable	7,816	6,010
Income taxes payable	2,485	1,881
Accrued expenses	2,732	2,567
Advances received	119	99
Deposits received	11,104	13,997
Allowance for product warranty	465	540
Provision for loss on order received	–	82
Other current liabilities	56	35
Long-term liabilities	16,263	16,727
Bonds payable	10,000	10,000
Provision for retirement bonus	5,610	5,843
Other long-term liabilities	653	884
Total liabilities	94,882	106,763
(Net assets)		
Shareholders' equity	112,773	119,602
Capital stock	10,000	10,000
Capital surplus	26,274	26,274
Legal capital surplus	26,274	26,274
Earned surplus	79,603	86,231
Legal earned surplus	1,077	1,077
Other earned surplus	78,526	85,155
Reserve for advanced depreciation of assets	424	211
Earned surplus brought forward	78,102	84,944
Treasury stock	(3,103)	(2,903)
Valuation and translation adjustments	1,768	1,665
Valuation difference on other securities	1,768	1,665
Subscription rights to shares	450	340
Total net assets	114,992	121,607
Total liabilities and net assets	209,874	228,370

Non-consolidated Statement of Income

(Million yen)

Description	(Reference) The 15th Fiscal Year (From January 1, 2017 to December 31, 2017)	The 16th Fiscal Year (From January 1, 2018 to December 31, 2018)
Net sales	164,992	168,761
Cost of sales	128,404	134,293
Gross profit	36,588	34,469
Selling, general and administrative expenses	19,098	20,521
Operating income	17,490	13,948
Non-operating income	4,329	4,528
Interest income	60	120
Dividend income	3,801	3,992
Foreign exchange gains	133	-
Rent income	303	307
Other non-operating income	31	109
Non-operating expenses	106	731
Interest expenses	47	58
Loss on partnerships	-	123
Foreign exchange losses	-	481
Other non-operating expenses	58	69
Ordinary income	21,713	17,745
Extraordinary gains	298	1,572
Insurance income	286	171
Reversal of allowance for doubtful accounts	-	1,390
Gain on sales of fixed assets	12	11
Extraordinary losses	1,198	187
Loss on disaster	161	49
Loss on sales and retirement of non-current assets	285	107
Loss on sales of shares of subsidiaries and associates	-	30
Loss on valuation of investments in capital of subsidiaries and associates	714	-
Environmental expenses	37	-
Income before income taxes and adjustments	20,813	19,131
Income taxes - current	4,819	3,392
Income taxes - deferred	(140)	(113)
Net income	16,134	15,852