

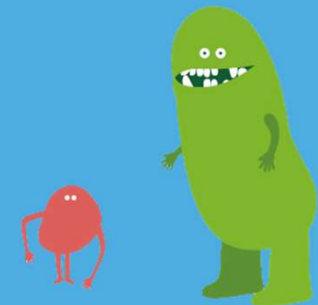
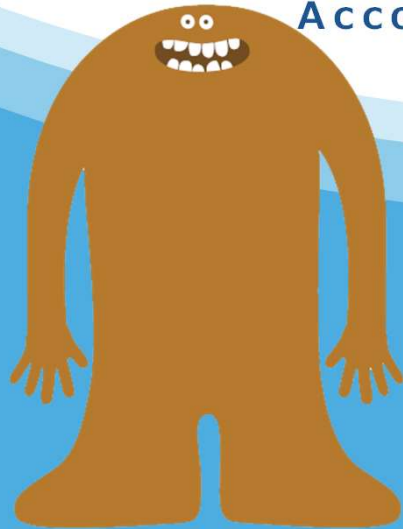
ESG Meeting

~ Action for ESG challenges ~

August 7th, 2019

Executive Officer, Corporate Planning,
Accounting and Finance, Information Systems
and Corporate Communication

Kazumasa KIMURA



Value Creation Process of Nabtesco Group

Value Creation Based on The Nabtesco WAY

Pursue sustainable value creation based on our mission, and realize “all stakeholders’ dreams”

Action guidelines:

By implementing our promises, we will realize "**All Stakeholder's Dreams.**"

Corporate Philosophy

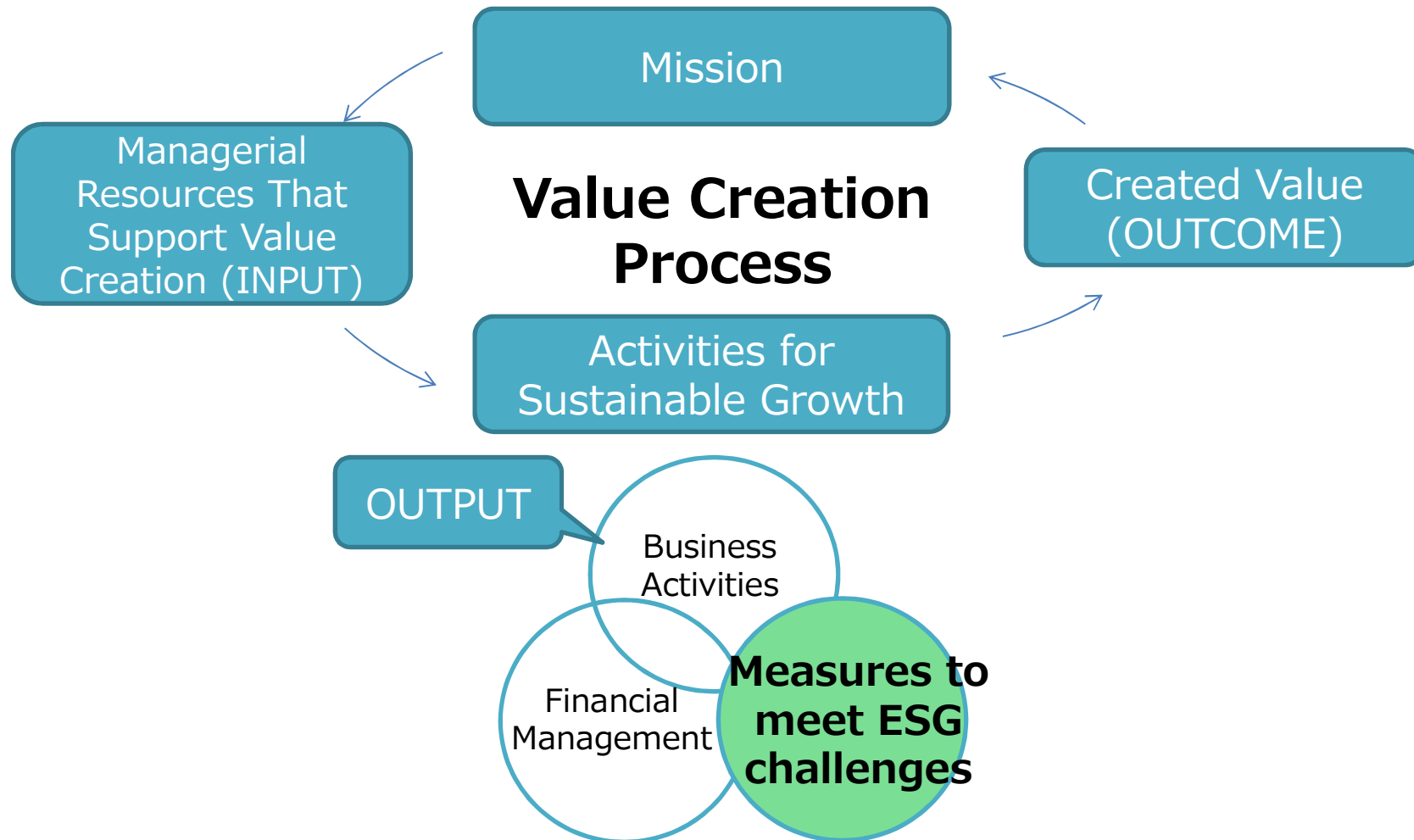
The Nabtesco Group, with our unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any form of transportation.

Our Promises

1. Value close communications with our customers worldwide
2. Value each individual’s spirit of challenge and innovation
3. Continue to expand our business and profit
4. Continue to reinforce our sense of ethics and highly transparent business activities
5. Value the environment and promote harmony with local communities and cultures

Overview of Value Creation Process

Promote Value Creation Process with cross functionally by Meeting ESG Challenges and Fostering Financial Management



Created Value (Outcome)

By enhance various values through value creation process to pursue realization of “all stakeholders’ dreams”

Blue: Marked prioritize ESG challenges

Managerial Resources	Value for the Nabtesco Group	Value for external stakeholders
Relationship Capital	<p>-Customer bases founded on top-class market shares</p> <p>-Trust in the management team and high –scoring ESG evaluation</p>	<p>-QCD* performance that meets the requirements of customers</p> <p>-Enhancement of partnership with stakeholders</p> <p>*QCD: Quality, cost and delivery</p> 
Technology and manufacturing capital	Creation of new products and a highly competitive production system	<p>Provision of safety , comfort and a sense of security and contribution to climate change mitigation</p> 
Human capital	Securing of human resources who implement The Nabtesco Way	<p>Provision of safe and comfortable workplace</p> 
Organizational capital	Highly ethical corporate culture based on a global compliance system	Management transparency based on the autonomous improvement of its functions by the Board of Directors

ESG Challenges

Material CSR Issues

Specified materiality (Material CSR Issues) to meet various ESG challenges effectively and efficiently

General Category	ESG Category	Materiality (Material CSR Issues)	Major SDGs of Relevance
Ensure management transparency	Governance (G)	Strengthen corporate governance	 
		Promote risk management and compliance behavior	
		Ensure proactive dialogue with stakeholders	
Provide safety, comfort and a sense of security	Society (S)	Enhance customer satisfaction, ensure quality and safety	      
		Develop human capital and promote workplace diversity	
		Provide safe and comfortable workplaces	
		Respect human rights	
		Prevent corruption	
		Fair, proper and transparent procurement activities	
	Local community development	   	
	Countermeasures for climate change		
	Environmentally friendly manufacturing		
	Reduction of environmental impact through products and services		
Recycling, reuse and remanufacture of products			

Key points for today's presentation

- (G)
 - Strengthen corporate governance
 - Promote compliance behavior
- (S)
 - Reform workstyle
- (E)
 - Countermeasures against climate change

(G) Strengthen Corporate Governance

Pursue autonomous improvement of corporate governance to earn trust from stakeholders

■ Revision of the Corporate Governance Policy

Revised the Corporate Governance Policy (Issued 2015) to comply with the Corporate Governance Code (revised in 2018)

(Key points for revision in Oct. 2018)

◆ Management focusing on capital costs

- Adopt ROIC as a performance indicator (2017) / Promote manufacturing base improvement by utilizing “ROIC tree”

→ Work to generate continuously higher ROIC than capital costs (WACC)

◆ Participation of the Board of Directors in CEO succession planning

- The Nomination Committee promotes to create CEO succession planning.

◆ Policy to reduce strategic shareholding

- Review the benefit and capital costs of strategic shareholding at Board of Directors meetings

ROIC Improvement items by Manufacturing Innovation

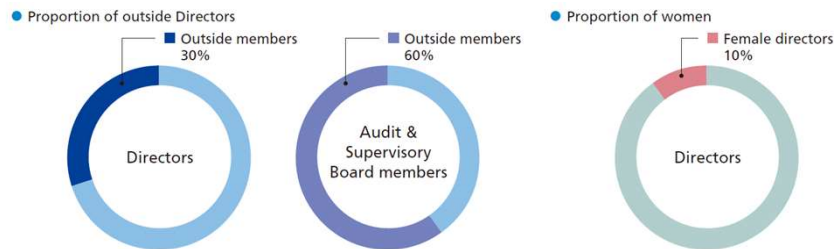
ROIC improvement measures	Aim	Direction	Key challenges
Increasing operating profit ratio	■ Reduce internal costs	Strengthening production capability	<ul style="list-style-type: none"> • More advanced automation • Standardization/on-site improvement (manufacturing support) • Development of unique production technologies
	■ Lower procurement cost	Strengthening procurement ability (strengthening of supply chains)	<ul style="list-style-type: none"> • Optimization of “Make & Buy” • Cross-organizational procurement Generating CR (Cost Reduction) synergies - Centralized/joint procurement
Increasing asset turnover	■ Shortening production lead time	Strengthening production management ability	<ul style="list-style-type: none"> • Renewal of production management with the use of ICT • Logistics reform - Realization of 3PL, milk-run system, etc.
	■ Shortening inventory turnover period		

(G) Strengthen Corporate Governance

Directors and Audit & Supervisory Board members

◆ Composition

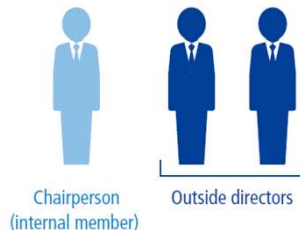
⇒ 6 outside members and 1 female director out of 15



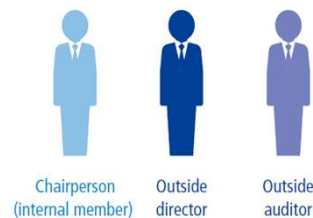
◆ Advisory boards:

- **Nomination Committee (2015~)**
 - Nomination of CEO, directors, auditors
 - Deliberation and report for CEO succession planning
- **Remuneration Committee (2008~)**
 - Deliberation and report for compensation of management

◆ Nomination Committee



◆ Remuneration Committee



Effectiveness evaluation for the Board of Directors (Anonymous self-evaluations)

⇒ The effectiveness of the Board considered to be well secured

Followings are founded as medium- to long-term issues

- ◆ Board composition :
 - Increase the proportion of independent outside directors to at least 1/3
 - Increase the number of female directors

- ◆ Discussion items by the Board of Directors
 - Necessary to secure enough time to deliberate important items in management, including growth strategies

Compensation System for Directors

- ◆ **Fixed and performance-linked compensation**
 - Emphasized the link with business performance
 - KPI : ROIC, Net profit, R&D indicators, environmental indicators
 - Claw-back Clause
- ◆ **Began disclosing more details regarding the compensation system in 2018**

(G) Promote Compliance Behavior

■ Reinforcement of the global compliance system

◆ Establish a compliance promotion system

⇒ Reinforcement of compliance management system with global level

• Established the compliance committee (2016)

• Established the Nabtesco Group Code of Ethics (2016)

⇒ Full renewal of the Code of Corporate Ethics and Code of Conduct, which were established in 2004

◆ Enhance the internal reporting system

⇒ Foster self-purification

• Secure internal reporting system globally

⇒ Internal reporting system: Started in 2005 in Japan, in 2017 in China, and in 2018 in Europe, North America and Southeast Asia

• Established “auditor hotline*” (2017)

*Auditor hotline : Whistleblowing system to report an unfair act of a director/executive officer

■ Raising compliance awareness

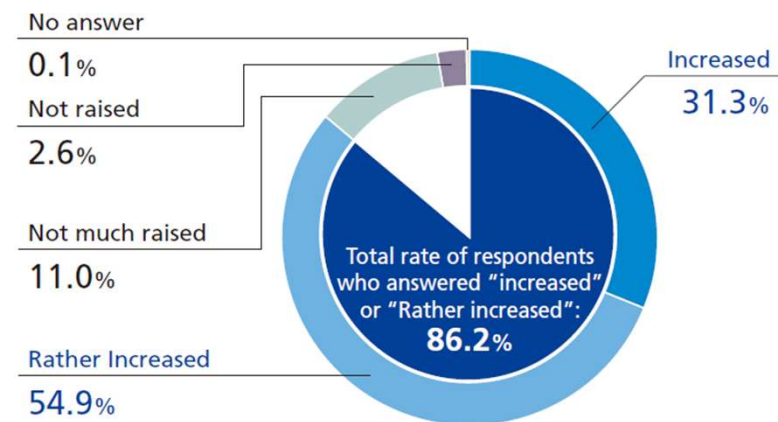
◆ Action for implementation of compliance awareness

• Compliance handbook available in nine languages

• Promotion through the in-house magazine and intranet

• Compliance education by e-learning

⇒ Check the level of awareness by “Compliance awareness survey”



Total number of respondents: 5,360

※Surveyed in 2018

(S) Human Capital Management; Progress with workstyle reforms

Secure enough time to “Enjoy the Challenge” by promoting smart work and the provision of workplaces that contribute to better work-life balance

◆ Main measures

(Themes)

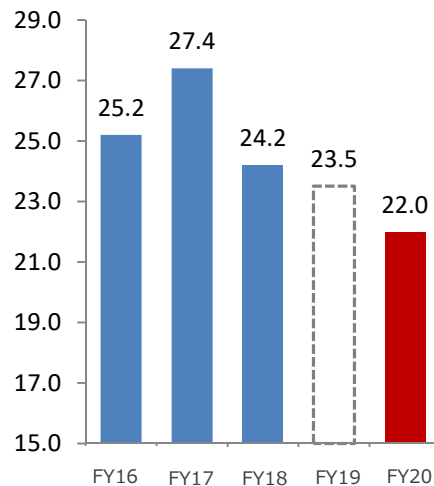
- Promote smart work
- Reform operational process and awareness raising
- Improve IT usability
- Empowerment



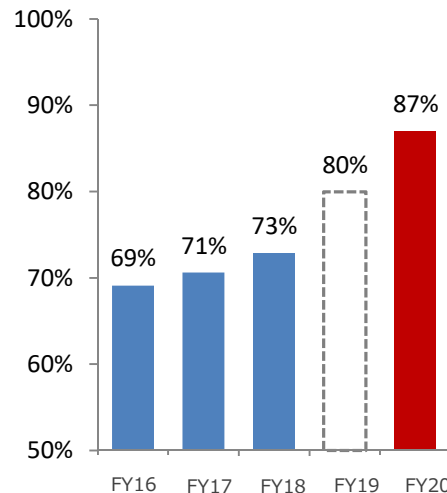
(Result)

- Open satellite offices
- Abstract improvement items based on work reforms
- Introduce robotics process automation, promote paperless work, and study availability of artificial intelligence
- Re-examination of authority rules

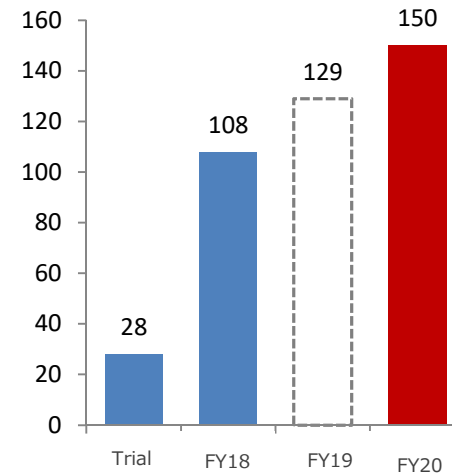
◆ KPI



Averaged overtime hours
Target : Below 22H/M



Paid holiday utilization ratio
Target : 87% and over

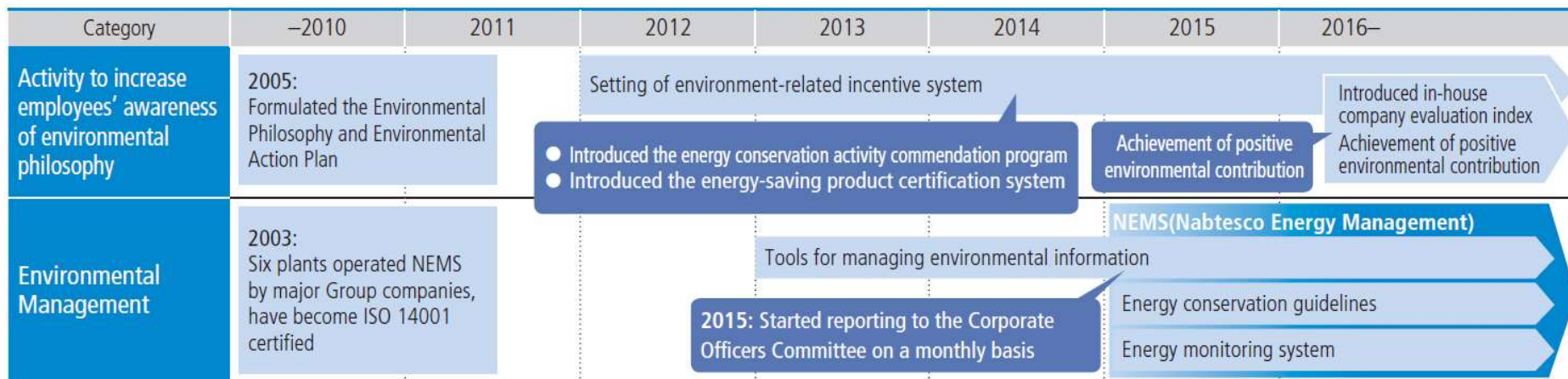


Number of teleworkers
Target : 150 person or more

(E) Countermeasures against climate change

Promote advanced environment management because environmental measures is our one of business strategic priorities since our establishment.

Systematic measures for climate change



(Features of our activities)

Established an environment-related incentive system

- Commendation program for environmental contribution
- Incorporation of "Positive environmental contribution" in the performance indicators

→Encourage employees to make efforts for environmental issues

Built Nabtesco Energy Management System(NEMS)

Collect, visualize and analyze environmental information collected from each site by using environmental information management tools and a monitoring system.

→Promote "PDCA" cycle by monthly reporting to the Corporate Officers Committee.

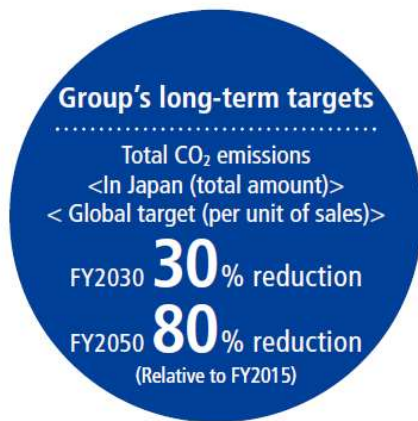


Real-time monitoring system for electric power consumption

(E) Countermeasures against climate change

■ Measures to reduce CO₂ emissions

Promoting measures to save and create energy in order to achieve the long-term CO₂ emission targets set for FY2030 and FY2050.

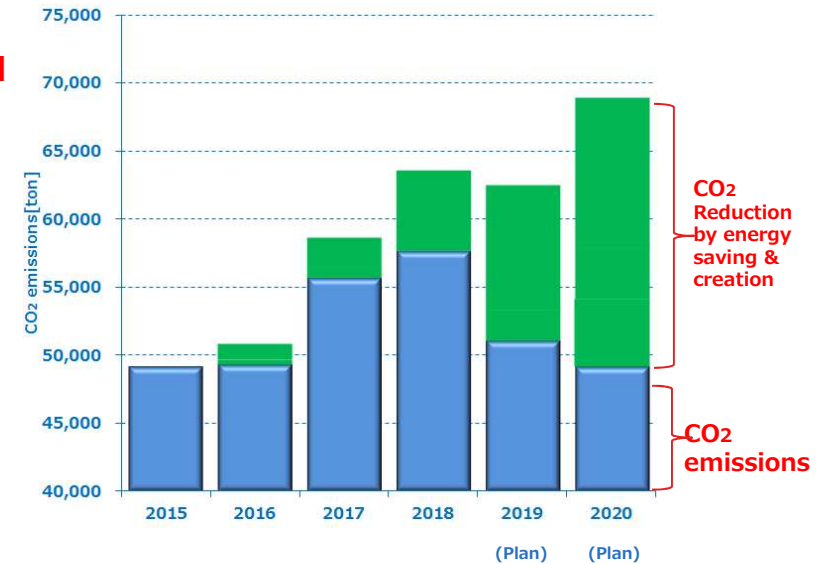


These targets were officially approved by the SBT* initiative in 2017 (8th company to be approved in Japan)



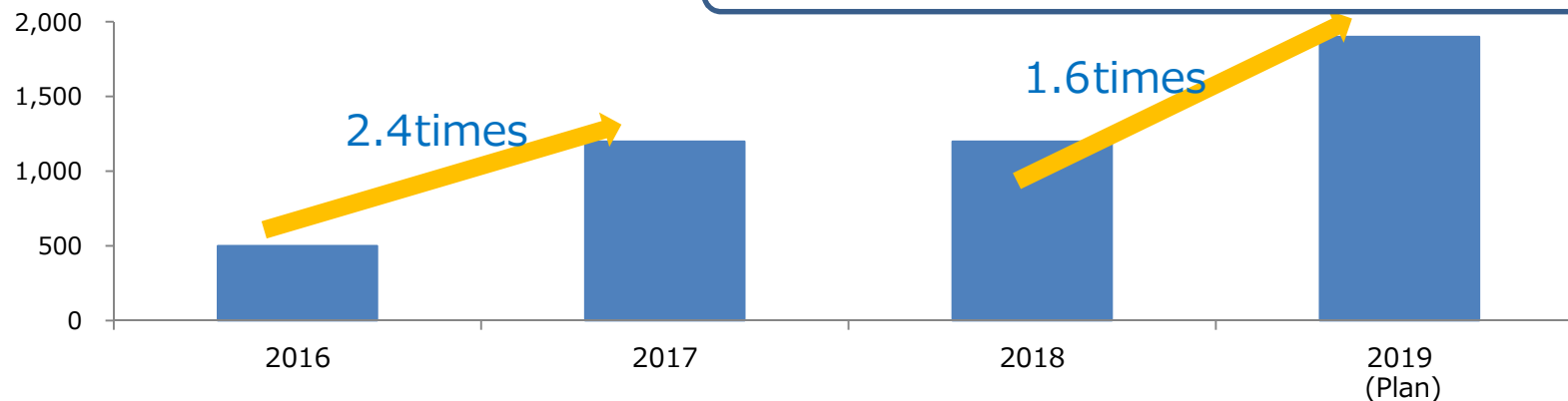
*SBT : Science Based Targets

◆ Forecast of CO₂ emissions



◆ Making environmental investments aggressively

(JPY Million)



Major investment targets :

- Solar power generation equipment
- Highly efficient processing machines
- Advanced measures to comply with regulations on fluorocarbons

ESG Assessment / ESG Indexes

Awarded highest ratings for three area from CDP and listed in other major ESG Indexes

• Environmental Assessment (CDP)



Only 7 Japanese companies were listed in Climate A List for 3 years in a row.
Only 4 Japanese companies were listed in these three Lists.

(WWF Japan)

Effective Efforts to Address Climate and Energy Issues : Machinery and Precision Equipment category
First place in the Ranking of Japanese Corporations

• ESG Indexes



Nabtesco has been selected since 2016
Nabtesco was ranked No.1 among Japanese companies In 2018.
(In Machinery and Electrical Equipment Industry)



(Indices adopted by GPIF)



Appendix

ESG Disclosure

For our ESG information, please access the following websites.

FY2018/12 : Integrated Report
<https://nabtesco.disclosure.site/ja/themes/141>

Corporate Website : CSR
<https://nabtesco.disclosure.site/ja>



&

ESG data book

Governance

Indicators		FY2015	FY2016	FY2017	FY2018	Unit	
Number of Directors	Inside Directors	Male	8	7	7	Persons	
		Female	0	0	0		0
	Subtotal	8	7	7	7		
Independent Outside Directors	Male	Male	2	2	2		Persons
		Female	0	1	1		
	Subtotal	2	3	3	3		
Total		10	10	10	10		
Number of Executive Officers-cum-Directors		7	6	6	7		

FY2018/12 : Important points of this Report

- CEO Dialogue, Dialogue on Governance, Dialogue with Strategic Partner
- Value creation process of Nabtesco Group (explanations)
- Listed essential ESG issues in a systematic manner.

Corporate Website: CSR

- Listed ESG principles, activities and performances.
- ESG data book

Value creation process of Nabtesco Group (Integrated Report: P. 9-10)

Value Creation Process of Nabtesco Group

Our unique "Stopping it. Moving it." technology keeps driving our business globally.

MISSION We will realize "all stakeholders' dreams"

External Environment

Growth opportunities for each of the businesses for which we have large shares of niche markets

Market trends

- Domestic and developed markets: Win orders steadily
- Emerging markets: Increase orders

Technological trends

- Engineering innovation in the manufacturing industry
- Increased needs for mechatronics and systemization technologies

Opportunities to contribute to the solution of social challenges through businesses

- Demand for automation and labor saving at manufacturing sites
- Demand for products that can mitigate environmental impacts
- Needs for the enhancement of safety and comfort of vehicles
- Needs for increased safety and comfort in public spaces
- Needs for safe transportation means for the elderly, people with disabilities, and their caregivers
- Needs for the enhancement of safety for food and daily commodities
- Social demand for realizing sound working environment

Increased request for management transparency

- Increased demand for the development of a governance system for the continuous enhancement of corporate value
- Expansion of the scope of risk management and compliance as a result of globalization

Major risks

- Risks related to the economy and market trends
- Risks related to overseas business expansion
- Risks related to competition
- Risks related to intellectual property
- Risks related to large-scale disasters
- Risks related to the environment etc.

Growth opportunities provided by global social challenge

- Contribution to the achievement of the Sustainable Development Goals (SDGs)

Management Strategy Medium-Term Management Plan (FY2017/12 - 2020/12)

Market Creation

Obtain new markets by accelerating overseas business and developing new domains

Technology Innovation

Create new solutions through transition from components to systems and services

Operational Excellence

Raise profitability and reinforce operational base: Revitalize the organization and promote effective use of human resources

Our commitments

ROE: 15%

Consolidated payout ratio: 35% or over

Focus on solving ESG issues

Long-Term Vision

Status in FY2020

VISION

Global Partner with Best Solutions

Created Value

OUTCOME

	Value for the Nabtesco Group	Value for external stakeholders
Relationship capital	<ul style="list-style-type: none"> Relationships of trust with customers Relationships of trust with shareholders Relationships of trust with suppliers Relationships of trust with local communities 	<ul style="list-style-type: none"> Customer bases founded on top-class market shares Trust in the management team and high-scoring ESG evaluation Responsible supply chain management Improvement of the brand image through community investment
Financial capital	<ul style="list-style-type: none"> Robust balance sheet that supports steady growth investments Equity ratio of 58% on average for the past five years 	<ul style="list-style-type: none"> QCD* performance that meets the requirements of customers Enhancement of partnership with stakeholders Enhancement of the value chain for mutual growth and for the expansion of trade opportunities Contribution to the solution of social challenges in the environment, education and welfare fields
Technology and manufacturing capital	<ul style="list-style-type: none"> Creation of new products and a highly competitive production system 	<ul style="list-style-type: none"> Capital efficiency and stable return of profit that meet shareholders' expectations ROE for FY2018/12: 12.1% Payout ratio for FY2018/12: 43.0%
Human capital	<ul style="list-style-type: none"> Securing of human resources who implement The Nabtesco Way 	<ul style="list-style-type: none"> Provision of safety, comfort and a sense of security and contribution to climate change mitigation Provision of safe and comfortable workplaces
Organizational capital	<ul style="list-style-type: none"> Highly ethical corporate culture based on a global compliance system 	<ul style="list-style-type: none"> Management transparency based on the autonomous improvement of its functions by the Board of Directors

QCD stands for quality, cost and delivery

Business Model

Managerial Resources That Support Value Creation

INPUT



* Growth Investors: Investors who make investments with a focus on the growth potential of companies

Activities for Sustainable Growth

BUSINESS ACTIVITIES

Major businesses

Business segment	Characteristics	Main products and services	Relationship with society
Component Solutions (CMP)	Significant impact of changes in production/ sales volume on profitability	<ul style="list-style-type: none"> Precision reduction gears Hydraulic equipment New energy equipment 	Manufacturing Urban development Renewable energy
Transport Solutions (TBS)		<ul style="list-style-type: none"> Aircraft equipment Railroad vehicle equipment Commercial vehicle equipment Marine vessel equipment 	Transportation of people and goods
Accessibility Solutions (ACB)	After-sale services (MIO*) that mitigate impacts from changes in OEM** production volume	<ul style="list-style-type: none"> Automatic doors Platform doors Welfare equipment 	Daily lives and welfare
Manufacturing Solutions (MIR)		<ul style="list-style-type: none"> Packaging machines 	Production of daily commodities

* OEM: Original Equipment Manufacturer
** MIO: Maintenance / Repair / Overhaul

Measures for Operational Excellence

Financial management	Higher ROE and making growth investment compatible with the return of profit to shareholders
Measures to solve ESG issues	Ensuring "management transparency" and providing "safety, comfort and a sense of security"

Nabtesco

moving it. stopping it.

