

The corporate governance status of the Nabtesco Group is as indicated below.

**I. Basic views on corporate governance, capital structure, corporate attributes and other basic information**

**1. Basic views**

Based on its corporate philosophy, which states, “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,” and through the implementation of “The Nabtesco Way,” the Nabtesco Group endeavors to enhance its corporate governance with the aim of realizing the Group’s sustainable growth, enhancing its medium- to long-term corporate value and earning the greater trust of its stakeholders.

Nabtesco has also established the Corporate Governance Basic Policy (hereafter, “Basic Policy”), which is posted on our corporate website.

Corporate Governance Basic Policy:

<https://www.nabtesco.com/en/ir/policy/governance.html>

[\[Reasons for non-compliance with the principles of the Corporate Governance Code\]](#)

Nabtesco executes all principles of the revised Corporate Governance Code published on June 1, 2018.

[\[Disclosure based on the principles of the Corporate Governance Code\]](#)

[Principle 1-4] Cross-Shareholdings

Please refer to Article 4 (Basic Policy on Cross-Shareholdings and Exercising of Voting Rights Concerning Cross-Shareholdings) of the Basic Policy.

In line with a basic policy under which it should as soon as possible dispose of and reduce cross-shareholdings that it finds of little significance in light of circumstances as of the end of an immediate fiscal year, the Board of Directors annually assesses, based on certain standards, whether a purpose of holding each individual stock is appropriate and whether the benefits and risks from each holding cover its cost of capital and reviews whether or not to continue to hold

the stock and the number of shares held.

At the Board of Directors meeting held on February 28, 2020, Nabtesco assessed each of 11 stocks held as of the end of fiscal 2019 based on its standards on whether or not to continue to hold a stock and consequently confirmed for each stock a certain degree of both significance and economic rationality. On the other hand, it was also decided to reduce the balance of the cross-shareholdings as much as possible in the future reflecting the changes in the environment concerning cross-shareholdings as per the revised Corporate Governance Code of June 2018.

[Principle 1-7] Related party transactions

Please refer to Article 5 (Related Party Transactions) of the Basic Policy.

[Principle 2-6] Roles of Corporate Pension Funds as Asset Owners

Nabtesco deems that Principle 2-6 is not applicable to it because it adopts a defined contribution corporate pension plan as its retirement pension plan.

[Principle 3-1(i)] Business principles, business strategies and business plans

Nabtesco has set out its Action Guidelines as a common set of principles applying to all employees in the performance of their duties and decision-making. The Action Guidelines, along with our Corporate Philosophy and Our Promises, are collectively referred to as The Nabtesco Way, which is disclosed on our website and via other tools.

Nabtesco has also formulated and disclosed a Long-term Vision that integrates the ideal image of our goals for FY2020, as well as a Medium-term Management Plan.

Please refer to our webpages below for details.

The Nabtesco Way: <https://www.nabtesco.com/en/company/greeting.html>

Long-term Vision: <https://www.nabtesco.com/en/ir/policy/vision.html>

Medium-term Management Plan: [https://www.nabtesco.com/en/ir/policy/mid\\_term\\_plan.html](https://www.nabtesco.com/en/ir/policy/mid_term_plan.html)

[Principle 3-1(ii)] Basic views and guidelines on corporate governance

Please refer to “I. 1. Basic views” of this report.

[Principle 3-1(iii)] Board policies and procedures in determining the remuneration of senior management and Directors

Please refer to Article 24 (Remuneration of Management Personnel) of the Basic Policy.

[Principle 3-1(iv)] Board policies and procedures in the appointment/dismissal of senior management and the nomination of Directors and Audit & Supervisory Board Member

candidates

Please refer to Article 23 (Nomination of Directors, Audit & Supervisory Board Members and CEO) of the Basic Policy.

[Principle 3-1(v)] Explanations with respect to the individual appointments/dismissals and nominations at the time of the appointment/dismissal of senior management and the nomination of Directors and Audit & Supervisory Board Member candidates by the Board of Directors The reasons for appointing particular candidates to the position of Outside Director, and the career summaries, positions and assignments of other Directors and Audit & Supervisory Board Members, are disclosed in the notice of convocation of annual general meeting of shareholders and other materials. Please refer to our webpage below for details.

[https://www.nabtesco.com/en/ir/stock/shareholders\\_meeting.html](https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html)

[Supplementary Principle 4-1-1] Delegation to management

Please refer to Article 15 (Delegation to Management Personnel) of the Basic Policy.

[Principle 4-9] Independence Standards and Qualification for Independent Outside Directors

Please refer to Article 18 (Independent Outside Directors) of the Basic Policy.

[Supplementary Principle 4-11-1] Composition of the Board of Directors

Please refer to Article 16 (Composition of the Board of Directors) of the Basic Policy.

[Supplementary Principle 4-11-2] Significant positions concurrently held by Outside Directors and Audit & Supervisory Board Members (Independent) are disclosed every year in the notice of convocation of annual general meeting of shareholders and other materials. Please refer to our webpage below for details.

[https://www.nabtesco.com/en/ir/stock/shareholders\\_meeting.html](https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html)

[Supplementary Principle 4-11-3] Assessment of effectiveness of the Board of Directors

In line with Article 25 of the Basic Policy, Nabtesco conducts analysis and assessment of the effectiveness of the Board of Directors every year based on the self-assessment, etc. of each Director with the aim of enhancing the functionality of the Board. In FY2019, self-assessment was conducted by all Directors and Audit & Supervisory Board Members by way of anonymous questionnaires, and the effectiveness of the Board was evaluated through discussions at the Board of Directors meeting based on the results including the summary and analysis by outside attorneys-at-law. An outline of the results is shown below.

In the questionnaire, respondents self-assessed as follows: the number of members and the composition of the Board of Directors are appropriate, and unrestricted and constructive discussions and exchanges of opinions take place at its meetings. From FY2020, the number of Independent Outside Directors will be increased by one person, thus accounting for at least one-third of the total number of directors. Moreover, discussions are expected to be conducted from even more versatile viewpoints at the meetings due to an increase in the number of female Directors. Taking these points into consideration, the effectiveness of the Board is considered to be well-secured.

On the other hand, in order to further improve the operational effectiveness of the Board, various challenges have been recognized, such as further increasing the number of female Directors, employing non-Japanese Directors, and securing enough time for deliberations on important business issues including growth strategy.

Nabtesco aims to further enhance its corporate governance by meeting the aforementioned challenges and further enhancing the functionality of the Board on a continual basis.

[Supplementary Principle 4-14-2] Self-improvement and training for Directors and Audit & Supervisory Board Members

Please refer to Article 27 (Self-improvement and Training for Directors and Audit & Supervisory Board Members) of the Basic Policy.

[Principle 5-1] Constructive dialogue

Please refer to Article 29 (Constructive Dialogue) of the Basic Policy.

## 2. Capital structure

Foreign shareholding ratio                      No less than 30%

[Status of major shareholders]

Name/company name	Number of shares owned	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Accounts)	7,199.900	5.79
Japan Trustee Services Bank, Ltd. (Trust Accounts)	6,057,300	4.87
Central Japan Railway Company	5,171.000	4.16

Name/company name	Number of shares owned	Ratio (%)
SSBTC CLIENT OMNIBUS ACCOUNT	4,758,185	3.83
FANUC CORPORATION	3,760,000	3.02
Harmonic Drive Systems, Inc.	3,265,000	2.63
SMBC Nikko Securities Inc.	2,676,900	2.15
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,362,200	1.90
Japan Trustee Services Bank, Ltd. (Trust Account 7)	2,079,400	1.67
THE BANK OF NEW YORK MELLON140044	1,988,073	1.60

Supplementary explanation

### 3. Corporate attributes

Listed stock market and market section	Tokyo Stock Exchange First Section
Fiscal year-end	December
Business category	Machinery
Number of employees (consolidated) as of the end of the previous fiscal year	1,000 or more
Sales (consolidated) as of the end of the previous fiscal year	100 billion yen or more, and less than 1 trillion yen
Number of consolidated subsidiaries as of the end of the previous fiscal year	50 or more, and less than 100

### 4. Guidelines for measures to protect minority shareholders in conducting transactions, etc. with controlling shareholders

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### 5. Other special circumstances that may have a material impact on corporate governance

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**II. Business management organization and other corporate governance systems with regard to decision-making, execution of business and oversight in management**

**1. Organizational composition and operations, etc.**

Organization form            Company with “Kansayaku” (Audit & Supervisory Board Members)

[Directors]

Maximum number of Directors stipulated in the Articles of Incorporation	10
Term of office for Directors stipulated in the Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	10
Selection status of Outside Directors	Selected
Number of Outside Directors	4
Number of Outside Directors who are designed as Independent Officer	4

Outside Directors’ relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Yutaka Fujiwara	From another company											
Norio Uchida	From another company											
Mari Iizuka	Scholar											
Naoko Mizukoshi	Attorney-at-law											

\* Categories of relationship with the Company

\* “○” when the Director presently falls, or has recently fallen, within the category; “△” when the director fell within the category in the past

\* “●” when a close relative of the Director presently falls, or has recently fallen, within the category; “▲” when a close relative of the Director fell within the category in the past

- A person who executes business of the Company or its subsidiary
- A person who executes business or a non-executive director of a parent company of the Company
- A person who executes business of a brother company of the Company
- A person whose main business partner is the Company or a person who executes business of the same
- A main business partner of the Company or a person who executes business of the same
- A consultant, accountant or legal expert who receives a large amount of cash or other properties from the Company, in addition to executive remuneration

- g. A major shareholder of the Company (if the said major shareholder is a corporation, a person who executes business of the said corporation)
- h. A person who executes business of a business partner of the Company (that does not correspond to d, e, or f; applies only to the person in question)
- i. A person who executes business of an entity with which the Company has a cross-directorship arrangement (applies only to the person in question)
- j. A person who executes business of an entity that receives a donation from the Company (applies only to the person in question)
- k. Others

Outside directors' relationships with the Company (2)

Name	Independent Officer	Supplementary explanation for applicable items	Reasons for appointment
Yutaka Fujiwara	○	(Significant positions concurrently held) <ul style="list-style-type: none"> <li>• Representative of Cross-Border Bridge Corporation</li> <li>• Outside Director of KITZ Corporation</li> </ul>	Mr. Fujiwara has worked overseas for a number of years and has a wide range of experiences and extensive knowledge and insight on global business. He also 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. The Company has appointed him as an Outside Director, having high regard for his experience and insight, and expects that he is capable of providing supervision and advice utilizing his knowledge. Mr. Fujiwara also satisfies the qualification criteria for an Independent Officer, which means the Company considers him capable of serving as an Outside Director with no risk of creating a conflict of interest with general shareholders.
Norio Uchida	○	(Significant positions concurrently held) <ul style="list-style-type: none"> <li>• Outside Director of ULVAC, Inc.</li> </ul>	Mr. Uchida has served as Representative Director of Topcon Corporation and has broad experience and extensive knowledge and insight as a corporate executive. The Company has appointed him as an Outside Director, having high regard for his experience and insight, and expects that he is capable of providing supervision and advice on technical development and overall global business. Mr. Uchida also satisfies the qualification criteria for an Independent Officer, which means the Company considers him capable of serving as an Outside Director with no risk of creating a conflict of interest with general shareholders.

Name	Independent Officer	Supplementary explanation for applicable items	Reasons for appointment
Mari Iizuka	○	(Significant positions concurrently held) Professor of Doshisha Business School	<p>Although Ms. Iizuka has not been directly involved in corporate management, she has a high level of expertise in the fields of global managerial human resources and international management strategies as a Professor at Doshisha Business School. She also held various posts including Chair of the Japan Global Compact Academic Network, which was established for collaboration between business and academia for achievement of the Sustainable Development Goals (SDGs). The Company has appointed Ms. Iizuka as an Outside Director, having high regard for her experience and insight, and expects that she is capable of providing supervision and advice utilizing her expertise and knowledge.</p> <p>Ms. Iizuka also satisfies the qualification criteria for an Independent Officer, which means that the Company considers her capable of serving as an Outside Director with no risk of creating a conflict of interest with general shareholders.</p>
Naoko Mizukoshi	○	(Significant positions concurrently held) <ul style="list-style-type: none"> <li>• Partner of Leftright Law &amp; IP</li> <li>• External Director of TIS Inc.</li> </ul>	<p>Although Ms. Mizukoshi has not been involved in corporate management except as an outsider director, she has a high level of expertise as an attorney-at-law. She also held various posts including outside officer in other business entities and posts in public offices including member of the Unfair Competition Prevention Subcommittee, Intellectual Property Committee, Industrial Structure Council, Ministry of Economy, Trade and Industry. The Company has appointed her as Outside Director, having high regard for her experience and insight, and expects that she is capable of providing supervision and advice from a legal and objective point of view based on her expertise.</p> <p>Ms. Mizukoshi also satisfies</p>



Name	Independent Officer	Supplementary explanation for applicable items	Reasons for appointment
			the qualification criteria for an Independent Officer, which means that the Company considers her capable of serving as an Outside Director with no risk of creating a conflict of interest with general shareholders.

Voluntary establishment of committees corresponding to Nominating Committee or Remuneration Committee

Established

Status of voluntary establishment of committees, their member composition and attributes of their chairpersons

	Name of committee	Total number of members	Number of full-time members	Number of Internal Directors	Number of Outside Directors	Number of outside experts	Number of others	Chairperson
Committee corresponding to Nominating Committee	Nominating Committee	4	0	1	2	0	1	Internal Director
Committee corresponding to Remuneration Committee	Remuneration Committee	4	0	1	2	0	1	Internal Director

Supplementary explanation

The Nominating Committee, a consultative body of the Board of Directors, deliberates the nomination of candidates for Director, Audit & Supervisory Board Member, President (CEO) and Representative Director positions as well as a plan for successor to the President (CEO), etc., and reports the results to the Board of Directors. The committee is composed of three to five members, the majority of whom shall be Independent Outside Officers (Article 21 of the Basic Policy; the numeral "1" appearing in the "Number of others" column in the above table refers to an Audit & Supervisory Board Member (Independent)). In FY2019, three meetings were held at which all committee members were present.

The Remuneration Committee, a consultative body of the Board of Directors, deliberates the remuneration of the management team and reports the results to the Board of Directors. The committee comprises three to five members, with a majority being Independent Outside Officers (Article 22 of the Basic Policy; the numeral "1" appearing in the "Number of others" column in the above table refers to an Audit & Supervisory Board Member (Independent)). In FY2019, two meetings were held at which all committee members were present.

[ [Audit & Supervisory Board Members](#) ]

Establishment of the Audit & Supervisory Board

Established

Maximum number of Audit & Supervisory Board Members stipulated in the Articles of Incorporation

5

Number of Audit & Supervisory Board Members

5

Cooperation between Audit & Supervisory Board Members, accounting auditors and internal audit departments

Audit & Supervisory Board Member, including Audit & Supervisory Board Member (Independent), confer and exchange information and views on auditing with the Business Auditing Department, which performs internal auditing functions, and auditors of subsidiaries. Furthermore, they organize briefing sessions on auditing plans and results of the audit jointly with accounting auditors and foster mutual cooperation on occasions such as on-site inspections of inventories at plants. Moreover, the members of the internal auditing and finance & accounting departments have meetings and exchange views and information with accounting auditors on the status of development and operation of “internal control over financial reporting.”

Appointment of Audit & Supervisory Board Members (Independent)                      Appointed

Number of Audit & Supervisory Board Members (Independent)                      3

Number of Audit & Supervisory Board Members (Independent) who are designated as Independent Officers                      3

Audit & Supervisory Board Members’ (Independent) relationships with the Company (1)

Name	Attribute	Relationship with the Company (*)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Zenzo Sasaki	Attorney													
Takemi Nagasaka	From another company													
Tetsuro Hirai	From another company										○			

\* Categories of relationship with the Company

\*“○” when the Audit & Supervisory Board Member presently falls, or has recently fallen, within the category; “△” when the Audit & Supervisory Board Member fell within the category in the past

\* “●” when a close relative of the Audit & Supervisory Board Member presently falls, or has recently fallen, within the category; “▲” when a close relative of the Audit & Supervisory Board Member fell within the category in the past

- a. A person who executes business of the Company or its subsidiary
- b. A non-executive director or accounting advisor of the Company or its subsidiary
- c. A person who executes business or a non-executive director of a parent company of the Company
- d. An Audit & Supervisory Board Member of a parent company of the Company
- e. A person who executes business of a brother company of the Company
- f. A person whose main business partner is the Company or a person who executes business of the same
- g. A main business partner of the Company or a person who executes business of the same
- h. A consultant, accountant or legal expert who receives a large amount of cash or other properties from the Company, in addition to executive remuneration
- i. A major shareholder of the Company (if the said major shareholder is a corporation, a person

- who executes business of the said corporation)
- j. A person who executes business of a business partner of the Company (that does not correspond to f, g, or h; applies only to the person in question)
- k. A person who executes business of an entity with which the Company has a cross-directorship arrangement (applies only to the person in question)
- l. A person who executes business of an entity that receives a donation from the Company (applies only to the person in question)
- m. Others

Audit & Supervisory Board Members' (Independent) relationships with the Company (2)

Name	Independent Officer	Supplementary explanation for applicable items	Reasons for appointment
Zenzo Sasaki	○	(Significant positions concurrently held) Attorney at Harumi-kyowa Law Offices	While Mr. Sasaki has not been directly involved in corporate management, he has many years of service as a public prosecutor, with a high level of legal knowledge, along with extensive insights and abilities regarding organizational management overall, based on which the Company has high regard for his experience and insight. The Company has appointed him as an Audit & Supervisory Board Member (Independent) capable of making fair decisions and maintaining objectiveness and neutrality toward the enhancement of our corporate governance and maintenance and improvement of compliance. Mr. Sasaki also satisfies the qualification criteria for an Independent Officer, which means the Company considers him capable of serving as an Audit & Supervisory Board Member (Independent) with no risk of creating a conflict of interest with general shareholders.
Takemi Nagasaka	○	(Significant positions concurrently held) Audit & Supervisory Board Member (Independent) of Daio Paper Corporation	Mr. Nagasaka has specialized knowledge regarding accounting and finance and experience in management. The Company has appointed him as an Audit & Supervisory Board Member (Independent) in the expectation that he will make fair decisions and maintain objectiveness and neutrality toward management to enhance the Company's corporate governance. Mr. Nagasaka also satisfies the qualification of an Independent Officer, which means the Company considers him capable of serving as an Audit & Supervisory Board Member (Independent) with no risk of creating a conflict of interest with general shareholders.
Tetsuro Hirai	○	The Nabtesco Group has a business relationship with Toyota Tsusho	Mr. Hirai has rich experience and highly specialized knowledge and insight concerning manufacturing

Name	Independent Officer	Supplementary explanation for applicable items	Reasons for appointment
		Corporation, where Mr. Hirai serves as a technical supervisor. The trading amount, however, is immaterial, accounting for less than 1% of consolidated net sales of each of the Company and Toyota Tsusho Corporation in each of the past three fiscal years.  (Significant positions concurrently held) Technical Supervisor of Toyota Tsusho Corporation	as well as a career as a corporate executive. The Company has appointed him as an Audit & Supervisory Board Member (Independent) in the expectation that he will make fair decisions and maintain objectiveness and neutrality toward management to enhance the Company's corporate governance. Mr. Hirai also satisfies the qualification criteria for an Independent Officer, which means the Company considers him capable of serving as an Audit & Supervisory Board Member (Independent) with no risk of creating a conflict of interest with general shareholders.

[\[Matters relating to Independent Officers\]](#)

Number of Independent Officers      7

Other matters relating to Independent Officers

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

- 1) The Outside Director/Audit & Supervisory Board Member (Independent) is not a current major shareholder (\*) of the Company or a person who executes its business;  
 \*Person who directly or indirectly holds more than 5% of all voting rights or a person who is listed among the top 10 shareholders in the most recent shareholder registry;
- 2) The Outside Director/ Audit & Supervisory Board Member (Independent) is not a person who executes business of a major lender (\*) of the Group;  
 \*A financial institution group (person who belongs to the consolidated group to which the Group's direct lender belongs) from which the Group borrows funds and the Group's total amount of borrowing from such financial institution group exceeds 2% of the Group's consolidated total assets as of the end of the previous fiscal year;
- 3) The Outside Director/Audit & Supervisory Board Member (Independent) is not a major business partner (yearly transaction amount exceeds 1% of consolidated net sales) or a person who executes its business;
- 4) The Outside Director/Audit & Supervisory Board Member (Independent) is not a person for whom the Group is a major business partner (yearly transaction amount exceeds 1% of the counterparty's consolidated net sales) or a person who executes its business;
- 5) The Outside Director/Audit & Supervisory Board Member (Independent) is not a consultant,

- accounting professional or legal professional who receives a large amount of money (more than ¥6 million yearly) other than the remuneration for directorship/auditorship from the Group (including cases where organizations such as corporations and associations to which such Outside Director/Audit & Supervisory Board Member(Independent) belongs receive the remuneration);
- 6) The Outside Director/Audit & Supervisory Board Member (Independent) is not an executive of an organization such as a corporation or an association that receives a large amount of donations (more than ¥6 million yearly) from the Group;
- 7) The Outside Director/Audit & Supervisory Board Member (Independent) is not a spouse or a relative within the second degree of consanguinity of a person who executes business of the Group;
- 8) The Outside Director/Audit & Supervisory Board Member (Independent) has not fallen under requirements 1) through 6) for the past three years.
- 9) The Outside Director/Audit & Supervisory Board Member (Independent) holds his/her office as an outside officer of Nabtesco for a period not exceeding eight years in total.

[Incentives]

Implementation status of policies concerning incentives for Directors

Introduction of performance-based remuneration

Supplementary explanation for applicable items

- Remuneration, etc. of directors comprises “monthly compensation,” which is made up of fixed compensation as the basic compensation and short-term performance-linked compensation, and “stock compensation” (so-called Board Benefit Trust; hereinafter, “BBT”), which is offered in consideration of the degree of achievement of the Medium-term Management Plan as well as the share value.
- Basic policy on the remuneration system:
  - The interests of shareholders and management should be aligned by enhancing the link between the Company’s business performance and the share value.
  - The remuneration system should function as an incentive for improving the Company’s medium- to long-term performance.
  - The determination process of the remuneration system should be highly objective and transparent.

For further details, please refer to “Disclosure of policy on determination of remuneration amounts or calculation methods” under “Matters relating to remuneration for Directors” below.

Recipients of stock options

Supplementary explanation for applicable items

[Matters relating to remuneration for Directors]

Disclosure (of individual remuneration of each Director)	Individual remuneration is not disclosed.
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Supplementary explanation for applicable items

The total amount of the annual remuneration of Directors in FY2019 was 350 million yen paid to 12 Directors (including 30 million yen paid to three Outside Directors), out of which the monthly compensation was 249 million yen (including 30 million yen for three Outside Directors). With the introduction of the BBT (for which Outside Directors are not eligible), the total amounts of 21 million yen and 80 million yen were recorded as expenses for the benefits granted during the service period and at retirement, respectively, based on the number of stock delivery points granted or expected to be granted in FY2019 (the amounts were recorded based on the Japanese GAAP).

Policy on determination of remuneration amounts or calculation methods	Established
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Disclosure of policy on determination of remuneration amounts or calculation methods

■ Outline of the remuneration system

- 1) Remuneration, etc. of Directors comprises “monthly compensation,” which is made up of fixed compensation as the basic compensation and short-term performance-linked compensation, as well as “stock compensation,” called BBT, which is offered in consideration of the degree of achievement of the Medium-term Management Plan as well as the share value.
- 2) The basic compensation is fixed-amount compensation paid monthly in accordance with the position of each Director.
- 3) The amount of performance-linked compensation (monthly compensation) is calculated according to the degree of achievement of business performance using the following formula.

[Short-term performance-linked compensation]

“Short-term performance-linked compensation” = “Basic amount by position” x “Performance evaluation coefficient”

Note: The performance evaluation coefficient is determined using a matrix table that applies the ROIC sets a threshold value and net income (attributable to the owners of parent) of the previous fiscal year as the indices. (Coefficient: between 0.00 and 3.00)

The short-term performance-linked compensation for Directors in charge of an internal company is increased or decreased depending on the growth rate of net sales, the improvement of operating

income, the improvement of ROIC, the R&D index, the environmental index, etc. of the relevant company.

- 4) The amount of stock compensation is determined by the following formula, by using the mechanism of the BBT, and depending on the degree of achievement of the Medium-term Management Plan.

[Stock compensation granted during service period]

Stock compensation granted during service period = Stock delivery points by position  
x Performance evaluation coefficient  
x Medium-term Management Plan achievement coefficient

Note: The performance evaluation coefficient is determined using a matrix table that applies the ROIC and that sets a threshold value and net income (attributable to the owners of parent) of the previous fiscal year as the indices. (Coefficient: between 0.00 and 3.00)

Note: The Medium-term Management Plan achievement coefficient is set at between 0 and 0.5 depending on the degree of achievement of net sales and operating income targets stated in the Medium-term Management Plan.

The timing for the grant, etc. of Nabtesco shares, etc. shall, in principle, be the date of Annual General Meeting of Shareholders of the last fiscal year ending within three years following the awarding of share grant points.

[Stock compensation granted at retirement]

Stock compensation granted at retirement = Stock delivery point by position

The rights to the delivery point are fixed on the date of retirement from the position of Director.

- 5) The composition ratio of compensation for Directors is decided by reference to the link between business performance and shareholder value.

In the cases of Chairperson of the Board and President:

Fixed compensation (basic compensation): 30%

Performance-linked compensation (short-term performance-linked compensation): 30%

Performance-linked compensation (stock compensation granted during service period): 20%

Performance-linked compensation (stock compensation granted at retirement): 20%

In the case of a Director:

Fixed compensation (basic compensation): 35%

Performance-linked compensation (short-term performance-linked compensation): 30%

Performance-linked compensation (stock compensation granted during service period): 20%

Performance-linked compensation (stock compensation granted at retirement): 15%

Note: The above-mentioned percentages are the median for each position, based on a model wherein the goals for performance-linked compensation is 100%.

- 6) The compensation for Outside Directors and Audit & Supervisory Board Members consists of fixed compensation only, with the performance-linked portions removed in consideration of the independence of Outside Directors and Audit & Supervisory Board Members from business execution.
- 7) The compensation rules stipulate that the return of all or part of the amounts of the performance-linked compensation may be requested in the event that a significant change in business performance occurs during the fiscal year that constitutes the basis for calculation of the performance-linked compensation as a result of revisions of the financial results for that fiscal year due to inappropriate accounting, etc., or if serious damage is sustained by the Company due to illegal or wrongful acts of Directors, etc.

■ Explanation of indices used for calculating performance-linked compensation

The indices used for calculating performance-linked compensation for Directors (except for Outside Directors) represent the result of activities of all employees, and are based on ROIC, a major index that may contribute to improvement of ROE, and net income (attributable to owners of parent). All Directors are thus expected to promote management geared toward the sustainable growth of the Nabtesco Group, bearing in mind the cost of capital and payout ratio. Furthermore, for those Directors in charge of specific businesses, functions serving as incentives toward the improvement of medium- to long-term business performance are added by establishing management indices such as those representing the degree of improvement of ROIC, R&D indices for promoting the creation of intellectual properties, environmental indices reflecting the reduction of CO<sub>2</sub>, etc.

As to the degree of achievement of the Medium- to Long-term Management Plan, we have adopted net sales and operating income as representing the results of business activities of all Directors and employees, with the aim of promoting activities directed toward a common goal.

It should be noted that the values of the above-mentioned indices may be increased or decreased in cases where impacts of events not attributable to business decisions of the Company occur.

[The figures for the major indices associated with performance-linked compensation for FY2019

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

The performance-linked compensation for FY2019 was calculated based on the actual financial results for the fiscal year ended December 2018. In FY2019, Harmonic Drive Systems Inc., one of



the equity-method affiliated companies of Nabtesco, issued new shares and generated profit. Therefore, the adopted indices were calculated by deducting the said profit from the above-mentioned actual results.

■ Method of calculating compensation, etc.

The policy on remuneration of Directors, compensation systems, levels and the amount to be paid to each Director are determined by the Board of Directors following deliberation and consultation by the Remuneration Committee consisting of one Internal Director and two Independent Outside Officers. The remuneration of Audit & Supervisory Board Members is determined through discussions by Audit & Supervisory Board Members. The deliberations concerning the remuneration of Directors and the activities for determinations by the committees, etc. during the current fiscal year were as follows.

[Number of the committee meetings, etc. held (from January to December 2019)]

Remuneration Committee meeting: twice

Board of Directors meeting: twice

[Supporting system for Outside Directors/Audit & Supervisory Board Members (Independent)]

Outside Directors and Audit & Supervisory Board Members (Independent) are provided with uninterrupted access to management information via the management information online database, as well as notifications of Board of Directors meetings and the agenda to be discussed. Notifications of Board of Directors meetings are also sent separately via Internet mail.

[Status of the resigned Representative Director, President, etc.]

Name, etc. of Senior Advisor, Advisor, etc. who is a former Representative Director and President, etc.

Name	Title and position	Responsibilities	Form and conditions of employment (full-time, part-time, remuneration)	Date of resignation	Term of office
-	-	-	-	-	-

Total number of Senior Advisors, Advisors, etc. who are a former Representative Director and President, etc.: -

Other items

The Company formulated a resolution to abolish the advisor system at the Board of Directors meeting held on August 30, 2019.

## **2. Matters concerning functions of business execution, auditing, oversight, nomination and remuneration decisions (overview of current corporate governance system)**

### **Board of Directors**

The 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.

It shall be composed of up to 10 Directors including two or more Independent Outside Directors. The current Board of Directors is composed of 10 Directors including three Independent Outside Directors. Meetings are held at least once a month, in principle. During FY2019, 16 meetings were held.

### **Nominating Committee**

The Company established the Nominating Committee as a consultative body of the Board of Directors to deliberate on the nomination of candidates for Director, Audit & Supervisory Board Member, President (CEO) and Representative Director positions as well as a successor plan for the new President (CEO), etc., and to report the results to the Board of Directors. The Committee is composed of three to five members, with the majority being Independent Outside Officers. The Nominating Committee is composed as detailed below as of the time of submitting this report:

Chairman: Katsuhiko Teramoto (Representative Director)

Members: Norio Uchida (Outside Director), Naoko Mizukoshi (Outside Director), Tetsuro Hirai (Audit & Supervising Board Member (Independent)).

During FY2019, three meetings were held.

### **Remuneration Committee**

The Remuneration Committee, as a consultative body of the Board of Directors, deliberates on remuneration of the management team, etc. and reports the results to the Board of Directors. The committee shall be composed of three to five members, the majority of which shall be Independent Outside Officers. The committee consists of four members including three Independent Outside Officers as detailed below as of the time of submitting this report:

Chairman: Katsuhiko Teramoto (Representative Director)

Members: Yutaka Fujiwara (Outside Director), Mari Iizuka (Outside Director), and Takemi

Nagasaka (Audit & Supervisory Board Member (Independent))

The meeting was held twice in FY2019.

### **Compliance Committee**

The Compliance Committee as a consultative body of the Board of Directors establishes and revises the “Nabtesco Group Code of Ethics” and deliberates priority challenges concerning the Group’s compliance system, and reports the results to the Board of Directors. The committee shall be composed of members including Independent Outside Officers and outside experts. The committee is composed as follows as of the time of submitting this report:

Chairman: Katsuhiko Teramoto (Representative Director)

Members: Toshiaki Akita, Shoji Ijuin, Kazumasa Kimura, Yasuhito Nakagawa, Zenzo Sasaki (Audit & Supervisory Board Member (Independent)), and Makoto Matsuo (Momo-o, Matsuo & Namba)

The meeting was held three times in FY2019.

### **Audit & Supervisory Board**

The Audit & Supervisory Board audits the execution of duties of the Board of Directors and prepares Audit Reports. As a way of strengthening audit functions of the Group in line with the reinforcement of the Group management, the Audit & Supervisory Board has strengthened its audit system by establishing the Group Audit & Supervisory Board, membership of which includes the Audit & Supervisory Board Members of the Group companies. The Audit & Supervisory Board shall be composed of five or less Audit & Supervisory Board Members, of whom half or more of the members shall be Audit & Supervisory Board Members (Independent). The current Audit & Supervisory Board is composed of five members including three Audit & Supervisory Board Members (Independent). During FY2019, 13 Audit & Supervisory Board meetings and two Group Audit & Supervisory Board meetings were held.

### **Executive Officers Committee**

A body devoted to the execution of business pursuant to the policies and strategies of the Board of Directors and under the supervision of the Board. Composed of 20 members including Executive Officers who are representatives of three major Group companies, the body held 12 meetings during FY2019.

### **Management Committee**

In line with the policies decided by the Board of Directors, the Management Committee

serves as the body that discusses important matters relating to execution of the Group's business and reports on results and the execution of business. It is composed of the President (CEO), the Presidents of the in-house companies, Executive Officers of Corporate Headquarters, and Senior General Managers, etc. During FY2019, 18 meetings were held.

### **Business Auditing Department**

As a department under the direct supervision of the President (CEO), the Business Auditing Department conducts internal business audits of Corporate Headquarters, in-house companies and Group companies. Composed of nine members, the Business Auditing Department has a basic policy to "promote effective operations and qualitative improvement of business activities in the Nabtesco Group organizations by evaluating the compliance, mechanisms and administrative systems of each operation, thereby preventing the occurrence of possible risks.

### **Accounting Auditor**

The accounting auditor (KPMG AZSA LLC) performs accounting audits in accordance with the Companies Act and the Financial Instruments and Exchange Act. The same audit corporation has conducted audits for 17 consecutive years, and the names of the certified public accountants who performed the accounting audit for FY2019 and the structure of assistants contributing to the auditing procedures are as follows.

<Names of certified public accountants who performed audit procedures>

Ayumu Nakajima, Designated Limited Liability Partner and Managing Partner

Yoshihisa Uchida, Designated Limited Liability Partner and Managing Partner

Takashi Inoue, Designated Limited Liability Partner and Managing Partner

<Structure of assistants contributing to the auditing procedures>

17 certified public accountants and 17 other staff members

### **3. Reasons for adopting the current corporate governance system**

- The Company's Board of Directors specifies in the Articles of Incorporation that the term of office of a Director is one year in order to clarify the management responsibility of Directors. The Remuneration Committee, the Nominating Committee and the Compliance Committee are established as consultative bodies of the Board of Directors.
- The Company has adopted the format of a "Company with an Audit & Supervisory Board" as its institutional design under the Companies Act of Japan. The Audit & Supervisory Board has established the Group Audit & Supervisory Board, which includes Audit & Supervisory Board

- Members of the Group companies, as a way of strengthening audit functions of the Group.
- The Company has adopted as its corporate system the executive officer system, under which the business execution is intensively carried out under the policy, strategy and supervision of the Board of Directors. In the revised Articles of Incorporation effective March 27, 2018, the position of President was changed to executive officer, with the President to be appointed from among executive officers, and the position of titled Directors was abolished with the exception of the Chairman of the Board, serving as a chairperson of the Board of Directors. (Resolution of the 15<sup>th</sup> annual general meeting of shareholders held on March 27, 2018.)
- By improving and reinforcing the corporate governance systems mentioned above, we will maintain expeditious decision-making and flexibility in business execution, strengthen our overall corporate governance, and clarify where responsibility lies, thus realizing efficient and transparent business management, which is considered helpful in enhancing the corporate value of the Nabtesco Group.

### III. Implementation of measures for shareholders and other stakeholders

#### 1. Measures to vitalize general meetings of shareholders and to ensure the smooth exercising of voting rights

	Supplementary explanations
Early notification of annual general meeting of shareholders	The notifications of the general meetings of shareholders have been sent out three weeks before the meetings since 2007.
Scheduling annual general meetings of shareholders to avoid the peak day	Our annual general meetings of shareholders are scheduled on days other than the peak day. The month in which the annual general meeting of shareholders is held has been changed from June to March in accordance with the change in our accounting closing date in fiscal 2015. This year, the meeting was held on March 26, 2019.
Allowing exercise of voting rights by electronic and magnetic means	A system for exercising voting rights by electronic and magnetic means has been adopted since 2006.
Participation in electronic voting platform and other initiatives to improve the environment for institutional investors to exercise their voting rights	We have participated in an electronic voting platform since 2007. The convocation notice (including Business Report), including an English version, is posted on Nabtesco's website, the stock exchange on which the Company's shares are listed via the disclosure system of TDnet, and the electronic voting platform four weeks before the annual general

meeting of shareholders.

Providing convocation notice (summary) in English

The reference document attached to the notice of convocation has been posted on our website in English since 2012. Additionally, we have also posted on our website some parts of our business reports and consolidated financial statements in English since 2016.

## 2. IR activities

	Supplementary explanations	Explanation by the representative in person
Preparation and publication of a disclosure policy	The basic policy on IR information disclosure is posted on Nabtesco's website.	
Regular investor briefings for analysts and institutional investors	Briefing sessions are held twice a year after announcing the six-month and full-year results.	Yes
Regular investor briefings for overseas investors	In FY2019, we visited investors and held meetings in Europe and the US.	Yes
Posting IR materials on website	Financial reports, securities reports, news releases, and integrated reports are posted on Nabtesco's website.	
Establishment of department (manager) in charge of IR	The unit of the General Administration Department that had been in charge of CSR and IR activities was reorganized into a newly established department, the Corporate Communication Department, in January 2018 for active promotion of those activities.	

## 3. Measures for respecting the position of stakeholders

	Supplementary explanations
Stipulation of internal rules for respecting the position of stakeholders	We have established The Nabtesco Way, which is composed of the Corporate Philosophy and Our Promises as well as the Action Guidelines, as a common set of principles applying to all employees in the performance of their duties and decision-making, and the Nabtesco Group Code of Ethics.
Implementation of environmental protection and CSR activities	As the priority focus of its CSR activities, the Group is planning to implement measures for the environment and the fulfillment of CSR across its supply chain. The Group includes

### Supplementary explanations

“consideration for the global environment” among its top priority management challenges and has formulated the Environmental Philosophy and the Environmental Action Plan as specific Group-wide action guidelines. Under these guidelines, we proactively work toward reducing the environmental impact of our business activities and improving the environment by setting quantitative targets whenever possible. In terms of supply chain management, we established the Nabtesco Group CSR-Oriented Procurement Policy in April 2014 with the aim of addressing global human rights issues, such as child labor, forced labor and the issue of conflict minerals. In the same month, we announced our support for and signed the United Nations Global Compact in our further efforts to foster CSR-oriented management.

Specific activities related to CSR are summarized in our CSR Reports issued annually since 2011 and our Integrated Reports issued since 2014.

In August 2016, the CSR Committee was established directly under the CEO to oversee the Group’s entire CSR activities and, in December 2016, the CSR Basic Policy was established with the aim of promoting CSR-oriented management in a more systematic manner.

In December 2017, the “Nabtesco Group Human Rights Policy” was established with the aim of having all officers and employees of the Group comply with international standards and laws and regulations of each country and area, and implementing efforts to respect human rights.

In June 2018, the Nabtesco Group Policy on Corporate Citizenship Activities was established as our approach toward strategic promotion of Group-wide corporate citizenship activities with regard to “local community development,” which is part of the Materiality (Material CSR Issues).

In 2019, supporting the recommendations of the Task Force on Climate-related Financial Disclosure (“TCFD”), we started to carry out examinations through our team which was established to grasp and disclose the financial impact of risks and opportunities arising from climate change.

Formulation of policies on the provision of information to stakeholders

The Insider Information Management Standards and the Guidelines on Information Disclosure

Supplementary explanations  
for Public Relations and IR have been  
established.

#### **IV. Matters related to the internal control system**

##### **1. Basic views on the internal control system and progress of system development**

The Group's basic policies for construction of internal control systems are set forth as follows.

The Chief Executive Officer (CEO) shall be the top executive responsible for the promotion of internal control. The Board of Directors shall examine the maintenance of internal control systems on a continual basis in line with changes in the business environment and social needs, revisions to laws and regulations, risk diversification and other factors, and shall conduct a review yearly and whenever else necessary.

1. The System to ensure that Directors, Executive Officers and employees perform their duties in compliance with laws and the Articles of Incorporation
  - (i) Directors, Executive Officers and employees shall comply with The Nabtesco Way and the Nabtesco Group Code of Ethics as the basis of appropriate and fair business activities, shall behave in accordance with social norms/ethics as members of society, and shall endeavor to establish and maintain a sound corporate culture.
  - (ii) (The Board of) Directors and Executive Officers shall make proper decisions on important management matters stipulated in laws and regulations, the Articles of Incorporation, the Board of Directors' rules, the Responsibility and Authority Regulations, etc.
  - (iii) Executive Directors and Executive Officers shall perform their respectively delegated duties in accordance with proper decisions by the Board of Directors, and shall report on the execution of their duties to the Board of Directors. Should a Director or an Executive Officer have any doubts on whether the execution of the duties by himself/herself or other Directors/Executive Officers are in compliance with laws and regulations and the Articles of Incorporation, the Director or the Executive Officer shall report these doubts to the Board of Directors and Audit & Supervisory Board Members (or the Audit & Supervisory Board).
  - (iv) Directors, Executive Officers and employees shall ensure the rationality, adequacy and legality of their decisions by actively and thoroughly hearing the expert opinions of expert staff members of the Head Office and/or outside experts during decision-making and performance of duties.
  - (v) The Board of Directors shall make use of the multifaceted and impartial advice provided by Outside Directors and Audit & Supervisory Board Members (Independent) to make appropriate decisions.
  - (vi) In order to promote the compliance of the Group, the Compliance Committee shall be set up as a consultative body of the Board of Directors. The committee shall deliberate important matters, etc. concerning compliance and report to the Board of



Directors.

- (vii) To assist the CEO in promoting compliance, organizations responsible for promoting compliance shall be set up to review compliance systems in accordance with social conditions, revision of laws, etc., and to provide training on compliance to Directors, Executive Officers and employees.
  - (viii) Directors, Executive Officers and employees shall be obliged to report any misconduct within the Group, and a corporate ethics hotline shall be established and operated as one of the methods to achieve this. The person who used this corporate ethics hotline will not be treated unfavorably on the grounds of having made such reports.
  - (ix) To ensure the fairness of financial reports, an internal control system concerning financial reports and a system to evaluate its efficacy shall be developed and operated.
2. The System for storing and managing information on the performance of duties by Directors and Executive Officers
- (i) Directors and Executive Officers shall properly prepare, store and manage the following information (in written form or on electromagnetic record; the same applies hereinafter) on the performance of their duties in keeping with their respective duties and in accordance with laws and company regulations.
    - (a) Minutes of general shareholders' meetings and related documentation
    - (b) Minutes of Board of Directors' meetings and related documentation
    - (c) Records of the proceedings at other important meetings hosted by Directors or Executive Officers (e.g., Management Committee meetings) and related documentation
    - (d) Notices of decisions made by Directors or Executive Officers, and appended documentation
    - (e) Other important documentation related to Directors' and Executive Officers' performance of their duties
  - (ii) The parties responsible for the preparation, storage and management of the information set forth in (i) above shall be the chairmen of the respective meetings or a separately assigned Director, decision-maker, or the Director or the Executive Officer responsible for performing the duties in question.
  - (iii) Efforts shall be made to establish and continually strengthen and improve adequate security for electromagnetic records to combat the risks of unauthorized disclosure posed by the increasing sophistication of information technology.
3. The Regulations and other systems for managing the risk of loss.
- (i) The system shall be developed so that a scheme shall be put in place to ensure that profits and losses, asset efficiency, quality issues, accidents and other matters concerning the execution of operations are reported to the Board of Directors in a suitable and timely fashion, and to ensure that Directors and employees aware of matters that could have a seriously adverse impact on Nabtesco and its Group shall report these promptly and precisely to (the Board of) Directors, and efforts shall be made to discover risks early so as to minimize losses.
  - (ii) In order to manage various risks and prevent losses that accompany business activities, cross-group organizations such as the Risk Management Committee, the Group Quality & PL Committee and the Group Environment, Safety and Health Committee shall be formed, and regulations concerning information security and business continuity planning in the event of

critical accidents or disasters and other internal regulations shall be developed.

- (iii) The rationality, suitability and legality of decision-making shall be ensured, and risks shall be managed through deliberations on the execution of important business matters at the Board of Directors meetings and Management Committee meetings and compliance with and thoroughgoing implementation of Group regulations for responsibility and authority.
  - (iv) Reporting requirements in the event of accidents, disasters or critical quality problems and other events that may have a serious adverse effect on the Group's business performance, financial condition and credibility shall be set forth within company regulations, and steps taken to ensure that information is promptly and suitably conveyed and contingency measures implemented during emergencies in accordance with these regulations shall be prepared.
  - (v) Expert Members of the Head Office, such as those in the Business Auditing Department, shall conduct cross-organizational audits of operational risk management, and shall offer necessary and appropriate advice with regard to operational improvements.
4. The System to ensure that Directors and Executive Officers perform their duties efficiently
- (i) The necessary organizations shall be formed to ensure that Directors and Executive Officers perform their duties efficiently, and the respective responsibilities of these organizations shall be stipulated. Responsibility for operations shall be divided among Executive Directors and Executive Officers in accordance with Board of Directors' resolutions, and Executive Directors and Executive Officers shall perform their duties in keeping with these divisions of responsibility.
  - (ii) A company shall be established as a strategic business unit. Each company shall perform operations in accordance with the Responsibility and Authority Regulations and report on the same.
  - (iii) Efforts shall be made to ensure the suitability and efficiency of decision-making by the Board of Directors with regard to the performance of operations to be submitted for consideration to the Board of Directors by having the Management Committee conduct preliminary examinations to clarify the points of issue before passing the matter on to the Board of Directors.

5. The System to ensure the suitability of operations by the Company and the Group

- (i) All principles and guidelines for internal control shall be applied to the whole Nabtesco Group, and efforts made to disseminate and standardize these throughout the Group as a whole.
- (ii) Management regulations of Nabtesco's Group companies shall be established to stipulate management classifications and management items for subsidiaries, and a Group-wide structure for responsibility and authority set up, taking into account the scale and importance (impact on the Group) of subsidiaries as well as their autonomy. Furthermore, the system shall be developed so that subsidiaries shall report their important matters with regard to the execution of operations to the Company.
- (iii) Efforts shall be made to improve the suitability and efficiency of business operations at subsidiaries as well as to make qualitative improvements to financial reports by adopting a fully consolidated basis and appropriately reflecting the performance of all subsidiaries into the consolidated performance of the Company and by conducting performance assessment of the

management of companies on a consolidated basis.

- (iv) Efforts shall be made to dispatch its personnel as Directors and Audit & Supervisory Board Members to subsidiaries from the Company to ensure more suitable decision-making and execution of operations and to homogenize and improve audits of subsidiaries through the Group Audit & Supervisory Board.
  - (v) Internal audits of subsidiaries shall be executed by our Business Auditing Department. Advice regarding improvements shall be provided as necessary and appropriate as part of these audits.
  - (vi) Efforts shall be made to thoroughly communicate the Nabtesco Group Code of Ethics to subsidiaries and to develop and strengthen compliance systems at subsidiaries by means of compliance education and information sharing.
6. Items on employees to assist Audit & Supervisory Board Members (“support personnel”), when Audit & Supervisory Board Members requested to assign employees to support Audit & Supervisory Board Member
- (i) Should the Audit & Supervisory Board (Members) request that support personnel be assigned, the appropriate personnel shall be promptly secured after preliminary discussions with the Audit & Supervisory Board (Members).
  - (ii) To ensure the independence of support personnel from Directors, reassignments and evaluations of these support personnel shall be made only after prior consultation with the Audit & Supervisory Board (Members).
  - (iii) Support personnel shall be subject to the instructions and orders of the Audit & Supervisory Board (Members) in engaging in such support tasks.
7. The System enabling Directors, Executive Officers and employees to report to Audit & Supervisory Board Member; other systems for reporting to Audit & Supervisory Board Member
- (i) Directors aware of matters that could have a seriously adverse impact on the Company and its Group shall immediately report these to Audit & Supervisory Board Member (or Audit & Supervisory Board).
  - (ii) Directors, Executive Officers and employees shall respond promptly and appropriately to requests by Audit & Supervisory Board Member for reports on the Company’s business or for cooperation in investigating the status of the Company’s operations and assets.
  - (iii) With the aim of enhancing cooperation between Audit & Supervisory Board Members and the Business Auditing Department, consultations and exchange of information and views concerning audits shall be carried out through the Audit Council, etc. Furthermore, Group Audit & Supervisory Board shall conduct consultations and report and exchange views with Audit & Supervisory Board Members and Audit & Supervisory Board Members of subsidiaries with regard to audits.
  - (iv) The departments associated with internal control shall periodically report on the development and operation status of the internal control system (including reports from Directors and employees, etc. of subsidiaries to the relevant departments) to Audit & Supervisory Board Members.
  - (v) Information on “Audit & Supervisory Board Member’s Hotline” established by Audit & Supervisory Board shall be noticed to Directors, Executive Officers and employees.
  - (vi) The person who reported the relevant matter to an Audit & Supervisory Board Member

(including those who reported the same to “Audit & Supervisory Board Member’s Hotline”) will not be treated unfavorably on the grounds of having made such reports.

8. The System to ensure that audits by Audit & Supervisory Board Members are carried out effectively
  - (i) A certain amount of the budget shall be set yearly for paying expenses, etc., with respect to the execution of duties of the Audit & Supervisory Board Members. In the event that Audit & Supervisory Board Members request from the Company advance payment of costs associated with the execution of their duties, the Company shall account for such expenses, etc., immediately according to laws and regulations, regardless of whether or not the expenses requested are within the budget.
  - (ii) Audit & Supervisory Board Members shall be permitted to attend Management Committee meetings and all other important meetings and to view all management information to enable Audit & Supervisory Board Members to implement audits and check the decision-making process on the important matters in the execution of operations, based on information available to Directors.
  - (iii) Audit & Supervisory Board (Members) shall be permitted to hold regular meetings to exchange views with the CEO and the Representative Director.
  - (iv) Audit & Supervisory Board Members may request Executive Officers and other important employees to report on the performance of duties.
  - (v) Audit & Supervisory Board Members shall be permitted to exchange views with accounting auditors and the Accounting & Finance Department regularly and to confirm the suitability of financial reports.

## **2. Basic views on elimination of anti-social forces and implementation status**

The Nabtesco Group Code of Ethics stipulates that “We will avoid any relationship with anti-social forces, and will firmly and resolutely oppose and refuse any improper demands made by anti-social forces.” In entering into agreements, clauses concerning the elimination of anti-social forces are included.

The Company designates a staff member responsible for matters related to anti-social forces within the General Administration Department, which serves as the supervisory organization. The department centrally manages information about anti-social forces, distributes the Manual on Special Anti-violence Countermeasures to all staff members of the department, and regularly provides them with external training.

Furthermore, the latest information on anti-social forces as well as advice is obtained based on strengthened collaborative relationships with the police and other special anti-violence bodies.

## V. Others

### 1. Adoption of anti-takeover measures

Adoption of anti-takeover measures                      None

Supplementary explanation for applicable items—

### 2. Other matters concerning corporate governance system, etc.

The Company's internal structure for timely information disclosure is as follows.

#### 1. Department responsible for insider information

The Company has set forth the Insider Information Management Standards with the aim of appropriately managing insider information, and centrally manages information by designating the Executive Officer of the Corporate Planning and the Corporate Planning Department as the person and the organization responsible for information management, respectively.

#### 2. Internal structure for information disclosure and timely information disclosure

The Company has set forth Information Disclosure Standards on PR and IR with the aim of smoothly implementing the “disclosure” provided in the Insider Information Management Standards and maintaining the homogeneity and impartiality of the disclosed information. It promptly discloses information by designating the General Manager of the Corporate Communication Department and the Corporate Communication Department as the person and the organization responsible for information disclosure, respectively. Information that requires prompt and timely disclosure is reported to the president by the Executive Officer of Corporate Communication, who is responsible for timely information disclosure, through predetermined communication routes and procedures.

#### 3. Method for disclosing corporate information

Nabtesco releases information via TDnet established by the Tokyo Stock Exchange (TSE).

Materials are distributed to the TSE's press club as necessary and, at the same time, posted on our website.

## Corporate Governance System

