

# 2021 IR Day ESG Meeting

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## 1. Management materiality in Nabtesco value creation process

Mr. Atsushi (Alan) HABA

Managing Executive Officer,  
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Business Transformation and Corporate Communication dept.



## 2. ESG items having a major impact on financial issues: countermeasures for climate change

Mr. Yasuhito NAKAGAWA

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Production Innovation Division



# 1-1. Long-term Vision for 2030

Fostering technology, globalization and contribution to revitalize innovation

2030 Vision

## Leaders in Innovation for the Future

Changing the “Cs” through innovation

Core-technology  
Customer  
Culture  
Carbon-free...

### Technology

Creating what the future wants with our unique technology  
Designing new ways of “moving”

### Globalization

Global standards made in Japan  
Becoming a truly global company

### Contribution

SDGs & ESG  
Contributing to social progress and environmental conservation

Reliable “Monozukuri” and Meisters in Manufacturing  
Providing safety, security and comfort

### Identity of Nabtesco

Enjoy the Challenge  
Realizing each and everyone’s dream

# 1-2. Value Creation Process

Promote our value creation process which include long-term vision and management materiality.

<Our unique “Moving it. Stopping it” technology propels innovation>

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

**Long-term Vision** **Leaders in Innovation for the Future**

**Our aim for 2030**

- Creating new value with our unique technology and intelligence
- Enriching lifestyles and the environment worldwide
- “Moving your heart” by providing safety and security

**Management Materiality**

Measures to improve our financial performance

Measures to enhance our management foundation

Specific measures to achieve the long-term vision

**Management Strategy**

Mid-term Management Plan (FY2017/12 – 2021/12)

Market Creation: obtain new markets

Technology Innovation: create new solutions

Operational Excellence: raise profitability and reinforce operational basis

**Created Value: OUTCOME**

Relationship capital	<b>Value for the Nabtesco Group</b>	<b>Value for external stakeholders</b>
Financial capital		
Technology and manufacturing capital		
Human capital		
Organizational capital		

**Business Models**

**Activities for Sustainable Growth: BUSINESS ACTIVITIES**

Major businesses

Measures to achieve the long-term vision

**OUTPUT**



**Managerial Resources that Support Value Creation: INPUT**

Relationship capital		
Financial capital	Human capital	Technology and manufacturing capital
Organizational capital		

(Source: p.27-28, Nabtesco Value Report 2020)



## Nabtesco will continuously create value for ourselves and for external stakeholders through our unique value creation process

	Value for the Nabtesco Group	Value for external stakeholders
<b>Relationship capital</b>	<ul style="list-style-type: none"> <li>-Customer bases founded on top-class market shares</li> <li>-Trust in the management team and high-scoring ESG evaluation</li> <li>-Responsible supply chain management</li> <li>-Improvement of recognition through community investment</li> </ul>	<ul style="list-style-type: none"> <li>-QCDS performance that meets the requirements of customers</li> <li>-Enhancement of partnership with stakeholders</li> <li>-Enhancement of the value chain for mutual growth</li> <li>-Contribution to the solution of social challenges in the environment, education and welfare fields</li> </ul>
<b>Financial capital</b>	<ul style="list-style-type: none"> <li>● Strong balance sheet that supports steady growth investments</li> <li>-Equity ratio of 55% or more for the pass five years</li> </ul>	<ul style="list-style-type: none"> <li>● Capital efficiency and stable return of profit that meet shareholders' expectations</li> <li>-ROE for FY2020/12: 10.6%</li> <li>-Payout ratio for FY 2020/12: 45.4%</li> </ul>
<b>Technology and manufacturing capital</b>	<ul style="list-style-type: none"> <li>● Creation of new products and a highly competitive production system</li> </ul>	<ul style="list-style-type: none"> <li>● Provision of safety, comfort and a sense of security and contribution to climate change mitigation</li> </ul> 
<b>Human capital</b>	<ul style="list-style-type: none"> <li>● Securing of human resources who implement The Nabtesco Way</li> <li>● Development of Globally Competitive Human Capital</li> </ul>	<ul style="list-style-type: none"> <li>● Respect for diversity and expertise in the workplace</li> </ul> 
<b>Organizational capital</b>	<ul style="list-style-type: none"> <li>● Highly ethical corporate culture based on a global compliance system</li> <li>● Disaster-resilient organization with constantly enhanced Business Continuity Power</li> </ul>	<ul style="list-style-type: none"> <li>● Management transparency based on the autonomous improvement of its functions by the Board of Directors</li> <li>-Proportion of Outside Directors: 40%</li> <li>-Proportion of Female Directors: 20%</li> </ul>



## 1-4. Risks and Opportunities Based on Long-term Outlook for the External Environment

Countermeasures for climate change is an important challenge for sustainable growth and a requirement from society and customers. Nabtesco promotes innovation in our value chain as a whole.

### **【Risks】**

- Increase in cost due to the need to deal with climate change
- Difficulty faced in procurement due to the discontinuance of business by a supplier

### **【Opportunities】**

- Expansion of business that can contribute to the SDGs
- Demand increase for products and services with high environmental performance

## **(Long-term outlook for the external environment)**

### **【Market】**

- Japan and developed countries: Maturation and cyclical trend
- Emerging markets: Increase in population and further industrialization

### **【Technology】**

- Progress of ICT and accelerate development speed
- Energy transition to deal with climate change
- Expansion of electrified and systematized products

### **【Manufacturing】**

- Issues related to business succession for suppliers (in Japan)
- Demand for carbon-free manufacturing

### **【Human resources and employment】**


- Decrease in working population, diversity of human resources and the introduction of meritocracy
- Spread of remote working and entrenchment of flexible work styles

### **【Society】**

- Proactive Action for the achievement of the SDGs
- Increased sense of crisis around climate change

## Reviewed former CSR materiality and added bullet point as below

[CSR materiality set in 2016]

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			

(Insufficient points)

- Financial factors
- Identity of Nabtesco
- Relevance to businesses

(Enhanced points)






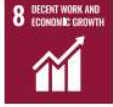







- Long-term view
- Identity of Nabtesco
- Strike a balance between financial corporate value and solving social issues

(Changes in society)

- Emphasis on SDGs contribution
- Technology innovation
- Identify ESG items having a major impact on financial issues



# 1-6. Major Actions to Be Taken for Management Materiality *Innovation In Action* Vision 2030

	Issues	Actions	SDGs items	
Measures to improve our financial performance	Achieve the revenue targets	Grow sales and increase profitability	            	
	Distribute managerial resources efficiently	Foster selection and concentration for the efficient use of resources		
	Continue to improve capital efficiency	Promote ROIC-oriented management		
Measures to enhance our management foundation	ESG items having a major impact on financial issues	G Increase the effectiveness of our management entities		Build a management system based on versatile expertise and knowledge
		E Countermeasures for climate change		Achieve the medium- and long-term CO <sub>2</sub> reduction targets
		S Deliver solutions for social challenges through business		Foster environment-friendly and safety-oriented design and development
	ESG items that drive sustainability power	S Build a resilient supply chain		Respond to risks related to supplier
		G Ensure management transparency		Strengthen corporate governance Promote risk management and compliance behavior Ensure proactive dialogue with stakeholders
		E Foster environmental management		Use materials efficiently and reduce waste
		S		Pursue safety, comfort and a sense of security
			Respect diversity and various expertise in the workplace	Promote diversity, equity and inclusion in the workforce Sophisticate the management of human rights
			Enhance work style reforms	Increase productivity by promoting flexible work styles Foster health-oriented management
			Promote engagement with local community	Promote community investment
Specific measures to achieve the long-term vision	Acquire next-generation technologies and create new businesses	Enhance human resources base for next-generation technologies Acquire new technologies through deployment of CVC		
	Foster smart manufacturing	Build a foundation for next-generation manufacturing and foster further automation		
	Strengthen global bases	Empower regional headquarters outside Japan		

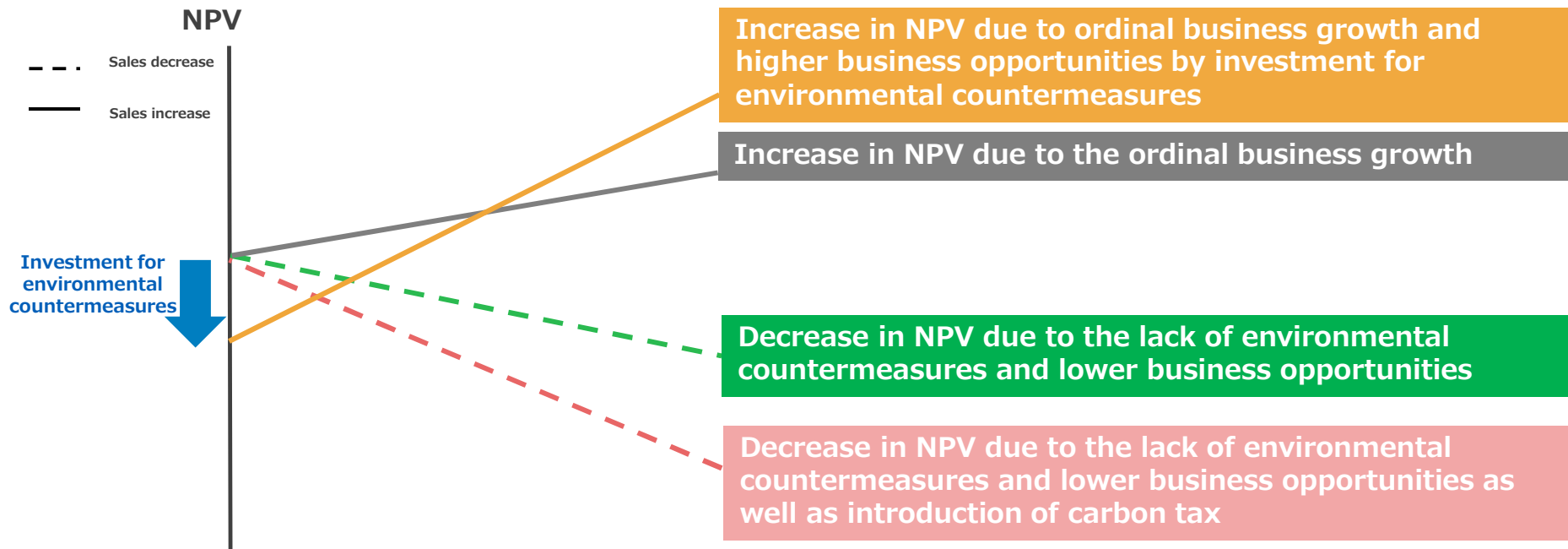


# 1-7. Financial Impact Simulation

- ◆ Minimize financial impact from climate change through countermeasures
- ◆ Pursue financial positive impact through enhancement of environmentally friendly products

## 【NPV simulation under countermeasures for climate change】

(Analysis of NPV and sales changes by investment for environmental countermeasures, based on the long-term vision business model)



【2% is the key】

If we could expect more than 2% decrease of sales growth ratio due to the climate change effect, we should invest in environmental countermeasures because we can generate higher NPV than not investing case.

# Countermeasures for Climate Changes

Production Innovation Div. supports manufacturing and ESH (Environment, Safety and Health) activities across the Nabtesco Group and aims to strengthen competitiveness by “Manufacturing Innovation.”

### <Functions and Structure>



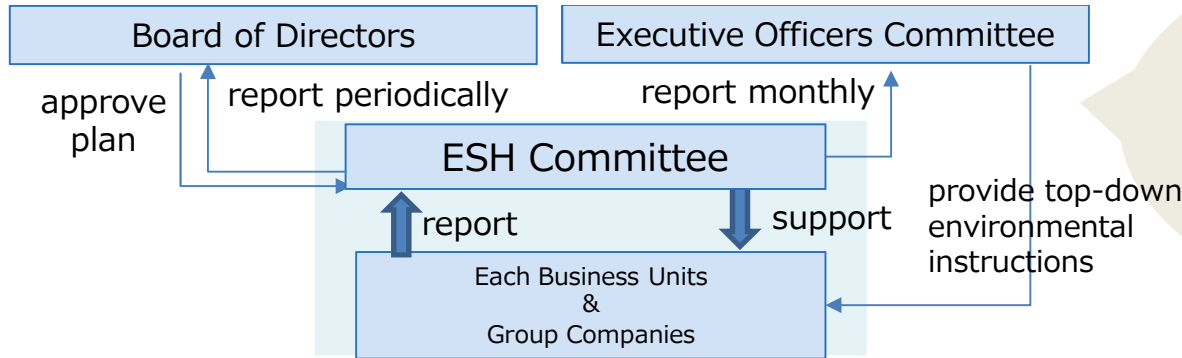
### <Main Activities>

PI div.: *Monozukuri* innovation forum, Plant manager’s meeting, Participation in exhibitions  
 ME dept.: Automation design, *Karakuri*-improvement, ME subcommittee, IE education\*  
 PP dept.: Procurement planning, Group-wide procurement meeting promotion, and procurement training  
 ES dept.: Organize ESH committee meetings and Environment & Safety forums

IE: Industrial Engineering

Governance system that can respond quickly and flexibly to climate change.

### ■ Nabtesco's governance system for climate change



### Environment-related incentives

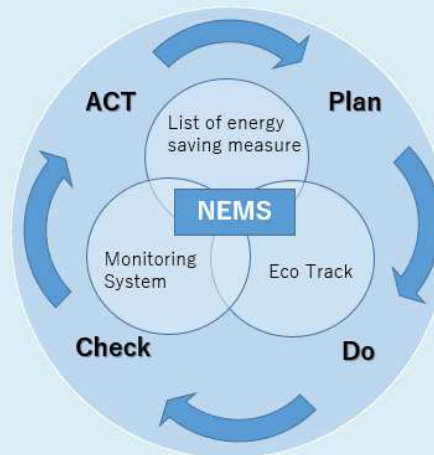
- The ratio of CO2 reduction emissions effects performance-linked compensation paid to the directors of each business units.
- Promote eco-friendly development by energy-saving product certification system.

### NEMS (Nabtesco Energy Management System)

- Collect environmental data from each business units and group companies using IT
- Execute the PDCA cycle



Environmental data collection system  
"Eco Track"



monitoring energy usage in each factories in real time





## 2-3. New Long-term Target in FY2050

Upgraded our CO<sub>2</sub> emission reduction target to be 100% carbon-free by 2050. This target is in the process of SBT evaluation.

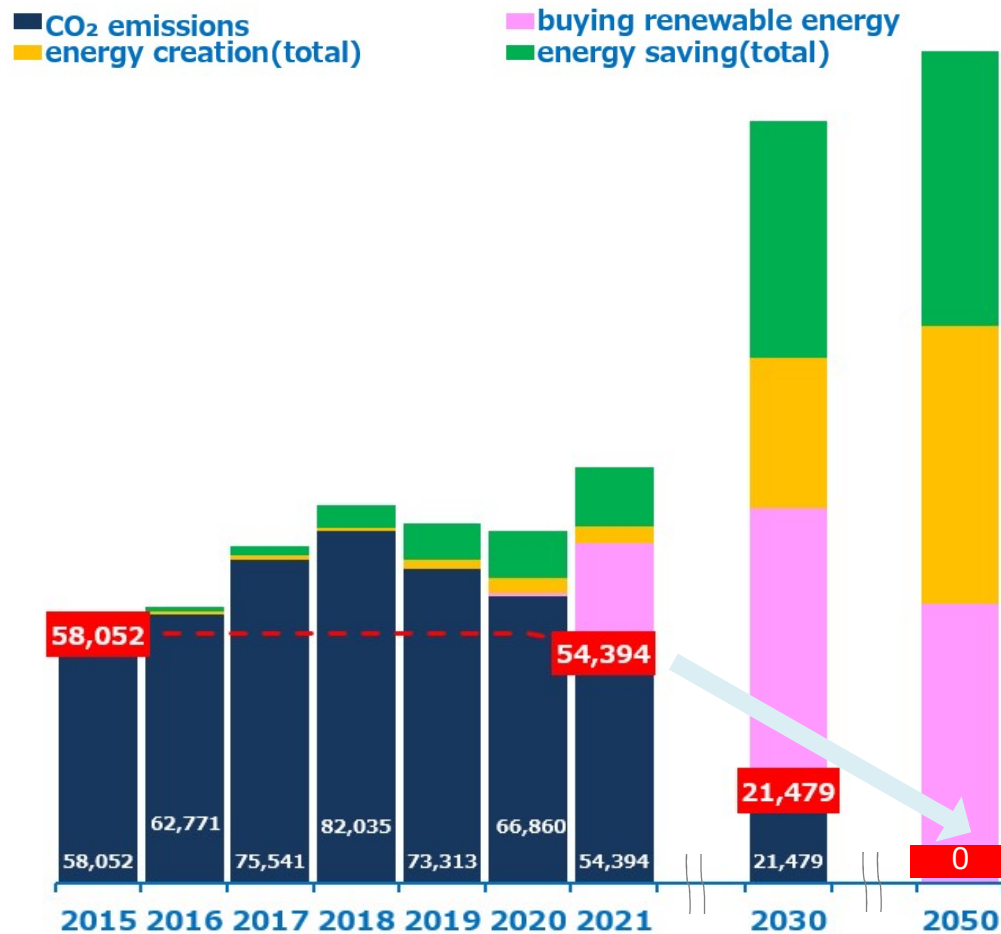
	SBT1.5 (New Target)	SBT2.0 (Previous Target)
<b>Scope 1 &amp; 2</b>	(Compared to FY2015) FY2030: <b>63%</b> FY2050: <b>100%</b>	(Compared to FY2015) FY2030: 30% FY2050: 80%
<b>Scope 3</b>	FY2025: Set GHG emission reduction targets FY2030: Set SBT targets	



## 2-4. Actions to Achieve Long-term Targets

Realize carbon-free by energy saving, energy creation and buying renewable energy.

### CO<sub>2</sub> emissions: 1.5 Celsius target



#### Energy saving

- Realize high efficiency production
- Introduce the latest energy saving equipment
- Improve air conditioning efficiency

#### Energy creation

Onsite/offsite

- Expand solar power generation
- Examine latest power generation technology

#### Renewable energy (purchasing certificates)

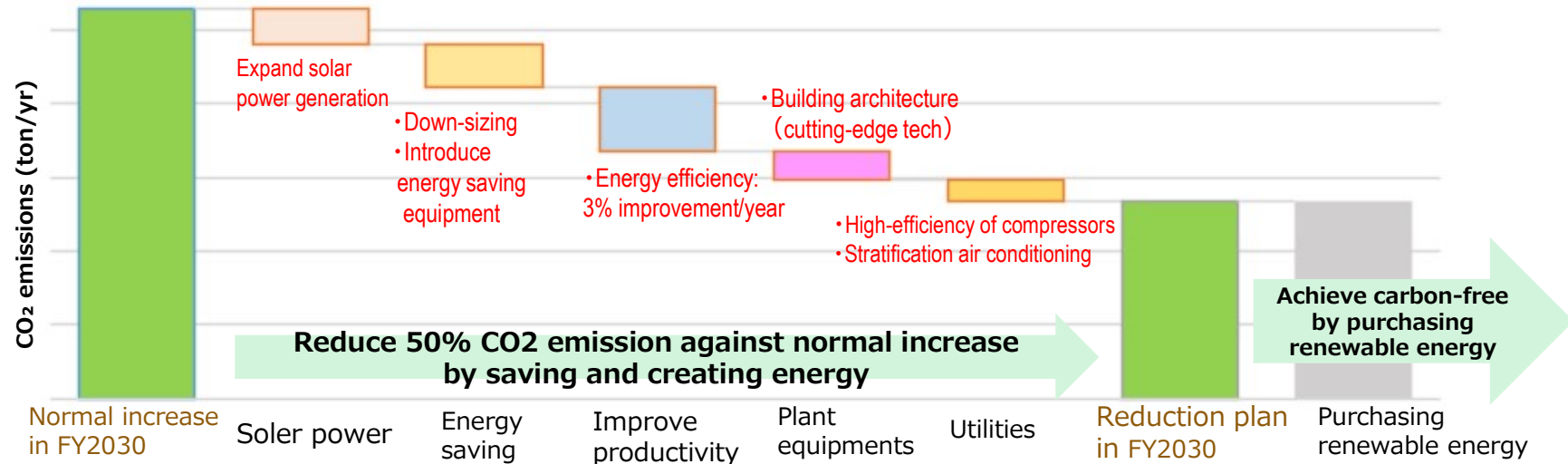
- Procure carbon-free energy
- J-credit
  - Non-fossil certificates

Carbon-free

# 2-5. Case: Rebuilding the Tarui Plant

Aim to make Tarui Plant (hydraulic equipment business) carbon-free by 2030 through energy saving, energy creation and purchasing renewable energy.

## [Detail of CO2 reduction emissions]



### Saving and creating energy in manufacturing process

#### ◆ Update machinery: down-sizing

- reduce manufacturing time
- install energy saving equipment

Energy efficiency: improve 3%/year

#### ◆ Expand solar power generation



(Amount of generation at Tsu plant)  
0.48M KWh → 2.3M KWh

### Energy saving in plant equipment

#### ◆ Buliding design (Latest tech.)

- Passive technology
- Reduce necessary energy usage
- heat-insulating with outer skin, natural light, and etc.

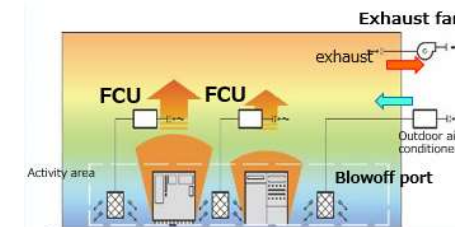
- Active technology
- Use energy efficiently
- high-efficiency ventilation, automatic dimming, and etc.

### Energy saving in utilities

#### ◆ High-efficiency of compressors

- Inverter control/zero air leaks

#### ◆ Stratification air conditioning



## 2-6. Scope 3: Collaboration with Suppliers

Lead the CO<sub>2</sub> reduction from our entire supply chain

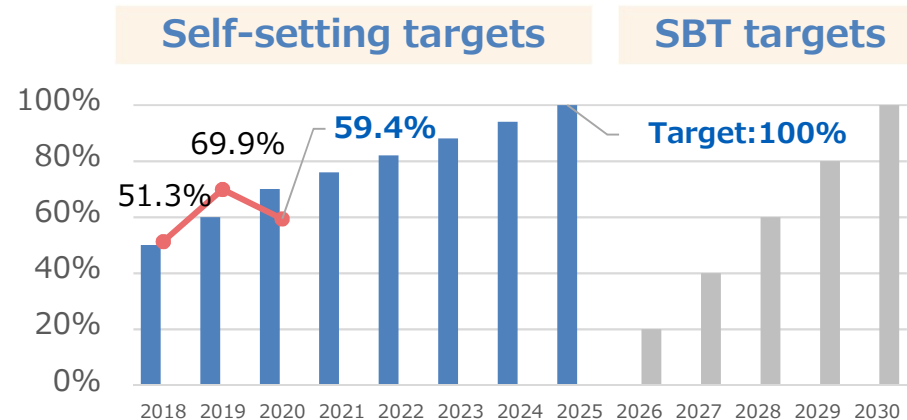
### ◆ Mid- to long-term targets of Scope 3

FY2025	FY2030
Urge all major suppliers* to self-set CO <sub>2</sub> emission reduction targets	All major suppliers set SBT targets

\*major suppliers: account for about 70% of our procurement in terms of transaction amount

### ◆ Status

- Since 2018, we regularly visit suppliers to explain and promote our CSR-oriented Procurement Policy.
- SAQ\* results in FY2020 target setting ratio was 59.4%.



### ◆ Future actions


Challenges in suppliers	Nabtesco's measures
<ul style="list-style-type: none"> <li>- Difficulty in measuring data</li> <li>- Unable to calculate CO<sub>2</sub> emissions</li> </ul>	<ul style="list-style-type: none"> <li>- Support by providing measurement tools such as monitoring sheets and calculation examples.</li> </ul>
<ul style="list-style-type: none"> <li>- Difficult to set a target</li> </ul>	<ul style="list-style-type: none"> <li>- Support by introducing case studies of CO<sub>2</sub> emission target setting and reduction practices.</li> </ul>
<ul style="list-style-type: none"> <li>- Unable to diagnose energy saving</li> <li>- Lack of knowledge in CO<sub>2</sub> emissions reduction methodology</li> </ul>	<ul style="list-style-type: none"> <li>- Introduce a process to add data measuring function to a production system</li> <li>- Organize workshops about energy saving diagnostics, execution, and education.</li> </ul>



## Gain the emerging demand caused by climate change and enhance competitiveness

### ◆ Opportunity (1) Increase in demand for products with high energy saving performance

Develop products and services with the new added value of contributing to reduce CO<sub>2</sub> emissions of our customers.

Products	Energy saving performance	Product information
Precision reduction gear "RV-Z series"	Reduction of mass per unit of rigidity -momentum rigidity: 30% or more -torsional rigidity: 20% or more	Contribute to customer's energy saving by <b>downsizing and weight reduction</b> (FY2020 Energy-Saving Products) 
Automatic door 『NATRUS+e』	<ul style="list-style-type: none"> <li>Reduce unnecessary door opening time about by 45%</li> <li>Reduce energy consumption of air conditioner by about 20%</li> </ul>	Contribute to room <b>energy saving</b> by reducing waste opening with reacting only people who want to pass. (FY2019 Energy-Saving Products)

### ◆ opportunity (2) Respond to electrification

Shift from hydraulic and pneumatic technology to electrification in various industries



Industrial robots



Construction Machinery



Aircraft



Commercial vehicle



Marine Vessel



#### Case : Collaborative Research with the Swiss Federal Institute of Technology Development of "Integrated Motor Drive Systems"



Further development can be expected, aiming for variable speed motor drive applications which require high reliability, such as aircraft, commercial vehicles, and ships.

### ◆ Action: Plan to replace cars from ICE to EV in domestic sales subsidiaries in Automatic doors










In order to achieve the goals of carbon emission reduction, NABCO SYSTEM CO., LTD. and NABCO DOOR Ltd. plan to gradually replace ICE car which used for sales activities to EV.

**(About 120 cars will be replaced to BEV\*1/PHEV\*2 by 2026.)**

\*1 BEV: Battery Electric Vehicle \*2 PHEV: Plug-in Hybrid Electric Vehicle

## 2-8. External Assessments

Nabtesco has been included in CDP's Climate Change A List for 5 years in a row.

分類	ESG指数／ESG格付期間	2017	2018	2019	2020
E	S&P/JPX Carbon efficient 			★	★
	CDP CLIMATE CHANGE 	★ (2016～)	★	★	★
	CDP WATER SECURITY 		★		★
	CDP SUPPLIER ENGAGEMENT LEADER 		★		★
ESG	DJSI Asia Pacific Member of <b>Dow Jones Sustainability Indices</b> Powered by the S&P Global CSA	★ (2013～)	★	★	★
	DJSI World Member of <b>Dow Jones Sustainability Indices</b> Powered by the S&P Global CSA	★ (2016～)	★	★	★
	FTSE4Good 	★	★	★	★
	FTSE Blossom Japan 	★	★	★	★
	MSCI ESG Leaders Indexes 	★ (2015～)	★	★	★
	MSCI Japan ESG Select Leaders 	★	★	★	★
S	MSCI Empowering Women Index 		★		★

**Nabtesco**  
*moving it. stopping it.*