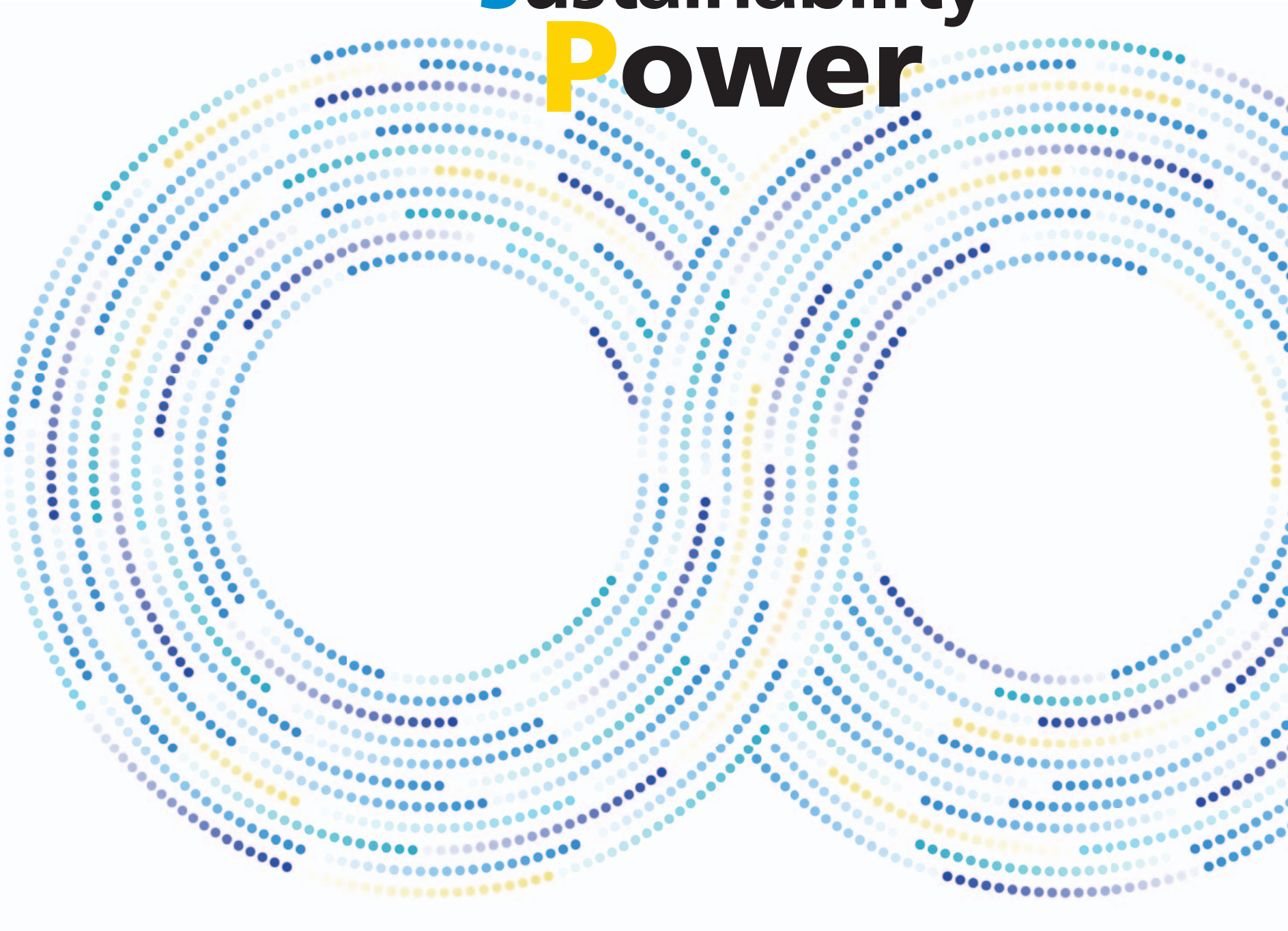


Nabtesco
Value Report
2019

Integrated Report
FY Ended December 31, 2019

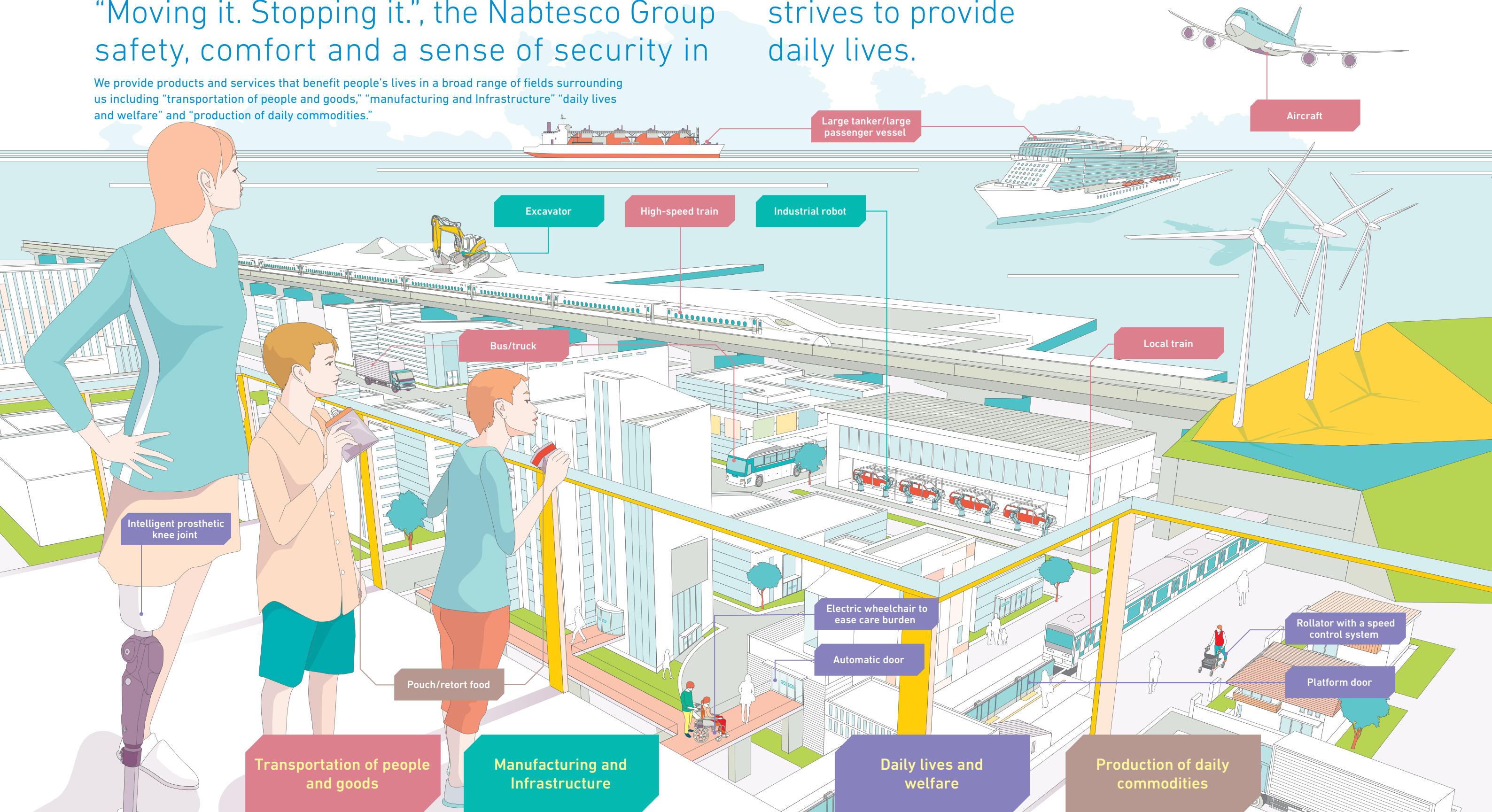
Sustainability
Power



With its motion control technology based “Moving it. Stopping it.”, the Nabtesco Group safety, comfort and a sense of security in

on the key concept of strives to provide daily lives.

We provide products and services that benefit people’s lives in a broad range of fields surrounding us including “transportation of people and goods,” “manufacturing and Infrastructure” “daily lives and welfare” and “production of daily commodities.”



- Improve the safety and comfort of railroad vehicles, aircraft and commercial vehicles
- Foster the use of clean energy and safety navigation for marine vessels

- Contribute to the establishment of industrial infrastructure in emerging economies
- Support automated, high-precision processing and conveyance at factories
- Promote labor- and energy-saving at manufacturing sites

- Improve the safety and comfort of public spaces
- Provide support for the elderly and people with disabilities
- Contribute to the creation of a barrier-free society

- Ensure the safety of food and daily consumables
- Reduce the use of packing materials for food and daily consumables
- Contribute to product research and development

Nabtesco will realize “All Stakeholders’ Dreams” by maintaining profitable growth.

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Editorial Policy

We seek further advance our integrated report by fostering dialogue with our stakeholders based on our “Sustainability Power.”

About the publication of this integrated report

The Nabtesco Group believes it is important to build trust through dialogue with stakeholders in order to secure transparency for management and achieve sustainable growth.

For 2019 integrated report, we could not hold the annual dialogue and roundtable meetings due to the spread of the novel coronavirus. Taking different approaches for this report, we introduce the Nabtesco Group's policies and philosophy which increase its corporate value on a long-term basis.

In the “Value Creation Path” section, we included a Q&A session in which the CEO answered FAQ by investors, with a view to helping the readers deepen their understanding of Nabtesco. In “Dialogues with Business Market,” we revamp information disclosed in the section by incorporating a range of opinions given in relation to the previous fiscal year's integrated report, so that the readers

can reach to understand the features of Nabtesco's businesses more precisely. In “Dialogues with Society,” we shared the messages of the four outside directors, including newly appointed directors.

In this report, we focused on “Sustainability Power” and on the approach and measures that the Nabtesco Group is taking under an uncertain circumstance to continue to provide the value that is needed by society. Going forward we will advance our integrated report by continuing to have dialogues with our stakeholders.

In preparing this report, we referred to the Integrated Reporting Framework, the Intangible Reporting Framework and various other guidelines on sustainability to ensure the objectivity and transparency of the report.

For financial data, please refer to the appendix.



In this report, terms that need explanations are underlined and the explanations are provided in the “Glossary” on pages 95 to 96.

The Nabtesco Way is a collective term that means our Corporate Philosophy, Our Promises, and Action Guidelines. We aim to realize “All Stakeholders’ Dreams” through the implementation of The Nabtesco Way by the management and individual employees.

The Nabtesco Way

Corporate Philosophy

Reason for corporate existence and value:

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

What we value in implementing the Corporate Philosophy:

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



Action Guidelines

Specific actions and attitudes to be taken to fulfill Our Promises:

[Action Guidelines for All Group Members]

As a common set of principles applying to all employees in the performance of their duties and decision-making, these guidelines clearly indicate the appropriate directions of individual actions and decisions and clarify important corporate values and unique strengths.

- Build Trust: Work diligently (*kotsukotsu*) and expeditiously
- Provide Value: Think ahead from customer's perspectives
- Take on Challenges: Enhance our skills
- Develop Human Resources: Employees are essential assets
- Foster Teamwork: Discuss fully (*tokoton*) among all members
- Realize our Dreams: Pursue higher reliability and quality
- Make Daily Improvement: Step forward for future growth
- Ensure Transparency: Be open, fair and honest
- Hold a High Work Ethic: Make individual conscientious effort
- Be Considerate of the Global Environment: Do not waste (*mottainai*)
- Keep Harmony with Local Communities and Cultures: Engage in local activities

[Action Guidelines for Top Management]

Based on these guidelines, top executives will manage the Nabtesco Group by focusing on the four important points to ensure its sustainable growth as a global corporate group.

- Communicate the Present Situation and Future Vision of the Company (Organization) to Employees.
- Encourage Active Discussions and Align All Members to a Common Direction.
- Ensure Succession.
- Manage in a Manner that Increases the Nabtesco Brand and Corporate Value.



P75

Activity to Increase Employees' Awareness of The Nabtesco Way

Message from the CEO

Going back to the basics with our business activities to build a robust foundation for sustainable growth

Summary of FY2019 business performance

In the initial plan set for FY2019, we aimed to achieve net sales of ¥313 billion and operating income of ¥30 billion, thereby recording year-on-year increases in both sales and profit. However, the actual results did not reach the planned levels due to stagnant demand for precision reduction gears, although demand for hydraulic equipment in China and demand for automatic doors in Japan and abroad remained robust throughout the year.

By business segment, in the Component Solutions segment, demand for precision reduction gears to be

used in industrial robots decreased because of stagnant equipment investment by the automobile industry, which was under the lingering influence of U.S.-China trade frictions and other issues. Accordingly, the amount of orders received as well as net sales decreased year on year. For hydraulic equipment, demand from local construction machinery manufacturers remained robust in China but demand in the Southeast Asian market, mainly in Indonesia, was stagnant, and net sales remained at the same level as recorded in the previous fiscal year. As a result, operating income decreased year on year in this segment.



Katsuhiro Teramoto

Representative Director,
President and CEO

In the Transport Solutions segment, demand for aircraft equipment remained robust for use in private aircraft, and the marine vessel equipment market continued to make a gradual recovery, enabling us to increase sales in the segment. As for railroad vehicle equipment, demand for equipment used in Chinese subway rolling stock remained robust and net sales remained flat with the previous fiscal year. For commercial vehicle equipment as well, net sales remained at the same level, driven by the robust domestic market, which offset stagnant sales in the Southeast Asian market. For OVALO GmbH in Germany, which is one of our consolidated subsidiaries, the application of the new accounting standard IFRS 16 Leases caused an increase in the right-of-use assets, and we posted an impairment loss of about ¥1.3 billion for the goodwill of the subsidiary. In November 2019, however, OVALO began to supply actuators for Audi's predictive active suspension. As a result, operating income in the segment substantially increased from that posted in the previous fiscal year, when our business performance was influenced by the posting of the impairment loss.

In the Accessibility Solutions segment, both the amount of orders received and net sales expanded due to robust domestic demand for automatic doors for buildings and platform doors, which were driven by special demand caused by the Olympics and Paralympics to be held in Japan as well as by steady demand outside the country. The post-merger integration (PMI) cost associated with past M&A projects also decreased, contributing to an increase in operating income in the segment.

The Nabtesco Group, anticipating lingering impacts of U.S.-China trade frictions, has temporarily suspended the investment being made to enhance the production capacity of the Tsu Plant (located in Mie Prefecture, Japan), which manufactures precision reduction gears. We are, however, ready to expand the production capacity for precision reduction gears and operate it promptly when demand for the product shows signs of recovery.

Outlook for FY2020

For the outlook for FY2020, we forecast net sales of ¥303.0 billion (up 4.6% year on year), operating income of ¥32 billion (up 26.4% year on year), income before taxes of ¥34 billion (up 21.5% year on year) and net income attributable to owners of the parent of ¥23.1 billion (up 28.8% year on year) as of February 7, 2020, when we announced the financial results for the fourth quarter of FY2019. For precision reduction gears, we expected that demand would recover, being driven by equipment investment by automobile industry, and also assumed robust demand in the Transport Solutions segment and in the packaging machine business.

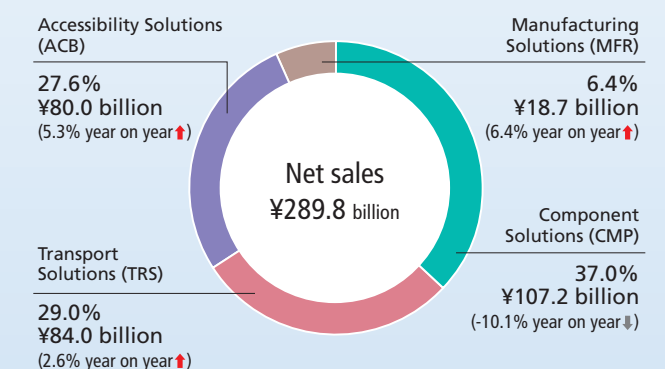
However, due to the spread of the novel coronavirus

(COVID-19), which we couldn't take into account for influence in guidance, demand for hydraulic equipment and railroad vehicle equipment dropped temporarily in China in the first quarter of FY2020, and there were also some slow production in the country. Subsequently, in the second quarter, while the spread of infection seemed to slow down in China, it spread widely across Western countries and in Asia including Japan. Now the second wave of infection is feared and is exerting an influence over the macroeconomic environment.

Because it is still difficult to predict when the pandemic will end and it is unclear what the extent of the impact of the COVID-19 on the Nabtesco Group's business performance will be, it is presently hard for us to make forecasts for our business performance in an appropriate and rational manner. We therefore left the performance and dividend forecasts announced on February 7, 2020 as they were when we announced the financial results for the first quarter of FY2020. We will revise them as necessary when the situation becomes clear and announce the revised forecasts as soon as possible.

	FY2018	FY2019	FY2020 (Initial plan)
Net sales	¥294.6 billion	¥289.8 billion	¥303.0 billion
Operating income	¥21.9 billion	¥25.3 billion	¥32.0 billion
Net income attributable to owners of the parent	¥21.0 billion	¥17.9 billion	¥23.1 billion
Dividends per share	¥73	¥73	¥82
ROE	12.1%	9.8%	12.0%

Sales by business segment (FY2019)



Message from the CEO

Our Action against the spread of COVID-19

Group's policy to tackle COVID-19

- (1) Give first priority to maintaining the health of stakeholders, including Group employees.
- (2) Work to provide products and services on a continual basis.
- (3) Work to maintain the management functions.
- (4) In the event that an employee is suspected of being infected with the coronavirus or any employee is found to have been in close contact with a person infected with the virus, make a report to the relevant public health center according to the predefined reporting rules and follow the instructions given by the center.

The Nabtesco Group takes first priority to the safety and health of all stakeholders, including customers, suppliers, global employees and their families, and has been implementing infection prevention measures worldwide in line with the instructions given by the relevant national governments since the beginning of this year. Moreover, on February 26, before the Japanese government declared a state of emergency, we had already launched our headquarters to combat COVID-19, and formulated the Group's policy to combat the disease, with my leadership. We also formulated guidelines for implementation of the basic infection prevention measures by Group employees. In addition, we encouraged employees to work from home by using remote work tools, prohibited them from making business trips that were not urgent, postponed the organization of large in-house meetings, and took various other preventive measures whichever we can consider. At our plants in Japan, we implemented all possible infection prevention measures, including preventing contacts between employees working different shifts and setting rules for the use of cafeterias.

Nabtesco has been deeming work style reforms a priority and fostering the introduction of work styles that are more suitable for employees in terms of maintaining a work-life balance. By encouraging employees to work from home to prevent the spread of infection and thus enabling them to experience more flexible ways of working, we were able to advance our work style reforms.

The current unprecedented situation is a strong reminder for me that no company can exist alone. When a new strain of influenza spurred a pandemic at the beginning of the 20th century, the fight against the flu lasted a long time due to the arrival of second and third waves. We may therefore need to be ready for a long fight against COVID-19. The Nabtesco Group will strive to overcome this hardship in cooperation with stakeholders, continuing to make contributions to society, local communities, customers and suppliers based on The Nabtesco Way.

Progress with the medium-term management plan

In the current four-year medium-term management plan (FY2017 to FY2020), one of commitments is "Focus on solving ESG issues".

The Nabtesco Group has been dealing with ESG issues in its business activities, and in the medium-term management plan we are committed to further strengthening our measures for these issues. For Nabtesco to achieve sustainable growth and increase its corporate value as a company needed by society, we must ensure transparency of our management and proactively work for the solution of social issues through our business activities. I believe that meeting these requirements is a precondition for Nabtesco to achieve growth hand in hand with stakeholders and continue to survive as a going concern. Based on this philosophy, the Nabtesco Group has identified its materiality (material CSR issues) for the environment, society and governance and has been taking measures accordingly.

In the Environment (E) category, we list "Countermeasures for climate change" and "Environmentally friendly manufacturing" as our material CSR issues. In 2017 we set our long-term CO₂ emission reduction targets and have been continuing to make investments in environment-friendly equipment, including photovoltaic power generation systems to be installed at our plants. In FY2019 we expressed our support for the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) and sped up the measures to ensure compliance with the Act on Rational Use and Proper Management of Fluorocarbons of Japan. In the future we will introduce more energy-saving equipment by taking advantage of opportunities to replace and expand our existing facilities, make better use of renewable energy at our plants, and aim for [energy creation](#) to accelerate the implementation of measures to achieve the long-term targets.

Moreover, to reduce greenhouse gas emissions across our supply chain, we need to collaborate with our suppliers in addition to making efforts internally. Nabtesco will check whether its suppliers have their own CO₂ emission reduction targets and will help them set their own voluntary reduction targets as necessary.

In the Society (S) category, we list "Provide comfortable workplaces" as one of the material CSR issues. The Business Transformation Division, which we newly established in 2017, has been leading the measures to make use of [robotic process automation \(RPA\)](#) tools to increase operational efficiency and to introduce teleworking, in reference to the findings produced by examination and analysis of employees' daily operations. The efforts have led to visible results, such as an increase in the rate of employees taking paid leave and a decrease in overtime work, work style reforms which have in fact provided the basis for our implementation of countermeasures against COVID-19. In FY2020, we will continue to reform our office in Tokyo,

including the provision of "free-address" workplaces.

In the Governance (G) category, we have been implementing effective measures to "Strengthen corporate governance," "Promote risk management and compliance behavior" and "Ensure proactive dialogue with stakeholders." In FY2020, we have increased the rate of outside directors and female directors on the Board of Directors to build a corporate governance system under which the management of the company is supervised and relevant recommendations are made by directors from a wider range of viewpoints. For risk management and compliance, we plan to conduct training activities in consideration of the needs of our bases in Japan and abroad.

For "ROE: 15%," which is one of our commitments made in the medium-term management plan, ROE is expected to reach 12.0% for FY2020 according to the plan initially set for the fiscal year, and we will continue to work for the early achievement of the 15% target by working for higher profitability in our business activities and also boosting our capital efficiency.

In order to increase both profitability and asset efficiency across the board, we have introduced return on invested capital (ROIC) as an internal management indicator that considers the cost of capital, and are making effective use of our business assets and appropriately managing our balance sheet based on this indicator. Moreover, by using the [ROIC tree](#), we are setting specific improvement targets for our manufacturing sites, such as "Reduce the inventory turnover period in terms of days" and "Shorten the production lead time" for continuous improvements. At our administrative departments, the funds generated by the business departments are utilized for growth investment as well as for financial management, such as the maintenance of an appropriate balance for cash on hand, careful liability management, and the stable

and flexible return of profit to shareholders.

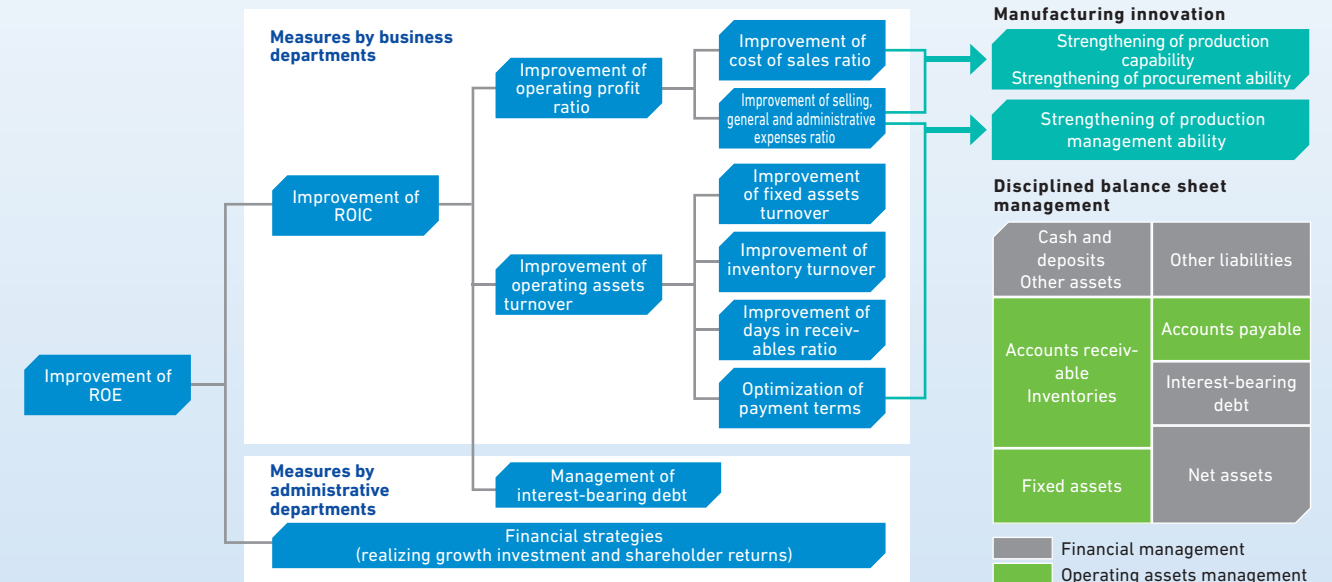
We are still facing an unclear business environment due to the spread of COVID-19. We are, however, in the growth phase for our business and will flexibly make investments in projects to enhance the sustainability of our value creation process. As for the return of profit to shareholders, we will work to increase the dividend amount in proportion to our profit growth and in line with our policy of "Consolidated payout ratio: 35% or over," which is another commitment that we have made in the medium-term management plan.

Nabtesco's future vision

The issue of COVID-19 has provided us with an opportunity to go back to the basics with regard to our corporate philosophy and activities. Companies are needed by society insofar as they continue to offer the value that is needed by society, and companies that fail to meet this requirement will be expelled from society. I firmly believe that the Nabtesco Group will continue to create and offer value to meet the needs of society and contribute to the happiness of all stakeholders, including customers, suppliers, local communities, employees and their families, and shareholders.

To this end, we need to search for the optimal ESG measures and continue to increase our organizational capabilities to offer the value needed by society. In my responsibility as CEO, I would like to play the role of fostering on a continual basis the three mainstays of the medium-term management plan: "Market Creation," "Technology Innovation" and "Operational Excellence." The Nabtesco Group will respond promptly to changes in the business environment, pursue profitable growth, and work to become a corporate entity that is attractive to stakeholders. I would ask for your continued support for the Group.

Measures for Improving Capital Efficiency



Message from the CEO



Q&A session

It has been our practice to hold a dialogue meeting among the CEO and long-term investors and equity analysts in regard to the annual integrated report. For this integrated report for FY2019, however, we decided to forego the meeting in order to avoid a face-to-face gathering with a view to preventing the spread of COVID-19. Alternative way, we deliver FAQ by equity market to CEO Katsuhiko Teramoto based on the questions frequently asked by long-term investors in the hope that the Q&A session will help readers deepen their understanding of the Nabtesco Group's policies and ideas aimed at the long-term enhancement of its corporate value.

Q What is your self-evaluation of the current business portfolio in terms of its contribution to ensuring sustainable corporate growth?

I give a high rating to the current business portfolio based on Nabtesco's corporate history, growth drivers, present management environment and corporate structure. As for operating income by segment, the Component Solutions segment might seem to be our main driver however, we also have other stable businesses that contribute to our profit. These include the Accessibility Solutions segment, which we position as our "cash cow," and the maintenance, repair and overhaul (MRO) business conducted in the Transport Solutions segment, mainly in which we support the safety of land, marine and air transportation. I therefore think that we have successfully diversified our revenue

base by having this business portfolio.

Each of our businesses provides value in an industry that supports social infrastructure, and I therefore evaluate them as businesses that can also make social contributions. Currently we cannot say with absolute certainty as we cannot expect when the pandemic will end, but I think we are relatively able to relieve from the influence exerted by COVID-19 because we are conducting business not in a single product market but across a range of product markets and regions where the impacts of the virus differ in terms of severity and timing.

Q The Nabtesco Group has products that secure large market shares, such as precision reduction gears. Why do you think the Group has been able to maintain such large positions in the market?

For precision reduction gears, we ensure high product quality in a stable manner, provide high precision and high rigidity as the product performance features and have a stable supply system. Demand for precision reduction gears has been increasing due to the needs for automation and labor saving although there were some short-term fluctuations in the size of the demand. In response, we are making equipment investment to enhance our production capacity so that we can fulfill our supplier responsibility to our customers, including industrial robot manufacturers, even when their demand for our products suddenly increases. A stable supply puts customers without supply delay and is an important contributor to maintaining our market share.

We of course have competitors in each market,

and competition is indeed necessary for us to develop technologies on a continual basis. In order to maintain and expand our market share, we must make step forward continually. Through the combined efforts of the development and sales staff, we can provide customers with solutions for their problems one step ahead of competitors. This is our corporate mission engraved in our corporate DNA and it provides us with a competitive advantage.

We have large market shares also in businesses as well as the precision reduction gear business. I think we have been able to compete strongly in each business areas by making combined use of our strengths, such as the ability to develop technologies, production capacity, product lineup and sales and service networks.

Q However, large market shares could also mean that growth potential is limited. What problems need to be solved for the Nabtesco Group to achieve non-organic growth?

For example, in the precision reduction gear business, we need to expand demand from general industry in addition to that from industrial robot manufacturers. Accordingly, we are working to find new markets for the product. "Electrification" would be an important and suitable theme fit to precision reduction gears, and technological development is essential for electrification.

For non-organic growth, we could take the M&A approach to make use of external resources. However, in the precision reduction gear market, the number of players supplying similar products is limited, and so M&A opportunities are also limited. Moreover, we need to compete with other companies in a sound manner to achieve further growth. In the peripheral business fields,

however, we might implement an M&A project, and in fact, we have launched a corporate venture capital (CVC) fund to continually search for M&A opportunities. Going back to the

basics, we will develop technologies ahead of competitors, always pursuing speed and working to find new markets.

Q Due to the development of communication technologies, IoT* is attracting more attention in business. Against such circumstances, how will you enhance the MRO business in the Transport Solutions segment?

The development of communication technologies has made it possible for us to provide IoT-based systems. As a result, it is becoming more important to make MRO proposals to detect and prevent failures in our product status monitoring service. In the marine vessel equipment business, we have already commercialized an onboard status monitoring system for electronically controlled hydraulic valves, and we can help customers reduce their maintenance cost and downtime by diagnosing and predicting the product status in real time. By applying this kind of system to other businesses, we will gain more opportunities to expand our MRO business. Of course, as a precondition to expand the MRO business, we

need to promote the sales of existing and new products. Accordingly, we will focus also on the expansion of the original equipment manufacturer (OEM) business. In the railroad vehicle equipment business, we expect that demand will continue to increase for use in Chinese subways, and we will enhance the MRO business in addition to promoting the sales of brakes and doors in the business. Also, in Japan, we will create a database of maintenance and management information to improve our ability to make proposals to customers.

* Internet of Things (IoT) refers to a system in which a range of things are connected to the Internet and mutually controlled.

Q As for the rate of sales growth relative to the fiscal year ended March 31, 2013, the automatic door business achieved the highest rate among the businesses, and in the fiscal year ended December 31, 2019 (FY2019), operating margin exceeded 10%, which implies that profitability has been improved. Please outline the growth strategy for the automatic door business.

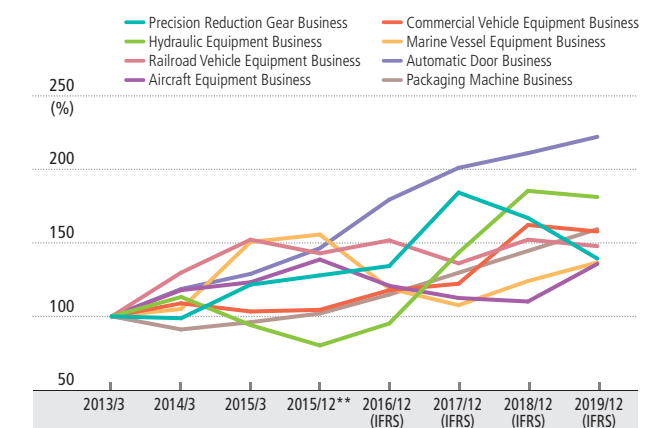
In the automatic door business, we have been promoting sales globally since we acquired Gilgen of Switzerland in 2011. In Japan, we have steadily increased market share from around 30% to about 50%, rather than suddenly boosting the share.

We were able to achieve such growth by strengthening our product development and also utilizing our strong sales network covering all of Japan as well as a global sales network that we have enhanced through M&A. Due to the post-merger integration (PMI) process, we recorded an extra cost temporarily, but the integration of the manufacturing and sales activities has resulted in higher profitability. The automatic door market is a stable market that achieves growth at a rate as well as the world's GDP growth rate, and we position it as a "cash cow" business in which we can also expect demand for the MRO service. Moreover, automatic doors have not yet been widely used in some regions and countries where we can expect growth for the business. In the post-corona world, the value of automatic doors, which are opened/closed in a contactless manner, might be more appreciated especially in hospitals, while demand for these doors will also expand as the aging of society progresses. In 2018, we released the NATRUS+e automatic door, which helps reduce the energy loss caused by unnecessary door operation while contributing to a comfortable indoor environment.

We will continue to release products that provide value

in terms of safety, a sense of security and comfort, thereby achieving growth in a steady manner. In the automatic door business, we are expanding sales of platform doors, which help ensure safety at railroad stations, both within and outside Japan. In the platform door business, we can contribute to the prevention of falls from platforms and to ensuring the on-time operation of trains. We will promote sales in the business in a proactive manner.

● Sales growth rate by business segment



* Sales for the fiscal year ended March 31, 2013 are assumed to be 100

** We shifted from an April–March fiscal year to a January–December fiscal year for FY2015 and onwards, and in order to make comparisons between the fiscal years based on the same conditions, we made calculations by assuming that all the fiscal years, including FY2015, had 12 months.

Message from the CEO



Q&A session

Q As for innovation, what do you think about the future development of the motion control technology and its application?

Destructive innovation could make our existing products obsolete. We share the recognition of this potential risk internally and think it is necessary to constantly identify customers' needs and further advance our motion control technology so that we can continue to make innovative proposals one step ahead of our competitors.

The future theme of our motion control technology is "electrification," and fostering the application of precision reduction gears for multiple purposes could be one direction that we can choose in this business. Our hydraulic technology can also be applied to other fields. In addition

to our own developed technologies, we can make use of the technologies and know-how owned by OVALO GmbH and adcos GmbH of Germany for the development of new technologies.

In 2018 we established a CVC fund, through which we can make minority investments to foster R&D activities by using external resources and also build M&A pipelines. In fact, we have already participated in some investment projects through the fund. We will also foster open innovation in a wider range approaches, including collaboration with universities and research institutes.

Q For a conglomerate company, it would be necessary to set the "return on invested capital (ROIC)" target for each business and allocate the financial resources to the businesses in an optimal manner. Please explain how you are utilizing ROIC as an indicator that considers the cost of capital.

Breaking down the information contained in ROIC numbers by using the [ROIC tree](#) provides a useful method to make efficient use of our business assets. By using "year-on-year improvement level" as an incentive, we are fostering voluntary improvement activities. Our operating assets turnover is broken down into fixed assets turnover and inventory turnover, for which we are setting improvement targets. ROIC and the ROIC tree are indeed providing us with effective tools to identify problems at manufacturing sites.

For financial strategies, we are using weighted average cost of capital (WACC) to calculate return on investment while using ROIC as a key performance indicator (KPI) to

decide on the business performance-linked compensation to be paid to internal directors and as an incentive to foster business management that focuses on increasing ROIC to the level exceeding the cost of capital. As for portfolio management, we have added ROIC to the criteria used to identify a "problematic business" that we must monitor more intensively. However, we do not make comparisons among our businesses simply based on their ROIC levels and instead focus more on their improvement ratio. We make comprehensive decisions also in reference to other indicators.

Q You have set the target of "ROE: 15%" in the medium-term management plan, but considering the fact that Nabtesco has businesses that are prone to the influence of external factors, is it really appropriate to uphold this ROE target? Please share your ideas with us about this and in relation to the formulation of the next medium-term management plan.

For "ROE: 15%," which is one of our commitments made in the medium-term management plan, we achieved 14.3% and nearly reached the target in FY2017, but in the initial plan set for FY2020, we forecast that ROE would be 12.0% for the fiscal year. The continuous and stable growth of the precision reduction gear business, which we assumed when formulating the medium-term management plan, has not been achieved as expected due to changes in demand, and it is exerting a serious influence over our profitability. On the other hand, as a method to improve the ROE level, we could use financial leverage, but in the current contingency caused by the spread of COVID-19, it is

also important to keep a sound capital adequacy ratio, and we do in fact have the financial soundness to effectively prepare against any contingencies. Depending upon the status of our free cash flow, we will consider making growth investments and returning profit to shareholders.

As for the next medium-term management plan, we are now discussing the details internally. We will continue to pursue profit expansion through our business activities and make efficient use of our business assets by using the ROIC tree, thereby we aim to archive the ROE target as soon as possible.

Q As for ESG issues, Nabtesco seems to be still only halfway there on diversity measures. Please share your ideas about gender issues and the diversity of the management team.

For sustainable corporate growth, I think it is important for members having various backgrounds, including executives and general employees, to discuss issues together from a range of viewpoints. In particular, for the management team, according to the composition of the Board of Directors approved at the general meeting of shareholders held this March, the proportion of outside directors has been increased from the conventional 30% to 40% and also the proportion of female directors has been increased from 10% to 20%. I think we have thereby built a corporate governance system that enables directors to supervise management and make relevant recommendations from a wider range of viewpoints. However, we will continue to make examinations to further increase the number of female directors and appoint non-Japanese directors.

For gender diversity, I am afraid it will take more time for us to promote female employees to directorial and managerial positions on a regular basis. We will not increase the number of female managers just for the sake of increasing the proportion, but our outside directors have also pointed out the need to increase the number of female managers. We will work to meet this requirement as one of our important targets.

As a precondition to empower women and make other

improvements, we are fostering work style reforms to help employees maintain an appropriate work-life balance. For proper work time management, we are establishing systems and tools to manage employees' working hours based on objective records and reduce excessive overtime work. For paid leave, we were able to achieve the target of increasing the rate of paid days off taken by employees to at least 80% by actually exceeding this rate. It is also important to provide employees with workplaces where they can continue working at the same time as dealing with significant life events, such as childbirth, childcare and the long-term care of family members. Accordingly, we are expanding the systems to help employees make their work and the care of their children and other family members compatible. Recently, the rate of male employees taking childcare leave has also been increasing, and I feel confident that the aforementioned measures have been steadily changing the mindsets of employees. Moreover, thanks to the measures that we have taken to foster remote work, employees can readily work from home to prevent the spread of COVID-19. We will continue to provide employees with multiple work style options to create attractive workplaces where they can feel job satisfaction.

Q The issue of COVID-19 is making us recognize again the importance of solidifying the foundation of the value chain. Specifically, what impacts did the issue have on Nabtesco's value chain?

The issue is indeed making us reaffirm the importance of ensuring the stability and sustainability of our value chain. The value chain of a manufacturer is centered around production activities, and the stability of our profitability directly depends on the "Business Continuity Power (BCP)" of our plants.

By the end of last year, the Nabtesco Group's nine major plants in Japan had acquired Resilience Certification as an organization contributing to national resilience, and I feel that the experience that we have accumulated to enhance our BCP is now helping us deal with COVID-19. I am a strong believer in the importance of constantly improving our ability for systematic crisis management in ordinary times. From now on, we will also more proactively implement countermeasures against emerging viruses, which we have tended to put off, as part of the measures to strengthen our BCP.

Moreover, it is important to keep our supply chain running. As for the impact of the COVID-19, we have not suffered serious damage to our supply chain because we identified the bottleneck items and implemented measures to find substitute suppliers in the early stage of the outbreak. The Nabtesco Group is fostering BCP measures in

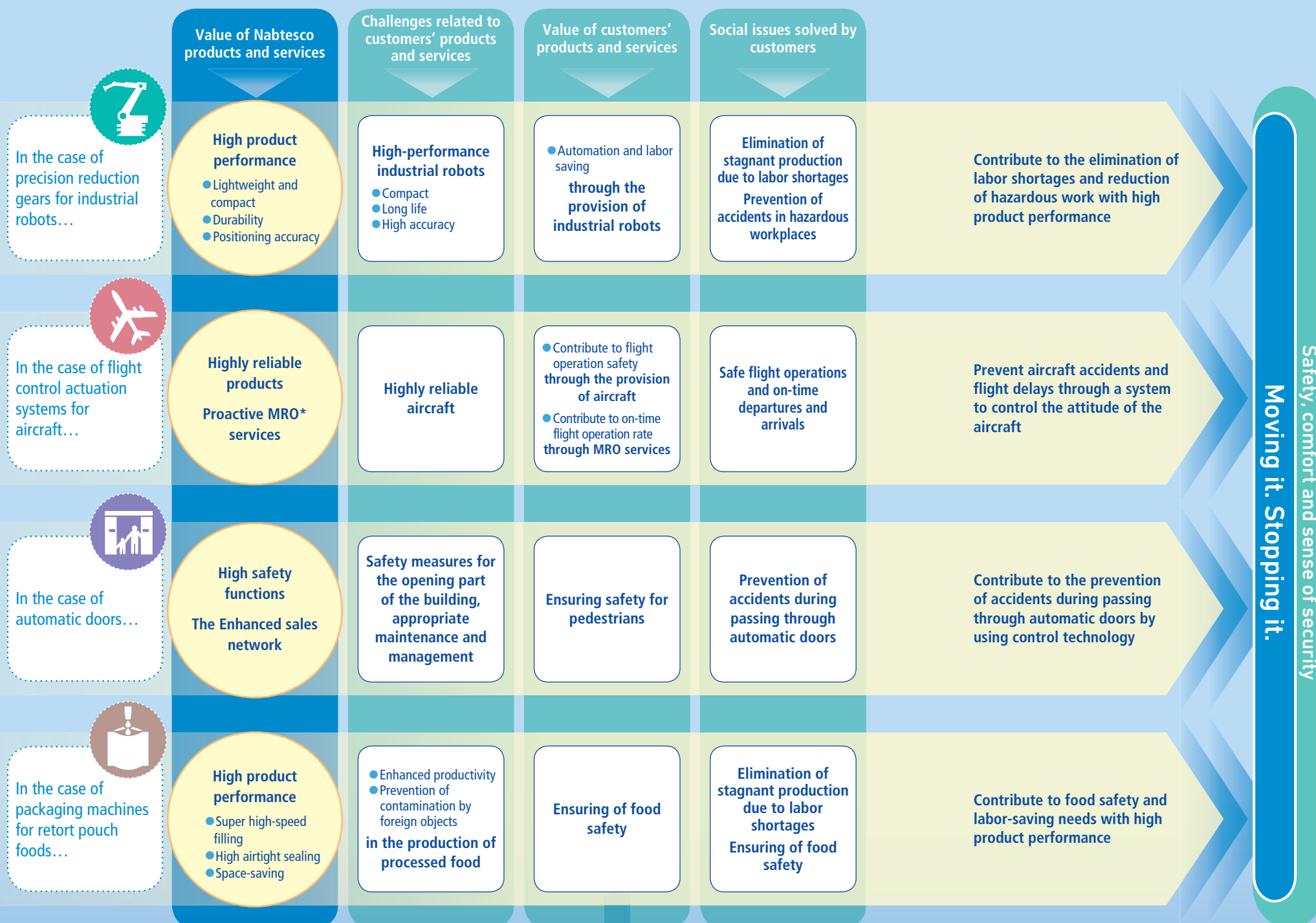
cooperation with suppliers, and we aim to further advance the measures from the viewpoints of both production and procurement.



Deliver Solutions for Social Challenges through Business

Nabtesco will continue to act as an unsung hero in solving social challenges.

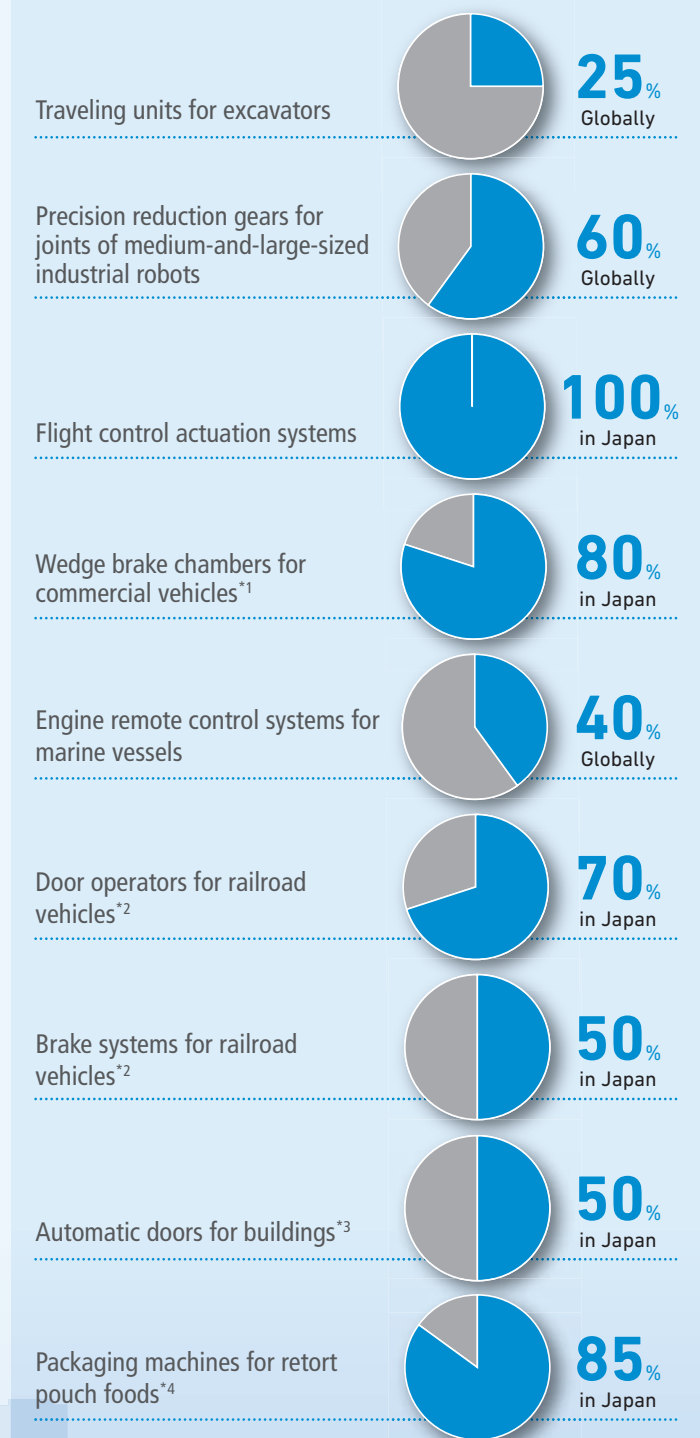
By providing products and services with leading market shares, the Nabtesco Group will contribute to solving social challenges through business and strive to provide value on a continuous basis.



*MRO (Maintenance, Repair, Overhaul)

Moving it. Stopping it.
 Safety, comfort and sense of security

We create economic value by fulfilling our responsibilities for ensuring stable supply in each market.



¹ Nabtesco's estimate based on "Large and Medium-Sized Freight Vehicle Unit Sales (2018)," Japan Automobile Dealers Association
² Nabtesco's estimate based on "Statistics Data of Production (2018)," Japan Association of Rolling Stock Industries
³ Nabtesco's estimate based on "Number of Automatic Doors Installed (2018)," Japan Automatic Door Association
⁴ Nabtesco's estimate based on "Production Volume of Retort Package Food (2018)," Japan Canners Association and the 2018 survey by Tokyo Shoko Research, Ltd.

Nabtesco Group's Materiality

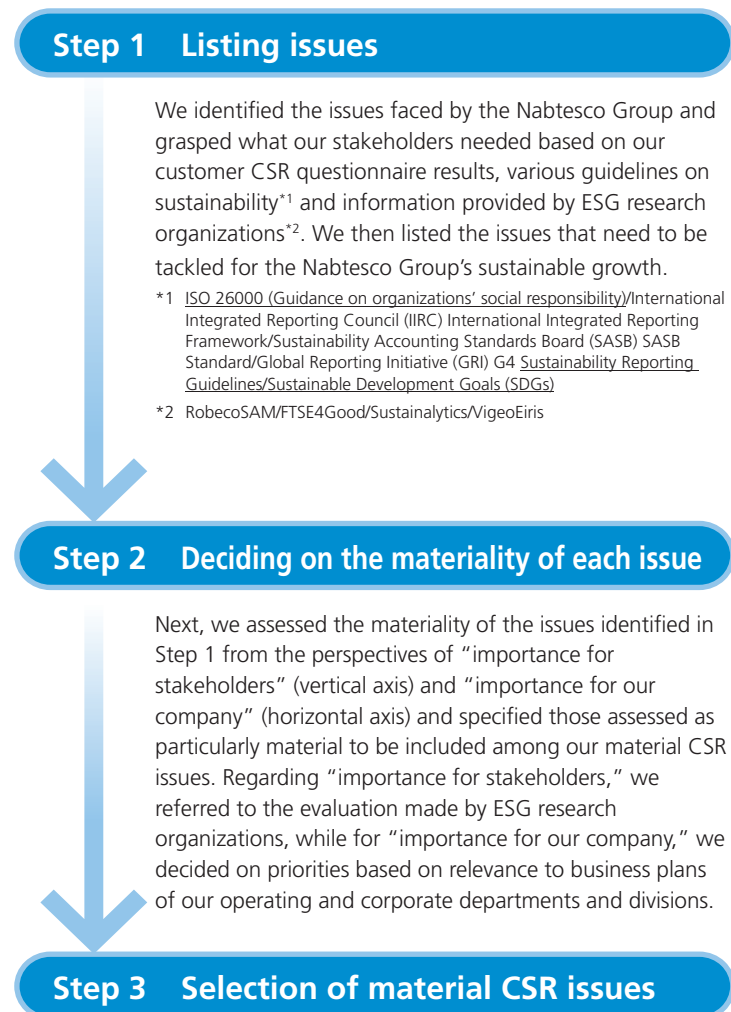
We strive to ensure management transparency and a sense of security.

We at the Nabtesco Group are committed to fulfilling our corporate social responsibility through our CSR management. To this end, we will seriously take on the challenge of pursuing economic rationality while also addressing ESG (environmental, social and governance) issues, based on our belief that this kind of business management will give us a competitive edge that will underpin our sustainable corporate growth.

Process of Materiality Reexamination

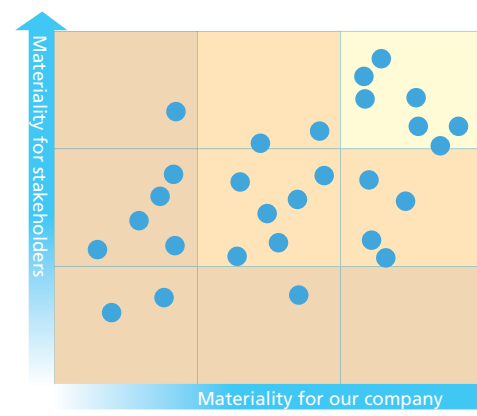
In 2016, we launched the CSR Committee as an organization that supervises all our CSR activities and reports directly to the CEO. Subsequently, we reexamined the material CSR issues (materiality) of the Nabtesco Group and formulated the CSR Basic Policy. The level and

scope of stakeholders' expectations for the fulfillment of corporate social responsibility by the Nabtesco Group have been rising and expanding. In response, we will continue to examine the materiality on a regular basis to earn even more trust from our stakeholders.



We identified the issues faced by the Nabtesco Group and grasped what our stakeholders needed based on our customer CSR questionnaire results, various guidelines on sustainability^{*1} and information provided by ESG research organizations^{*2}. We then listed the issues that need to be tackled for the Nabtesco Group's sustainable growth.

*1 ISO 26000 (Guidance on organizations' social responsibility)/International Integrated Reporting Council (IIRC) International Integrated Reporting Framework/Sustainability Accounting Standards Board (SASB) SASB Standard/Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines/Sustainable Development Goals (SDGs)
 *2 RobecoSAM/FTSE4Good/Sustainalytics/VigeoEiris



Based on the opinions given by external experts, we reexamined the issues deemed important in Step 2. Then, finally, the Board of Directors selected the material CSR issues through discussion.

parency and to provide safety,










Nabtesco Group's CSR Basic Policy

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

The CSR Basic Policy clearly states that the Nabtesco Group will fulfill our corporate social responsibilities, thereby meeting the expectations and requests of our stakeholders. The policy to "Ensure management transparency" and "Provide safety, comfort and a sense of

security" upheld under the abovementioned CSR Basic Policy represents the Group's material issues. By incorporating the concept of materiality into the CSR Basic Policy, we are strategically tackling CSR issues that are important to the Group as well as to our stakeholders.

Materiality (Material CSR Issues)

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	Environment (E)	Environmentally friendly manufacturing	 
		Reduction of environmental impact through products and services	
		Recycling, reuse and remanufacture of products	
		Local community development	

Through the materiality reexamination process, we have classified Nabtesco's material CSR issues in relation to the 17 SDGs as per the table shown above. In 2018, we added Goal 4 to "Major SDGs of Relevance" in line with the newly formulated Nabtesco Group Community Investment Policy.

Impacts of each issue on our corporate activities are

described in "Nabtesco Group's Approach to CSR." While giving due consideration to potential impacts of each issue, we will invest resources efficiently and effectively to address wide-ranging ESG issues and will systematically promote specific activities with a view to contributing to achieving the SDGs.

Growth History

Accumulating managerial resources business foundations laid by our two

Nabtesco Corporation was formed in 2003 through the merger of Teijin Seiki Co., Ltd. and NABCO Ltd. The company has expanded the technology base and businesses inherited from the two companies, while enhancing the

for growth by building upon the predecessors

management foundation and expanding its overseas bases. Since FY2017, it has been implementing the current medium-term management plan to accelerate business growth in global markets.

Disciplined portfolio management for growth

● Technology base: Unique motion control technology

Technologies developed by the two companies		Technologies developed/enhanced after the integration		
Teijin Seiki	NABCO	Leading-edge element technologies	Advanced development methods	Innovative production technologies
<ul style="list-style-type: none"> ● Cutting technology ● Assembly technology 	<ul style="list-style-type: none"> ● Fluid control technology ● Pneumatic control technology 	<ul style="list-style-type: none"> ● Surface treatment and heat treatment technologies 	<ul style="list-style-type: none"> ● CAE analysis technique, additive manufacturing (AM) technology and model base development 	<ul style="list-style-type: none"> ● Advanced automation and smart production management

Businesses discontinued/restructured after the integration	
Discontinued businesses	Restructuring
<ul style="list-style-type: none"> ● IT-related product business ● Automobile and motorcycle component business ● Textile machine maintenance business ● Vacuum equipment business etc 	<ul style="list-style-type: none"> ● Divestiture of commercial vehicle equipment business (Nabtesco Automotive Co., Ltd. established) ● Restructuring of production bases in the hydraulic equipment business in China ● New Energy Business Development Division was abolished

Companies that joined the Group through M&A				
Automatic doors	Railroad vehicle equipment	Hydraulic equipment	Commercial vehicle equipment	(Head office) Technology and R&D Division
<ul style="list-style-type: none"> ● Gilgen Door Systems AG (Switzerland) ● NABCO DOOR Ltd. ● NABCO SYSTEMS Co., Ltd. 	<ul style="list-style-type: none"> ● OCLAP S.R.L. (Italy) 	<ul style="list-style-type: none"> ● Hyst Corporation 	<ul style="list-style-type: none"> ● ITG Serienfertigung Fahrzeugteile GmbH and ITG Kompressoren GmbH (Germany) 	<ul style="list-style-type: none"> ● OVALO GmbH, adcos GmbH (Germany)

Current portfolio (main businesses)			
Component Solutions (CMP)	Transport Solutions (TRS)	Accessibility Solutions (ACB)	Manufacturing Solutions (MFR)
<ul style="list-style-type: none"> ● Precision reduction gears ● Hydraulic equipment 	<ul style="list-style-type: none"> ● Railroad vehicle equipment ● Aircraft equipment 	<ul style="list-style-type: none"> ● Commercial vehicle equipment ● Marine vessel equipment 	<ul style="list-style-type: none"> ● Automatic doors ● Packaging machines

1944

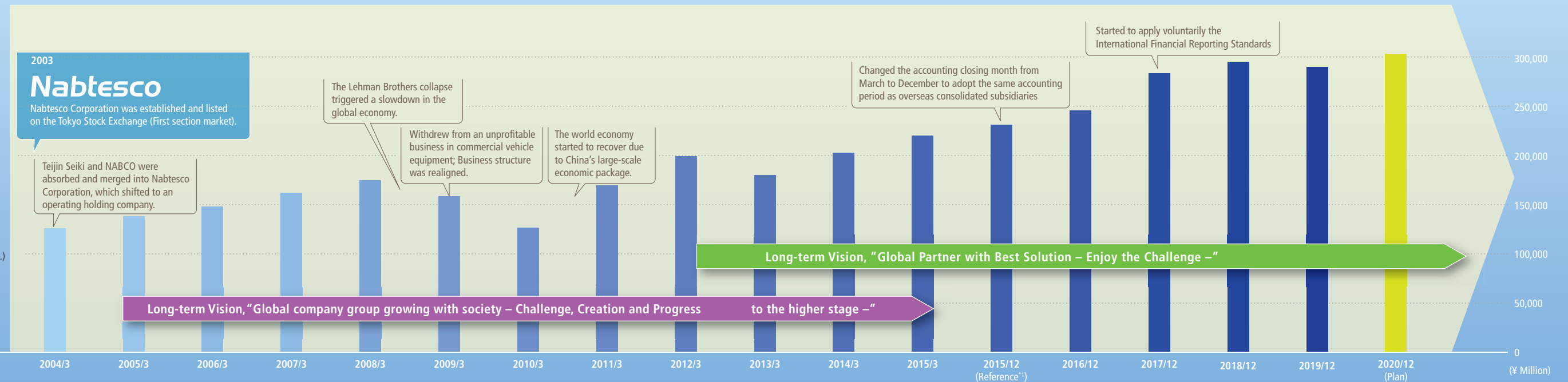


Teijin Seiki Co., Ltd. was established.

1925



NABCO Ltd. (formerly Nippon Air Brake Co., Ltd.) was established.



Trends in Net Sales

Period of the Medium-term Management Plan

Reinforcement of the management base

- Introduced the in-house company system and the corporate officer system
- Established the Nabtesco Group Code of Corporate Ethics and the Nabtesco Group Code of Conduct (consolidated into the Nabtesco Group Code of Ethics)
- Formulated the Corporate Philosophy and the Long-term Vision
- Established the Quality & PL Committee
- Formulated The Nabtesco Way
- Announced participation in and signed the UN Global Compact
- Formulated the Nabtesco Group CSR-Oriented Procurement Policy
- Compliance Committee, CSR Committee and Risk Management Committee were established
- CSR Basic Policy was formulated
- Nabtesco Group Code of Ethics was established
- Establishment of the Nabtesco R&D Center
- Launch of the Business Transformation Division
- Formulation of the Nabtesco Group Human Rights Policy
- Formulation of the Nabtesco Group Community Investment Policy
- Establishment of a corporate venture capital (CVC) fund
- Abolished the advisor system

*Due to the change in the accounting closing date, the figures have been estimated for the 12-month period to make a comparison.

Value Creation Process

Our unique "Moving it. Stopping it." technology

keeps driving our business globally.

MISSION By implementation of The Nabtesco Way, 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 based on organic growth
- Emerging markets: Demand increase due to population growth

Technological trends

- Progress of IoT and automation in the manufacturing industry
- Increased needs for mechatronics and systematization 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 transportation facilities
- 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 large-scale disasters
- Risks related to procurement
- Risks related to competition
- Risks related to intellectual property
- Risks related to the environment
- Risks related to the securing of human resources 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 basis. 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

Business Model

Managerial Resources That Support Value Creation

INPUT

Organizational capital

- Speedy business execution based on the in-house company system
- A range of committees that provide a system to implement measures for ESG issues across the Group
- Corporate governance system with a focus on the sustainable increase of corporate value

Human capital

- Management team members who demonstrate diverse expertise to increase corporate value
- Diverse workforce made up of people who value quality as well as collaborative creation, competition and sharing

Technology and manufacturing capital

- Motion control technology that meets development requests from customers
- Local production and local consumption system to fulfill responsibility to realize stable supply
- System to create and enhance intellectual property

Financial capital

- Capability to generate stable cash flow

Relationship capital

- Major customers: Industrial robot manufacturers and construction machinery manufacturers; Manufacturers and companies engaged in railroad, marine and air transportation businesses; Major construction companies and others engaged in the construction business; Food manufacturers etc
- Characteristics of our shareholders: High rate of non-Japanese shareholders; Large ownership by growth investors
- Relationships with a range of suppliers
- Favorable relationships with local communities

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

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"> Relations of trust with customers Relations of trust with shareholders Relations of trust with suppliers Relations 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 recognition through community investment
Financial capital	<ul style="list-style-type: none"> Robust balance sheet that supports steady growth investments Equity ratio of 55% or more for the past five years 	<ul style="list-style-type: none"> OCDS 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 FY2019/12: 9.8% Payout ratio for FY2019/12: 50.5%
Human capital	<ul style="list-style-type: none"> Securing of human resources who implement The Nabtesco Way Development of Globally Competitive Human Capital 	<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 Disaster-resilient organization with constantly enhanced Business Continuity Power 	<ul style="list-style-type: none"> Management transparency based on the autonomous improvement of its functions by the Board of Directors Proportion of outside director: 40% Proportion of female director: 20%

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 	Manufacturing and Infrastructure
Transport Solutions (TRS)	After-sale services (MRO*) that mitigate impacts from changes in OEM** production volume	<ul style="list-style-type: none"> Railroad vehicle equipment Aircraft equipment Commercial vehicle equipment Marine vessel equipment 	Transportation of people and goods
Accessibility Solutions (ACB)		<ul style="list-style-type: none"> Automatic doors Platform doors Welfare equipment 	Daily lives and welfare
Manufacturing Solutions (MFR)		<ul style="list-style-type: none"> Packaging machines 	Production of daily commodities

*1 MRO: Maintenance/Repair/Overhaul
*2 OEM: Original Equipment Manufacturer

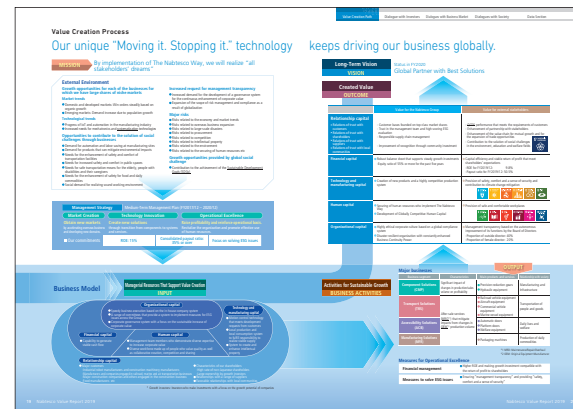
Measures for Operational Excellence

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"

Value Creation Process (Explanation)

In order to ensure our management transparency, we need to help stakeholders understand how we are striving to fulfill our corporate social responsibility and achieve sustainable growth. To this end, the Nabtesco Group is focused on sharing the overall picture of its value creation process with stakeholders. In this section, we will make detailed explanations about the Group's value creation, which is represented in the tables and figures shown on pages 19 and 20.



MISSION

By implementation of The Nabtesco Way, we will realize "all stakeholders' dreams"

The Nabtesco Group has formulated The Nabtesco Way, which comprises the Corporate Philosophy, Our Promises, Action Guidelines and Action Declaration. We encourage each of our management team members and employees to comply with The Nabtesco Way and turn "all stakeholders' dreams" into reality, as stated in our Action Declaration. We will work to meet our stakeholders' expectations ("dreams") in a sincere manner on a long-term basis, thereby providing them with greater value while achieving sustainable and profitable growth as a company.

External Environment

The Nabtesco Group manufactures, sells and provides after-sales services for machinery-related components in the area of B-to-B business. In this business area, we absolutely must make appropriate responses to changes in market trends, including trends in the market of final products, as well as to related risks. We also think it important to contribute to the solution of social challenges through our businesses, believing that these efforts will in turn help us achieve growth in the businesses.

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

In the niche markets in which we command large market shares, demand for our products will steadily expand, mainly in Japan and other developed countries, which have stable and mature markets. Moreover, we can increase our growth opportunities in these niche markets by winning more orders in the rapidly and widely changing emerging markets.

The advent of an IoT society and progress of AI (artificial intelligence) are fueling engineering innovation, which has increased the needs for mechatronics technologies and systematization of machinery-related components. By meeting these technological needs, the Nabtesco Group can add more value to its products.

◆ Opportunities to contribute to the solution of social challenges through businesses

The Nabtesco Group conducts business in a range of domains, including "Manufacturing/Urban development," "Transportation of people and goods," "Daily lives and Welfare" and "Production of daily commodities." We supply machine component-related products and systems to manufacturers of completed products and provide these corporate customers with maintenance, repair and overhaul (MRO) services. Through these business activities,

we will contribute to the solution of social challenges, focusing mainly on those listed below.

● Opportunities to contribute to the solution of social challenges through businesses

Manufacturing and Infrastructure	<ul style="list-style-type: none"> •Demand for automation and energy conservation at manufacturing sites in line with the aging of society, decreasing birth rate and shrinking labor force •Needs for products that can mitigate environmental impacts
Transportation of people and goods	<ul style="list-style-type: none"> •Needs for the enhancement of safety and comfort of vehicles
Daily lives and Welfare	<ul style="list-style-type: none"> •Needs for increased safety and comfort in public spaces •Needs for safe transportation means for the elderly, people with disabilities and their caregivers
Production of daily commodities	<ul style="list-style-type: none"> •Needs for the enhancement of safety for food and daily commodities •Needs for resource-saving packaging of food and daily commodities
Business activities in general	<ul style="list-style-type: none"> •Demand for realizing sound working environments

◆ Increased requests for management transparency

With the expansion of investments made from Environmental, Social and Governance (ESG) viewpoints, companies are increasingly required to fulfill their accountability for the sustainable improvement of their corporate value. The globalization of business has also expanded the scopes of risk management and compliance to be ensured by companies.

The Nabtesco Group will proactively disclose how it is striving to achieve sustainable growth and to ensure management transparency, thereby continuing to win the trust of stakeholders.

◆ Growth opportunities provided by global social challenges

As a global business entity, the Nabtesco Group deems it essential to contribute to the United Nations' Sustainable Development Goals (SDGs). We are committed to fulfilling our corporate social responsibility as a precondition to achieve the sustainable growth of the Group.

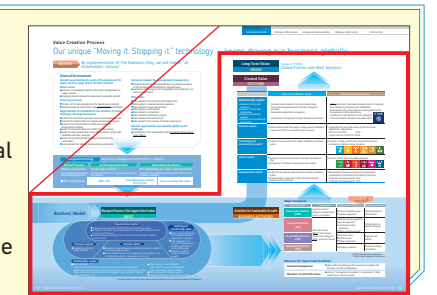
◆ Major risks

The Risk Management Committee, which manages risks on a company-wide basis, identifies the serious risks for the entire company based on the risk assessment results and deliberates on countermeasures. The committee worked mainly on identifying the following risks in FY2019.

1. Risks related to the economy and market trends
2. Risks related to overseas business development
3. Risks related to large-scale disasters
4. Risks related to changes in the foreign exchange market
5. Risks related to procurement
6. Risks related to product quality
7. Risks related to competition
8. Risks related to information security
9. Risks related to intellectual property
10. Risks related to laws and regulations
11. Risks related to the environment
12. Risks related to M&A and others
13. Risks related to the impairment of fixed assets
14. Risks related to the securing of human resources

Business Model

In our business activities, the Nabtesco Group inputs a range of managerial resources to supply products and services. We also work to provide our own Group and stakeholders with more value by implementing measures for financial management and the solution of ESG issues. In the following, we detail our business model for value creation with a focus on the flow from the input of major managerial resources to the output of major products and services and the outcome (created value).



INPUT

Managerial Resources That Support Value Creation

The managerial resources that support the Nabtesco Group's business operations include relationship capital, financial capital, technology and manufacturing capital, human capital and organizational capital. The most important capital among these is relationship capital, which is based on relations of trust with customers, shareholders, investors and other external stakeholders. Relationship capital and the other types of capital supplement each other. By using such capital, we create value through our business activities and based on our efforts for financial management and the solution of ESG issues.

Relationship capital

◆ Relationship with customers

The trust of customers provides us with the basis for our business operations. The Nabtesco Group has customers representing a broad range of industries, including those engaged in manufacturing and infrastructure building. Among them are excellent corporate customers that are operating on a global scale and fulfilling their social responsibilities to a high standard. We have been meeting the high expectations of these customers, thereby continuing to survive in the market. Our excellent customer base was, is and will continue to be a sustainable source of our profits.

● Major customers by segment

Component Solutions	Industrial robot manufacturers, EA machine manufacturers, construction machinery manufacturers, etc.
Transport Solutions	Aircraft manufacturers, companies engaged in railroad, marine and air transportation businesses, etc.
Accessibility Solutions	Major construction companies, others engaged in the construction business, etc.
Manufacturing Solutions	Food manufacturers, etc.

◆ Relationship with shareholders and investors

The Nabtesco Group has been focusing on capital cost for disciplined management, with a view to meeting the expectations of shareholders and investors on a long-term basis. Non-Japanese shareholders account for nearly 50% of Nabtesco's shareholders (48.1% as of the end of December 2019). Moreover, the Group gets a high rating for our growth potential, and the percentage of our shares owned by institutional growth investors*, including those both within and outside Japan, is uniquely high. We engage in financial and non-financial dialogues with these investors for more sophisticated management of the company.

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

◆ Relationship with suppliers

A total of around 1,000 companies, including both large and small, supply their products (mainly metal, electronic and electric components) or offer machine processing and component assembly services to the Nabtesco Group. The Group's cost structure and QCDS performance depends to a considerable degree on its relationship with these suppliers. For its medium- to long-term success, it is essential that the Group has a sustainable supply chain, for which it is working closely with its suppliers based on fair and proper trade practices founded on an appropriate cost structure.

◆ Relationship with local communities

The Nabtesco Group has a global production and sales network comprising 14 subsidiaries in Japan and 48 outside the country. We attribute importance to good relationships with local communities in the regions where we operate, for which we foster exchange and cooperation with the communities through local activities and activities in areas of society deeply related to our businesses. Many of our employees live near the plants and sales bases where they work, and improving our brand image in the surrounding communities helps increase the satisfaction of these employees. It might also be expected to help us recruit excellent local talent in the future. We work to contribute to the solution of local issues across the globe as the basis for increasing our corporate value on a long-term basis.

Financial capital

The Nabtesco Group has continued to post stable operating cash flow. This cash flow provides us with the financial resources to make growth investments and return profit to stakeholders.

Technology and manufacturing capital

In each of the businesses for which we boast a large market share, the Nabtesco Group has a proprietary system for developing products and services in a way that is integrated with the product development of our customers. The core technology that allows us to do this is our unique motion control technology. By continuing to meet the demanding requests of customers, we have built up our basic technologies, including cutting technology, assembly technology and fluid control technology. In addition, we have an enviable collection of advanced

element technologies, such as those for surface treatment, heat treatment, CAE analysis and additive manufacturing. All these technologies provide the basis for our motion control technology.

For production, we secure sufficient production capacity to meet demand that will expand on a medium- to long-term basis in the businesses for which we take the top spot in the market, including the business of precision reduction gears to be used in medium- to large-sized industrial robots. We have established stable supply systems for these businesses, and these systems make it difficult for new companies to enter the market.

Moreover, the Nabtesco Group identifies the core values that give us our competitive edge ("core competences"), such as the technologies and ideas incorporated into our products as well as our design/manufacturing know-how. We classify such competences into those to be protected as confidential information and those to be protected by patents and others, and have established a system for the global protection of these competences. We are establishing core competences in terms of both technologies and production capabilities, and implementing measures to maintain and enhance them so that we can continue to be a competitive player on a long-term basis.

Human capital

◆ Management team members who demonstrate diverse expertise to increase corporate value

In the Action Guidelines for Top Management, which is included in The Nabtesco Way, it is clearly stated that top executives shall manage the Nabtesco Group in a manner that increases corporate value. All members of the management team are strongly committed to leading the Group's activities to increase the Group's corporate value. Also, all members of the Board of Directors, including the four independent outside directors, have general knowledge about business/risk management, including financial, legal and compliance-related knowledge as well as expertise regarding technologies and business operations. These professionals are using their diverse knowledge and expertise for corporate management, global business operation and sustainability and are supervising the management of the Group for the sustainable increase of its corporate value.

◆ Diverse workforce made up of people who value quality as well as collaborative creation, competition and sharing

The Nabtesco Group has a unique system to educate employees on high-quality manufacturing. The Group develops workers who can manufacture high-quality products based on systematic and regular education on quality, compliance education and awareness-raising activities, which also provides the basis for the Group to develop human resources who can conduct business with a high sense of ethics and transparency as well as to create value for customers.

As of the end of December 2019, Nabtesco has 7,736 employees on a consolidated basis and 2,323 employees on a non-consolidated basis. In accordance with the expansion of its businesses, the number of employees has been on the rise. For Nabtesco's employees on a non-consolidated

basis, employees of the former Teijin Seiki and former NABCO and new graduates and mid-career hires employed by Nabtesco (founded by the merger of the aforementioned two) each account for about 50% of the total number. With diverse backgrounds, its employees are committed to collaborative creation, competition and sharing as a unique feature of the Nabtesco Group.

Organizational capital

The Nabtesco Group adopts the in-house company system and the executive officer system. Under these systems, each in-house company pursues profits by making decisions independently and attributing importance to capital efficiency and sustainable growth and has a prompt business execution system suitable for its business environment. For the management of the entire Group, the

CEO makes business decisions through the Management Committee, while the Board of Directors formulates the Group's basic policies and strategies, decides on important operations, and supervises the execution of business. The Nomination Committee, Remuneration Committee and Compliance Committee serve as advisory organizations to the Board of Directors.

In addition, we have the CSR Committee, Group Quality & PL Committee, Group ESH (ESH stands for "environment, safety and health") Committee, and Risk Management Committee to address ESG issues across the Group under the leadership of the directors and executive officers.

The Nabtesco Group thus has a highly transparent corporate governance system for prompt and flexible execution of business and for the sustainable increase of its corporate value.

BUSINESS ACTIVITIES

Activities for Sustainable Growth

In a wide range of B-to-B businesses that support people's daily lives and social infrastructure, the Nabtesco Group supplies products and services to customers who are providers of completed products. Our products and services are connected with society by being used in or for our customers' products, which are then used by their own customers in society. At the same time, the Nabtesco Group is working to provide itself and its stakeholders with more value through financial management and the implementation of a range of measures to help solve ESG issues.

OUTPUT

Major businesses, products and services

We believe that we can enhance relations of trust with customers and other stakeholders by making contributions to the solution of social challenges through our business operations.

In the Component Solutions Segment, which comprises the precision reduction gear business and the hydraulic equipment business, we focus on OEM (Original Equipment Manufacturer) production. These businesses provide social value by contributing to automation, labor saving and infrastructure improvement mainly in the domain of "Manufacturing and Infrastructure." Compared with other businesses, the profitability of these two businesses can easily be influenced by production- and sales-related changes, while great synergy effects can be generated in the segment through the joint procurement of materials and flexible use of core production staff.

The Transport Solutions Segment, which is composed of the railroad vehicle equipment business, aircraft equipment business, commercial vehicle equipment business and marine vessel equipment business, contributes to higher safety and greater comfort in the domain of "Transportation of people and goods." We provide the MRO services in all of the businesses and can share MRO bases and know-how to generate synergy effects between the businesses.

The Accessibility Solutions Segment, in which we conduct the automatic door business and the welfare equipment business, contributes to higher safety and greater comfort in public spaces and to the creation of a barrier-free society in the domain of "Daily lives/Welfare." In the automatic door business, we have adopted the following business model: expand the sales and service network through M&A and enhance the value chain (manufacture, sales, installation, maintenance and after-

sales service) to integrate the production and marketing processes to generate more profit.

In the Manufacturing Solutions Segment, we mainly operate the packaging machine business, which contributes to food safety and labor saving at production facilities for food and others.

Measures for operational excellence

The Nabtesco Group is working to increase its profitability and efficiency and gain a sharper competitive edge for its businesses by implementing financial strategies as well as by reforming its manufacturing sites and revitalizing its organizations.

At the same time, we are promoting systematic measures for ESG issues while giving due consideration to their economic rationality, thereby making our value creation sustainable and meeting the increasingly demanding expectations of our stakeholders. We are thereby enhancing the foundation of our operations to achieve Operational Excellence.

Financial management

For financial management, we are improving our capital efficiency to achieve "ROE: 15%." We are also working to have stable cash flow to make proactive growth investments and return profit to shareholders in a steady and flexible manner.

Measures to solve ESG issues

The Nabtesco Group deems it one of our material CSR issues to ensure management transparency and provide safety, comfort and a sense of security. We will contribute to the attainment of the SDGs by working on a range of ESG themes.

OUTCOME

Created Value

By inputting various resources and conducting activities for sustainable growth, we will continuously create value for ourselves and for external stakeholders.

Relationship capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Relations of trust with customers Customer bases founded on top-class market shares The large market shares we command in each business are proof of the trust our customers have in the Nabtesco Group and provide the basis for us to offer more value to society. The Nabtesco Group boasts top-class shares and adequate profitability in both domestic and overseas product markets. We will make use of the ability to collect information, which we have gained through holding these leading market positions, to identify more social needs and contribute to the solution of social issues through our business operations.</p>	<p>QCDS performance that meets the requirements of customers We can create value for customers by continuing to meet their expectations and trust. We are contributing to increasing our customers' own quality, cost, delivery and service (QCDS) performance by providing them with high value-added products and services that meet their QCDS requirements.</p>
<p>Relations of trust with shareholders Trust in the management team and high-scoring ESG evaluation We regard the affirmative vote rate of selected directors as one of the indicators of trust in our top management team. Over the past five years, the rate has been 97% or higher, exceeding the average rate among listed companies in Japan, and thus proving strong trust in our management team. The Nabtesco Group is included in the major ESG stock indexes both in Japan and abroad and is highly rated by ESG evaluating organizations. We will continue to foster dialogue with shareholders and investors who make long-term investments and with investors who attribute importance to ESG issues, thereby deepening our understanding of their ideas to create value in a more sophisticated manner.</p>	<p>Enhancement of partnership with stakeholders Ensuring management transparency and building a sustainable value creation process helps increase the opportunities for shareholders and investors to make investments on a long-term basis. Proactively communicating with these stakeholders also fosters our partnerships with them. By enhancing this relationship capital, we will continue to make contributions to Goal 17 of the SDGs: Strengthen the means of implementation and revitalize the global partnership for sustainable development.</p>
<p>Relations of trust with suppliers Responsible supply chain management The Nabtesco Group is committed to fulfilling our corporate social responsibility across our supply chain based on fair, proper and transparent transactions with suppliers. Based on the relations of trust with our suppliers, whose understanding of the Nabtesco Group's CSR-Oriented Procurement Policy we seek, we will build a responsible supply chain to ensure the sustainability of our value creation.</p>	<p>Enhancement of the value chain for mutual growth The Nabtesco Group believes that the improvement of suppliers' QCDS performance will directly help the Group improve its own QCDS performance. Based on this recognition, the Group is working to increase our QCDS performance across our supply chain. The enhancement of the value chain based on collaboration with suppliers will result in mutual growth and the expansion of trade opportunities.</p>
<p>Relations of trust with local communities Improvement of the recognition through community investment We can contribute to the solution of social challenges faced by local communities through community investment, which in turn helps us improve our recognition. We also regard community investment as an initiative that provides Group employees with opportunities to take on the challenge of contributing to the solution of social issues in fields related to the businesses in which they work and to change their way of thinking. These measures are important for winning the trust of local communities in the regions where we operate and also for securing human resources in the future, and provide us with a foundation to increase our corporate value on a long-term basis.</p>	<p>Contribution to the solution of social issues in the fields of the environment, education and welfare The Nabtesco Group implements its community investment initiative by using its resources and knowledge in the three key fields of the environment, education and welfare, which are closely connected to its businesses. The specific activities conducted in the initiative are in line with the Group's material CSR issues (materiality) and a range of targets set in the SDGs. As a global corporate citizen, the Group will contribute to the solution of social challenges faced by local communities and to their long-term prosperity.</p>

Related SDGs

By enhancing its relationship capital, the Nabtesco Group can contribute to Goal 17 of the SDGs: Strengthen the means of implementation and revitalize the global partnership for sustainable development.



Financial capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Strong balance sheet that supports growth investments Strong balance sheets support growth investments and the stable return of profit to employees and shareholders. The Nabtesco Group is fostering the improvement of capital efficiency and disciplined financial management, being rated A by the credit rating agencies. As a result, the equity ratio has been 55% or more for the most recent five years, and this means that we are on a level that allows us to make steady growth investments and stably return profit to stakeholders.</p>	<p>Improvement of capital efficiency and stable return of profit The Nabtesco Group is committed to "ROE: 15%" in its medium-term management plan. For the fiscal year ended December 31, 2019, our actual ROE is 9.8% and is below the level committed to. However, it is above the average level of listed companies in Japan and has been on the rise. We are also committed to "Consolidated payout ratio: 35% or over" in the medium-term management plan. We have steadily increased the dividend amount in line with the expansion of profit and have been maintaining a payout ratio of 35% or over.</p>

Technology and Manufacturing Capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Creation of new products and a highly competitive production system By enhancing our technology and manufacturing capital, we can meet more diversified and advanced customer needs to increase our competitiveness in the existing businesses while also adding value to our products by including more mechatronic products and systematized products in them. Moreover, we can foster the development of new products and services through open innovation, technological marketing (IP landscape) using intellectual property information and strategic M&A projects toward the creation of a new business foundation. Furthermore, our unique manufacturing innovations, including the enhancement of our production capability, production management ability and procurement ability, are designed for the establishment of an overwhelmingly competitive production system and for the provision of a basis to prevail in global competition.</p>	<p>Provision of safety, comfort and a sense of security and contribution to the mitigation of climate change For the Nabtesco Group, which is engaged in the manufacturing industry, safety means to manufacture products safely; manufacture safe products; and ensure that the manufactured products can continue to be used in a safe manner. Based on this recognition, we are working to provide customers with safety, comfort and a sense of security by implementing a range of measures at our manufacturing sites. The Nabtesco Group is also addressing climate change issues, which are global challenges, and supporting the recommendations made by the TCFD. We are speeding up measures to achieve our long-term CO₂ emission reduction targets and are also helping suppliers reduce their CO₂ emissions for emission reduction across our supply chain.</p>
<p>Related SDGs By enhancing its technology and manufacturing capital, the Nabtesco Group can contribute to the attainment of the SDGs shown on the right.</p>	

Human capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Securing of human resources who implement The Nabtesco Way</p> <p>The Nabtesco Group continues to conduct activities aimed at making all employees aware of The Nabtesco Way, encouraging them to attain their own targets, and uniting the Group as one. In order to maintain and improve our competitiveness on a long-term basis, it is essential for us to secure human resources. The rate of employees who have quit working for the Group for their own reasons has been as low as 1% to 2%, providing evidence that our workplaces are favorable for employees.</p>	<p>Provision of safe and comfortable workplaces</p> <p>Giving due consideration to human rights in all business operations is a basic social responsibility to be fulfilled by companies. The Nabtesco Group is implementing measures to respect human rights based on the Nabtesco Group Code of Ethics and the Nabtesco Group Human Rights Policy, while also promoting work style reforms and diversity to further revitalize its workplaces. Through these measures the Group is working to provide employees with safe and comfortable workplaces, which will in turn lead to the creation of sound and sustainable employment opportunities.</p>
<p>Related SDGs</p> <p>By enhancing its human capital, the Nabtesco Group can contribute to the attainment of the SDGs shown on the right.</p>	

Organizational capital

<p>Highly ethical corporate culture based on a global compliance system</p> <p>The Nabtesco Group conducts business globally, and compliance provides the basis for the Group to implement our corporate philosophy through business operations. Each and every employee supports the Group's business activities by behaving in a highly ethical and transparent manner. Compliance is one of the most important preconditions for the Group to be selected by customers as their business partner. Toward building a highly ethical corporate culture, we are applying the Nabtesco Group Code of Ethics globally to all Group members and raising their compliance awareness through training and by other means.</p>	<p>Management transparency based on the autonomous improvement of its functions by the Board of Directors</p> <p>In order to improve the functions of the Board of Directors, the Nabtesco Group makes a yearly analysis and evaluation of the effectiveness of the Board based on the self-evaluations of the directors. In FY2019, it was confirmed that both the number of Board members and composition of the Board were appropriate and that the members were able to discuss issues in an open and constructive manner. Subsequently, in FY2020, the number of independent outside directors was increased by one person, making outside directors account for more than 40% of the total number of directors. In addition, the rate of female directors has been increased to 20%, and the Board is expected to discuss issues from a wider range of viewpoints. The effectiveness is thus evaluated to be well secured.</p> <p>However, the following issues are identified as challenges: the need to further increase the rate of female directors, employing non-Japanese Directors and to manage Board of Directors meetings in a more efficient manner to secure enough time for the deliberation of important management issues such as growth strategies.</p> <p>Nabtesco will further enhance its corporate governance system and increase its corporate value by continuously enhancing the functionality of the Board of Directors based on the effectiveness evaluation results.</p>
<p>Disaster-resilient organization with constantly enhanced Business Continuity Power</p> <p>The Nabtesco Group is enhancing its Business Continuity Power so that it can promptly resume operation even if it suffers from a large-scale disaster. Advocating the ideas proposed by the government in the basic law on national resilience, we have acquired Resilience Certification for all of our nine plants in Japan as proof that we are an enterprise that is implementing effective business continuity plans (BCPs). We also assist suppliers with making BCPs, believing that it could pose a serious business risk to us if a supplier suffers from a disaster, thereby reducing procurement-related risks in our supply chain.</p>	

Management Strategy and Performance

By strategically promoting the value creation process, we will fulfill the commitments we have made in the medium-term management plan.

The Nabtesco Group has been implementing the medium-term management plan targeting the period from the fiscal year ended December 31, 2017 to the fiscal year ending December 31, 2020. For the sustainable growth of the Group, we focus on Market Creation, Technology Innovation and Operational Excellence as our core management strategies, while appropriately identifying the growth opportunities for each business as well as the opportunities for us to contribute to the solution of social challenges.

For Market Creation, we are speeding up overseas business expansion and the pioneering of new fields to find new markets. For Technology Innovation, we are shifting from the manufacture of components (machine components) to the creation of new solutions. For Operational Excellence, we are improving profitability by production reforms and operational reforms and enhancing

the basis for business operations by revitalizing our organizations and making more advanced use of human resources. We will proactively allocate resources to the core strategies for the maximization of their effects.

In the medium-term management plan, we have made the following three management commitments to stakeholders.

Our commitments

ROE: 15%
Consolidated payout ratio: 35% or over
Focus on solving ESG issues

Long-Term Vision

The Nabtesco Group is striving to expand the scope of value creation with an eye to becoming the Global Partner with Best Solutions in FY2020, the final year of the medium-term management plan, as stated in its long-term vision.

–Status in FY2020–

Global Partner with Best Solutions

In order to respond flexibly to changes in the business environment after the financial crisis and to achieve further growth, in 2012 the Nabtesco Group formulated a long-term vision for FY2020.

We formulated this vision based on the belief that we could not achieve sustainable growth unless we enhanced our ability to make proposals to customers and continue providing society with new solutions (products, services and business models). In this long-term vision, we clearly state that we will create value for customers as their "Global Partner with Best Solutions."

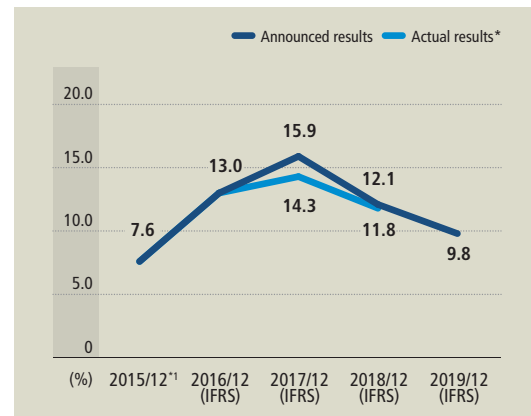
- Continue to provide society with new innovative solutions (products, services and business models)
- Pursue excellence through continuous technological innovation, thereby enhancing rapport and trust with customers

- Value open communication and creative thinking regardless of language and cultural differences
- Encourage each employee to proactively take on challenges with the slogan, "Enjoy the Challenge."

We are currently formulating our next long-term vision for FY2030. Specifically, in anticipation of future changes in our business environment, we are setting the direction of our reforms as well as guidelines to achieve further growth for the continued enhancement of our corporate value. We will disclose these through the vision.

Financial/Non-Financial Highlights

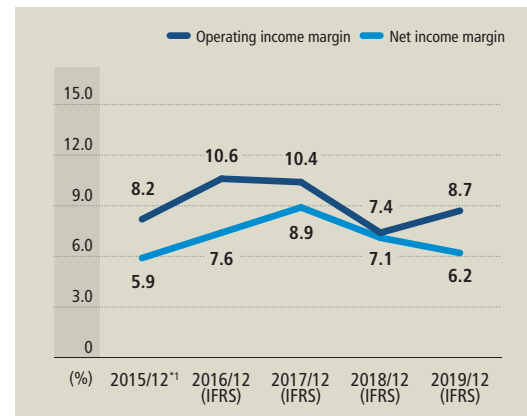
ROE



Nabtesco has focused on continuously improving a capital efficiency level that can meet the expectations of its shareholders and investors and has made a commitment of "ROE: 15%" in the Medium-term Management Plan. In FY2017, we started to use the "improvement rate of return on invested capital (ROIC)" as an internal management indicator. While paying attention to cost of capital, we will work to profit and improve the operating income margin and total assets turnover, which are ROE elements. We will also consider using financial leverage as necessary. In FY2019, our ROE was 9.8% which was below the committed level. We will continue to endeavor to raise it to 15% as soon as possible.

*For FY2017 and FY2018, the graph shows the actual results excluding the equity method-based profit gained through the overseas subsidiary acquisition by Harmonic Drive Systems Inc.

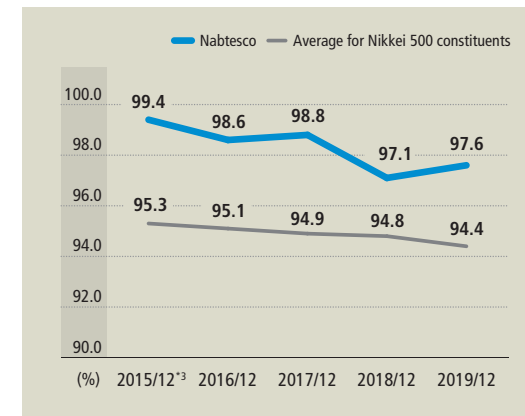
Operating Income Margin/Net Income Margin²



For FY2019, the operating income margin improved compared with the previous year due to the decrease in the impact of impairment loss and others which had been posted in FY2018. In contrast, net income margin dropped due to occurrence of foreign exchange losses, etc. Going forward, Nabtesco will endeavor to improve net income margin while focusing on securing a sound level of profitability as a prerequisite for business growth. To improve the net income margin through an increase in the operating income margin, we will promote cross-organizational measures to increase sales in business sectors offering MRO* services, while aiming at enhancing added value through the development of mechatronic and systematized products toward the future.

*MRO: Maintenance, repair and overhaul (after-sales service)

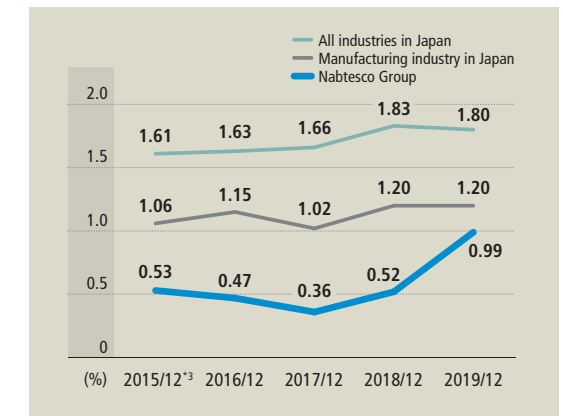
Affirmative Vote Rate of Selected Directors



Nabtesco values relations of trust with our shareholders to enhance our business management for sustainable value creation, and defines an affirmative vote rate for selected directors at the general meeting of shareholders as an indicator of confidence in management. The affirmative rate has been over 97% for the past five years, exceeding the average for listed companies in Japan. At the general meeting of shareholders held in March 2020, the rate for Nabtesco was 97.6%. We will continue to reinforce our approach to corporate governance to ensure management transparency and improve corporate value to meet the expectations of our shareholders.

(Note) Nabtesco's affirmative vote rate of selected directors is the average rate calculated based on the affirmative vote rates recorded for each of the selected directors at the ordinary general meeting of shareholders for the fiscal period. For Nikkei 500 constituents' affirmative vote rates of selected directors, the average rate was calculated for companies that submitted temporary reports on their general meetings of shareholders held in June by early July. (Surveyed by Sumitomo Mitsui Trust Bank)

Lost Time Injury Frequency Rate⁴

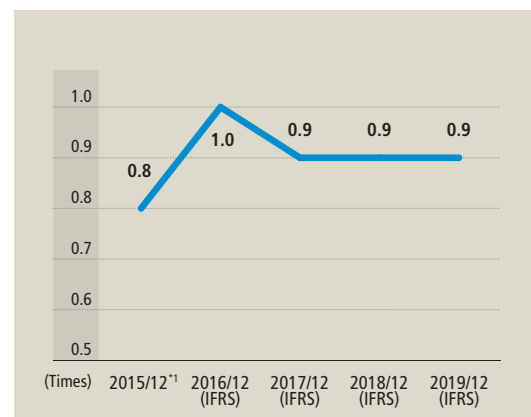


Nabtesco gives first priority to safety, deeming safety as a basic requirement to be met in all its business activities. We are making efforts to eliminate workplace accidents as the basis for protecting the day-to-day safety of employees and for sustainable value creation.

Although Nabtesco's lost time injury frequency rate has always been lower than the all-industries average and the manufacturing average in Japan for the past five years, we have not achieved the Group's target of zero industrial injuries, including commuting-related injuries. To attain the target, it is necessary to raise safety awareness at our workplaces. To this end, we are conducting activities to nurture a Nabtesco-style culture of safety in addition to implementing ongoing measures against individual risk factors.

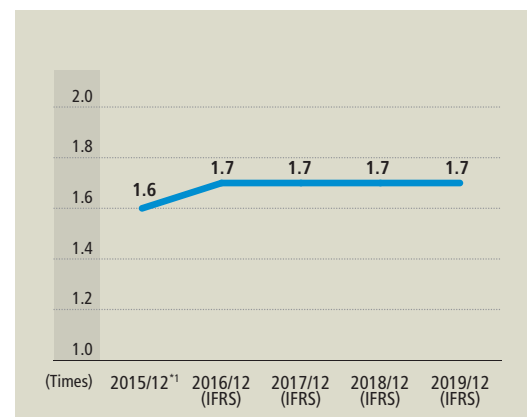
(Note) Data for the all-industries average and the manufacturing industry average in Japan are from the 2019 Survey on Industrial Accidents, Ministry of Health, Labour and Welfare.

Total Assets Turnover



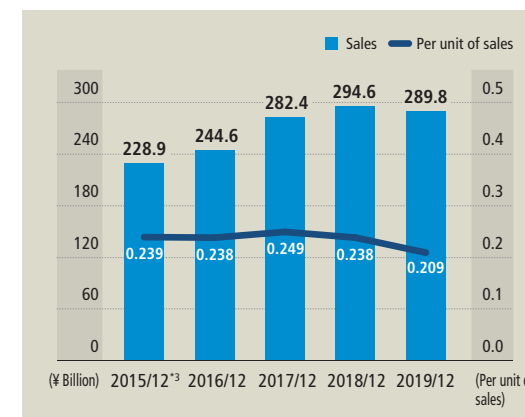
It is indispensable to efficiently use management resources in order to improve total assets turnover. At present, the Nabtesco Group is fostering group-wide manufacturing innovation to enhance our production technologies, production management ability and procurement ability. We are also promoting the introduction of optimal production management by using AI and IoT for digitization and visualization, while implementing logistics reforms. By using the ROIC tree, we will boost our competitiveness in manufacturing and improve the rate of utilization of business assets.

Financial Leverage



Nabtesco upholds a policy of maintaining an A credit rating in order to secure balance sheet soundness as a prerequisite for long-term value creation. As we have recorded steady earnings every year, equity capital is increasing. With a view to further improving capital efficiency, we will consider the use of financial leverage as necessary. Moreover, we will drive growth investment including in capital expenditure, R&D and M&A. At the same time, we will practice the type of financial management that enables stable and flexible shareholder returns.

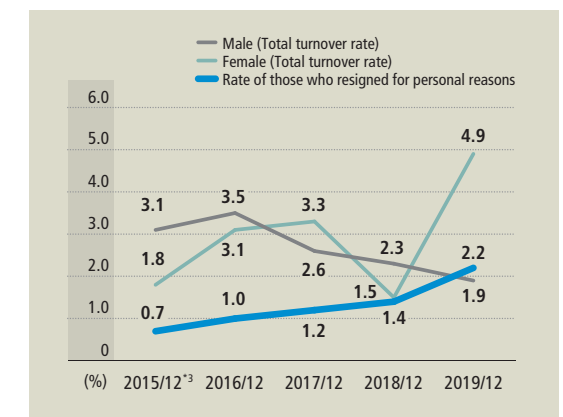
CO₂ Emissions per Unit of Sales [Global]



To combat climate change as one of our material CSR issues, Nabtesco is working to reduce greenhouse gas emissions and to conserve energy. As a result, our CO₂ emissions per unit of sales have been decreasing globally. In order to achieve business growth while reducing CO₂ emissions, we built plants by using advanced environmental technologies and have proactively introduced renewable energy equipment. In FY2016, we set a medium-term target to achieve a reduction of at least 9% by the end of FY2020. Moreover, we established long-term targets to reduce CO₂ emissions by 30% by FY2030 and by 80% by FY2050. We successfully achieved the medium-term targets one year earlier than planned. We are committed to achieving the long-term targets through stepping up our efforts to save and create energy.

(Note) The medium- and long-term targets are expressed as percentages of reduction from actual CO₂ emissions in FY2015.

Rate of Those who Resigned for Personal Reasons⁵



Nabtesco recognized our employees as human assets, as they constitute the human capital that underpins the Group's sustainable value creation. Retention of the workforce is essential to maintain and enhance competitiveness in the long run. At Nabtesco, the rate of employees who resigned for personal reasons at a low level of 1% to 2%. In order to secure better work environment for employees, we have been promoting measures for work style reform including teleworking and encouraging employees to take more paid leave, while endeavoring to revitalize the organization through workplace diversity. We will continue activities to develop human assets that drive global business operations and to increase employees' awareness of The Nabtesco Way, while encouraging them to fulfill their own goals and foster a sense of unity across the Group.

*1 Due to the change of the accounting closing date of fiscal year since FY2015/12, the results for FY2015 are calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries.

*2 Net income attributable to owners of the parent

*3 Period covered for Non-financial data: January 1, 2015 to December 31, 2015

*4 The calculation scope includes Nabtesco Corporation and domestic Group Companies.

*5 The calculation scope covers only Nabtesco Corporation.

Financial Information

Operating Results

◆ Operating Results for the Fiscal Year Ended December 31, 2019

The consolidated operating results of the Group for the period under review recorded net sales of ¥289.8 billion, down 1.6% year on year.

Although automatic door business recorded robust sales, the decrease in demand for precision reduction gears due to stagnant equipment investment on the back of the trade frictions between the United States and China.

Operating income of ¥25.3 billion, up 15.7% year on year. Income before tax was ¥28.0 billion, down 6.6% year on year. Net income attributable to owners of the parent declined to ¥17.9 billion, down 14.7% year on year.

◆ Operating Results by Business Segment for the Fiscal Year Ended December 31, 2019

■ Component Solutions (CMP)

Net sales in the Component Solutions segment dropped 10.1% year on year to ¥107.2 billion, while operating income plunged 21.3% year on year to ¥15.9 billion.

Sales of precision reduction gears decreased from the previous year, as demand for industrial robot components diminished due to a temporary slowdown in equipment investment reflecting the prolonged trade frictions between the United States and China. Sales of hydraulic equipment remained virtually unchanged from the previous year

reflecting sluggish sales in the Southeast Asian market despite robust sales in the Chinese market.

■ Transport Solutions (TRS)

Net sales in the Transport Solutions segment rose 2.6% year on year to ¥84.0 billion, and operating income soared by 187.8% year on year to ¥5.8 billion.

Railroad vehicle equipment saw net sales unchanged from the previous year as demand from Chinese subways remained brisk. Sales of aircraft equipment grew year on year reflecting increased production of private-sector aircraft. Sales of commercial vehicle equipment remained flat from the previous year as stable domestic market offset the decline in the Southeast Asian market. Marine vessel equipment saw a year-on-year increase in net sales as the mild recovery trend in the market continued. In November 2019, a German consolidated subsidiary, OVALO GmbH, began to supply actuators for Audi's predictive active suspension.

■ Accessibility Solutions (ACB)

Net sales in the Accessibility Solutions segment increased 5.3% year on year to ¥80.0 billion, and operating income rose by 85.2% year on year to ¥8.6 billion. The automatic door business recorded year-on-year increases in both sales and profits reflecting strong domestic demands for automatic door for buildings and platform doors in demand

for the Olympic and Paralympic as well as robust overseas demand. Operating income expanded due partly to the decrease in PMI (Post Merger Integration) cost caused from the past M&A.

■ Manufacturing Solutions (MFR)

Net sales in the Manufacturing Solutions segment increased 6.4% year on year to ¥18.7 billion while operating income rose by 3.8% year on year to ¥2.6 billion. Sales of packaging machinery increased year on year due to robust domestic demand from the food industry.

◆ Analysis of Factors Behind Year-on-Year Changes in Operating Income (Actual Results) for the Fiscal Year Ended December 31, 2019

Key contributing positive factors included a ¥0.8 billion increase due to improvement of productivity, a ¥1.8 billion decrease in selling, general and administrative expenses, and a ¥3.9 billion increase in the Transport Solutions (TRS) segment resulting from a decrease in impairment loss in the goodwill of OVALO. In sum, operating income increased by ¥3.4 billion compared with the previous year to ¥25.3 billion despite negative factors including a ¥1.8 billion decrease in sales, negative impacts of ¥0.7 billion in foreign exchange impacts, and a ¥0.6 billion increase in depreciation and amortization.

Higher profits due to improvement of productivity were

mainly attributable to continuous initiatives by each plant to promote automation and shorten lead times.

The increase due to the impact of impairment loss in OVALO was attributable to the elimination of impairment loss of ¥5.2 billion which had been posted in FY2018 despite impairment loss of ¥1.3 billion in goodwill in OVALO as a result of an increase in right-of-use assets reflecting the adoption of IFRS 16 "Leases" (the new lease accounting standard).

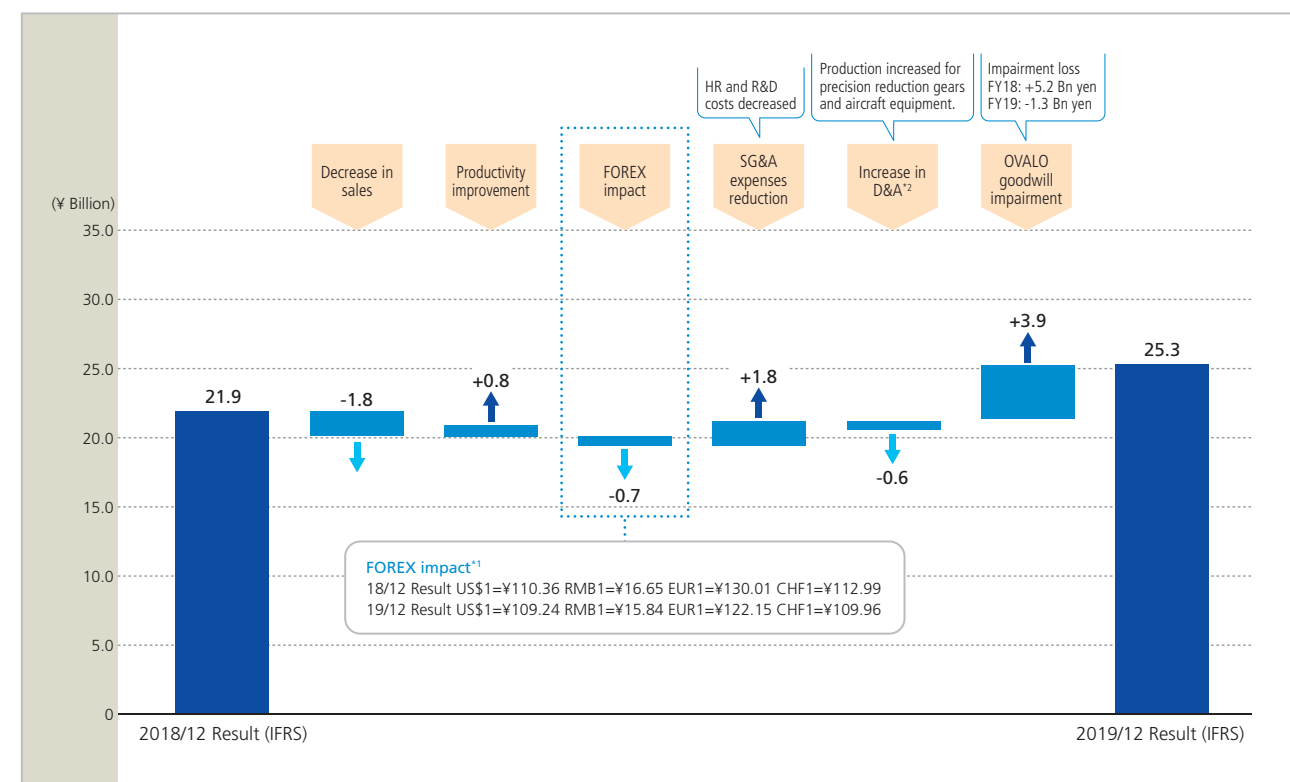
On the other hand, the decrease in net sales was attributable to the decline in sales in the Component Solutions (CMP) segment. The increase in depreciation and amortization was mainly due to the investments in the enhancement of production capacity of precision reduction gears and aircraft equipment.

◆ Projections for the Consolidated Fiscal Year Ending December 31, 2020

As of February 7, 2020 on which the financial results for the fiscal year ended December 31, 2019 were released, the Group expected net sales for FY2020 to be ¥303.0 billion, a 4.6% year-on-year increase, operating income of ¥32.0 billion, a 26.4% year-on-year increase, income before tax of ¥34.0 billion, a 21.5% year-on-year increase, and net income attributable to owners of the parent of ¥23.1 billion, a 28.8% year-on-year increase.

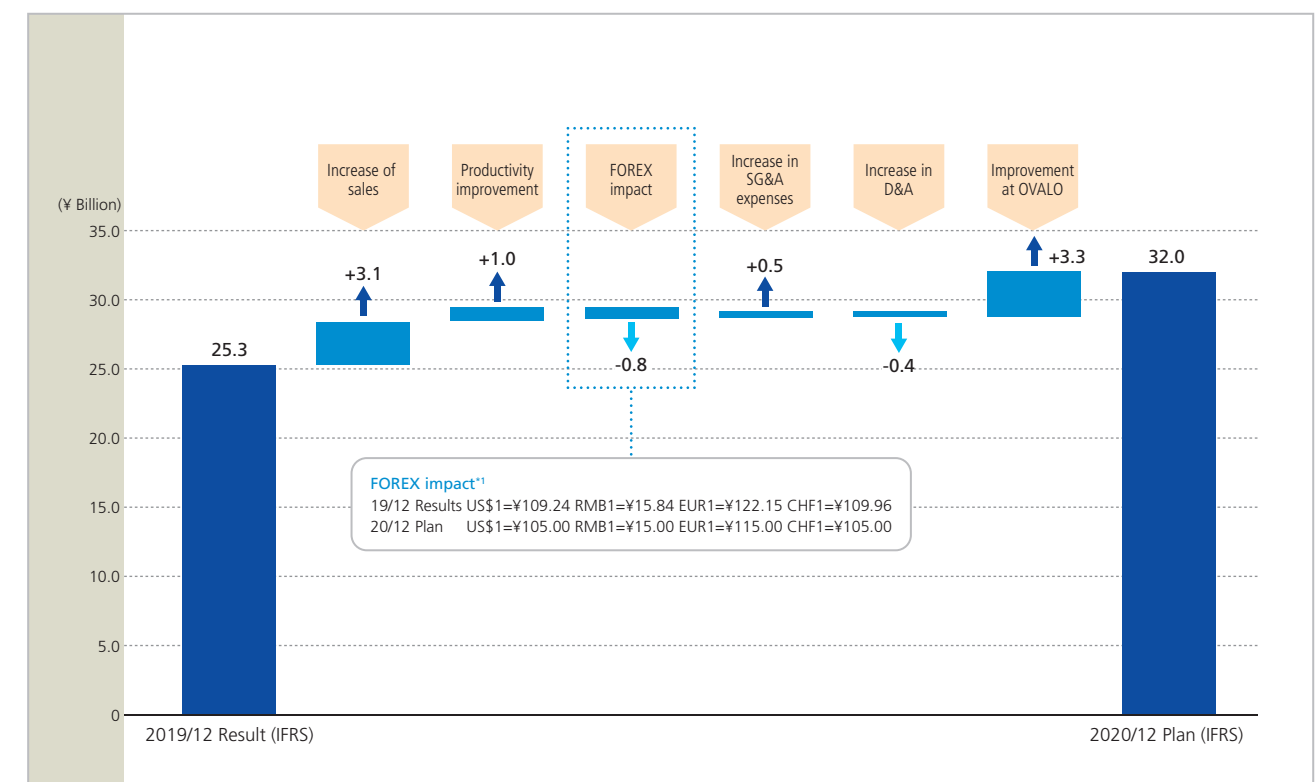
However, a temporary decline in demand for, and a

● Analysis of Factors behind Year-on-Year Changes in Operating Income for the Fiscal Year Ended December 31, 2019



*1 FOREX sensitivity in O.P. (This represents the effect to be expected on operating profit if the exchange rate fluctuates by one yen): (US\$): ¥76 million, (RMB): ¥756 million, (EUR): minimal, (CHF): minimal
*2 Excluding the increase caused by the application of "IFRS 16 Leases."

● Analysis of Factors behind Year-on-Year Changes in Operating Income (Plan) for the Fiscal Year Ending December 31, 2020



*1 FOREX sensitivity in O.P. (This represents the effect to be expected on operating profit if the exchange rate fluctuates by one yen): (US\$): ¥57 million, (RMB): ¥815 million, (EUR): minimal, (CHF): minimal

Financial Information

delay in production of, hydraulic equipment and railroad vehicle equipment were observed in China in the first quarter of the current fiscal year due to the effects of the coronavirus pandemic which we had not assumed when we formulated our guidance. As we entered the second quarter, while the impact of the COVID-19 is showing signs of abating in China, its spread in Europe, the United States, Japan and Asia, and concerns over the second wave of outbreak are casting a shadow over the global macroeconomic environment. Under these circumstances, we are unable to predict when the coronavirus pandemic will abate, and its impact on our business performance remains uncertain.

As a consequence, we are facing a difficulty in calculating appropriate and reasonable business forecasts. In the financial results for the first quarter of FY2020 released on April 30, 2020, Nabtesco did not revise the consolidated financial and dividend forecasts from February 7, 2020 announcement. The company may revise and disclose the forecasts when it is necessary to change.

◆ Analysis for Factors behind Year-on-Year Changes in Operating Income (Plan) for the Fiscal Year Ending December 31, 2020

As of February 7, 2020 when the financial forecasts were released, it was expected that operating income of the Group for the fiscal year ending December 31, 2020 would reach ¥32.0 billion, an increase of ¥6.7 billion year on year. As mentioned earlier, while the impact of the COVID-19 pandemic was not assumed in the guidance, we explain the factors behind the forecast as follows.

As illustrated in the chart on page 32, the Group forecasts key contributing positive factors including a ¥3.1 billion increase due to an increase in sales, a ¥1.0 billion increase due to improvement of productivity and a ¥3.3 billion increase resulting from the improvement of profitability in OVALO. Meanwhile, primary contributing negative factors behind a decrease in operating income will be a ¥0.8 billion decrease due to foreign exchange impacts and a ¥0.4 billion decrease due to an increase in depreciation and amortization.

We expect increases in net sales in the Component Solutions (CMP) segment, the Transport Solutions (TRS) segment and the Manufacturing Solutions (MFR) segment.

◆ Projections for Operating Results by Business Segment (As of February 7, 2020)

■ Component Solutions (CMP)

Net sales and operating income in this segment for the fiscal year ending December 31, 2020 are expected to amount to ¥116.0 billion (up 8.2% year on year) and ¥18.3 billion (up 15.1% year on year), respectively.

The precision reduction gear business is expected to see continued declines in capital expenditure in the first half of FY2020 mainly reflecting the trade frictions between the United States and China, leading to sluggish demands. Meanwhile, in the second half, demands for capital

expenditure for automobiles are expected to recover. As a result, we expect that sales in the precision reduction gear business will increase on a year-on-year basis.

We expect sales of hydraulic equipment to remain at the same level as the previous fiscal year driven by robust demand for construction machinery due to investments in infrastructure in China and Southeast Asian countries.

■ Transport Solutions (TRS)

Net sales and operating income in this segment for the year ending December 31, 2020 are expected to reach ¥90.3 billion (up 7.5% year on year) and ¥10.2 billion (up 76.5% year on year), respectively.

Sales of railroad vehicle equipment are expected to see a year-on-year increase driven by the increase in overseas projects although the off-season for domestic demand.

Sales of aircraft equipment are expected to remain unchanged from the previous fiscal year despite the start of mass production of products for B777X. Sales of commercial vehicle equipment are also expected to remain at the same level as the previous fiscal year despite weaker domestic demand. Marine vessel equipment is expected to see a year-on-year increase in sales due to a continued mild recovery of the market conditions.

■ Accessibility Solutions (ACB)

Net sales and operating income in this segment for the fiscal year ending December 31, 2020 are expected to remain at ¥75.7 billion (down 5.3% year on year) and ¥7.5 billion (down 12.4% year on year), respectively.

Sales in the automatic doors business are expected to observe a year-on-year decrease due to a temporary decrease during the Olympic and Paralympic Games period and due to overseas platform door projects entering an off-season.

■ Manufacturing Solutions (MFR)

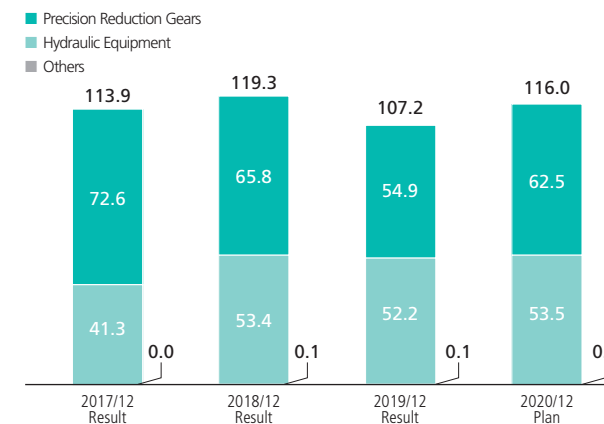
Net sales and operating income in this segment for the fiscal year ending December 31, 2020 are expected to reach ¥21.0 billion (up 12.6% year on year) and ¥3.0 billion (up 17.6% year on year), respectively.

Packaging machines are expected to see a year-on-year increase in sales due to continued strong demand in overseas markets.

● Sales by Business Segment (IFRS)

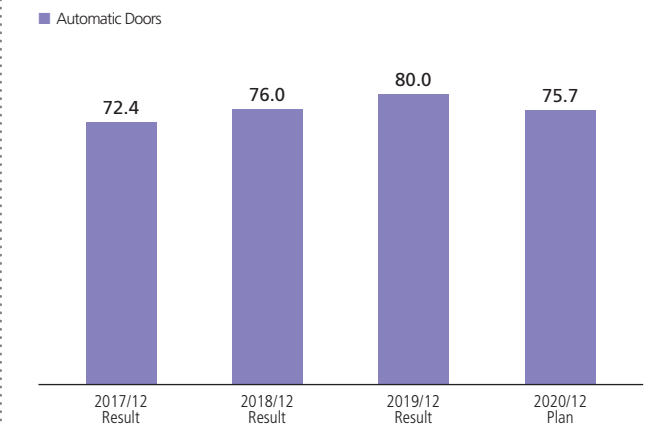
Component Solutions (CMP)

(¥ Billion)



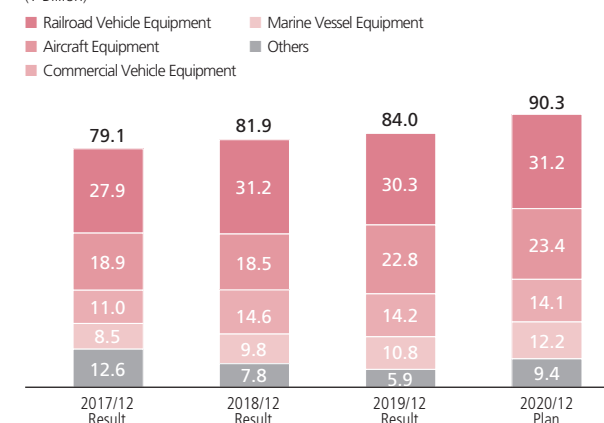
Accessibility Solutions (ACB)

(¥ Billion)



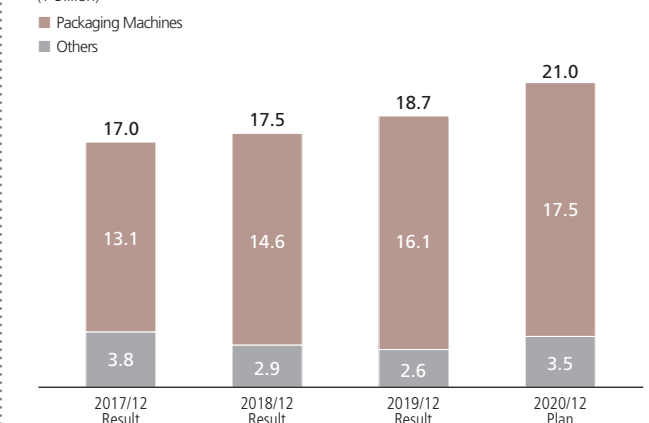
Transport Solutions (TRS)

(¥ Billion)

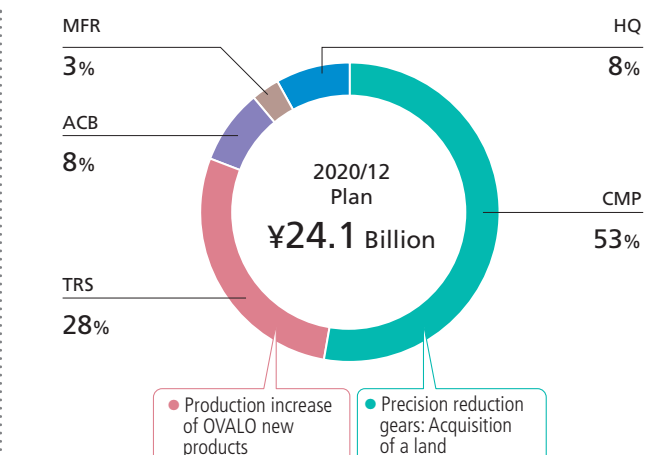
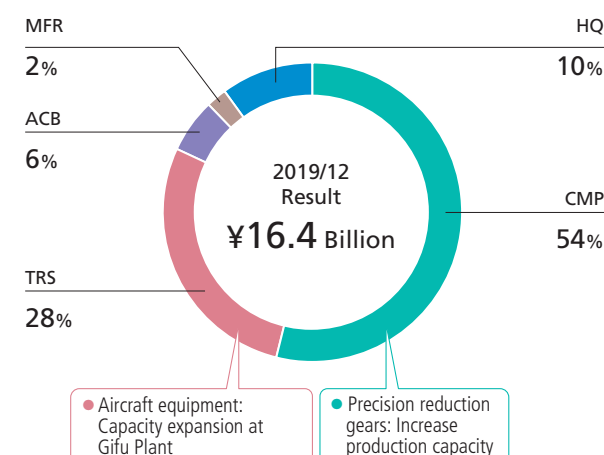


Manufacturing Solutions (MFR)

(¥ Billion)



● Breakdown in Capital Expenditure (By Business Segment)



Financial Information

Status of Assets, Liabilities and Net Assets (Fiscal year ended December 31, 2019)

◆ Assets

Total assets as of December 31, 2019 were ¥344.6 billion, an increase of ¥16.0 billion from December 31, 2018, consisting of ¥179.2 billion in current assets and ¥165.4 billion in non-current assets.

Key contributing positive factors included increases of ¥9.0 billion in right-of-use assets as a result of the commencement of adoption of IFRS 16 "Leases" and ¥6.5 billion in property, plant and equipment. The key contributing negative factor was a decrease of ¥5.8 billion in trade receivables.

◆ Liabilities

Total liabilities as of December 31, 2019 were ¥145.4 billion, an increase of ¥6.1 billion from December 31, 2018, reflecting ¥109.6 billion in current liabilities and ¥35.8 billion in non-current liabilities. The main contributing positive factors were a rise of ¥8.8 billion in lease liabilities as a result of the commencement of adoption of IFRS 16 "Leases".

◆ Equity

Total equity as of December 31, 2019 stood at ¥199.1 billion. Equity attributable to owners of the parent was ¥187.4 billion, an increase of ¥8.7 billion from December 31, 2018. The key contributing positive factor was the increase in retained earnings due to net income attributable to owners of the parent of ¥17.9 billion, while the main contributing negative factor was the decrease of ¥9.1 billion in retained earnings due to dividends paid.

As a result, the ratio of equity attributable to owners of the parent was 54.4%, and equity attributable to owners of the parent per share was ¥1,508.53.

Status of Cash Flows (Fiscal year ended December 31, 2019)

Cash and cash equivalents (hereinafter, "capital") as of December 31, 2019 stood at ¥58.7 billion, an increase of ¥4.6 billion from December 31, 2018, reflecting ¥38.4 billion in capital generated from operating activities, which was mainly used for capital expenditure and dividend payments.

◆ Cash flows from operating activities

Net cash generated from operating activities for the fiscal year ended December 31, 2019 totaled ¥38.4 billion. Principal positive factors included increases in net income, depreciation and amortization and decrease in trade receivables. Meanwhile, the main negative factors included a decrease in operating payables.

◆ Cash flows from activities

Net cash used in investing activities for the fiscal year ended December 31, 2020 amounted to ¥20.1 billion, mainly due to the purchase of property, plant and equipment.

◆ Cash flows from investing activities

Net cash used by financing activities for the fiscal year ended December 31, 2019 totaled ¥13.4 billion. The main negative factor was dividends paid.

Status of Capital Expenditure, R&D and Depreciation and Amortization (Results for the fiscal year ended December 31, 2019 and plan for the fiscal year ending December 31, 2020)

The Group is currently working on production reforms, including the promotion of automation, renewal of production management systems, procurement reforms and environmental initiatives, with the aim of promoting "production innovation" to generate a competitive advantage. These efforts are led by the Production Innovation Division, which supports the initiatives by each in-house company across the Group. The Group will also make aggressive capital expenditure that will contribute to the modernization of outdated equipment, plants, etc., as well as innovation of production technologies.

Capital expenditure for the fiscal year ended December 31, 2019 was ¥16.4 billion. The main purposes of capital expenditure were for increased production in the precision reduction gear business, in which medium- to long-term growth in demand is expected, and for enhancing capacity of a new program for private aircraft in the aircraft equipment business.

Capital expenditure for the fiscal year ending December 31, 2020 will be ¥24.1 billion. In the precision reduction gear business, the Group will make investments aimed at acquiring land for construction of the second plant in

Japan and enhancing the productivity.

R&D costs for the fiscal year ended December 31, 2019 amounted to ¥9.9 billion. The Group mainly developed and launched energy-saving and environment-related products in the Component Solutions (CMP) and Transport Solutions (TRS) segments. The Group will continue to focus on the development of system products and make necessary investments to respond to electrification of products in the future with the aim of moving forward to become a system

manufacturer that provides systematized products by shifting from a business model focused on the provision of component products in light of changes in the market environment.

Depreciation and amortization for the fiscal year ended December 31, 2019 stood at ¥13.1 billion. This figure represented an increase of ¥3.1 billion from the fiscal year ended December 31, 2018 as a result of adoption of IFRS 16 "Leases."

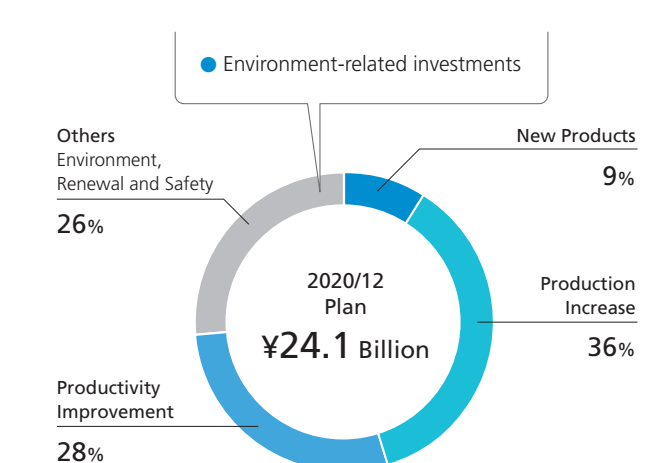
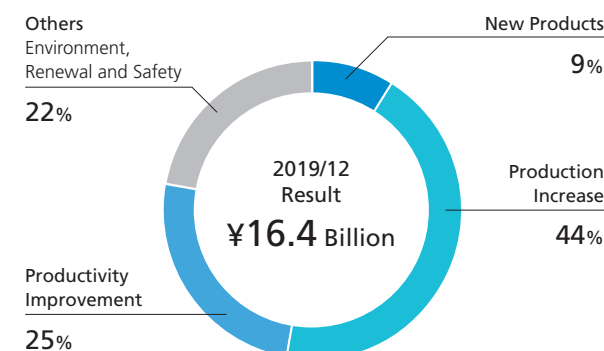
● Status of Capital Expenditure, R&D Costs and Depreciation and Amortization

(¥ Billion)

	2017/12 Result	2018/12 Result	2019/12 Result	2020/12 Plan	Medium-term plan for 2017 to 2020
Capital Expenditure	15.2	20.3	16.4	24.1	77.0
R&D Costs	8.7	10.2	9.9	11.5	40.0
Depreciation and Amortization	9.0	10.0	13.1*	13.5*	—

*Includes the right-of-use assets. (IFRS 16 Leases is applied.)

● Breakdown in Capital Expenditure (By Usage)

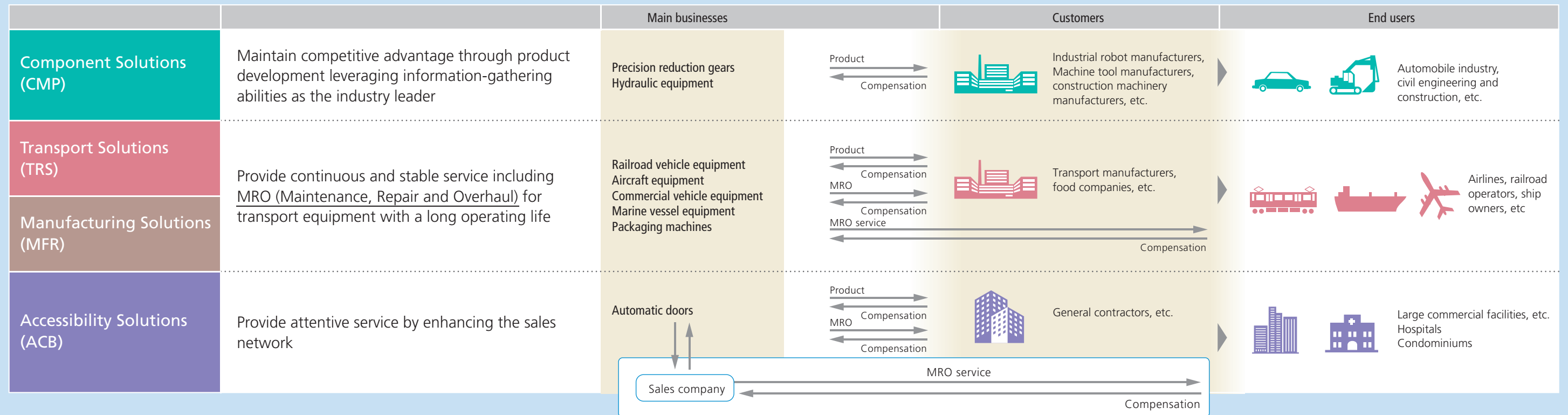


Business Portfolio

We will provide high value-added products and services through motion control technology.

The Nabtesco Group continues to achieve profitable growth with a portfolio of multiple mutually complementary businesses in different categories.

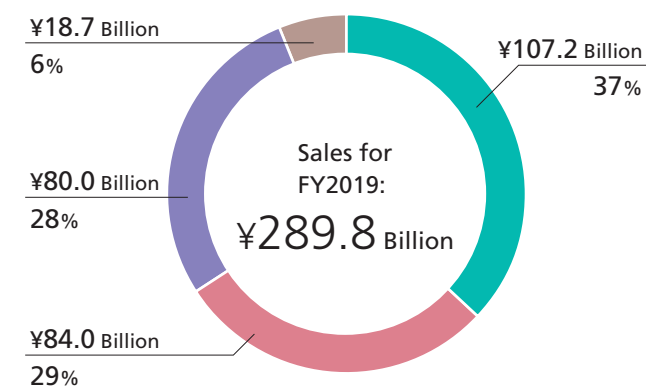
Main business models



Differentiation strategy by business segment

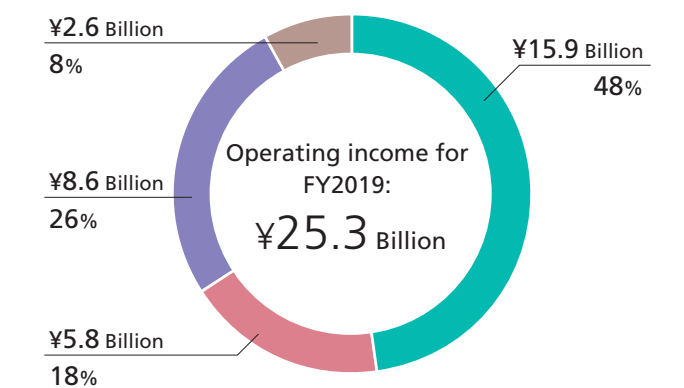
Business segment	Characteristics	Growth driven by market growth Technological advantage strategy	Growth based on each market-oriented strategy		
			Expansion of regional market shares	Capturing shares in new markets	Expansion of sales products
Component Solutions (CMP)	Significant impact of changes in production/sales volume on profitability	● Precision reduction gears	Maintaining competitive advantage of products and technologies		● Hydraulic equipment
Transport Solutions (TRS)	After-sales services (MRO) that mitigate impacts from changes in OEM (Original Equipment Manufacturer) production volume	● Aircraft equipment		● Railroad vehicle equipment	● Commercial vehicle equipment ● Marine vessel equipment
Accessibility Solutions (ACB)			● Automatic doors	Capturing shares in overseas market	● Expansion of product lineup ● Systematization/modularization
Manufacturing Solutions (MFR)		● Establishment of a sales network ● Enhancement of value chain model		● Packaging machines	

Sales by business segment



Operating income by business segment

Adjustments: Minus ¥7.5 Billion



PRECISION REDUCTION GEAR BUSINESS

SDGs related to our business



President, Precision Equipment Company Atsushi Habe

“ Demand for automation is expanding globally due to the aging of society, a decrease in the birth rate, and work style reforms. In this growth market, we will develop and supply next-generation precision reduction gears and mechatronic drive units to meet the needs of customers, even before they have become aware of such needs, as their global partner with best solutions. We will thereby contribute to the advancement of the global manufacturing industry. ”

Strength <ul style="list-style-type: none"> Close relationships with major customers High-performance and high-quality products Capability to develop technologies to meet customers' needs Capability to build a highly efficient automated production line Wide products lineup for general industry 	Opportunity <ul style="list-style-type: none"> Growth of demand from industrial robot manufacturers and from general industry due to the needs for labor saving and automation Structural increase in demand for industrial robots in China
Weakness <ul style="list-style-type: none"> High level of dependence on demand for industrial robots 	Threat <ul style="list-style-type: none"> Large fluctuations in demand due to changes made by end users to their equipment investment policies Inability to maintain technological lead over existing competitors as well as manufacturers in emerging markets

Measures to achieve further growth

- Expand production capability steadily in anticipation of increases in demand
- Expand the product lineup for general industry
- Implement measures to prevent the outflow of core technologies

Business Overview (Fiscal year ended December 31, 2019)

Market share	Precision reduction gears for the joints of medium- to large-sized industrial robots: Approx. 60% global market share
Production bases	Tsu City, Mie Prefecture, Japan/Jiangsu Prefecture, China/Hamamatsu City, Shizuoka Prefecture, Japan (To be constructed)
Major customers	Industrial robots: FANUC CORPORATION, YASKAWA Electric, Kawasaki Heavy Industries, KUKA AG (Germany), ABB Robotics (Sweden) Machine Tools: YAMAZAKI MAZAK, Okuma, DMG Mori
Sales by geographic segment (Full-year results) ¹	Sales to Japanese robot manufacturers: Approx. 60%; Sales to overseas robot manufacturers: Approx. 40% ² ¹ Sales to industrial robot manufacturers ² Including sales to the overseas plants of Japanese robot manufacturers

Features of the Business

Factors that could change demand

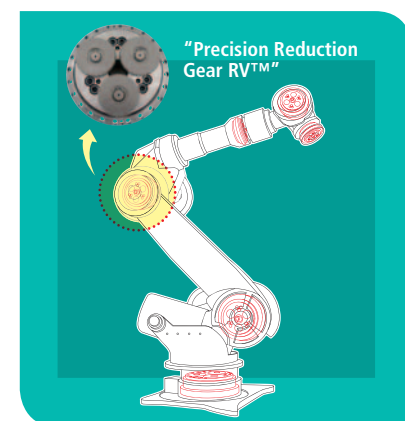
Nabtesco's precision reduction gears are mainly adopted for use in medium- to large-sized industrial robots and are used in particular by the automobile industry, which is making effective use of industrial robots. Accordingly, demand for our products is influenced by the size of equipment investment made by automobile manufacturer.

Mass production of a medium variety of products

We need to have the technology and ability to mass-produce a medium variety of products in order to meet customer's requirements.

Delivery lead time

It takes us about four weeks on average from the receipt of an order to the delivery of the product.



Main Products

Precision reduction gears provide a mechanism by which to extract a large amount of power from a motor, which supplies motive power, by reducing the motor's rotation speed. These gears are used mainly in the joints of industrial robots.

Nabtesco's precision reduction gears are highly rigid, precise and durable, and are therefore used mainly in medium- to large-sized robots with heavy load capacity. As our products are compact, they contribute to reducing the size and weight of robots. They also help boost the controllability of robots based on our proprietary mechanism designed to reduce vibrations and increase behavioral precision.

Social Value Provided by the Main Products

Industrial robots contribute to reducing dangerous manual labor, solving the issue of labor shortage and stabilizing quality and increasing productivity at factories. Nabtesco supplies high-quality precision reduction gears to industrial robot manufacturers, thereby bringing about safety and higher efficiency to manufacturing factories across the world.

For Sustainable Growth



Solar panels installed at the Tsu Plant

We installed solar panels on the rooftop of the Tsu Plant to produce clean energy. Electricity generated by the panels usually covers 20% to 30% of the total power consumption at the plant and thus contributes greatly to its CO₂ emissions reduction. For the Hamamatsu Plant to be constructed, we are also considering installing solar panels as part of our efforts to reduce our environmental impact.

Sources of Strength

Products and Technology

- Nabtesco began conducting the precision reduction gear business in 1986 and applied its technologies developed in the hydraulic equipment business to overcome the technological problems faced by reduction gears at that time, including those related to durability and resistance against vibration. Since then we have built close relationships with our major customers, regarding customer satisfaction as the most important value to be delivered by us, and as a result we now command a roughly 60% market share of the world market for precision reduction gears used in medium- to large-sized industrial robots.
- The Precision Reduction Gear RV™ products are light and compact but provide high durability and high positioning accuracy. As our strength, we have the ability to develop more technologies to meet our customers' needs, while making better use of these excellent product features.
- Precision reduction gears are usually used with servomotors. Recently we have started to sell precision reduction gears and servomotors in a package for use by general industry. We are thus expanding our product lineup to meet various customer needs.

Production

- Nabtesco is working to build a highly efficient automated production line that one step ahead of competitors. We aim for the most advanced automation of the age, with a view to making our plants the No. 1 manufacturing sites in the world based on the efforts of individual employees who are highly committed to their work.

Business Environment (Opportunities and Risks)

Business Environment

According to the forecast made by the International Federation of Robotics, in the medium term, the global market of industrial robots (including small-, medium-, and large-sized robots) will grow at the annual rate of 12%. The growth rate will exceed 20% in China, where the replace of man-power and labor saving, automated operations has seen a remarkable increase.

Excluding the growth rate of the market for small robots from the calculation, the annual growth rate of the market for medium and large robots is expected to be between 5% and 10%.

Opportunities and Risks

In line with an increase in the need to save labor and foster automation, the introduction of automated equipment will be promoted not only for industrial robots but also across general industry, and we can achieve further growth by meeting these needs. Meanwhile, demand for industrial robots depends on changes in the size of equipment investment made by automobile manufacturer and others. Therefore, we might face drastic changes in demand on a short-term basis. We also regard technology catch-up by existing competitors and manufacturers in emerging market countries as a potential risk.

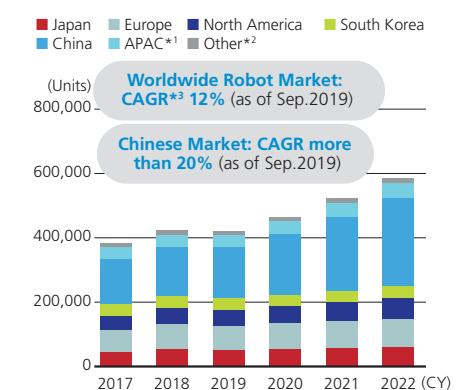
Measures to achieve further growth

As one of the world's top manufacturers of precision reduction gears, we will further enhance our production capacity. To this end we acquired land in Hamamatsu City in 2020 to add a new plant to our existing plants in Tsu City in Japan and in Changzhou in China.

Moreover, we will take action with R&D to reduce the weight of our precision reduction gears, enhance our downsizing technologies and develop optimal materials for the products, thereby continuing to provide products that are highly competitive. We will also expand the product lineup for general industry, which could provide us with more business opportunities.

In addition, we will implement measures to prevent the outflow of our core technologies, including the manufacturing technologies, by turning them into "black boxes."

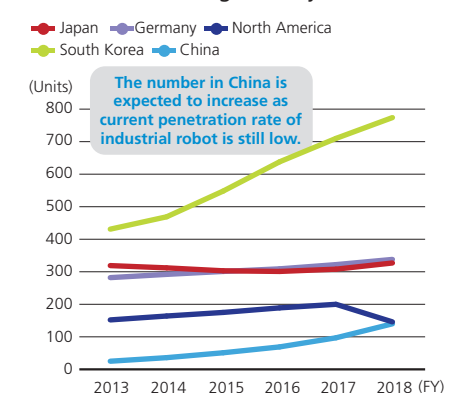
Worldwide Annual Shipment of Industrial Robots



Note: Above IFR data includes the number of small and medium-large and large size robots
Source: International Federation of Robotics (IFR) 2019

*1 APAC=Asia/Australia (Total)-China-Japan-Korea
*2 Other=Total-North America-Asia/Australia (Total)-Europe (Total)
*3 2020-2022

Number of Multipurpose Industrial Robots per 10,000 Persons Employed in Manufacturing Industry



Source: International Federation of Robotics (IFR) 2019

HYDRAULIC EQUIPMENT BUSINESS

SDGs related to our business



President, Power Control Company Shinji Juman

“ Nabtesco contributes to society through its highly efficient equipment used in construction machinery, which supports the establishment of social infrastructure. Recently we have upgraded our global production system in Japan, China and Thailand to secure flexibility to meet demand changes. We will continue to make technology innovations and expand our product lineup in response to expand the use of ICT in construction machines and their electrification, in order to achieve further growth. ”

Strength <ul style="list-style-type: none"> Highly efficient and durable products Wide product lineup Global production system to respond flexibly to changes in demand 	Opportunity <ul style="list-style-type: none"> Expand the use of ICT in construction machines and their electrification Demand for infrastructure driven by boost of economic stimulus packages
Weakness <ul style="list-style-type: none"> Ability to develop systematized products 	Threat <ul style="list-style-type: none"> Change in demand for construction machinery Emergence of competitors in developing countries
Measures to achieve further growth <ul style="list-style-type: none"> Develop systematized products Respond to expand the use of ICT in construction machines and their electrification Build a flexible production system to meet demand changes 	

Business Overview (Fiscal year ended December 31, 2019)

Market share	Traveling units for hydraulic excavators: Approx.25% global market share
Production bases	Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan/Kobe city, Hyogo Prefecture, Japan/Shanghai, China/Chonburi, Thailand
Major customers	Traveling Units: KOMATSU, Sumitomo Construction Machinery, Kobelco Construction Machinery, Sany Heavy Industry (China), XCMG Construction Machinery (China), LiuGong (China)
Sales by geographic segment (Full-year results)	Japan: Approx.35% China: Approx. 60% Others: Approx.5% * In terms of the final destinations of excavators

Features of the Business

Factors that could change demand

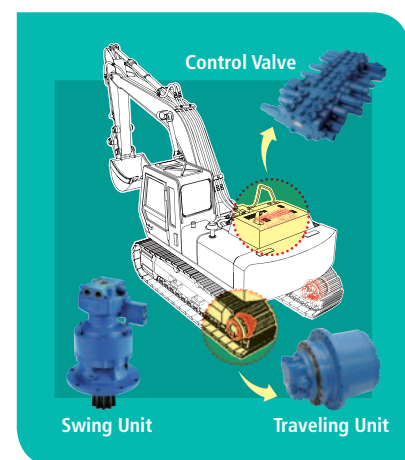
Nabtesco's hydraulic equipment is used mainly in construction machinery, such as hydraulic excavators and cranes, and is supplied to Japanese and Chinese construction machine manufacturers. Demand for our products is influenced by the need for infrastructure investment in China, Western countries and Southeast Asia, as well as by implementation of environmental regulations.

Local production for local consumption

We produce our products in the regions where our customers' construction machines are needed, with an eye to enhancing cooperation with our customers.

Delivery lead time

It takes us about a week on average from the receipt of an order to the delivery of the product.



Main Products

Traveling units represent one of our main products in the business. A traveling unit consists of a reduction gear, a hydraulic motor, a brake and others integrated into one unit. It is a core component without which construction machinery, such as hydraulic excavators and cranes (including large ones weighing over 100 tons) could not operate. Our traveling units are compact but efficiently generate large amounts of power and are therefore highly energy efficient. They are also highly durable and reliable for use under severe conditions. We have achieved this high product performance by applying our advanced processing and fitting skills. We also provide control valves, swing units and various other products for the motion control of construction machines.

Social Value Provided by the Main Products

Construction machinery is indispensable for the establishment of infrastructure and supports the basis of industrial development and people's daily life. Going beyond supplying hydraulic equipment to construction machinery manufacturers, Nabtesco contributes to the development of local industries and the comfortable lives of local people by "Local production for local consumption" as well as by developing the equipment in response to the spread of the use of ICT in construction machinery.

For Sustainable Growth



At the Tarui Plant, we provide all on-site employees with safety training course, with a view to raising their safety awareness by introducing past occupational accidents to them and giving them hands-on experience by the use of simulators. We are thereby working to reduce occupational accidents, stabilize production and provide employees with safe and comfortable workplaces at the plant.

Sources of Strength

Products and Technology

- Both of the two companies, which were integrated into Nabtesco, had already been conducting the hydraulic equipment business before the integration. In our long history of the business, which dates back to 1930, we have developed high-quality, high value-added products by making use of our technological capabilities as our strength.
- In 2015 we acquired Hiest Corporation from TOSHIBA MACHINE to expand the product lineup in the business. The acquisition enabled us to sell multiple products in a set, whereas we used to sell products mainly as single items. We have since been adding more value to our products by proposing their use in systems.

Production

- At the Tarui Plant, which is the mother plant for the business and has advanced machine processing technologies, we are promoting the automation of the processing and assembly processes as well as logistics reforms for higher productivity. Outside Japan, we have our production bases in China and Thailand which are near their consumption areas, thereby building an efficient production system on a global scale.

Business Environment (Opportunities and Risks)

Business Environment

In recent years, sales of hydraulic excavators have remained favorable, being supported by the strong need for infrastructure investment in China, which is the world's largest construction machinery market. However, due to the impact of the spread of the new coronavirus, the economy is feared to be slowing down on a short-term basis, while there are also positive movements for demand for construction machinery, such as the promotion of infrastructure investments by national governments.

Moreover, from a medium- to long-term viewpoint, we can see new trends that will help value creation in the construction machinery industry, such as the spread of ICT, progress of electrification, and the need to comply with exhaust gas regulations.

Opportunities and Risks

Helping the construction machinery industry to meet the needs for the greater use of ICT and electrification will provide us with tremendous business opportunities. On the other hand, a rapid change in demand might cause an excessive inventory of construction machines, which will in turn cause stagnant demand. We also regard the market participation of highly cost-competitive manufacturers from emerging market countries to be a risk.

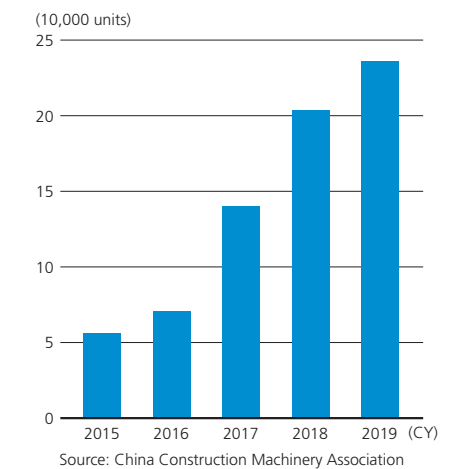
Measures to achieve further growth

We acquired Hiest Corporation in 2015 as the first step to becoming a manufacturer of hydraulic systems. Hiest had a wide product lineup for construction machinery, which however, did not overlap with our product lineup and was actually supplementary to ours. With the acquisition, we were thus able to expand our product lineup.

Moreover, we released the Nabtesco Dual Bypass System (NDS) for small excavators to promote our shift from being a seller of components to a proposer of systems, with an eye to winning more orders on a medium- to long-term basis.

In addition, based on the lessons learned from the experience of suffering from large surges in demand in China, we are working to make our production system more adaptive to changes by increasing its production efficiency through automation and other measures and by keeping the inventory at an appropriate level.

Sales of Excavators in China



RAILROAD VEHICLE EQUIPMENT BUSINESS

SDGs related to our business



President, Railroad Products Company Shigeru Naoki



“ We contribute to the safety of passengers and the on-time operation of trains by supplying brake and door systems, which are important components to ensure the safety of railroad vehicles. Capitalizing on the reliability and safety technologies that we have developed in the market in Japan, we will enhance our lineup of products in overseas markets with high growth potential, thereby proactively expanding the business. ”

Strength <ul style="list-style-type: none"> Ability to customize products to meet the needs of customers Establishment of MRO Team Three production footprints for “local consumption” in Japan, China and Europe 	Opportunity <ul style="list-style-type: none"> Expansion of an urban traffic network (include subway) in China Replacement demand of railroad vehicles in Europe Increase demand for new railway projects in emerging markets
Weakness <ul style="list-style-type: none"> Ability to comply with the European standards and to expand business globally 	Threat <ul style="list-style-type: none"> Penetration for further localizing in high-speed trains in China
Measures to achieve further growth <ul style="list-style-type: none"> Acquire European certification to conduct business in Europe Expand business for subways Acquire orders in the MRO business in Southeast Asia 	

Business Overview (Fiscal year ended December 31, 2019)

Market share	Brake systems: Approx. 50% domestic market share Door opening systems: Approx. 70% domestic market share
Production bases	Kobe City, Hyogo Prefecture, Japan/Jiangsu Prefecture, China/Piedmont, Italy
Major customers	Japan Railways (JR) companies, private railway companies, Kawasaki Heavy Industries, bullet train and subway projects in China
Sales by geographic segment (Full-year results)	Japan: Approx. 65% Overseas: Approx. 35%

Features of the Business

Factors that could change demand

Our railroad vehicle equipment is used in the new rolling stock of conventional trains and of Shinkansen bullet trains. Demand for our products depends on demand for railroad vehicles (and total running distances).

Demand for MRO services

The user tends to place an order for MRO services with us about four years after we deliver a product.

Delivery lead time

It takes us about four to six months on average from the receipt of an order to the delivery of the product.

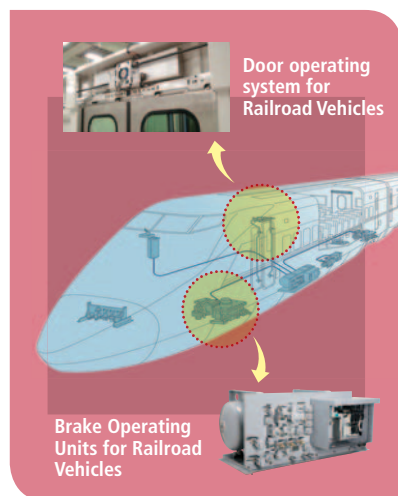
Main Products

Our brake control systems for railroad vehicles, which represent one of our main products in the business, optimally control the braking force for each of the vehicles based on the calculations of the train driver’s brake control and the speed and weight of the vehicle, showing high responsiveness to electric braking. The systems, which we have made smaller, lighter and less noisy in line with the recent trend for environmental friendliness, also contribute to the reduction of electricity consumed by the vehicles and to the improvement of the cabin environment.

We also supply door operating system for railroad vehicles, which are highly safe. We have electrified the operators to make them light, more efficient and energy saving. The operators can be used for Shinkansen and other trains for which airtightness is required.

Social Value Provided by the Main Products

The main products are light and energy saving, and therefore contribute to the reduction of environmental impact. Moreover, by providing highly safe and reliable brake systems and door operating systems, we contribute to increasing the safety and reliability of railroad vehicles and to the safety and on-time operation of railroad transportation systems. Further, we can contribute to reducing and eliminating road traffic congestion by helping to optimize railroad transportation.



For Sustainable Growth



At the Kobe Plant, we are implementing an educational program for employees engaged in the production processes. As part of the program they regularly take a test to check the level of their safety awareness and skills. We thereby ensure that they can keep manufacturing high-quality products and work with safety and a sense of security at the plant.

Sources of Strength

Products and Technology

• Since receiving our first order for air brake equipment from the former Japanese Ministry of Railways in 1925, we have long nurtured the ability to develop technologies to provide customers with products that meet their individual needs as well as the high reliability and durability requirements set for railroad vehicle equipment.

Services

• In addition to establish special team for MRO, we have enhanced ability for MRO business to acquire more orders for MRO services, including introducing a system to have a clearer forecast of the maintenance cycles for the products that we have delivered to customers.

Production

• Since 2000, we have delivered products and services for high-speed trains and subways in China and Taiwan. We also acquired an Italian railroad vehicle door manufacturer (presently Nabtesco Oclap S.r.l.) in 2013. To find new markets in Europe and other regions, we are fostering development, procurement and production in three regions, specifically Japan, China and Europe.

Business Environment (Opportunities and Risks)

Business Environment

In Japan, there is and will be stable demand for new railroad vehicles, while in China domestic production has been fostered in the high-speed train sector. For Chinese subways, however, demand will continue to expand for the improvement of urban transportation and the solution of the issue of environmental pollution.

In Europe, demand will be driven by the need to replace old vehicles with new ones, and in emerging markets including those in Southeast Asia, demand is likewise expected to expand.

Opportunities and Risks

Although the promotion of localization in the Chinese high-speed train sector caused a decrease in demand, we still have opportunities to expand our business in China thanks to the expansion of the local subway market. We can also expand our business by participating in the European market and receiving new orders in Southeast Asia market.

As a precondition for global business expansion outside the Chinese market, we need to acquire certification for the European regulations, for which we are now implementing necessary actions.

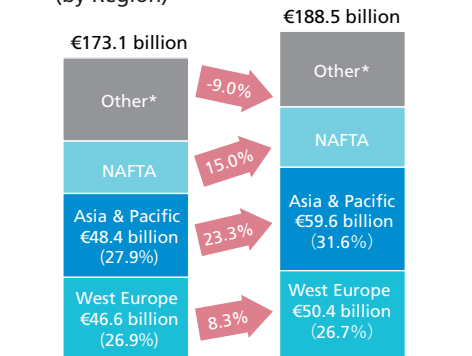
Measures to achieve further growth

By using the technologies developed in the Japanese market, we are promoting sales in markets overseas.

To this end, we established a joint venture in the Chinese subway market and have made use of the Italian railroad vehicle door manufacturer that we acquired in 2013 to build relationships with local customers. Moreover, to achieve further growth by promoting the sales of our brake systems in the European market, we are striving to ensure conformity to the European regulations.

In order to receive orders for MRO services in the Southeast Asian market, Nabtesco Service Co., Ltd., a subsidiary of Nabtesco Corporation, established Nabtesco Service Southeast Asia Co., Ltd. as an after-sale service base in Thailand. It gives technological support to local railroad companies and provides them with education on maintenance operations.

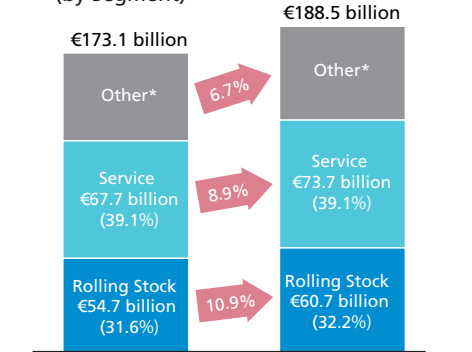
Market Size of Railroad Industry (by Region)



2017-2019 (Average annual amount) 2021-2023 (Average annual amount)

* Other: East Europe, CIS, Africa & Middle East and Latin America other than NAFTA

Market Size of Railroad Industry (by Segment)



2017-2019 (Average annual amount) 2021-2023 (Average annual amount)

* Other: Infrastructure, railroad signals and control equipment
Source: UNIFE

AIRCRAFT EQUIPMENT BUSINESS

SDGs related to our business



President, Aerospace Company Norimasa Takagi

“ In the private aircraft sector, which provides a growth market, we will offer unique customer value by innovating our production, technologies and after-sale service toward achieving sustainable growth. We will also make maximum use of the enhanced manufacturing facilities to expand the production of highly reliable products. We will thereby support the safety of aircraft while reducing their environmental impact and also contribute to local communities. ”

Strength <ul style="list-style-type: none"> Know-how and technologies accumulated over 40 years for aircraft equipment business Close relationships with major customers and support systems Highly environmentally friendly and efficient production system 	Opportunity <ul style="list-style-type: none"> Medium- to long-term growth of the private aircraft market Stable demand for provided by the Japanese Ministry of Defense
Weakness <ul style="list-style-type: none"> Less experience for the electrification of aircraft 	Threat <ul style="list-style-type: none"> Decrease in the number of flights due to the downturn of the airline market
Measures to achieve further growth <ul style="list-style-type: none"> Develop high value-added MRO plans Improve QCDS performance by fostering automation and high productivity at the plants 	

Business Overview (Fiscal year ended December 31, 2019)

Market share	Flight Control Actuation System: Approx.100% domestic market share
Production bases	Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan/State of Washington, the United States
Major customers	The Boeing Company (US), Kawasaki Heavy Industries, Mitsubishi Heavy Industries, IHI, SUBARU, the Japanese Ministry of Defense, airline companies and others
Sales by geographic segment (Full-year results)	Overseas: Approx. 55% Japan: Approx. 45%

Features of the Business

Factors that could change demand

Nabtesco's aircraft equipment is used in both defense aircraft and private aircraft. For products used in private aircraft, demand is influenced by changes in the world economy, while demand from the Japanese Ministry of Defense is stable.

For private aircraft, demand for our products is influenced by the production and participation in relevant programs by Boeing, one of our major customers.

Demand for MRO services

The user tends to place an order for our MRO services about five years after we deliver a product.

Delivery lead time

It takes us about one year on average from the receipt of an order to the delivery of the product for private aircraft and up to around two years for defense aircraft.



Flight Control Actuation System

Main Products

Aircraft equipment needs to provide high safety and reliability, and Nabtesco's flight control actuation systems precisely control the three-dimensional attitude of aircraft, including braking as well as tilting the fuselage up, down, left and right. Without an actuator, the pilot could not get the aircraft to take off or land stably, control its attitude or change its direction, and also passengers could not feel comfortable on board.

Social Value Provided by the Main Products

Nabtesco contributes to the safe operation of aircraft and the safe and comfortable travel by large numbers of people by supplying highly safe and reliable aircraft equipment.

We also provide highly reliable products for use by the Japanese Ministry of Defense and thereby contribute to the safe and prompt operation of their aircraft for purposes such as emergency rescues.



For Sustainable Growth



For the three buildings newly established at the Gifu Plant for surface treatment and for the manufacture of precision parts, and for actuators, we have achieved a substantial reduction in CO₂ emissions by adopting advanced environmental technologies. In recognition of this achievement and others, we have been highly applauded by stakeholders, including receiving an environmental prize at the Boeing Supplier of the Year 2016 event.

Sources of Strength

Products and Technology

- We began manufacturing landing gear for aircraft during the WWII and launched business targeting the private aircraft industry subsequently. Since then we have long nurtured the ability to develop technologies to meet the needs of customers for both defense aircraft and private aircraft as our strength.

- For flight control actuation systems, which are items of aircraft equipment that need to be highly safe and reliable, we boast a nearly 100% share in the domestic market.

Services

- For private aircraft, we have our production and MRO bases near the sites of our major customers so that we can offer sufficient support whenever they need it.

Production

- We newly built three buildings on the premises of the Gifu Plant over the period from 2016 to 2018 in order to make our production system more environmentally friendly and efficient and to further improve our QCDS performance.

Business Environment (Opportunities and Risks)

Business Environment

The private aircraft sector is a growth industry on a medium- to long-term basis, and the operation of aircraft will double over the next two decades. In the defense field, the budget for equipment has been slightly decreasing, but there will be no major changes in the demand on a medium- to long-term basis and the demand will continue to be robust. On a short-term basis, however, the spread of COVID-19 might cause a downturn in the market.

Opportunities and Risks

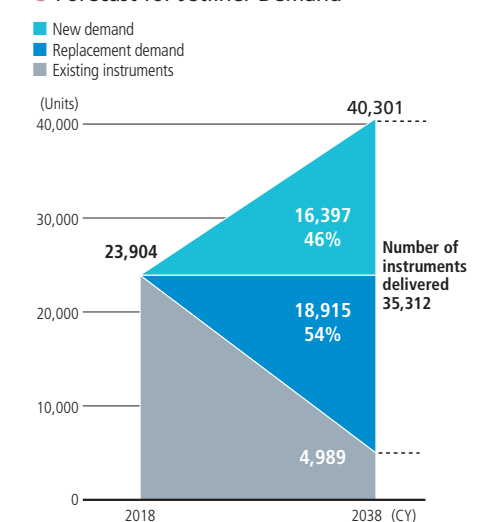
According to the 2019 data provided by Japan Aircraft Development Corporation, demand for private aircraft will expand on a long-term basis, but the sluggish world economy caused by the spread of COVID-19 might have an impact on demand for aircraft and on MRO services on a short-term basis.

Measures to achieve further growth

Anticipating the expanded use of aircraft on a medium- to long-term basis, we will make use of our relationships with customers and foster close communication with them for the provision of highly competitive products and services. To this end, we are improving our ability to develop technologies and also utilizing our bases in the four international regions (North America, Europe, Asia and Japan) to propose more value-added MRO service plans promptly to customers according to their individual needs. We also aim to provide around-the-clock service to help customers deal with emergencies, such as the inability to make a flight with an aircraft.

Moreover, in order to respond flexibly to changes in our business environment, we are pressing forward with automation and the improvement of productivity at our plants. In particular, at the Gifu Plant, we aim to further improve QCDS performance by using the newly constructed facilities.

Forecast for Jetliner Demand



Source: Japan Aircraft Development Corporation

COMMERCIAL VEHICLE EQUIPMENT BUSINESS

SDGs related to our business



President, Nabtesco Automotive Corporation Ataru Inoue

“ As a company that supports transportation by truck in Japan, we will contribute to society with pride and sense of responsibility, while giving first priority to safety. We will proactively make development investments and take on challenges in new fields, including measures for electronic systems. In addition, we will enhance collaboration with our production bases in Japan, Thailand, India and Germany with an eye to making our company a truly global enterprise. ”

Strength <ul style="list-style-type: none"> Know-how and technologies accumulated over 80 years for air brake systems Cost reduction at our production bases in Thailand, India and Germany Highly precise and efficient production system established by introducing fully automated equipment 	Opportunity <ul style="list-style-type: none"> Increasing demand for advanced safety technologies for great changes, as represented by CASE* * CASE: Connected Autonomous Shared/Service Electric
Weakness <ul style="list-style-type: none"> Ability to propose <u>systematized</u> products 	Threat <ul style="list-style-type: none"> Competition in the market with leading European manufacturers
Measures to achieve further growth <ul style="list-style-type: none"> Measures for air supply management (ASM) systems Measures for market trends, including those for CASE 	

Business Overview (Fiscal year ended December 31, 2019)

Market share	Wedge brake chambers for commercial vehicles chambers: Approx.80% domestic market share Air dryers for commercial vehicles: Approx.70% domestic market share
Production bases	Murayama City, Yamagata Prefecture, Japan/Samutprakarn, Thailand/Haryana, India/Saxony, Germany
Major customers	Hino Motors, Isuzu Motors, Mitsubishi Fuso Truck and Bus, UD Trucks
Sales by geographic segment (Full-year results)	Japan: Approx. 90% Overseas: Approx. 10%

Features of the Business

Factors that could change demand

Nabtesco's commercial vehicle equipment is used mainly in medium- to heavy duty trucks. Demand for our products is influenced by the economic situations in the Japanese and Southeast Asian markets, the two major markets for Japanese truck manufacturers, who are our main customers, as well as by changes in demand for trucks caused by infrastructure investments and environmental regulations.

Demand for MRO services

The user tends to place an order for our MRO services about two years after we deliver a product.

Delivery lead time

It takes us about a week on average from the receipt of an order to the delivery of the product.



Main Products

For many heavy duty trucks and buses, air control systems (pneumatic) are operated to move and stop the vehicles. Nabtesco's air dryers represent the first product developed in Japan to remove any water and oil from compressed air to prevent these impurities from causing problems to the system. Nabtesco also developed pneumatic air brake systems to assuredly stop trucks and buses ahead of other manufacturers in Japan in 1937, and these systems are still used in almost all heavy commercial vehicles in Japan today. For air brake systems, Nabtesco's wedge brake chambers are particularly outstanding in terms of brake operability and these compactly designed chambers also contribute to improve fuel efficiency.

Social Value Provided by the Main Products

Nabtesco has developed wedge brake chambers, which help improve fuel efficiency, and oil catchers to prevent the outflow of oil collected by the air dryer from the vehicle, thereby helping reduce the environmental impact from vehicles.

We also contribute to the safety of passengers and drivers of commercial vehicles, for example, by helping increase the safety and reliability of the air control systems (pneumatic) of the vehicles by supplying air dryers. Moreover, we plan to release a new product (EDSS*) to the market.

* EDSS standards for emergency driving stop system, which is used when the driver suddenly becomes unable to drive the car due to illness and for other reasons. After being switched on by the driver or others in the vehicle, the system will function to safely reduce the speed of the vehicle and bring it to a gradual halt.

For Sustainable Growth



Nabtesco provides brake systems in an industry-academia-government collaboration project, with an eye to contributing to the development of self-driving technologies and to the solution of the logistics crisis caused by the shortage of drivers. The project also provides us with an opportunity to acquire the know-how to develop brake systems in response to changes made to commercial vehicles with the advancement of automation.

Sources of Strength

Products and Technology

We provide air brake systems that are excellent in safety and environmental performance. In particular, the technology to separate the oil contained in compressed air gives us an advantage. We became the first company to develop this technology in Japan in 1937 and it is installed for almost all heavy duty commercial vehicles running in Japan to this day.

Production

The Yamagata Plant had all its equipment designed and made by specialists in each of its manufacturing processes with a view to responding speedily to the needs of automakers, who manufacture a range of products in small lots. The plant has also built a quality assurance system in line with global standards and introduced fully automated equipment for highly precise and efficient production and to make "high quality" and "cost reduction" compatible. We have built a global production system, having production bases in Thailand, India and Germany as well as in Japan. While meeting the local quality requirements, we are also reducing the materials cost and fixed cost to enhance our cost competitiveness.

Business Environment (Opportunities and Risks)

Business Environment

Demand for commercial vehicles has been stable in Japan, although there were some short-term fluctuations due to factors including the need to meet regulations. In Southeast Asia, demand has been expanding with minor changes. On the other hand, the automobile industry is entering an age of great changes, as represented by CASE. Moreover, there are social issues to be solved, including reducing CO₂ emissions, creating a safer motorized society and dealing with the logistics crisis faced by Japan due to the shortage of drivers. Accordingly, we need to supply high value-added products and services for current situation.

Opportunities and Risks

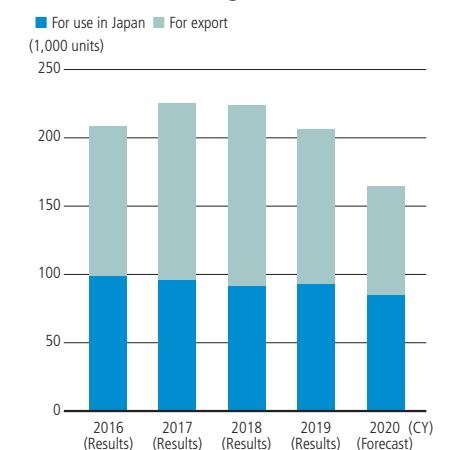
We might be able to achieve further growth by implementing measures to meet the aforementioned challenges. If, however, we fall behind European competitors in this regard, we might lose our market share.

Measures to achieve further growth

We will focus on air supply management (ASM), which we deem essential to add more value to our products. By supplying not only our conventional products but also peripheral systems, we will contribute to the higher quality and fuel efficiency of air control systems (pneumatic).

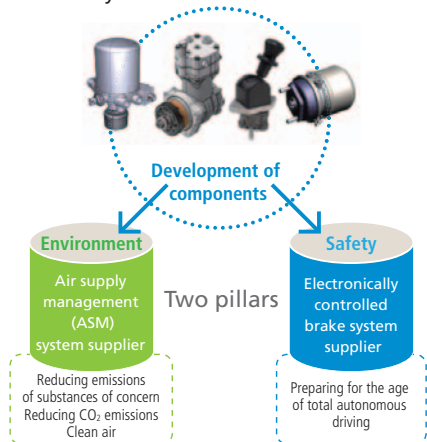
We will also utilize the strength of the entire Nabtesco Group by fostering cooperation with the Technology and R&D Division and make flexible responses to industry trends, including electronification.

Production of Large Trucks and Buses



Source: Estimated by Nabtesco based on materials provided by customer companies

Meeting More Environmental and Safety Needs



Nabtesco Automotive

MARINE VESSEL EQUIPMENT BUSINESS

SDGs related to our business



President, Marine Control Systems Company Tadashige Eto

“ In the shipbuilding and marine vessel equipment industry, same as other industries, we are strongly required to develop ‘smart’ technologies and foster decarbonization. ‘Smart’ technologies here mean those used to centrally control ships and automate their operation by the use of computers. As for decarbonization, the International Maritime Organization (IMO) adopted a strategy to reduce greenhouse gases (GHGs) in 2018 and since then activities for zero emissions have been fostered in the industry. In order to meet these requirements in society, we will work for the technological innovation of ships, marine vessel equipment and related systems by making use of the technologies and experience that we have accumulated in the business. ”

Strength <ul style="list-style-type: none"> Broad lineup of environment-friendly products Global production and service system Ability to make proposals on entire control systems Proposals on preventive maintenance 	Opportunity <ul style="list-style-type: none"> Diversification of marine vessel equipment to meet environmental regulations* Environmental regulations: There exist a range of regulations on the shipping industry for the identification and minimization of its environmental impact. When the existing regulations are enhanced or new regulations are issued, marine vessel equipment is updated to meet them.
Weakness <ul style="list-style-type: none"> Cost competition 	Threat <ul style="list-style-type: none"> Change in demand for new shipbuilding due to changes in the price of crude oil

Measures to achieve further growth

- Foster electrification and develop environment-friendly products
- Develop new MRO plans and enhance the service system to win more orders for MRO services from customers
- Promote “local production for local consumption” in the three bases for higher QCDS performance

Business Overview (Fiscal year ended December 31, 2019)

Market share	2-stroke main engine control systems: Approx. 50% domestic market share Approx. 40% global market share
Production bases	Kobe City, Hyogo Prefecture, Japan/Shanghai, China/Busan, South Korea
Major customers	Kawasaki Heavy Industries, Makita, Hitachi Zosen, Mitsui E&S holdings, Japan Engine Corporation, Hyundai Heavy Industries (Korea), HSD Engine (Korea), HuDong Heavy Industry Machinery Manufacturing (China), MAN Energy Solutions (Denmark)
Sales by geographic segment (Full-year results)	Japan: Approx. 60% Overseas: Approx. 40%

Features of the Business

Factors that could change demand

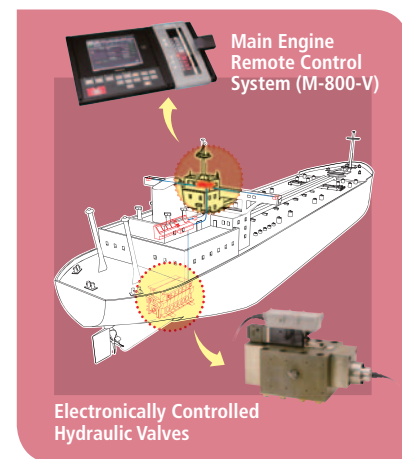
Nabtesco’s marine vessel equipment is mainly used in medium- to large-size vessels equipped with two-stroke diesel engines. Demand for new shipbuilding is influenced mainly by ship prices, demand for marine transportation and measures to meet the environmental regulations.

Demand for MRO services

We tend to receive an order for MRO services for a new ship about five years after its first navigation.

Delivery lead time

It takes us about four months on average from the receipt of an order to the delivery of the product.



Main Products

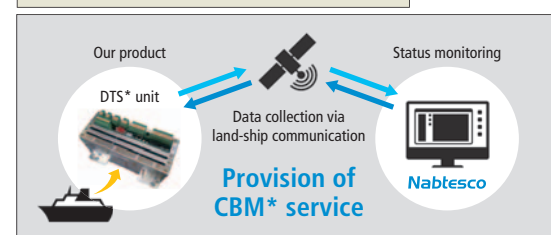
The M-800-V main engine remote control system enables the remote control of the diesel engine of a ship, which provides the ship with its main propulsive force, from the ship’s bridge and control room. The system gives commands to control the engine speed (rpm) and monitors the engine status. Equipped with advanced network functions and a liquid crystal touch panel display, the system provides excellent operability and expandability.

Used in electronically controlled engines, the hydraulic valves precisely control fuel injection and the behavior of exhaust valves. These products are indispensable to increase fuel and driving efficiency and to implement environmental measures including those to reduce NOx emissions.

Social Value Provided by the Main Products

Marine transportation has a relatively low environmental impact per unit of transportation volume, as a ship can transport a larger amount of goods at one time compared with other means of transportation. However, due to the growth of emerging markets, marine transportation volume has been increasing, resulting in an increase in CO₂ emissions from ships. Nabtesco supplies highly safe, reliable and environmentally friendly marine vessel equipment. Through these products, we contribute to reducing the environmental impact of ships, to the safe navigation of ships and to the stability of marine transportation.

For Sustainable Growth



In the marine vessel equipment business, we have launched MRO services, in which we use advanced sensing and data analysis technologies to diagnose the product status and give necessary support to customers. We are contributing to the safe navigation of ships by predicting product failures in MRO services and are working to increase the quality of MRO services for higher customer satisfaction.

* Condition-based maintenance (CBM) means the maintenance of products according to their conditions. CBM helps prevent problems and contributes to stable operation and cost reduction.
 * A data storage unit (DTS) stores data on the status of marine vessel equipment, including main engine remote control systems and electronically controlled hydraulic valves, and transmits it to a server installed on the ship.

Sources of Strength

Products and Technology

In 1963, we became the first company in Japan to develop a pneumatic remote control system for marine vessels engines to meet the standards set by the Classification Society of each country. Since then we have developed products that meet the needs of customers in line with market trends. We have strengths in terms of our ability to develop technologies for these products and in the lineup of products that can support the electronic engines to be developed in anticipation of the future enhancement of environmental regulations on marine vessels.

Services

We have globally expanded our MRO network, including one established in the Netherlands in 1995. Presently we have bases in Japan, the Netherlands, Singapore, South Korea and China, where we provide MRO services around the clock. Recently we have also enhanced MRO services by proposing preventive maintenance to customers. We have developed and released a status monitoring system that diagnoses and predicts the product status to help predict failures and shorten the maintenance lead time/cost.

Production

We established a production base in South Korea in 2000 and another in China in 2013, thereby fostering “local production for local consumption” for higher QCDS performance based on production in the three regions of Japan, China and South Korea.

Business Environment (Opportunities and Risks)

Business Environment

Environmental regulations on marine vessels have been strengthened, as represented by the enhancement of the regulations on SOx¹ in 2020 and the enforcement of the Ballast Water Management Convention². Accordingly, electrification and the diversification of fuels will be further promoted for large marine vessel engines to increase their fuel efficiency. Due to the enhancement of the regulations, not only demand for new shipbuilding but also demand for MRO services will expand, as needs for retrofitting³ to meet the regulations that will come into force are increasing.

¹ The regulations on SOx regulate the content of sulfur oxide (SOx) and nitrogen oxide (NOx), which cause air pollution, in fuel oil.

² Ballast Water Management Convention (the International Convention for the Control and Management of Ships’ Ballast Water and Sediments) is intended to prevent the spread from one region to another of pathogenic bacteria and aquatic organisms that are harmful to the environment, human health and economic activities.

³ Retrofitting means to remodel old-type machines into new-type machines.

Opportunities and Risks

In regard to engines for large marine vessels, we could achieve growth by developing and marketing products that help meet environmental regulations, while changes in the crude oil price might badly affect the demand for new shipbuilding and for MRO services.

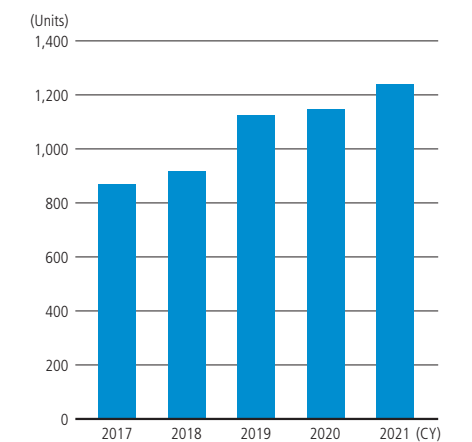
Measures to achieve further growth

We will foster joint development with external research institutes to create products that flexibly respond to changes in market needs, including the recent trends for electrification and environmental friendliness, thereby contributing to the clean and safe navigation of ships by our customers. We will also improve our QCDS performance by fostering “local production for local consumption” through production in the three regions: Japan, China and South Korea.

In the MRO business, we will enhance the global 24-hour support system at our bases in Japan, the Netherlands, Singapore, South Korea and China, and will implement measures to win more orders for MRO services, including predicting product failures in the service and developing new service plans that help users reduce the maintenance lead time and cost.

● Global Production of 2-stroke Diesel Engines for Marine Vessels

Estimates as of October 2019



Source: Nabtesco estimates

AUTOMATIC DOOR BUSINESS

SDGs related to our business



President, Accessibility Innovations Company Daisuke Hakoda

“ We are working every day to help all people in society move and travel with a greater level of safety, sense of security and comfort through the provision of automatic doors, platform doors and welfare equipment. In this business, we will take on the challenge of creating value in a manner that exceeds the expectations of customers by developing products based on close communication with the market and expanding the MRO service. ”

Strength <ul style="list-style-type: none"> Sales network that covers the world's four major automatic door markets Wide lineup of high-quality automatic doors Sales, installation and service networks in the major markets 	Opportunity <ul style="list-style-type: none"> Stable growth of the automatic door market mainly in developed countries Growth of the platform door markets
Weakness <ul style="list-style-type: none"> Lineup with much focus on automatic doors* * Reference: Overseas competitors are adding value to their automatic doors for example providing security-related services. Branding in emerging market countries 	Threat <ul style="list-style-type: none"> Long-term tendency for the domestic market to shrink due to maturity
Measures to achieve further growth <ul style="list-style-type: none"> Expand the sales, installation and service networks also through M&A Enhance sales activities and find new customers in emerging markets Provide solutions to win more orders for MRO services 	

Business Overview (Fiscal year ended December 31, 2019)

Market share	Automatic doors for buildings: Approx. 50% domestic market share Platform screen doors: Approx. 95% domestic market share (cumulative)
Production bases	Kobe City, Hyogo Prefecture, Japan/State of Wisconsin, the United States/Bern, Switzerland/Beijing, China
Major customers	Automatic doors for buildings: Major general contractors, sash manufacturers, hospitals, banks, public institutions, etc. Platform Doors: Japan Railways (JR) companies, subways in Japan, major railways, subway projects in France, others
Sales by geographic segment (Full-year results)	Japan: Approx. 60% Overseas: Approx. 40%

■ Features of the Business

Factors that could change demand

We supply automatic doors for buildings and platform doors for railroad stations. Demand for our products is influenced by demand for new buildings in Japan, North America, Europe and China and by railroad companies' plan to install platform doors. However, we have relatively stable demand with no major changes as we mainly target the mature markets of developed countries.

Demand for MRO services

For automatic doors for buildings, customers tend to place orders for MRO services about seven to ten years after the installation of the doors.

Delivery lead time

It differs by project. It takes us several weeks to one or more years depending on the size of the project.



■ Main Products

Nabtesco supplies a range of automatic doors, including automatic doors for buildings, barrier-free doors, super-large automatic doors for industrial use and platform doors. Automatic doors are opened when the sensor detects nearby motion and sends a signal to the controller and are closed when the sensor no longer detects the motion. Nabtesco makes use of advanced technologies to develop sensors, controllers with built-in microcomputers, and high-performance automatic door systems equipped with them. We also supply platform doors that are opened and closed in connection with the operation of railroad vehicle doors, thereby preventing passengers from falling from platforms or coming into physical contact with trains. Our platform doors are adopted for major railroad lines, including for use at subway stations in Japan, Hong Kong and Paris.

■ Social Value Provided by the Main Products

Nabtesco supplies automatic doors that are friendly to all people. We contribute to the provision of barrier-free environments by supplying automatic doors for buildings, which do not need to be manually operated, and also contribute to the safety of passengers and on-time operation of trains by delivering platform doors to railroad stations. Moreover, we have developed energy-saving automatic doors, such as the "NATRUS+e" door, which reacts only to people who will actually pass through the door, for the reduction of environmental impacts caused by our products.

Nabtesco annually holds a class to provide students of nearby elementary schools with hands-on computer programming experience. For this class, for which our employees serve as instructors, we created unique teaching materials by using the mechanism of automatic doors. We are thus contributing to the development of children by using our unique expertise and resources.

For Sustainable Growth



Sources of Strength

Products and Technology

We are the first automatic door supplier in Japan ahead of competitors in 1956 and have since developed high-level technological capabilities as our strength. We provide a range of automatic doors, not limited to those for buildings, and have recently developed the energy-saving and barrier-free automatic door "NATRUS+e".

Services

In Japan, we have more than 100 bases for conducting business across the nation. We sell and install automatic doors and provide MRO services to meet the needs of customers, mainly through our three large sales companies (NABCO SYSTEMS Co., Ltd., NABCO DOOR Ltd. and Orient Industries Co., Ltd.). Outside Japan, we acquired Kaba Gilgen AG (presently Gilgen Door Systems AG), an automatic door company in Switzerland, in 2011 to start doing business in the European market under the GILGEN brand. We have also expanded our sales, installation and service networks through M&A of sales companies and now operate business in the world's four major automatic door markets, namely Japan, North America, Europe and China.

Business Environment (Opportunities and Risks)

Business Environment

Nabtesco's automatic doors are used mainly in developed regions including Japan, North America and Europe. In order to keep our competitive advantages in these mature markets, we need to identify precise market needs and promptly provide more value-added products and services. Breaking demand down by region, we expect that demand will expand in Japan on a medium-term basis, being driven by the redevelopment projects implemented in urban areas. In Europe, we expect that stable demand will continue and in Southeast Asia, where more social infrastructure is being established, demand will expand. Moreover, demand for platform doors will expand across the world, as it is increasingly required to ensure safety on platforms at railroad stations.

Opportunities and Risks

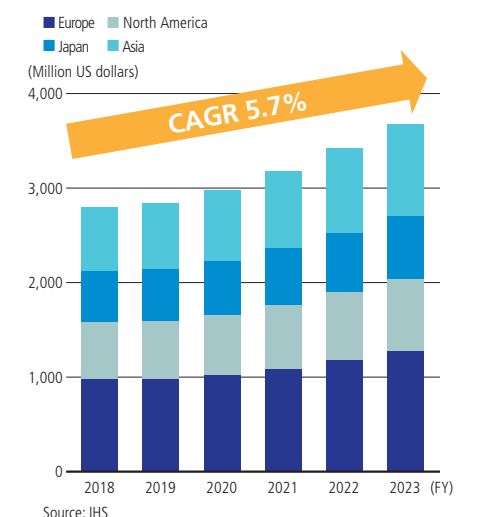
On a long-term basis, the domestic market might shrink due to the aging of society and decreasing birth rate. However, as a whole, the global automatic door market will remain robust. Due to the spread of COVID-19, demand for automatic doors might become stagnant temporarily, but it might expand on a long-term basis as the value of automatic doors, which can be operated in a contactless manner, gains renewed appreciation.

Measures to achieve further growth

In the mature markets of developed countries, we will enhance our product lineup and expand sales and service networks by M&A and other means. We will also work to increase customer satisfaction by providing turnkey solutions that include the delivery, installation, maintenance and management of automatic doors from general-purpose to custom made products, thereby steadily winning orders for our MRO services.

In Southeast Asia and other regions where more social infrastructure is being established, we will enhance our sales network to solidify the business foundation and promote branding. By broadly expanding the size of our business in both developed and developing countries, we will relieve our business risks to ensure profitability.

● Automatic Doors Markets



PACKAGING MACHINE BUSINESS

SDGs related to our business



President, Toyo Jidoki Co., Ltd. Akiyoshi Kitamura

“ We have long contributed to the reduction of CO₂ emissions by fostering packaging in pouches to reduce transportation load in addition to meeting a range of customer needs, including the need to save labor and ensure food safety. As a leading company for a range of packaging systems, we will focus on measures to promote the use of “mono-material”* for the recycling of pouches while also taking measures for new packaging materials, such as biomaterials, to make more contributions to the protection of the global environment. ”

* The use of mono-material (a single material) facilitates recycling.

Strength <ul style="list-style-type: none"> Ability to develop technologies for high-speed, space-saving and highly airtight packaging Know-how to pack wet contents Ability to customize packaging machine Official distributors located in major overseas cities Mass production system 	Opportunity <ul style="list-style-type: none"> Expanded needs for small-lot lightweight packaging Expanded needs for labor saving and automation at food processing factories and others Increased awareness of food safety and the need to reduce environmental impact
Weakness <ul style="list-style-type: none"> Lack of global recognition 	Threat <ul style="list-style-type: none"> Changes in the market share due to participation by manufacturers in emerging market countries and to the release of cheap products
Measures to achieve further growth <ul style="list-style-type: none"> Increase overseas bases and official distributors for overseas sales promotion Strengthen MRO services system in Japan and abroad Develop and supply next-generation high-speed machines and “total line systems” Expand production capacity 	

Business Overview (Fiscal year ended December 31, 2019)

Market share	Packaging machines for retort pouch foods: Approx. 85% domestic market share
Production bases	Iwakuni City, Yamaguchi Prefecture, Japan/Dalian, China
Major customers	Mitsui Sugar, Ajinomoto, MARUDAI FOOD, ARIAKE JAPAN, KENKO Mayonnaise, Procter & Gamble Japan, Kao, Lion, beverage companies in North America, food companies in China
Sales by geographic segment (Full-year results)	Japan: Approx. 75% Overseas: Approx. 25%

Features of the Business

Factors that could change demand

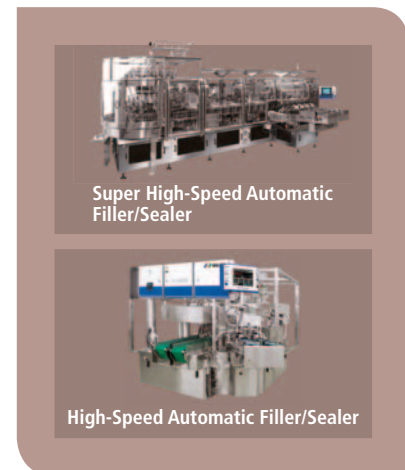
Demand for our products is influenced by the needs for equipment investment by our customers, including sugar and salt manufacturers, food and pet food manufacturers and chemical product manufacturers.

Demand for MRO services

The user tends to place an order for our MRO services about one to two years after the installation of a product.

Delivery lead time

It takes us about six months on average from the receipt of an order to the delivery of the product.



Main Products

Automatic fillers/sealers are machines designed to package things using the packaging materials supplied by their manufacturers. Toyo Jidoki has accumulated know-how for packaging wet contents that are difficult to fill, particularly retort foods.

We have strengths in measuring performance, space-saving and high-speed packaging, and airtight sealing, which is essential for food safety. Our packaging machines are customized to meet a range of customer needs in an appropriate manner. In addition to supplying packaging machines as single products, we also provide “total line systems” suitable for individual manufacturing sites.

Social Value Provided by the Main Products

The amount of food that is wasted around the world totals about 1.3 billion tons annually, and about one-third of produced foodstuffs are wasted. We can greatly contribute to the reduction of food loss by providing packaging machines that help prolong the expiration dates of foods. Recently we have also provided high-value added fillers/sealers by incorporating X-ray and infrared cameras into them, thereby contributing to food safety.

Our products are used also to pack chemical products in refill pouches. The amount of plastic used to make refill pouches is about 20% of that used to make containers for chemical products, and the use of the pouches thus contributes to reducing the use of plastic. We will proactively implement measures to promote the use of eco-friendly packaging materials, thereby making further contributions to CO₂ emissions reduction.

Toyo Jidoki relocated its Tokyo head office and substantially reformed the office environment, including adopting the “free-address” system for the office work space and providing open areas for meetings, thereby increasing operational efficiency and promoting communication.

For Sustainable Growth



Sources of Strength

Products and Technology

• Since developing the world’s first rotary packaging machine that integrates a series of processes into one line, we have accumulated the ability to develop technologies as our strength. We provide high-speed and space-saving packaging machines with a highly airtight sealing function to ensure food safety.

• We have accumulated know-how for the difficult packaging of wet contents and boast an 85% share in the domestic market for fillers/sealers for retort foods.

Services

• In order to meet the more sophisticated customer needs, we are developing next-generation high-speed machines and enhancing our MRO services in Japan and abroad, and are thus maintaining and expanding our competitive advantages. We have local subsidiaries in China, the United States and Germany as well as official distributors in major overseas cities, and have delivered more than 2,000 units in more than 40 countries across the world.

Production

• We established a production base in Dalian, China, which cooperates with the Iwakuni Plant to establish a production system that can respond to an increase in demand for packaging machines.

Business Environment (Opportunities and Risks)

Business Environment

Demand for packaging machines is expanding across the world. In the markets of developed countries, the working population has been decreasing with the aging of society and decreasing birth rates, while the number of companion animals is increasing. In emerging market countries, the middle income group is expanding due to the growth of the economy, and as a result the cost of labor, need for baby care products and the awareness of food safety will increase. Due to these factors, the needs for small and light food packaging, factory automation and labor saving are increasing globally. In addition, the need to reduce environmental impact is boosting the demand for packaging machines, which help reduce the use of energy for transportation, the use of resources for packaging materials and the loss of food.

Moreover, the diversification and sophistication of customer needs are also boosting demand for our “total line systems,” which include front-end and back-end processes beyond the scope of conventional packaging machines.

Opportunities and Risks

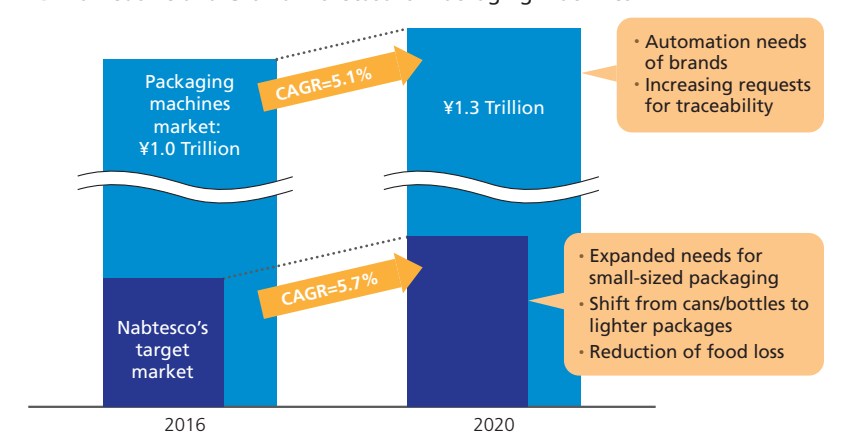
Demand for food packaging in pouches is expanding, being driven by an increase in demand for prepared meals for consumption at home as well as by an increase in the number of individuals who eat alone. Moreover, the spread of packaging in pouches in North America and higher food safety awareness in China and Southeast Asia provide us with opportunities to expand our business. On the other hand, market participation by manufacturers in emerging market countries and the supply of cheap packaging machines could pose risks to us.

Measures to achieve further growth

We will strengthen our bases and official distributors outside of Japan to promote sales mainly in Europe, North America, China and Southeast Asia.

In line with the diversification and sophistication of customer needs, we will develop next-generation high-speed machines, provide “total line systems” suitable for the production size and facilities of individual customers, expand our production capacity, and enhance our service systems in Japan and abroad to maintain and expand our competitive advantages.

Market Size and Growth Forecast for Packaging Machines





Special Feature

Business Continuity Power

Implementing **BCP** measures for both production and procurement

BCP usually stands for "Business Continuity Plan." For Nabtesco, however, BCP also stands for "Business Continuity Power," and to gain this power we are working to increase the capability of our organizations to mount effective responses to a crisis. For Nabtesco, the "P" in BCP thus not only means "plan" but also "power."

● Important points regarding Nabtesco's BCP

Nabtesco began implementing measures for BCP in 2010. At that time the Compliance Division was supervising risk management. With the support of this division, each of the in-house companies started to formulate business continuity plans (BCPs) and had nearly completed the task in 2014. Subsequently, however, because the formulation of the plans had itself been regarded as the "goal," the BCPs began to lose substance.

In 2015, we conducted a risk survey targeting our 17 sites in Japan. The survey revealed that we faced two major risks: the risk that our plant operations might be brought to a standstill due to a large-scale disaster and the risk that we might be unable to procure materials from suppliers if they suffer from a disaster. This finding clarified the fact that we had an urgent need to foster BCP measures from the viewpoints of both production and procurement.

● Shift to more effective BCP measures

Based on this finding, we reviewed Nabtesco's BCP measures and confirmed the need to input resources on a priority basis to deal with the serious BCP-related risks identified in the risk survey to ensure our survival as a going concern.

Accordingly, in 2016, in order to input resources intensively into the BCP activities conducted at our major manufacturing bases, we transferred the BCP-related functions to the Production Innovation Division, which was supervising production and procurement. We then launched an innovative initiative to transform the BCP measures implemented at the nine major plants to make them more manufacturing-oriented and effective.

We decided to focus on providing support to help the nine major plants to implement BCP measures on-site in view of the fact that, as Nabtesco is engaged in a range of businesses, the plants manufacture different products and have different production processes. It is therefore critical to give consideration to their respective business features and on-site situations in order to ensure the effectiveness of BCP measures implemented at the plants.

● Implementation of BCP measures with the ownership of on-site members

For on-site members to take the initiative on BCP measures, it is essential for them to have a sense of ownership, be well aware of the need to implement the measures and keep the motivation for the measures across the site. It is important that on-site members implement the measures willingly rather than being forced to do so. Based on this

recognition, we established a BCP secretariat at each of the plants and assigned staff engaged in the following three functions to each of the secretariats: (1) disaster control, (2) production and (3) procurement.

Next, we held a BCP training at each of the plants with the participation of plant managers and other relevant members, with an eye to helping them really recognize how difficult it is to respond appropriately and promptly to a disaster. Compared with the police, the fire department and the Self-Defense Forces, which conduct regular emergency response activities, companies in the private sector, including Nabtesco, cannot act as appropriately or promptly in the event of an emergency. It is important for on-site members to be well aware of this fact and understand their weakness in this regard.

Based on the findings made through training like the aforementioned drill, on-site members can now identify potential problems faced by their organizations, clarify the challenges to be met to solve the problems and implement necessary measures so that they can overcome their weak points one by one and increase their speed of actions. By making improvements in this way in the "Act" part of their Plan, Do, Check, Act (PDCA) cycles, they can continue to enhance their crisis response ability.

● Obtaining Resilience Certification as a driving force for BCP

By adopting the method mentioned above, each of the plants steadily made improvements in their BCP measures. However, it was very difficult for all of the nine plants to reach the same level in terms of their commitment to the measures and progress with their implementation. In response, we thought it necessary to have all the plants share a specific achievement, even though small, thereby raising awareness of BCP across the company.

Meanwhile, the Japanese government, which had been working to address Japan's vulnerability to disasters, launched the Resilience Certification system to certify organizations contributing to national resilience in 2016. The system, which is supervised by the National Resilience Promotion Office of the Cabinet Secretariat, is intended to encourage more organizations to acquire the ability to recover from disasters on their own, and the government evaluates and certifies companies implementing effective BCPs under the system. Because the effectiveness of BCPs is objectively evaluated and the results of BCP activities are visualized by the system, we decided to make use of this system to promote BCP activities across the board and to continue the activities in the future.

Power

● Nabtesco is the only organization that has obtained multiple certifications within a single company and on a plant-by-plant basis.



● Resilience Certification obtained by all nine plants

Under the Resilience Certification system, companies are evaluated in terms of the effectiveness of their BCP training and activities, making it completely different from the certification system implemented by the International Organization for Standardization (ISO), which is intended to promote the establishment of documentation and management systems. The Resilience Certification system values business continuity planning as a means for organizations to increase their disaster response capacity and pursue speed of action, and is therefore useful for organizations seeking to enhance the effectiveness of their BCPs. Accordingly, we upheld the target of acquiring the certification at all of the nine plants by 2020 and launched a three-year plan to this end.

Among Nabtesco Group companies, Toyo Jidoki, Co., Ltd. had been implementing outstandingly strategic and effective BCP measures, including securing alternative production lines, and its Iwakuni Plant was chosen to be the first Nabtesco Group plant to take on the challenge of acquiring Resilience Certification toward the goal of acquisition across the Group. The Production Innovation Division and on-site members of the plant collaborated with one another, and the plant acquired the certification in spring 2018 ahead of other Group plants and also became the first plant to be certified under the system in Yamaguchi Prefecture.

Based on this experience, the Production Innovation Division went on to cooperate with other plants within the Group to acquire the certification. As a result, in spring 2019 the Yamagata Plant of Nabtesco Automotive Corporation acquired the certification concurrently with the Kobe Plant of Nabtesco Corporation, with the latter becom-

ing the first Nabtesco Corporation plant to be certified. Subsequently, in summer 2019 the Seishin Plant and at the end of the year the remaining five plants of Nabtesco Corporation obtained the certification. We were thus able to acquire the certification at all nine plants earlier than planned.

● Contribution to improving the overall quality of manufacturing

Thanks to the BCP measures implemented at each of the nine plants for risk and crisis management, the plants can make a quick recovery, secure the minimum profit required and continue their business operations even when they suffer from a large disaster. By working to acquire Resilience Certification at the plants, we were able to establish a system to implement effective BCP measures in a prompt manner. Also, while we made a three-year plan for the acquisition of the certification, we achieved the purpose one year earlier than planned as a result of having shared information about the requirements that the plants had already met and those that they should meet for the certification as well as about their progress with relevant activities. We also checked what the plants had achieved and how they had changed by comparing their situations before and after the initiative was launched. We thereby encouraged the plants to compete with each other for earlier certification and increased on-site members' motivation for the initiative.

Furthermore, in the process, we identified the problems and challenges faced by each of the plants so that they could input resources intensively into necessary activities specific to each, and this has led to the across-the-board improvement of their manufacturing quality, including production and procurement operations.

Expanding the Scope of BCP to Include Suppliers

Supporting suppliers' BCP measures to ensure Nabtesco's Business Continuity Power

Expanding the scope of BCP to include suppliers

Nabtesco is working to ensure its business continuity by fostering BCP measures for both production and procurement. We regard our own risk of suffering from disasters at our manufacturing bases and other sites and the risk of becoming unable to procure materials as the two serious risks posed to our business continuity. Accordingly, we also focus on implementing BCP measures for procurement. In order to reduce procurement-related risks across our supply chain, we are supporting our suppliers in implementing BCP measures while also conducting our own BCP activities.

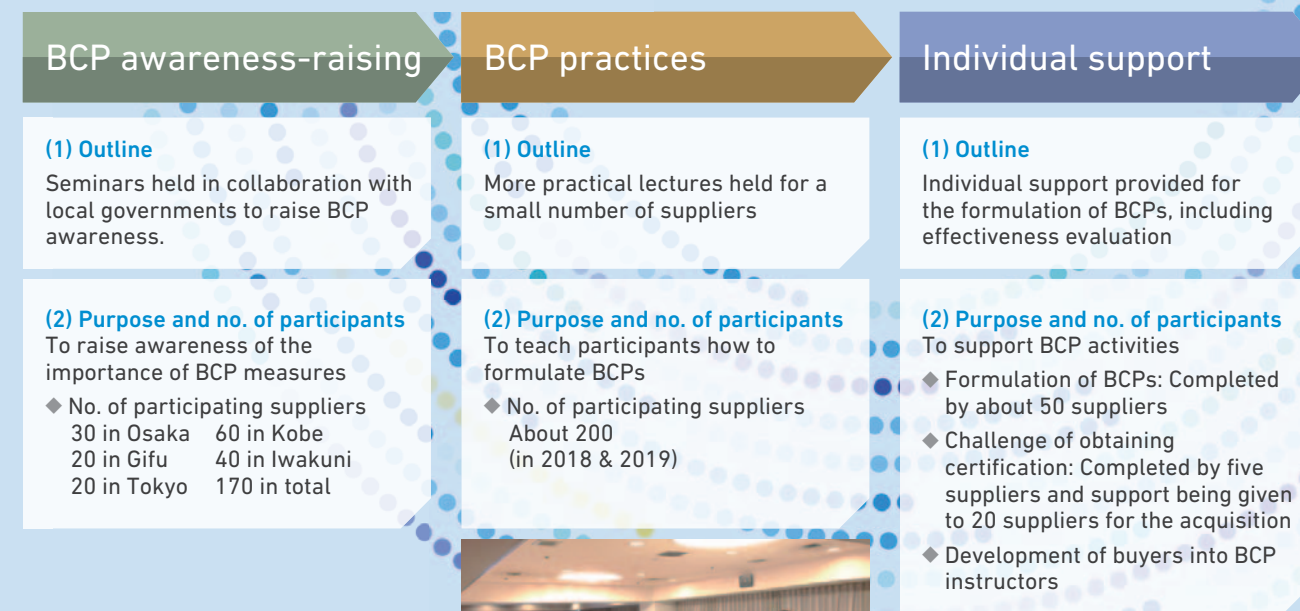
The number of suppliers who help support Nabtesco's business continuity totals about 400. Of these suppliers, 300 had not formulated business continuity plans. In response, we held BCP awareness seminars to help our 400 major suppliers understand the need to implement BCP measures in Osaka, Kobe, Gifu and Iwakuni, where many of them are located. Subsequently, we organized practical seminars for suppliers who wanted to get practical knowledge and training to formulate and implement BCP measures. In addition, we have been giving unique training as well as individual support for the acquisition of Resilience Certification to our core suppliers and those eager to implement BCP measures.

Launching the development of BCP instructors

In order to foster the implementation of BCP measures across a range of suppliers, we need to develop and increase the number of BCP instructors who can support suppliers on-site for the implementation of the measures. We contact suppliers via our buyers of procurement department. We therefore organize and hold seminars on BCP for our buyers to develop them into BCP instructors.

We started this initiative in 2019, and in the three-day training seminar held that year, 13 buyers participated from our procurement department. After attending the seminar, each of the buyers actually had the experience of serving as a "BCP instructor" to at least one of the suppliers that they were dealing with in the field. We also held a meeting for them to present their activity results as instructors. Also, in 2020, encouraged by the high ratings gained for the seminar, we held the second round of the seminar to develop more of our buyers into BCP instructors. We will continue to increase the number of our staff with BCP expertise for the enhancement of our supply chain.

Three strategies to support suppliers' BCP measures



Nabtesco as a Company with Advanced BCP Measures

Aiming to become a highly resilient company for sustainable growth



Nabtesco's BCP measures introduced as an advanced case

Nabtesco has thus been implementing BCP measures in an integrated manner with its suppliers. Nabtesco's BCP measures have attracted the attention of the national and local governments. In 2019 a law to foster the implementation of BCP measures by small and medium-sized enterprises (SMEs) and thereby enhance their resilience was enforced in Japan and, in the legislation process, Nabtesco's BCP measures were referred to as a model case.

Nabtesco's BCP measures have also been introduced as an advanced example in economic articles in newspapers, special features in magazines and in the annual white paper on SMEs published by the government. We will further increase Nabtesco's public recognition as an advanced BCP company and enhance its leadership to build a more resilient supply chain.

Further advancing BCP measures to become the most resilient company in the industry

For suppliers who have not yet implemented BCP measures, we are encouraging them to acquire certification under the business continuity enhancement project for SMEs, which was launched based on the SME resilience enhancement law enforced in July 2019.

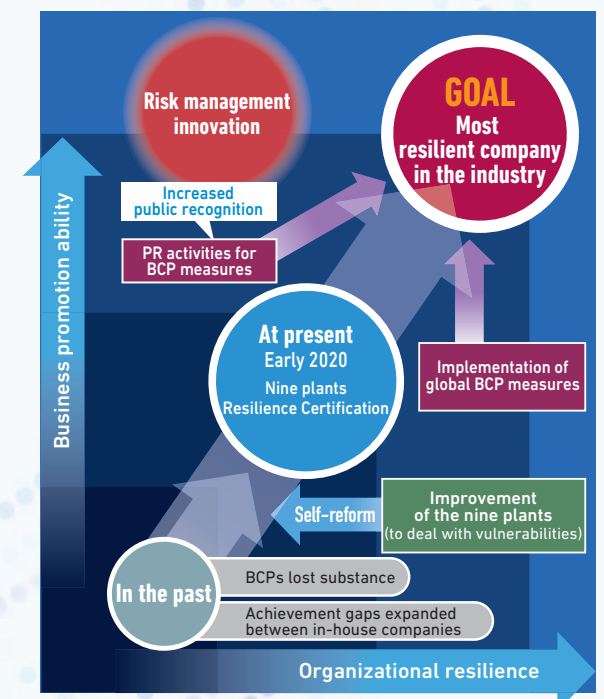
We are also fostering BCP measures globally, providing support not only to plants but also to other bases of the Group in Japan and abroad.

We are still only halfway there with our BCP activities. Amid the crisis caused by COVID-19, Nabtesco is working to develop and increase the number of risk management staff and enhance the resilience of its organizations, while also enhancing its Business Continuity Power in order to be the most resilient company in the industry.

Reported its BCP activity examples as the only company invited to the meeting of the national government's committee



Aiming to be the most resilient company in the industry



Approach to ESG Issues

The Nabtesco Group will systematically implement measures to solve ESG issues, which is one of the commitments made in the Medium-Term Management Plan, based on the concept of materiality (material CSR issues) established to “ensure management transparency” and “provide safety, comfort and a sense of security.”

Systematically conducting activities to solve a range of ESG issues

In order to implement measures for the solution of ESG issues in a systematic manner, our CSR Committee, which directly reports to the CEO, identifies the material CSR issues (materiality). The committee also formulated the

CSR Basic Policy to summarize the selected material issues as well as to ensure management transparency and provide safety, comfort and a sense of security. The chart below summarizes the major impacts on our corporate activities from the identified issues. We are working to reduce negative impacts while increasing positive impacts

by systematically conducting activities for each of the issues. In 2019, we held our first ESG meeting and worked to disclose more climate change-related information in line with the recommendations made by the TCFD in our effort to foster the provision of ESG-related information.

Support the External Initiatives

◆ **Participation in the United Nations Global Compact**
Nabtesco signed the United Nations Global Compact (UNGC) in 2014 and is also a member of Global Compact Network Japan (GCNJ). We have been proactively

participating in symposiums and study groups organized by the GCNJ, including the study groups on ESG, reporting, environmental management, supply chains, anti-corruption, disaster risk reduction (DRR), and the WEPs*. Through these events, we interact with other participating companies and learn from advanced examples how to better foster CSR-oriented management at our company.

*WEPs: Women's Empowerment Principles

General Category	ESG Category	Materiality (Material CSR Issues)	Measures Implemented in FY2019 to Solve ESG Issues	Major Impacts on Our Corporate Activities		Major SDGs of Relevance
		Major Initiatives and Related Pages		Negative Impact: Trust of Stakeholders Declines	Positive Impact: Trust of Stakeholders is Gained	
Ensure management transparency	Governance (G)	Strengthen corporate governance Corporate Governance ▶ P.61	Abolished the advisor system To further increase management transparency, abolished the system under which former directors assumed the position of advisor	As a result of functional deficiency of corporate governance, • corporate value is damaged.	As a result of the enhancement of management supervision function, faster decision-making and ensuring of management transparency, • corporate value can be maintained or improved.	16 17
		Promote risk management and compliance behavior Promote Risk Management and Compliance Behavior ▶ P.65	Fostered systematic risk management globally Conducted an assessment of Group companies in Japan and abroad	As a result of the realization of risks and breaches of compliance, • business operations are interrupted or suspended; or • financial cost increases.	As a result of appropriate risk management, • competitiveness in the product market is maintained or improved; or • business operations can be continued. As a result of the reinforcement of the global compliance system, • corporate value can be maintained or improved.	
		Ensure proactive dialogue with stakeholders	Completed the establishment of a global internal reporting system Raised awareness of the system in China, other Asia region and Europe	As a result of the decline in trust of stakeholders, • competitiveness decreases; or • reputation is damaged.	As a result of cooperation with stakeholders and development of relationships of trust, • business operations can be continued and business opportunities can be generated; or • talented people can be secured; or • reputation can be maintained or improved.	
Provide safety, comfort and a sense of security	Society (S)	Enhance customer satisfaction, Ensure quality and safety Business Overview ▶ P.37 Producing Innovations ▶ P.67 Intellectual Property Activities to Support Innovation ▶ P.68 Manufacturing Innovation ▶ P.69 Management of Quality ▶ P.71 Management of Occupational Safety ▶ P.72	Fostered open innovation Made first investment via the corporate venture capital (CVC) fund	As a result of the lack of meeting of customer and social needs, • competitiveness in the product market declines. As a result of deficiencies, accidents, etc., involving products, • business operations are interrupted/suspended or financial loss is incurred; or • financial cost increases.	As a result of the pursuit of customer needs, • in-house technologies are enhanced, or human resources are developed. As a result of the provision of products that provide safety, comfort and a sense of security, • trust of customers is gained. As a result of the contribution to solving social issues through business operations, • competitiveness in the product market is improved.	3 4 5 8 9 10 12
		Develop human capital and promote workplace diversity, Provide safe and comfortable workplaces Work Style Reforms ▶ P.73 Fostering Workplace Diversity ▶ P.74 Human Capital Development ▶ P.75 Increasing Employees' Awareness of The Nabtesco Way ▶ P.75	Nurtured a quality and safety culture Enhanced cross functional activities across the quality assurance departments	Due to the lack of ability to develop human resources and the lack of diversity, • organizational power and loyalty of employees decrease. As a result of labor issues or labor accidents, • productivity declines.	As a result of the acquisition and development of capable and versatile human resources, • organizational capabilities and loyalty of employees improve. As a result of the realization of safe and pleasant working environments, • productivity is enhanced.	
		Respect human rights and prevent corruption Human Rights Management ▶ P.75	Fostered workplace diversity Enhanced measures to provide more work style options, including promoting teleworking	As a result of the realization of human rights and corruption risks, reputation is damaged. As a result of the strengthening of relevant laws and regulations, • business operations are interrupted or suspended; or • financial cost increases.	As a result of preventing human rights and corruption risks, • reputation is maintained and improved.	
		Fair, proper and transparent procurement activities Nabtesco Group's Procurement Activities ▶ P.70	Enhanced human rights management Carried out a systematic risk assessment based on the Nabtesco Group Human Rights Policy to check for any serious risks and certificated there were no critical risks	As a result of the realization of procurement risks, • supply of raw materials and components is suspended. As a result of the interruption or suspension of business operations, • financial cost increases.	As a result of controlling procurement risks, • raw materials and components are procured sustainably. As a result of securing high-quality suppliers, • competitiveness in the product market is improved.	
		Local community development Nabtesco Group's Community Investment ▶ P.76	Enhanced Business Continuity Power across the supply chain Acquired Resilience Certification at nine plants in Japan and continued to support suppliers in formulating BCPs	As a result of sluggish local economy/society, • the product market shrinks and employment opportunities are lost.	As a result of the development of trust with local communities and contribution to local communities, • reputation is maintained and improved, or • the product market expands and employment opportunities are gained.	
		Promoted the Nabtesco Group Community Investment Policy Donated Assist Wheel electric wheelchairs to the Tokyo Metropolitan Park Association	Promoted the Nabtesco Group Community Investment Policy Donated Assist Wheel electric wheelchairs to the Tokyo Metropolitan Park Association			
Environment (E)	Environment (E)	Countermeasures for climate change Environmental Management ▶ P.77	Accelerated PDCA cycle aimed at long-term targets for CO ₂ reduction Continued to conduct activities to achieve the long-term targets that were certified as the Science Based Targets (SBTs)	As a result of the realization of natural disaster risks and energy risks, • business operations are disrupted. As a result of the strengthening of climate change-related laws and regulations, • financial cost increases.	As a result of preventing natural disaster risks and energy risks, • business operations can be continued. As a result of contributing to mitigating climate change issues, • reputation is maintained and improved.	6 7 11 13
		Environmentally friendly manufacturing Environmental Management ▶ P.77	Group's long-term targets < Global targets > Total CO ₂ emissions (per unit of sales) FY2030 30% reduction FY2050 80% reduction (Relative to FY2015)	As a result of the realization of environmental risks (violation of environmental laws and regulations or environmental pollution caused by business operations), • financial cost due to damages, compensation, etc., increases.	As a result of the contribution to solving environmental issues, • reputation is maintained and improved.	
		Reduction of environmental impact through products and services Environmental Management ▶ P.77	Promoted the Task Force on Climate-related Financial Disclosures (TCFD)-related project across the company Conducted examinations to disclose climate change-related information in line with the TCFD's recommendations	As a result of environmental pollution caused by the provision of products and services, • competitiveness in the product market declines.	As a result of the provision of products and services with high environmental performance, • the product market expands and competitiveness is enhanced.	
		Recycling, reuse and remanufacture of products Environmental Management ▶ P.77		As a result of a shortage of resources, • business activities become stagnant. As a result of the lack of environmental performance for products, • competitiveness in the product market declines.	As a result of the recycling of raw materials and components, • sustainability of business activities is improved. As a result of the contribution to developing a recycling-oriented society, • competitiveness in the product market increases.	

Ensure Management Transparency

Management transparency is one of the Nabtesco Group's material CSR issues and it is essential to maintain the trust of stakeholders. The Nabtesco Group will ensure management transparency by strengthening corporate governance, promoting risk management and compliance behavior, and ensuring proactive dialogue with stakeholders.

Strengthen Corporate Governance

Measures to Enhance Corporate Governance

Nabtesco is committed to enhancing its corporate governance based on the Corporate Governance Basic Policy, which indicates the Company's basic approach to, framework of and measures for corporate governance. Nabtesco will achieve sustainable growth, increase its corporate value on a medium- to long-term basis, and earn even more trust from stakeholders by fulfilling this commitment through the implementation of The Nabtesco Way.

In FY2019, we abolished the advisor system to increase management transparency.

In 2020, we increased the number of independent outside directors and female directors so that the Board of Directors could discuss issues from a wider range of viewpoints.

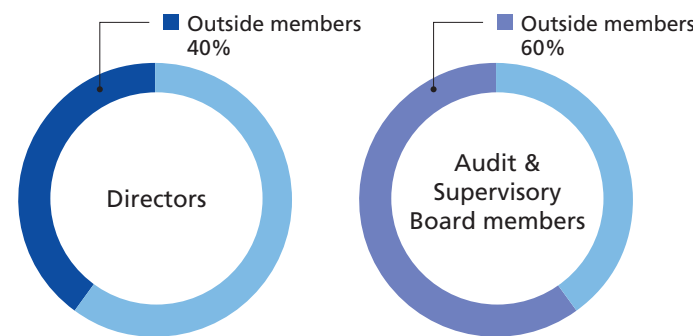
*For Nabtesco's basic approach to and system for corporate governance, please refer to our website.

Web Corporate Governance
<https://nabtesco.disclosure.site/en/themes/133>

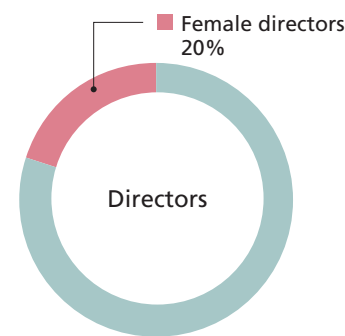
Directors and Audit & Supervisory Board members (as of May 2020)

In FY2020, the proportion of independent outside directors and female directors increased on the Board of Directors.

Proportion of Outside Directors



Proportion of women



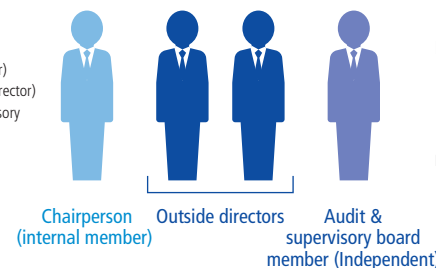
Nomination Committee and Remuneration Committee

Nabtesco is a "Company with Board of Auditors" under the Companies Act of Japan and has the Nomination Committee and Remuneration Committee as advisory organizations to the Board of Directors. The following shows the composition of the committees.

Nomination Committee 4 Members

Chairperson:
Katsuhiro Teramoto (CEO)

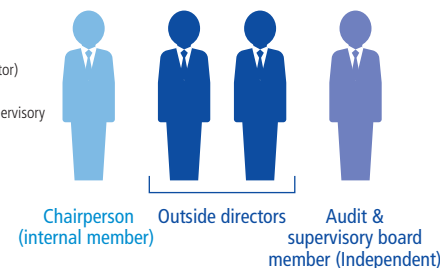
Members:
Norio Uchida (Outside Director)
Naoko Mizukoshi (Outside Director)
Tetsuro Hirai (Audit & Supervisory Board Member (Independent))
Held three times in FY2019



Remuneration Committee 4 Members

Chairperson:
Katsuhiro Teramoto (CEO)

Members:
Yutaka Fujiwara (Outside Director)
Mari Iizuka (Outside Director)
Takemi Nagasaka (Audit & Supervisory Board Member (Independent))
Held two times in FY2019



Changes in the corporate governance system

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Chairman of the Board	Representation right	Shigeo Iwatate																
	No representation right		Makoto Okitsu					Kazuyuki Matsumoto							Kazuaki Kotani			
Representative Director, President & CEO	Makoto Okitsu	Kazuyuki Matsumoto						Kazuaki Kotani							Katsuhiro Teramoto			
Number of Board of Directors	10 directors (incl. 2 outside directors)	10 directors (incl. 1 outside director)							10 directors (incl. 2 outside directors)	10 directors (incl. 3 outside directors)	10 directors (incl. 2 outside directors)	10 directors (incl. 2 outside directors)	10 directors (incl. 3 outside directors)	10 directors (incl. 3 outside directors)	10 directors (incl. 3 outside directors)	10 directors (incl. 4 outside directors)	10 directors (incl. 4 outside directors)	10 directors (incl. 4 outside directors)
Number of Audit & Supervisory Board Members	5 Audit & Supervisory Board Members (incl. 3 outside members)*1							*1				*1						
Committees	Group ESH (Environment, Safety, and Health) Committee																	
	Group PL (Product Liability) Committee																	
	Group Quality Committee																	
	Group Quality & PL (Product Liability) Committee																	
	Remuneration Committee																	
	Nomination Committee																	
Remuneration for Inside Directors*2	Monthly remuneration and retirement benefit																	
	Monthly remuneration (Fixed compensation and short-term performance-based fee)																	
	Stock-based compensation stock option (Long-term performance-based fee)																	
	Stock-based compensation stock option*3																	
Accounting Standard	Settlement of account in March (JGAAP)												Settlement of account in December (JGAAP)		Settlement of account in December (IFRS)			
	Board Benefit Trust*3																	
Corporate Philosophy, etc.	Corporate Philosophy																	
	The Nabtesco Way																	
	Long-term Vision (Final year: FY2014)																	
	Long-term Vision (Final year: FY2020)																	
	Nabtesco Corporate Governance Basic Policy																	
	Basic Policies for the Construction of an Internal Control System																	
	Risk Management Rules																	
	Nabtesco Group Code of Corporate Ethics																	
	Nabtesco Group Code of Ethics																	
	Nabtesco Group Code of Conduct																	
	Nabtesco Group Global Anti-Bribery Policy																	
	Group ESH Rules																	
	Group Quality Management Rules																	
	Group PL Management Rules																	
Group Quality and PL Management Rules																		
Nabtesco Group Environmental Philosophy/Environmental Action Plan/Long-term target																		
Nabtesco Group CSR-Oriented Procurement Policy																		
Basic Policy on Human Capital Development																		
Nabtesco Group Human Rights Policy																		
Nabtesco Group CSR Basic Policy																		
Nabtesco Group Community Investment Policy																		
Anti-takeover Measures	Pre-warning Anti-takeover Measures*4																	

*1. In FY2011 and FY2015, the number of Audit & Supervisory Board Members was temporarily four (including three outside members) due to the resignation of a members for personal reasons.

*2. Outside Directors are paid on a monthly basis.

*3. Remuneration is linked to medium-term and long-term business results.

*4. The pre-warning anti-takeover measures were introduced with the resolution of the 4th Ordinary General Meeting of Shareholders held on June 26, 2007. However, they were abolished at the conclusion of the 7th Ordinary General Meeting of Shareholders held on June 24, 2010.

Ensure Management Transparency

Measures to Ensure Effectiveness of Board of Directors and Its Evaluation

Nabtesco conducts a yearly analysis and evaluation of the effectiveness of the Board of Directors based on the self-evaluations of the Directors to improve its functions.

Also, in FY2019, the Company conducted an anonymous self-evaluation questionnaire survey of all directors and Audit & Supervisory Board members. The survey results were tabulated and analyzed by external lawyers for the evaluation of the effectiveness of the Board of Directors through discussions by members of the Board.

According to the results, the Directors believe that, among other things, the number of members and the structure of the Board of Directors are appropriate and that open, natural and constructive discussion is taking place. In FY2020, the number of independent outside directors increased by one person, making independent outside directors account for at least 40% of the total number of directors. Moreover, the number of female directors increased as well, and it is expected that the Board will now discuss issues from a wider range of viewpoints. Judging from these facts, the effectiveness of the Board is considered to be well secured.

On the other hand, with respect to the composition of the Board of Directors, the following issues were found as challenges need to increase the proportion of female directors and non-Japanese directors. For Board discussions, it is still necessary to secure enough time to deliberate important issues related to management, including growth strategies.

Compensation System for Directors

◆ Basic policy on the compensation system

- By linking compensation more with performance and stock value, ensure that shareholders and management can share profit and risk.
- Make the system shall function as an incentive to improve the medium- to long-term performance.

◆ Method for determining compensation

For compensation for directors, the Remuneration Committee deliberates on the upper limits approved at the general meeting of shareholders and reports the results to the Board of Directors for the final decision of the amount. For compensation for Audit & Supervisory Board Members, the amount is decided through discussions with Audit & Supervisory Board Members.

◆ Structure of the compensation system

Compensation to Directors is composed of monthly compensation, comprising fixed basic compensation and short-term performance-linked compensation, and stock compensation based on the degree of achievement of the Medium-term Management Plan as well as share value.

[Basic compensation]

Basic compensation is fixed compensation according to the position of each Director and is paid as monthly compensation.

[Performance-linked compensation (Monthly compensation)]

The amount of performance-linked compensation (monthly compensation) to be paid is determined according to the following formula, based on the degree of achievement of annual results.

[Short-term performance-linked compensation]

Short-term performance-linked compensation =
Standard payment amount by position × Performance evaluation coefficient

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

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

[Stock Compensation]

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

[Tenure grant-type stock compensation]

Tenure grant-type stock compensation =
Share grant points by position ×
Performance evaluation coefficient ×
Medium-term Management Plan achievement coefficient

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

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

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

[Retirement grant-type stock compensation]

Retirement grant-type stock compensation =
Share grant points by position
Grant points will be vested on the day that the Director retires.

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

The basic indicators for performance-linked compensation paid to Directors (excluding Outside Directors) are ROIC and profit (attributable to owners of the parent), which reflect the fruits of all employee activity and are principal indicators linked to the improvement of ROE.

In this way, the Company encourages all Directors to take note of capital costs and the payout ratio, and promotes management that is mindful of the sustainable growth of the Group. Furthermore, indicators for Directors

in charge of businesses have the added functions of incentivizing them to improve performance in the medium to long term by including R&D indicators to encourage the creation of intellectual property and environmental indicators showing how much CO₂ emissions were reduced, in addition to management indicators such as the degree of ROIC improvement.

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

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

◆ Composition of compensation

- The composition of Directors' compensation emphasizes the link with performance and shareholder value.
- Compensation, etc., for Outside Directors and Audit & Supervisory Board Members consists only of fixed compensation, with

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

Amount of Compensation Paid to Directors (FY2019)

- Total amount of compensation by managerial position, total amount of compensation by type of compensation and number of recipients

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

(Notes)

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

- FY2019 actual performance of principal indicators related to performance-linked compensation

ROIC	Net sales	Operating income	Profit
7.5%	¥294,626 Million	¥21,889 Million	¥15,305 Million

Performance-linked compensation for the fiscal year under review is calculated based on the figures in the financial results as of December 31, 2018.

However, in the fiscal year under review, Harmonic Drive Systems Inc., an equity-method affiliate of the Group, issued new shares, resulting in equity in earnings of affiliates. Therefore the relevant income was subtracted from the results figures stated above in the indicator adopted.

Treatment/Reduction of Cross-shareholdings

Every year the Board of Directors makes examinations based on certain criteria about the purpose, benefit and capital cost-based risk of cross-shareholdings to decide whether to continue holding each of the stocks and on the number of shares to be kept. Stocks for which the examination results indicate that it is not appropriate to keep holding them shall be sold in a timely manner in consideration of the stock price and market trends.

Ensure Management Transparency

Promote Risk Management and Compliance Behavior

Risk Management in General

The Nabtesco Group has a system in place to ensure that profits and losses, capital efficiency, quality issues, extraordinary accidents and other matters concerning the execution of business operations are reported to the Board of Directors appropriately and in a timely manner, thereby detecting risks at their early stages and minimizing losses.

In FY2019, to properly implement risk and crisis management at the Nabtesco Group and to maintain and improve corporate value, we conducted risk assessment on Nabtesco and the Group companies in Japan and overseas according to the risk management rules, which were overhauled in FY2016, and the detailed rules on risk management.

Also from FY2018, we have decided to conduct risk assessment annually for all Group companies across the world, whereas previously risk assessments were carried out every two years alternatively at domestic and overseas Group companies.

Moreover, given that risks faced by corporations have been multiplying and becoming increasingly diversified, we identified serious Group-wide risks based on the results of risk assessment and discussed the countermeasures to address them at a meeting of the Risk Management Committee, which was established in FY2016 as a forum for Group-wide risk management activities for prompt actions.

We also ensure the rationality, appropriateness and legality of decision-making and manage risks through compliance with, and thoroughgoing implementation of, the Group regulations for responsibility and authority. We have also established company regulations that set forth reporting procedures in the event of accidents, disasters, critical quality problems and other incidents that may have a seriously negative impact on the Group's business results, financial standing or credit. We thus have established a prompt and proper information communication and emergency response system in case of a contingency.

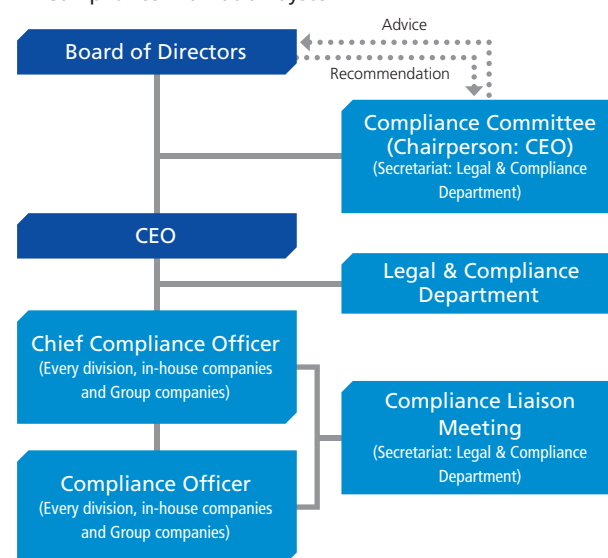
With regard to monitoring, expert members at the Headquarters, such as the Business Auditing Department, conduct cross-organizational audits of operational risk management and offer necessary and appropriate advice for operational improvement based on their expertise. In addition, in our compliance newsletter we publish risk management-related topics as part of our efforts to raise employees' awareness.

Web Risk Factors
https://www.nabtesco.com/en/ir/policy/risk_factors.html

Enhancement of the Compliance System

According to the Rules for the Group Compliance Promotion System, our Compliance Committee deliberates the basic policies and important issues related to the compliance system. This committee, which includes external experts among its members, serves as an advisory board to the Board of Directors. In addition, by appointing Chief Compliance Officers and Compliance Officers who support the chief officers for all of our administrative departments, in-house companies and Group companies within and outside Japan, we are enhancing our compliance system on a group-wide and global scale. We held a Compliance Liaison Meeting to enable the Chief Compliance Officers and Compliance Officers to share information and exchange opinions, both in Japan and in all overseas regions where we conduct business (China, other Asia region, North America and Europe).

● Compliance Promotion System



Raising Awareness of the Nabtesco Group Code of Ethics

To strengthen the Group-wide and global compliance system, the Nabtesco Group has established the Nabtesco Group Code of Ethics.

The Legal & Compliance Department, which is in charge of compliance issues, fulfills a central role by increasing compliance awareness among members of the Nabtesco Group in addition to fostering their compliance with laws and regulations in order to enhance the Group's corporate value over the medium to long term. The Nabtesco Group Code of Ethics shows, from the compliance viewpoint, the basic approach to be taken by directors and employees of the Group for the implementation of the Corporate Philosophy in their business activities.

In order to help directors and employees deepen their understanding of this Code of Ethics and take actions

that are in line with it, we have prepared a Compliance Handbook, which is used for compliance education and awareness-raising activities. The Code of Ethics and the Compliance Handbook are available in nine languages (Japanese, English, Simplified Chinese, Traditional Chinese, Korean, Thai, German, Italian and French) on Nabtesco's website.

We also conducted education activities at all Nabtesco Group companies outside Japan to disseminate the Code of Ethics from FY2017. We will continue to raise awareness of the Code of Ethics.

We reexamine the effectiveness of the Code of Ethics every year and revise it as necessary.

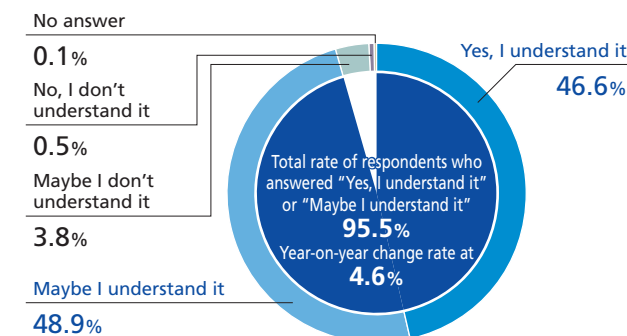
Fostering Compliance Awareness

Since FY2011, we have designated every October as the Nabtesco Group's Corporate Ethics Month for all employees to conduct activities to raise their compliance awareness under the leadership of the management team at their workplaces.

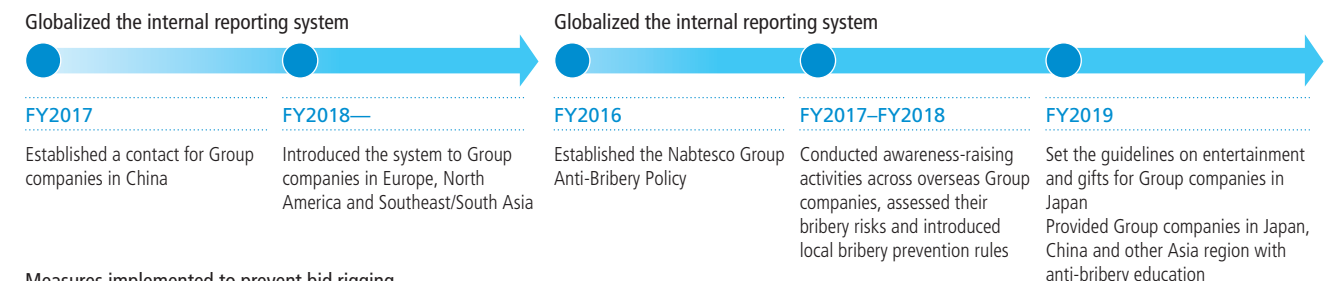
● Responses to the Compliance Awareness Survey

Total number of respondents: 4,466 (in Japan)

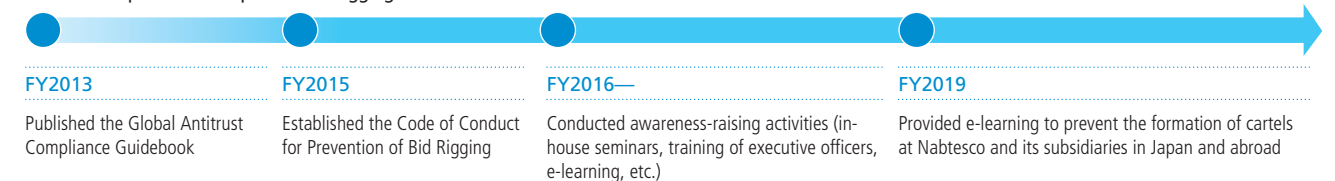
"Do you understand the meaning of compliance?"



● Established a global compliance system



Measures implemented to prevent bid rigging



In FY2019, we sent a video message from the CEO of Nabtesco to all Group companies in Japan and overseas as well as compliance messages from the presidents of our Group companies and in-house companies. Moreover, we conducted a Compliance Awareness Survey targeting employees of Nabtesco and our subsidiaries in Japan and some of our Chinese subsidiaries. (A total of 4,466 employees responded to the survey.)

In FY2018, we changed the frequency of the Compliance Awareness Survey from every two years to every year.

Internal Reporting System

For the prevention, early detection and correction of wrongdoing, the Nabtesco Group launched an internal reporting system ("Nabtesco Hot Line") and provides both an internal contact (Legal & Compliance Dept.) and external contacts (a law firm and a specialized company). In order to raise employees' awareness of this hotline, we provide information about the contacts through our internal portal site, in-house magazine and compliance newsletter, while also distributing posters and cards introducing the hotline internally. For each of the reports made to the contacts, we conduct necessary surveys and make appropriate responses.

In FY2017, we completed the establishment of a contact for the internal reporting system for all Group companies in China. Then, in FY2018, we introduced the Global Hot Line as a system to receive internal reports from employees of Group companies in Europe, North America and Southeast and South Asia, and began operating the system.

Materiality

Enhance Customer Satisfaction

The Nabtesco Group is working to enhance our competitive edge in our existing businesses while also creating new products and services in order to meet the diversified and advanced needs of customers. In particular, we endeavor to supply high value-added products and services that meet the [QCDS](#) needs of customers in pursuit of the enhancement of their QCDS performance.

Producing Innovations

Promoting Comprehensive Measures to Produce Innovations

Nabtesco has been achieving further growth by accumulating technologies and know-how. We have made this achievement with each of our business departments supporting customers in developing their products based on our motion control technology for stopping and moving with precision.

Recently, in response to the diversification and sophistication of customer needs, we have been focusing more on developing and proposing mechatronic products and systematized products with a view to increasing our growth opportunities, in addition to supplying single components and services for which we have competitive advantages. Further, in response to the progress of electrification, IoT and AI, we are now expected to supply products and services that provide a preventive function through monitoring, in addition to the "stopping and moving" functions.

To meet these needs, the Nabtesco Group is accelerating measures to provide customers with a broader variety of value under the leadership of the Technology and R&D Division, and is fostering comprehensive measures to produce innovations.

Fostering the Sharing of Advanced Technologies and Know-how across the Business Departments

One of the missions of the Technology and R&D Division is to make use of its expertise in each field to technically support each business department in implementing measures for sustainable growth. To this end, the Division is working to acquire development methodologies that use advanced tools, element technologies and know-how ahead of competitors and to share them with the business departments across a range of fields for product development progress.

Nabtesco has been making proactive use of computer-aided engineering (CAE) and additive manufacturing (AM) as IT-based development and design tools.

In the CAE field, the Division is conducting fluid analysis to analyze the flows of air and oil, and is also performing advanced analysis by combining structural analysis on strength and heat resistance with flow analysis. In addition, the Division is examining control systems, simulating them to understand the physical behavior of products and sharing advanced analysis technologies widely with the business departments to make their development and manufacturing processes more efficient. In the AM field, we are making use of the know-how of CMET Inc. This

Nabtesco Group company provides customers with 3D printers that use resin-based high-speed stereolithography technology. We are thus pressing forward with the development of metal additive manufacturing technology, including peripheral element technologies, and using these innovative technologies for manufacturing innovation in the aircraft equipment business.

Furthermore, in response to the rapid advancement of IoT and AI, we are enhancing our sensing technologies. Monitoring products using sensors and analyzing the monitoring results makes the diagnosis of failures possible. This helps us add the monitoring function to the stopping and moving functions provided by our products, allowing us to provide high value-added products and expand the maintenance, repair and overhaul (MRO) services.

Increasing R&D Efficiency and Promoting Human Capital Development through Proactive Open Innovation

Nabtesco is fostering open innovation.

Our core open innovation base is the Nabtesco R&D Center (RDC), which was established in a part of the Kyoto Research Park (KRP) by transferring the departments of the Technology and R&D Division located at the Kobe Plant. At the RDC we are making use of the power of KRP as an innovation hub housing around 400 companies, while proactively conducting R&D activities through industry-academia collaboration with both domestic and overseas companies and universities. We are also utilizing the facilities as a satellite office where engineers can learn advanced technologies in their respective fields.

Furthermore, Nabtesco established Nabtesco Technology Ventures AG (NTV) in Zurich, Switzerland, which will lead our corporate venture capital (CVC) activities. Mainly through NTV, we will collaborate with start-up companies to create new business.

Making the First Investment via the CVC Fund

Nabtesco Technology Ventures AG, which leads our CVC activities, has made its first investment in a start-up. Through this investment, made in a company that develops lithium-ion battery systems, we will grasp the latest trends surrounding the technologies and markets of batteries for industrial equipment and work to develop a component/system in line with the electrification trends of our customers on a medium- to long-term basis.

Materiality

Enhance Customer Satisfaction

Intellectual Property Activities to Support Innovation

Intellectual Property-Backed Management Strategies

In order to help all of its stakeholders including customers and partner companies to achieve sustainable growth and business expansion, the Nabtesco Group deems the core values that serve as a source of business competitiveness as intellectual properties and makes Group-wide efforts to promote intellectual property-backed management strategies that are designed to protect and increase the competitive advantage of such intellectual properties, thus pursuing the enhancement of corporate value.

Management of Core Technological Information and Strategy to Acquire Intellectual Property Rights

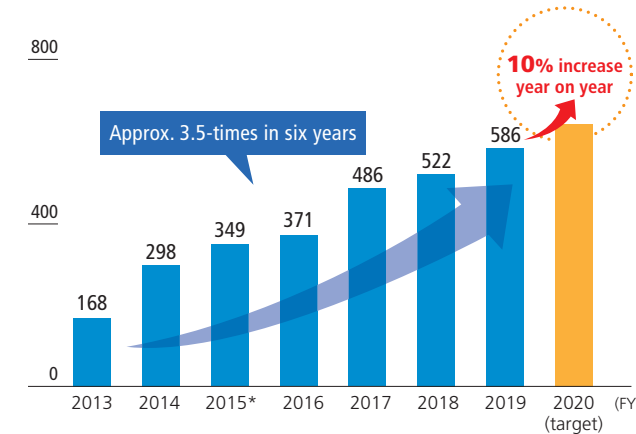
The Nabtesco Group's competitive advantages, which provide it with core value, include deep relationships of trust with customers, successful branding in the market, technological ideas for products and services, and design and manufacturing know-how. We protect these intellectual properties by patent and design rights and trademarks and as trade secrets. For technologies that we can keep confidential, we impose strict management controls to protect them as core (confidential) technological information while for technologies that we cannot keep confidential because we sell them, we protect them based on our strategy to acquire intellectual property rights proactively.

We will protect our existing and future intellectual properties as our core value through the management of core technological information and the strategy to acquire intellectual property rights, thereby continuing to enhance the Nabtesco Group's comprehensive ability regarding intellectual property and increase our brand value.

Newly Including the Creation of Intellectual Property in the Performance Indicators

In FY2017, we included the creation of intellectual property in the performance indicators for the in-house companies and Group companies. It has been ensured that actions related to intellectual property strategies are systematized.

Number of notifications on intellectual property creation



* Because the fiscal year-end was changed from FY2015, the results for this fiscal year have been annualized.

formulated and implemented as one of the business plans in the medium-term management plans set for each of the in-house companies.

In addition, with the aim of nurturing a culture in which all engineers proactively develop ideas for new businesses and technologies as well as design/manufacturing know-how, we encourage active creative activities as a performance evaluation target for in-house companies. Moreover, we give commendations to excellent in-house inventors who have contributed to our businesses under the Nabtesco Brilliant Inventor (NBI) system at the company's founding anniversary ceremonies, thus praising such contributions across the Group and increasing employees' motivation toward creative activities.

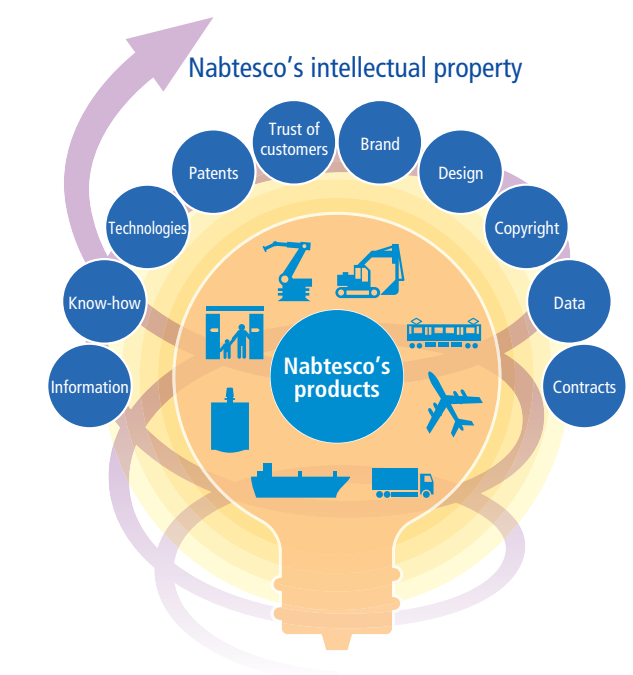
Through these activities, the number of notifications made on intellectual property creation steadily increased by about 3.5 times the FY2013 level in FY2019.

Central Management of Intellectual Property and Promotion of Business Utilization

The Intellectual Property Department centrally manages information related to intellectual property, including original ideas and know-how, information on technological contracts and information about the intellectual property of customers and competitors gathered and analyzed by using technology marketing (IP landscaping), and utilizes such information for businesses based on information sharing within the Nabtesco Group and the generation of synergies from the core value.

The Nabtesco Group will continue to evolve its intellectual property activities in order to achieve sustainable and profitable growth with its customers in the future.

Intellectual property that enhances the Nabtesco Group's business value



Manufacturing Innovation

Promoting Manufacturing Innovation with the Aim of Developing Unrivaled Manufacturing Technology to Be Globally Competitive

Since FY2016, the Nabtesco Group has been committed to promoting its manufacturing innovation in order to establish an overwhelming competitive edge and enhance profitability and capital efficiency.

Through manufacturing innovation, we endeavor to further enhance corporate value by pursuing even higher QCDS performance to meet the needs of our customers based on advanced automation, renewed production management, logistics reforms and strengthening of supply chains, while improving profitability and capital efficiency.

Identifying Strengths and Weaknesses through Analysis of the Management KPIs of Each In-house Company

Based on multifaceted analysis of management Key Performance Indicators (KPIs), including the operating income margin, value added per manufacturing worker, inventory turnover period, production lead time and on-time delivery rate for customer services and procurement, we identify the strengths and weaknesses of each in-house company and implement measures based on such strengths across the Group while promoting the further enhancement of strengths.

Building a Visualization (Status Monitoring) System with ICT

For the smooth operation of production lines, it is important to analyze on-site situations in real time and detect problems and implement measures as soon as possible.

To address this issue, we have taken measures to develop a system to promote the visualization and unified management of on-site information as well as the early detection of daily issues through the usage of ICT devices.

We plan to automate decision-making and forecasting, which are currently conducted by people, through the

introduction of manufacturing execution systems with the use of AI, thus developing cutting-edge systems to realize production management suitable for each in-house company in the future.

Promoting Automation of Labor-intensive Work That Requires Advanced Skills

As there are processes that require advanced skills, including machining processes, assembly and inspection in plant operations, the automation of processes that depend on the advanced skills of workers is indispensable looking ahead to the further decline of the working-age population.

To this end, we promote the automation of high-level work processes by introducing and utilizing unique production technologies in addition to advanced robot and sensing technologies. In addition, we aim to develop flexible, advanced automated lines in order to respond to large variety and small quantity production and enable agile changes in variety and quantity.

Logistics Reforms for Overall Optimization across Supply Chains

While realizing a comprehensive production system without delay by expanding the use of automated guided vehicles (AGVs) at our manufacturing sites, we reinforce data linkage in supply chains. Moreover, we strive to enhance logistics efficiency through 3rd party logistics (3PL) as well as the milk-run system*1 and modal shift*2.

*1 Collecting shipments in a preset route

*2 Modal shift means to shift from cargo transportation by road to more environment-friendly transportation by rail and sea.

Acquiring Overwhelming Cost Competitiveness While Maintaining Win-Win Relationships with Suppliers

We will attain cost competitiveness that overwhelms our competitors by reviewing procurement activities across our in-house companies to create synergies through joint procurement and by fostering intensive procurement from suppliers with consistently high QCDS performance.

● ROIC Improvement by Building Manufacturing Innovation

ROIC improvement measures	Aim	Direction	Key challenges
Increasing operating income margin	■ 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 costs	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 assets turnover	■ Shortening production lead times	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		

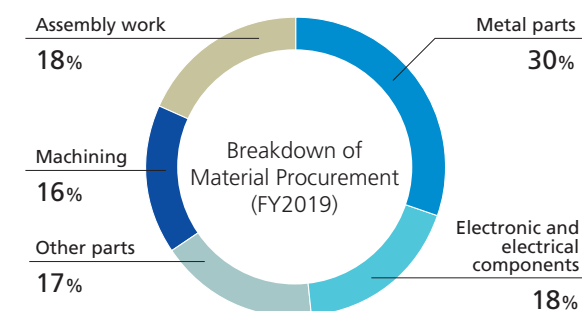
We at the Nabtesco Group have been pursuing collaboration with suppliers with the aim of strengthening our comprehensive procurement capabilities from the perspectives of sustainability, including QCDS and technological development. In order to achieve medium- to long-term growth for the Group, it is essential to secure a sustainable supply chain. We are promoting CSR-oriented procurement by recognizing proper, fair and transparent procurement activities as one aspects of our materiality.

Nabtesco Group's Procurement Activities

Fundamental Approach for Proper, Fair and Transparent Procurement Activities

The Nabtesco Group conducts business with about 1,000 suppliers of various types, centering around the purchase of metal parts, and electronic and electrical components, outsourced machining, assembly and processing. Our business with suppliers is an important factor that affects the Nabtesco Group's cost structure and QCDS performance. It is indispensable to secure the supply chain continuously in order to achieve medium- to long-term growth. Therefore, we develop collaboration systems through proper, fair and transparent business transactions based on the proper cost structure and close partnerships with suppliers.

● Material Procurement in Japan



Establishment of Nabtesco Group CSR-Oriented Procurement Policy

In 2014, aiming to further foster CSR activities across the supply chain, we established the Nabtesco Group CSR-Oriented Procurement Policy. In formulating this policy, we referred to the ISO 26000 standard, the United Nations Guiding Principles on Business and Human Rights, the responsible business alliance code of conduct (RBA) and other international guidelines, and also incorporated the ideas expressed in the Nabtesco Group Code of Ethics.

CSR Procurement in Collaboration with Suppliers

The Nabtesco Group identifies primary suppliers for our business sustainability based on their trade volume, QCDS performance, technical development capability, financial health and other factors and reflects them in our transactions. To enhance our CSR-oriented procurement,

we have implemented self-assessment questionnaire (SAQ) surveys for primary suppliers, including key suppliers in and outside Japan every year since FY2014.

In FY2019, we conducted the SAQ survey on all our primary suppliers (about 1,000 companies) based on our CSR-Oriented Procurement Policy and received replies from suppliers accounting for more than 90% of our procurement in terms of transaction amount.

We analyzed and evaluated the questionnaire results for each supplier and fed them back in the form of a written document. In addition, we have been continuously monitoring and dealing with the risks identified through the survey.

Moreover, in FY2019, we visited nine companies to identify risks in the domains of environment, safety and health and formulated improvement measures for the companies. We will continue to refine the SAQ survey by, for example, considering the questions and response methods.

In FY2019, we received no reports of serious noncompliance regarding labor and environmental issues for our supply chain.

Partnership with Suppliers

The Nabtesco Group is proactively helping suppliers stabilize their production and improve their quality. We carry out audits on suppliers' plants where the products to be supplied to us are manufactured. Based on the results, we then give instructions for the plants to improve their quality management including those related to work standards, a mechanism called "poka-yoke" installed to prevent operators from making mistakes and the elimination of defective products. We also help suppliers to conduct 5S activities on a regular basis at their plants. Furthermore, we provide suppliers with practical on-site training by using the value engineering (VE) method so that they can make functional analyses of their products and daily operations.

Materiality

Ensure Quality and Safety

In our long-term relationships of trust with customers, the Nabtesco Group has engaged in market creation, product development and product safety in collaboration with customers. By recognizing the realization of safety, comfort and a sense of security for general people who use our customers' products as a material issue, we endeavor to collect and analyze data on actual usage conditions and usage environment while seeking the necessary safety, reliability and stability as well as comfort based on functionality and performance in order to ensure quality and safety.

Management of Quality

Promotion System Based on the Quality & PL Committee

In an effort to listen to the voices of its customers and the users of its products and to respond to the changes, demands and requests of society, the Nabtesco Group sets forth the Nabtesco Group Quality and PL* Policy and promotes manufacturing based on quality engineering, quality management and PL management (including product safety control) under the leadership of the Quality and PL Committee.

At the Group Quality and PL Committee, annual activity policies are determined by clarifying issues and challenges for the entire Group, and actual work is conducted by each in-house company by applying the policies to specific activities. However, since the types of products and target industries significantly vary among in-house companies, it has become increasingly difficult to carry out audits on the activities of all in-house companies in accordance with fixed rules and standards. To address such issues, we strive to grasp the situation of each in-house company, provide advice and identify what the head office can do in order to support improvement at our regular meetings, thus implementing more effective, specific measures.

*PL: Product Liability

● Nabtesco Group Quality and PL Policy

To fulfill our corporate social responsibility (CSR) by delivering products with the highest levels of safety, comfort, security and reliability, we will:

1. Give priority to safety over anything else, based on the principle of respect for people;
2. Meet safety and other quality needs of products through the integration of business activities and quality and PL activities; and
3. Realize product quality, which satisfies market demand, by conducting safety and other quality evaluations prior to the release of products to the market.

Continuing to Cultivate a Quality-Oriented Workforce to Create an Advanced Quality Culture

The Nabtesco Group provides a variety of systems and product lineups and believes that we will not be able to increase the quality of all these products by drawing upon a limited stock of technologies and methods. We are therefore introducing IT and other advanced technologies to our quality management, while attributing special importance to the creation of a culture of quality manufacturing for all our products.

Such a culture can be created as a result of long-term education, training and organizational management. We believe that helping employees gain a meaningful experience that allows them to think and act in line with core principles and rules to make really effective use of available technologies will, in turn, help the entire company improve its manufacturing quality on a long-term basis. Based on this belief, we have been providing employees with unique education, including via the "Quality University" courses.

While the Quality University courses were initially targeted at selected design engineers when they were introduced in 2007, a course for managers was added in 2009. Since FY2012, we have designated a mandatory quality education course for Group employees in their third year of employment. Every year about 30 to 40 young employees participate in this six-month course to learn about quality management to increase their quality awareness. The number of employees who have completed the Quality University courses has been steadily increasing each year. The graduates have been acting as forerunners of the Nabtesco Group's culture of quality manufacturing.



Group photo of past students of the Quality University courses (Jan. 2010)

Cross functional activities Conducted across the Quality Assurance Departments

We regularly provide employees in charge of quality at our in-house companies with an opportunity to meet and share industry-specific knowledge and experience and discuss how to make quality improvements.

Since 2018, employees in charge of design and manufacturing at the in-house companies have also been participating in the meeting in order to talk to other participants, clarify the current design and manufacturing situations, and solve their respective issues in reference to inputs from other participants, such as their knowledge and experience.

Measures toward Enhancing the Basis for Quality

In addition to the aforementioned activities, we are working to enhance the basis for our design and manufacturing quality through Group-wide training initiatives, including giving intensive basic education on quality to new employees and instructing employees at plants in Japan, bases outside the country and at suppliers about 5S* improvements as well as providing technical training on product liability and safety, training on risk assessment, manufacturers' ethics training and training for mid-career hires.

* The 5Ss are *seiri* (sort), *seiton* (set in order), *seiso* (shine), *seiketsu* (standardize) and *shitsuke* (sustain).

Management of Occupational Safety

Ensure Safety by a Three-Pronged Approach, Giving First Priority to Protecting People

For manufacturers, "safety" means: (1) manufacturing products in a safe manner, (2) making safe products, and (3) ensuring the safety of products during use. These three requirements should be met together, as we cannot deliver safe products to customers without ensuring the safety of our manufacturing facilities and providing necessary maintenance, service and safety functions.

Manufacturing safe products and ensuring the safety of products during use help our customers ensure the safety of their products and their end users, while ensuring the safety of our manufacturing facilities and providing even safer maintenance and service functions help protect the health and well-being of our employees and their families and reduce social losses. Based on this recognition, the Nabtesco Group is taking a three-pronged approach to safety, with first priority given to protecting people over cost reduction and profit-making.

Centrally Fostering Environmental, Safety and Health Management

The Nabtesco Group has been implementing multifaceted measures to increase the safety of its manufacturing facilities toward achieving the goal of zero work-related accidents in the Group-wide ESH activities.

ESH stands for "environment, safety and health". Our Group Environment, Safety & Health (ESH) Committee, which reports directly to the president, centrally fosters the management of ESH across the Group, including by promoting the reduction of environmental impacts as well as ensuring the safety and health of employees.

The Group ESH Committee centrally collects, analyzes and evaluates important ESH-related information to formulate necessary measures. In addition, the committee members annually visit each of the Group's sites to carry out ESH audits to check on-site activities and give instructions as necessary. For safety, the members examine whether the accident and disaster countermeasures implemented at the sites are appropriate or not and how these measures are implemented, as

well as investigating any remaining on-site safety risks. The members also summarize the audit results and the achievements made by the sites through the ESH activities for review by the Group's management team at the end of each fiscal year, and the review results are utilized to improve the activities for the next fiscal year. We have thus been executing the Plan, Do, Check and Act (PDCA) cycle to steadily increase the safety of our manufacturing facilities.

Conducting Multifaceted and Steady Activities

All incidents, including minor ones, are required to be reported across the Nabtesco Group for information-sharing purposes. In particular, for a serious incident, we conduct an on-site examination to analyze the cause, decide on the items to be focused on and implement measures based on the results. In addition, we enhance our safety patrols and risk detection training to increase employees' sensitivity to risks, as well as promoting "near miss"*1 incident reporting and safety awareness-raising activities.

As a result of these efforts, the lost time injury frequency rate*2 has been below the industry's average for the most recent five years. However, in order to achieve zero workplace accidents, which is the Group's overall target, we are implementing even more advanced measures.

*1 Near miss: An event that could have resulted in injury or other incidents
*2 lost time injury frequency rate: Please see Financial/Non-Financial Highlights on page 30.

Starting New Activities to Nurture a Safety Culture

In order to further improve workplace safety, we commenced new activities aimed at nurturing a safety culture and ensuring that the entire organization adopts a more safety-oriented attitude in 2017 in addition to implementing measures against individual risk factors. We will aim to achieve zero-workplace accidents by creating an organization that nurtures a safety culture through our four activities including the STOP3 activity, stratified safety education system, safety model workplaces and environmental safety forums.

Materiality

Develop Human Capital and Promote Workplace Diversity, Provide Safe and Comfortable Workplaces

The Nabtesco Group is implementing a wide range of initiatives on human capital management that makes use of the abilities of individual employees for the benefit of the entire company. We are also continuing to raise employees' awareness of The Nabtesco Way to enhance the unity of the entire Group. We will achieve Operational Excellence by increasing the Group's ability to attract job seekers and expanding the possibilities of our human capital as the driving force for the growth of the Group.

Work Style Reforms

Securing Talented Workers and Increasing Labor Productivity

The Japanese government has been fostering work style reforms nationwide to help companies secure workers by improving the work environment to enable a diverse range of individuals to demonstrate their abilities. As part of the reforms, the government plans to tighten labor-related laws and regulations, including introducing a ceiling on overtime hours. In response, companies urgently need to increase their labor productivity.

For Nabtesco Corporation, 40 or more hours of overtime work had been recorded monthly at around 25% of its departments prior to the implementation of the work style reforms. While overtime has been reduced to around 16% now as a result of rectification measures against long working hours, we believe it is necessary to continue our efforts to improve labor productivity.

Furthermore, as the Japanese population is declining, the shrinking workforce is becoming a medium- to long-term social issue. Accordingly more businesses are eagerly trying to secure talented human resources while more and more people are quitting their companies for personal reasons.

Amid the rise in fluidity of human resources anticipated in the future, we believe that it will significantly boost our competitiveness if we give consideration to the work styles of individual employees and increase our attractiveness to potential employees by helping employees work with vigor while also leading fulfilling personal lives.

Becoming an Attractive Company where Employees Can Work with More Satisfaction

The Nabtesco Group has been fostering work style reforms entitled "Stage-up 2.0." This is comprised of (1) personnel

system reform to improve work-life balance and the work environment; (2) operational reform to eliminate wasteful work by making better use of IT, automation and AI; (3) production reform to foster the development of production and automation technologies; and (4) cultural reform to provide the basis for other types of reform. By steadily securing talented employees and increasing labor productivity in terms of "personnel," "operational," "production" and "cultural" aspects, we aim to make Nabtesco an attractive employer offering workplaces where workers can work with satisfaction.

Methods for Implementing Work Style Reforms

For work style reforms, we will continuously make improvements by executing a PDCA cycle. First, we will conduct a survey on employees to understand their present situations. Then, under the leadership of the Business Transformation Division, we will plan and implement improvement initiatives, measure their effects, and conduct follow-up activities by monitoring KPIs, such as per-hour labor productivity. In particular, for operational improvement, we are making use of robotic process automation (RPA) for the automation of operations. We are also utilizing artificial intelligence (AI) to increase our operational efficiency.

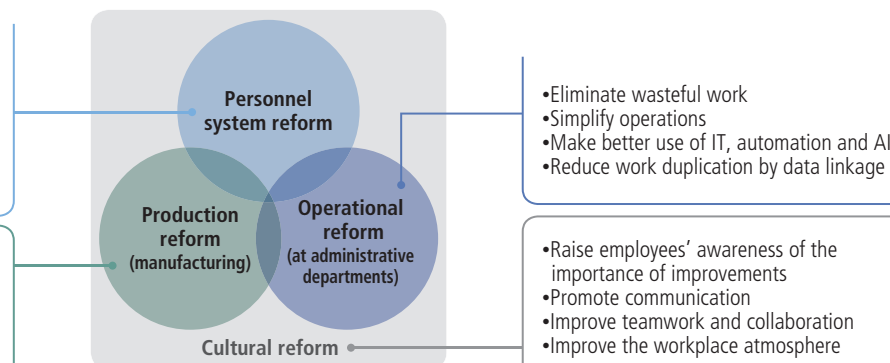
By continuing to execute a PDCA cycle, we will make each employee more aware of the importance of operational efficiency and provide an environment in which they can "Enjoy the Challenge," as stated in our long-term vision.

Through these work style reforms, the Nabtesco Group will achieve Operational Excellence, as upheld in its vision for 2020, and become an enterprise that gives great satisfaction to employees by providing them with workplaces where they can take on the challenge of pursuing creativity.

Four Types of Reform for Work Style Reforms

- Improve work-life balance
- Encourage employees to take holidays
- Reduce working hours to an appropriate level
- Promote telework
- Return the benefits of higher productivity to employees

- Develop unique production technology
- Develop technology for automated production
- Introduce AI to production management systems



Fostering Workplace Diversity

Active Employment of Non-Japanese Nationals Including Foreign Students Studying in Japan

Nabtesco proactively employs non-Japanese workers, believing that exchange between Japanese employees and those of other nationalities who may have different ideas will help reform the workplace mindsets of our Japanese workers. As of December 31, 2019, 67 foreign nationals from 10 countries are working for Nabtesco, and we are striving to provide all employees with workplaces where they can demonstrate their abilities regardless of their nationality.

Promoting Employment of Persons with Disabilities

The Nabtesco Group has endeavored to maintain the employment of persons with disabilities and has achieved the statutory employment rate every year since FY2017.

In addition, we established Nabtesco Link Corporation, a Group company intended to promote the employment of persons with disabilities in Gifu Prefecture where one of our production sites is located, in FY2015. In FY2016, the company was approved by the Ministry of Health, Labour and Welfare as a Specialized Subsidiary Company that meets the requirements under the Act on Promotion of the Employment of Persons with Disabilities. In FY2017, Gifu Prefecture selected Nabtesco Link as one of the model employers for the employment of persons with disabilities.

Proactive Employment of Women

Nabtesco conducts recruitment activities by upholding

the target of increasing to 20% the proportion of women among the total number of new graduates employed by the company as career-track employees. The actual rate for FY2019 was 16.1%, which was better than those recorded for FY2017 and FY2018, but still fell short of the goal due to the scarcity of female graduates who majored in mechanical engineering and electrical/electronic engineering, who are our primary recruitment targets. In response, we will participate in external recruitment events held targeting women and provide candidates with more opportunities to interact with our female employees with an eye to helping more students learn about Nabtesco.

Nabtesco's General Employers Action Plan made under the Act on Promotion of Women's Participation and Advancement in the Workplace

Target 1	Before the end of the period of the plan, double the percentage of women in the total number of managers relative to the April 2019 level (from 0.8% to 1.6%)
Measures:	Provide career planning training and give follow-up support to employees taking childcare leave
Target 2	Rate of annual paid days off taken by employees: Achieve and maintain "more than 80%"
Measures:	Build an environment that makes it easier for employees to take annual paid days off

Work-Life Balance

Efforts to Foster Teleworking

We have introduced systems for employees to work from home and work at satellite offices so that they can have flexibility in choosing where and when to work in accordance with their lifestyles. In FY2019 more than 150 employees spent some time working from home.

Work Styles for a Better Work-Life Balance

In response to the arrival of new work styles, which are making the management of working hours more difficult, we are developing a system and a tool to ensure the appropriate management of working hours and eliminate

excessive overtime work.

For annual paid leave, we are proactively encouraging employees to take paid days off and implement follow-up measures based on the results of the regular monitoring of the issue by the labor-management committee. For FY2019, we achieved a rate of 81.1% for annual paid days off taken by employees against the target of at least 80%. We also introduced paperless operation and communication tools to reform our office environment for higher operational efficiency.

Web [Work-Life Balance
https://nabtesco.disclosure.site/en/themes/122](https://nabtesco.disclosure.site/en/themes/122)

Human Rights Management

Human Rights Policy/Human Rights Due Diligence

The Nabtesco Group is committed to the upholding of

human rights and prevention of corruption as our material issues. In FY2016, we established the Nabtesco Group Code of Ethics. Further, Nabtesco has committed itself to the

Materiality

Develop Human Capital and Promote Workplace Diversity, Provide Safe and Comfortable Workplaces

Nabtesco Group Human Rights Policy to promote respect for human rights, based on the International Bill of Human Rights established by the United Nations (UN), the ILO Declaration on Fundamental Principles and Rights at Work established by the International Labour Organization (ILO), and the UN Guiding Principles on Business and Human

Rights.

Nabtesco identifies and assesses impacts on human rights and tries to mitigate human rights risks through a human rights due diligence process. We also continuously verify the methods and effects of human rights due diligence to effectively respond to human rights impacts and risks.

Human Capital Development

Development of Globally Competitive Human Capital

In order to share the company's ideal image of human capital in which it is the people who make the company, and to define the direction that all employees should follow, Nabtesco established the Basic Policy on Human Capital Development and has since been providing a range of educational opportunities in line with this policy.

As overseas business is expected to continue to expand, it is becoming increasingly important to develop globally competitive human capital. In addition to various training programs aimed at enhancing language capabilities, including the intensive study camp for English conversation, we introduced an overseas trainee program for middle-ranking employees, which included both study and work components, in FY2012. Furthermore, in 2017, we introduced short-term overseas job training for

young employees with the aim of helping them nurture an international business mindset at an early stage of their career.

Moreover, to proactively develop human resources at Group companies outside Japan, we proactively employ local workers and implement various educational programs aimed at improving the skills of locally hired personnel. In China, we provide business management training for executive candidates to promote the appointment of locally employed staff to managerial positions. At other overseas Group companies, we select presidents from among the local workforce. In addition, we offer an OJT-based training program designed for skill enhancement, in which employees of overseas Group companies are assigned, for a certain period of time, to factories in Japan belonging to various business segments.

Increasing Employees' Awareness of The Nabtesco Way

Activity to Increase Employees' Awareness of The Nabtesco Way

The Nabtesco Way provides the behavioral guidelines to be followed by all employees when fulfilling their duties and making decisions in their jobs.

In order to help employees understand and implement our values prescribed in The Nabtesco Way through their daily operations, each Group base and company as well as the Group secretariat have "facilitators for The Nabtesco Way" to raise employees' awareness of the values. We have also been holding the "Nabtesco Way Month" every in April since FY2013. These meetings are held at everyone's own workplaces, allowing participants to discuss and share about the Nabtesco Way as well as how they relate it with their own experiences and daily thoughts. In addition, the Group holds "Way briefings" to teach the values to employees who do not know about The Nabtesco Way, such as new employees; "Way meetings" to raise employees' awareness of the values and encourage them to share the values at workplaces; and "workshops," in which participants in level-specific training seminars and other employees selected based on certain themes deepen their understanding and implementation of The Nabtesco Way, and thus develop a greater affinity for the values.

These events are designed to make each employee a driving force for the promotion of The Nabtesco Way. The

number of participants has been increasing both within and outside Japan.

Satisfaction with communication within the organization (based on employee questionnaire)

(Unit: %)	2013	2015	2017	2017 (Target)
Ratio of satisfaction	67.1	68.6	69.3	78.6
(Male)	67.1	69.0	69.5	-
(Female)		68.1	69.2	-
Coverage of employee respondents	100	100	100	100

* The calculation scope covers only Nabtesco Corporation.

* Held twice a year in principle

* We evaluate above two indicators according to seven grades: 1: Completely disagree, 2: Disagree, 3: Somewhat disagree, 4: Neither agree nor disagree, 5: Somewhat agree, 6: Agree, 7: Completely agree, and rate the results (4 or more is defined as satisfied).

Contents The Nabtesco Way

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Local Community Development

The Nabtesco Group established the Nabtesco Group Community Investment Policy in FY2018 to show its approach to community investment activities. The Group will conduct the activities in a strategic manner across the board toward the development of local communities, which is one of the Group's material CSR issues. The Nabtesco Group proactively promotes contributions to local economic development through the establishment of a production system for "local production for local consumption," solutions for social challenges through the provision of its products and services and community investment activities.

Nabtesco Group's Community Investment

Resources Invested and Impact



Environment

Number of mangroves planted (FY2013 to FY2019)
FY2019: 2,300
Accumulated total: 5,870

Number of persons who planted mangroves (FY2013 to FY2019)
FY2019: 357
Accumulated total: 1,209

Education

Number of persons who joined various programs
FY2019: 262,042

Welfare

Number of welfare devices donated (FY2008 to FY2019)
FY2019: 25
Accumulated total: 348

Establishment of the Nabtesco Group Community Investment Policy

In the Nabtesco Group Community Investment Policy established in FY2018, it is clearly stated that through our community investment activities, we will proactively engage in exchanges and cooperate with local communities in fields closely related to our business in each region where the Group conducts business as good practice of The Nabtesco Way. The policy states the targets of the activities as value creation for stakeholders to contribute to solving global social challenges and social challenges faced by local communities in each region where the Group conducts business. As the Group values, it also states that we encourage employees' challenging spirit and innovative ways of thinking by contributing to solving social issues in fields related to the Group's business and that we strive to further increase the Group's brand value. Moreover, we

aim to foster the growth of both the Nabtesco Group and local communities and to build long-term relationships of mutual trust.

We have set the environment, education, and welfare as priority areas. Those three areas are highly related to the sustainable business activities of the Group and correspond to the SDGs discussed in the section on materiality. Through the proactive promotion of community investment activities, we will work to establish relationships of trust with local communities while contributing to their development.



Web

Consideration of Community and Society
<https://nabtesco.disclosure.site/en/themes/140>

Materiality Environment

The Nabtesco Group is implementing a range of environmental initiatives. In line with the enforcement of the Paris Agreement in 2016, the Nabtesco Group has set our long-term CO₂ emission reduction targets to be attained by FY2050 and is speeding up anti-climate change measures. We are also fostering multifaceted measures for zero emissions and the protection of water resources as part of our efforts to fulfill our social responsibility through our manufacturing activities.

Environmental Management

Environmental Management System Implemented by the Group ESH Committee

Since its establishment in 2003, the Nabtesco Group has positioned environmental measures as one of its business strategic priorities and promoted environmental management.

The Nabtesco Group has set up the Group ESH Committee as the promotional organization related to the environment, safety and health. A series of discussions has been held at meetings of the committee, in which the heads of the in-house companies and Group companies have participated. Our environmental strategies, including medium- to long-term targets, have thus been decided and implemented in a top-down manner.

By formulating our Environmental Philosophy and Environmental Action Plan in 2005, we have been working to raise awareness of these principles across Group

companies while making use of the ISO 14001 international standard as an effective tool for environmental management, leveraging it in the building and operation of our environmental management system. All Nabtesco Corporation plants and seven major Group companies (that account for over 70% of consolidated sales) are already certified under ISO 14001, and we are fostering environmental measures across the Group.

In addition, in 2017, we expressed our support for the recommendations that had been made and reported to the Financial Stability Board (FSB) by the Task Force on Climate-related Financial Disclosures (TCFD). Accordingly, we are implementing climate change-related measures and will disclose the related information in line with the TCFD's recommendations.

Web Nabtesco's environmental management <https://nabtesco.disclosure.site/en/themes/125>

Disclosure in line with the TCFD's recommendations (Outline)

Governance
<ul style="list-style-type: none"> Reporting at Board of Directors meetings about progress with measures to attain CO₂ emission reduction targets and about major investments made in environmental equipment Inclusion of anti-climate change measures in the business strategy by the CEO under the control and supervision of the Board Establishment of the Group ESH Committee, which reports directly to the CEO, and appointment of committee members by the CEO from among executives including directors
Strategy
We assume the following as serious impacts that climate change could have on our business operations.
<ul style="list-style-type: none"> Risks <ul style="list-style-type: none"> Increase of operational cost due to a surge in carbon prices and to the purchase of renewable energy-derived electricity Capital expenditure for purposes such as power generation using renewable resources Increase of R&D cost for the development of energy-efficient products Suspension of business due to damage caused to infrastructure by storms and floods and resulting instability of power supply Opportunities <ul style="list-style-type: none"> New business opportunities provided by regulations, such as the mandatory labeling of products with energy efficiency information Expansion of <u>maintenance, repair and overhaul (MRO)</u> business opportunities as consumers become more concerned about climate change and show a preference for products with long life-cycle for the reduction of CO₂ emissions
Risk management
<ul style="list-style-type: none"> Collection of important information about climate change, evaluation of the impacts of climate change on business activities and deliberation of countermeasures by the Group ESH Committee Prioritization of measures to deal with risks with high possibility of materialization regardless of the level of their impacts (in monetary value) Evaluation of risks including those identified by other committees (on CSR, quality & PL, and risk management) for prioritization of the risks by the CEO
Indicators and targets
<ul style="list-style-type: none"> Scope 1 + 2: Set long-term greenhouse gas emission targets toward FY2050. Reduce total CO₂ emissions in Japan and emissions per unit of global net sales by 30% in FY2030 and by 80% in FY2050, respectively, relative to the FY2015 level Scope 3: Provision of support for all major suppliers to set their own voluntary emission reduction targets by 2025

Measures Addressing Climate Change Issues

Category	-2010	2011	2012	2013	2014	2015	2016-
Activity to increase employees' awareness of environmental philosophy	2005: Formulated the Environmental Philosophy and Environmental Action Plan		Setting of environment-related incentive system			Achievement of positive environmental contribution	Introduced in-house company evaluation index Achievement of positive environmental contribution
Environmental Management	2003: Six plants operated NEMS by major Group companies, have become ISO 14001 certified			Tools for managing environmental information		NEMS (Nabtesco Energy Management)	Energy conservation guidelines Energy monitoring system
Expansion of target scope	2004: Started calculation of Scope 1 and 2	Third-party verification of Scope 1 and 2 emissions		Calculation of Scope 3 emissions		Third-party verification of calculation of Scope 3 emissions	
Cooperation with suppliers and customers							Improving logistics efficiency using Scope 3 data Started Environmental Self Assessment Questionnaire (SAQ)

Speeding Up the Execution of the PDCA Cycle for Saving Energy through the Nabtesco Energy Management System (NEMS)

For energy conservation, we established the Nabtesco Energy Management System (NEMS) for the continuous execution of the PDCA cycle under the control of the Group ESH Committee and have been fully operating the system since 2015.

Specifically, we have introduced environmental information management tools and an energy monitoring system to collect environmental information from our sites, analyze the collected information and estimate the amount of energy used by each device in real time. By disseminating and sharing the obtained data at the monthly meetings of our sites, we extract energy conservation ideas and promote activities for saving energy by all employees. Also, by sharing information on such activities at the Board of Directors meeting each month, we will respond quickly when improvement is deemed necessary.

Reducing CO₂ Emissions Based on a Long-Term Target

As the medium-term targets for FY2020, we are upholding a reduction in our greenhouse gas emissions in Japan relative to FY2015 levels, as well as a 9% or more reduction in our CO₂ emissions per unit of sales (global) including our sites outside Japan (relative to FY2015 levels). We achieved both of these medium-term targets in FY2019, one year earlier than planned. Furthermore, we have set reduction targets for CO₂ emissions per unit of sales (global) of 30% for FY2030 and 80% for FY2050.

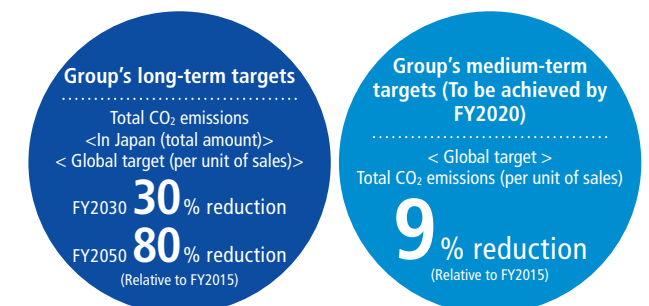
These targets are in line with the 2 degrees Celsius target¹ set as an international benchmark for climate change countermeasures to be implemented in and after 2020 under the Paris Agreement², which came into effect in 2016. Our long-term target for only Nabtesco Corporation CO₂ emissions also qualifies as a Science Based Target (SBT)³. Nabtesco is the eighth Japanese company to get the SBT qualification.

In order to achieve the long-term target, we are promoting environmental conservation through the

provision of our products based on the energy-saving product certification system introduced in FY2012. In the same fiscal year, we introduced an energy conservation activity commendation system to make more effective use of energy resources across the Group. Moreover, we incorporated "achievement of positive environmental contribution" in the performance indicators for each division in FY2017, with a view to improving environmental governance and making continuous improvements to our environmental management.

Going forward, we will further foster energy conservation by updating our equipment and rebuilding our plants while promoting the use of renewable energy and introducing private hybrid power generation equipment using hydrogen. We will thus gain speed in the implementation of measures with an eye to promoting energy creation and to attaining our long-term target.

In addition to reducing our own emissions, we have begun to expand activities to our suppliers. We purchase products and services at a high rate, which makes it essential for us to work closely with our suppliers to take initiatives to reduce greenhouse gas emissions across the supply chain. In response, as of 2017 we began a survey of our main suppliers (top suppliers that constitute 70% of the annual amount of purchases) to see whether they have set voluntary targets to reduce their greenhouse gas emissions. According to the results of the FY2019 survey,



* Achieved in FY2019

Materiality Environment

69.9% of our main suppliers have set voluntary targets to reduce their greenhouse gas emissions and begun to take initiatives to achieve the targets. We will provide support so that all of our main suppliers will set voluntary reduction targets by 2025.

*1 The 2 degrees Celsius target is an international target set in the Paris Agreement to keep the average rise in global temperature to below 2 degrees Celsius above pre-industrial levels
 *2 The Paris Agreement is a multilateral international agreement to curb climate change in and after 2020 and was adopted on December 12, 2015 at the 21st Conference of the Parties to the UN Framework Convention on Climate Change (COP21).
 *3 The SBTs are intended to urge companies to set their medium- to long-term targets (for the period from five to 15 years from now) in a manner that allows the international community to achieve the 2°C target. Companies are certified if they pass the SBT Initiative's examination.

Greenhouse Gas Emissions from the Entire Supply Chain

(Unit: t-CO₂)

Classification	FY2015	FY2016	FY2017	FY2018	FY2019
Direct emissions (Scope 1) ^{*1, *2}	7,074	7,259	8,686	8,781	6,599
Indirect emissions through the use of electricity and others (Scope 2) ^{*1, *2}	47,729	50,865	61,538	61,395	53,874
Scopes 1 and 2	54,803	58,124	70,224	70,175	60,473
(In Japan)	46,100	45,049	50,464	50,184	41,947 (Achieved the medium-term target)
Per unit of sales	0.239	0.238	0.249	0.238	0.209 (Achieved the medium-term target)
Emissions from the supply chain (Scope 3) ^{*3}	826,842	885,494	871,463	979,097	940,976

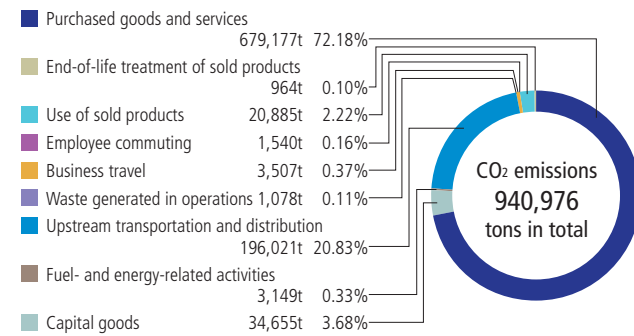
[Note] The figure for the Nabtesco Group in FY2015 was calculated with the scope of the survey being the 12 months from January to December 2015.

*1 The calculation scope includes Nabtesco Corporation and Group companies both in and outside Japan (27 companies and 43 sites).

*2 The calculation policy and standards comply with the Act on the Regional Use of Energy and the Act on the Promotion of Global Warming Countermeasures, and are aligned with the internal Guidelines on the Management of Environmental Information.

*3 The calculation scope includes Nabtesco Corporation only.

Scope 3 Emissions



The Scope 3 calculations for FY2019 were made by the following method and for the following period and scope.

● Calculation method: As shown in the basic guidelines on the calculation of greenhouse gas emissions from supply chains set by the Ministry of the Environment and the Ministry of Economy, Trade and Industry

Gaining Higher External Evaluation

Being internationally recognized for its environmental measures and information disclosure, Nabtesco has been included in CDP's Climate Change A List for four straight years from 2016. The CDP, through cooperation among institutional investors, urges the world's leading companies in terms of market capitalization to disclose information about their strategies to combat climate change and CO₂ emissions. The CDP annually discloses evaluation scores to the public and selects companies that demonstrate excellence in the relevant measures as the A List companies.



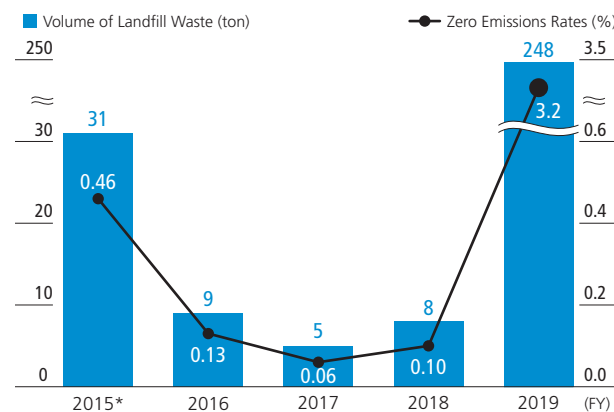
Waste Reduction

The Nabtesco Group sends waste metals, plastics and glass that do not contain hazardous substances to landfill sites at present, but is fostering activities to reduce all types of emissions generated in the course of its business to zero through the 3Rs (reduce, reuse, recycle)—the basic practice for establishing a resource-circulating society.

In FY2019, due to the addition of a new consolidated subsidiary to the calculation target, the amount of waste temporarily increased. As a result, the zero emissions rate came to 3.2% and we were again unable to achieve the targeted rate in FY2019. This year we will continue to promote the 3Rs across the Group to achieve the zero emissions goal of 0%*, which we set for FY2020.

*0.05% or below is set as 0

Volume of Landfill Waste and Zero Emissions Rates



* The figure for the Nabtesco Group in FY2015 was calculated with the scope of the survey being the 12 months from January to December 2015.

Measures to Reduce Hazardous Waste

The Nabtesco Group was landfilling 0.1 ton per year of waste alkalis, which are hazardous, until FY2014. In FY2015, however, we began to detoxify alkalis, water-soluble waste oil and other hazardous waste prior to their disposal. Accordingly, we have not released any waste containing hazardous substances.

Measures to Reduce Use of Raw Materials

By reusing components and reducing the production of new ones, the Nabtesco Group is working to minimize the use of resources. In addition, we have been fostering the MRO business to optimize the use of resources and expand sales in the service field.

Conservation of Water Resources

The Nabtesco Group does not require a large amount of water nor water of a certain quality for its business operations. However, we deem it important to manage water resources for environmental conservation, and accordingly, conduct water-related risk analyses, measure the amount of water used and discharged, monitor water quality and implement measures to prevent the leakage of hazardous substances into water.

The amounts of water used and discharged at each base are measured every month, and the Group data are accumulated through the environmental information management tool. As for bases where the amount of water per month fluctuates greatly, we conduct surveys to identify contributing factors for the increased water usage, and implement measures to reduce the water use as necessary.

In FY2019 we began to conduct investigations and examinations about the influence exerted over local water resources by the use of groundwater, as the Nabtesco Group draws groundwater up through wells installed at some of its plants. We will evaluate the results to make use of them for our future activities.

As for water quality control, we continuously monitor through monthly voluntary tests and regular inspections by external experts.

Water Use and Water Discharge Management

The Nabtesco Group uses groundwater mainly to cool test stands and melt snow in snowy regions (Yamagata and Gifu). We discharge the used groundwater to rivers under the strict water quality control criteria set by the Group. In FY2019, there were no cases wherein used groundwater did not meet the water quality control criteria.

The total volume of water used by the Nabtesco Group in FY2019 amounted to 700,000m³, which was almost the same level as in the previous fiscal year. Due to heavy rain falls caused by recent climate change, the risk of rainwater flooding our plants is increasing. The Nabtesco Group uses oil-based type and water-soluble type cutting fluids in our business operations and recognizes the risk that hazardous substances contained in these cutting might be discharged to rivers if rainwater floods the manufacturing facilities. To prevent this, we have been making capital expenditure to install oil-water separation tanks and oil recovery equipment.

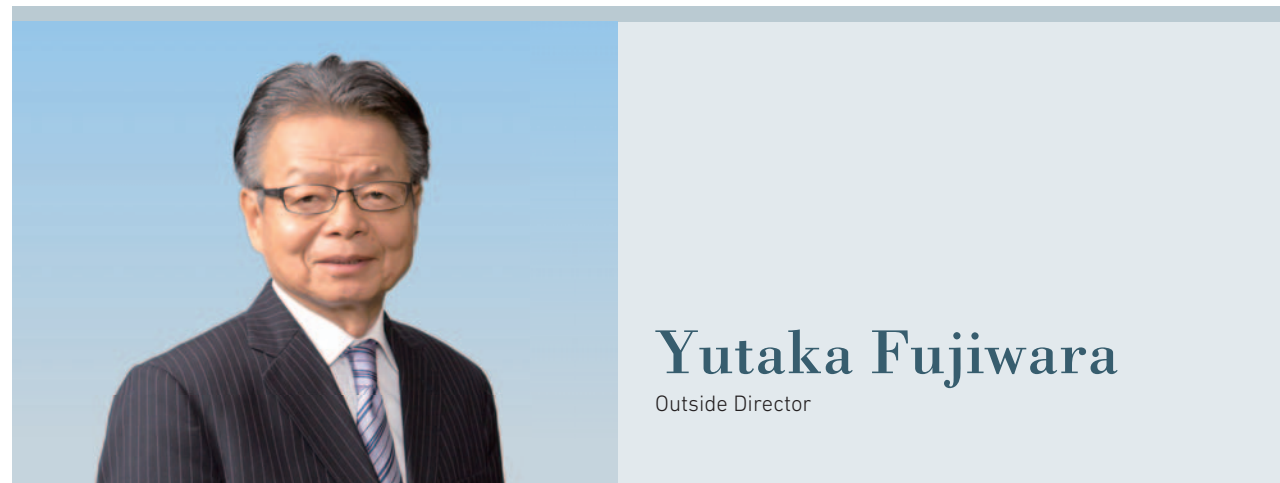
In FY2019, we spent ¥3.19 million to enhance the rainwater discharging function, and make our facilities more water-resistant.

Target of Water Use Activities and FY2019 Results

Item	Targets	FY2019 results	Status
Global water use	Year-on-year change rate at 10%: 0.831Mm ³ or less	0.730Mm ³	Achieved
Global water quality control	In-house management criteria* Excessive number: zero	0	Achieved

* Set criteria that are stricter than local standards, and monitor and manage the discharge of water.

Messages from Outside Directors



For the separation of management oversight from business execution

Nabtesco has been appointing outside directors since its foundation, and the proportion of outside directors on the Board of Directors reached 40% as of FY2020. I think the company thus has an appropriate governance system as measured against other listed companies in Japan. Moreover, at Board of Directors meetings, participants discuss issues with each other proactively and in an open manner, thereby ensuring highly transparent management.

There is, however, still room for improvement. I expect that the proportion of outside directors will be further raised to reach at least 50% as soon as possible for the true separation of management oversight functions from business execution functions so that the Board of Directors will be able to supervise the execution of business by the company in a fully independent manner.

Realize “all stakeholders’ dreams” by improving capital efficiency

As a result of working in corporate planning, financial and IR departments in the banking and manufacturing industries and providing IR consulting services to U.S. institutional investors, I am keenly aware of the fact that Japanese companies have low capital efficiency. I think this low capital efficiency is the highest hurdle that Japanese companies have to overcome to survive the global competition.

Shareholders and investors expect me to increase our capital efficiency. To meet this expectation, Nabtesco needs to further advance return on invested capital (ROIC) oriented management, which it is now fostering, for higher capital efficiency. Also, it is not only the management

team but also all employees who are required to use the company’s capital in an efficient manner to contribute to the improvement of both ROIC and return on investment (ROE) for the entire company. I expect that by meeting these requirements the company will build a system that eventually contributes to the happiness of not only shareholders but also employees and all other stakeholders of the company.

Diversity and uniqueness are indispensable for sustainable growth

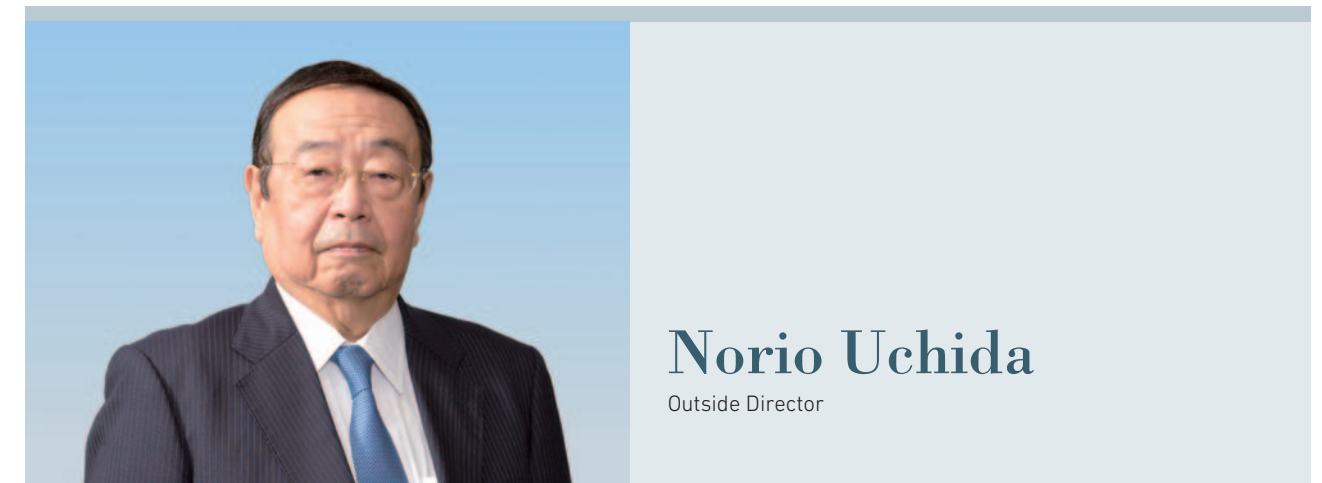
Nabtesco produces and sells a range of products also outside Japan, and for sustainable corporate growth it is essential for the company to value diversity, which means that people respect each other both at their workplaces and in their private lives, looking beyond differences in race, gender, values and ways of thinking.

For sustainable corporate growth, I also think it is critical for the company to promptly develop unique products that competitors cannot easily imitate.

For the maximization of corporate value

I will continue to make efforts to contribute to the maximization of the company’s corporate value, with a focus on the following two aspects: improvement of capital efficiency and separation of management oversight from business execution.

The maximization of corporate value cannot be achieved without the help of employees, who are growth drivers for the company. I expect that all employees will hone their abilities with a sense of competition to become people who can express their opinions in the workplace with confidence and courage.



Maintaining a sense of crisis and enhancing the ability to draw up scenarios

The growth of Nabtesco is supported by its technologies, manufacturing capability, business portfolio and close relationships with customers. For the company to achieve further growth, however, it needs to foster measures to develop global human resources, promote global development activities and enhance its ability to collect and deal with information.

Nabtesco’s Board of Directors provides a high level of transparency and I also rate it highly in terms of its information quality, risk verification and the effectiveness of the decision-making process. For discussions on management/business scenarios, however, I think the Board needs to have more opportunities to discuss the scenarios.

Nabtesco has a corporate culture that respects people and an excellent foundation to develop technologies. I am confident that the company will be able to further solidify its corporate foundation by maintaining a sense of crisis and enhancing its ability to draw up scenarios.

Capitalizing on the experience of managing business

For capital gain, we need to increase corporate value, and for the payment of large dividends, we need to make a profit on a continual basis. To meet these requirements, we have to implement our business and profit-making plans successfully, keep our technological advantages, draw up growth scenarios and implement environment, social and governance (ESG) measures. It is also important to foster communication with players in the global capital market through investor relation (IR) activities.

Since becoming an outside director of Nabtesco in 2015, I have been working to support the company by playing supervisory and guidance roles for the above issues, capitalizing on my long years of business management experience.

Promoting the diversity of the Board of Directors

As a result of the number of female outside directors having been increased, we can now evaluate the business results and verify risks from new viewpoints at Board meetings. In the future, I expect that non-Japanese people and IT specialists will also join the Board to turn it into an organization that can discuss business scenarios from the aspects of management, future potentials and risks.

To achieve further growth globally

As mentioned above, I expect the company to develop global human resources, promote global development activities and enhance its ability to collect and deal with information. In particular, to compete in global markets, the company needs to build its bases in the countries and regions where businesses are operated in the most advanced manner and cooperate with local companies and communities for the development of new products.

I would like to support the company in deciding on its policies and judging risks by making use of my 14 years of experience in managing business in Western countries and Asia and of implementing M&A projects. The basic strategy for further global growth is to gain speed, share information and ensure compliance. I will collaborate with all stakeholders across the globe to help Nabtesco become a global leader in a range of business fields.

Messages from Outside Directors



Leading Nabtesco from the viewpoint of ESG/SDGs

Nabtesco is guided by a high standard of corporate ethics as a member of the Japanese manufacturing industry, which is known for its sincerity, warm-heartedness, fairness and robustness. I also appreciate Nabtesco's commitment to tackling ESG issues as a perpetual "challenger."

I have been engaged in the promotion of the United Nations' Sustainable Development Goals (SDGs), and based on that experience I think the spread of the novel coronavirus (COVID-19) will trigger the acceleration of ESG investment. In response, companies need to consider how to make a profit while also tackling social challenges and fulfilling their social responsibility. Based on this recognition, I will lead Nabtesco from an ESG/SDGs viewpoint.

You will know whether a person has true strength when they face a difficulty

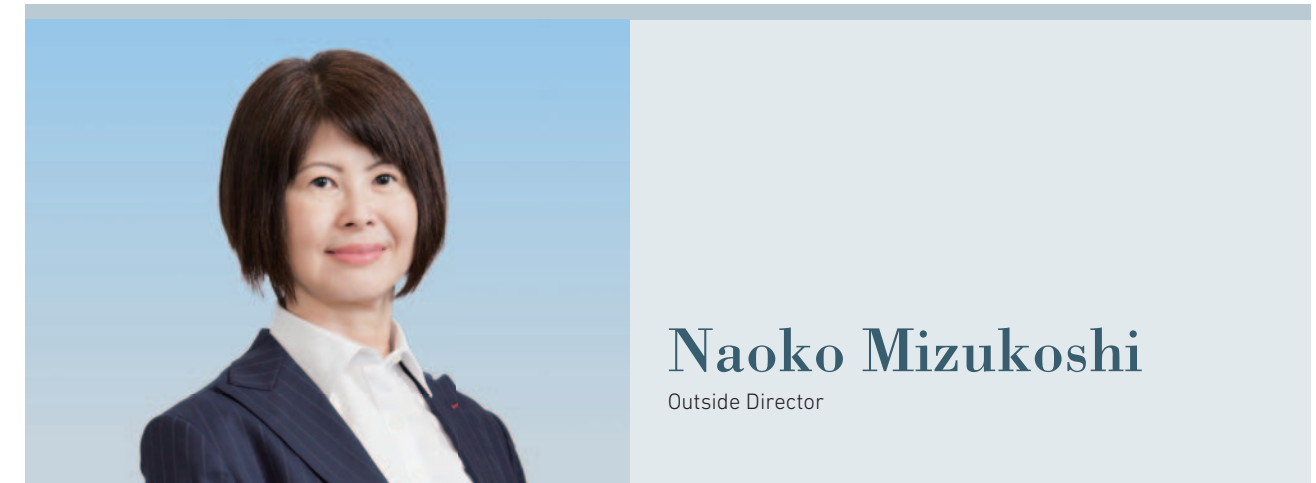
I have been an outside director of the company since March 2020, when the COVID-19 crisis began to expand at a rapid rate, and the crisis has proven that Nabtesco has true strength. The company started to implement a range of measures to deal with the crisis, and I felt relieved to know that it had the agility and ability to address the hardships based on The Nabtesco Way. I now expect that the company will press forward with reforms with an eye to the future.

Innovation is a key to acquiring the ability to deal with a crisis. When you make a concerted effort with others to overcome a crisis, heterogeneous ideas will help you attain the goal. As a matter of fact, countries and regions led by women, such as Germany and Taiwan, were successful in

their handling of COVID-19 according to some analyses. I think the crisis provides an opportunity to prove the true value of diversity.

Aiming for a better post-corona society and corporate management

I am engaged in the operation of the Well-being Research Center at the university. Well-being refers to the health, happiness and peacefulness of individuals, organizations and society and has been said to be the next core concept of the SDGs. Due to the hardships caused by COVID-19, I think all people are sincerely hoping for well-being across the world. From now on, I would like to pursue well-being for a better post-corona society and corporate management hand in hand with all members of Nabtesco.



Contributing to increasing corporate value by "offensive" and "defensive" governance

I newly joined Nabtesco as an outside director in FY2020, appreciating its management approach that values innovation, intellectual property and globalization and also its commitment to increasing the proportion of outside directors and female directors for corporate governance.

I have been serving as an advisor on corporate legal issues and overseas trading, as well as agreements, negotiations and policies regarding intellectual property and technology within companies and at law firms. I think I am expected to contribute to increasing Nabtesco's corporate value by utilizing my experience to foster both "offensive" and "defensive" governance for the company.

Expectations for the ability to deal with a crisis and for diversity

Nabtesco conducts business globally, and foreign investors account for a large proportion of its shareholders. Accordingly, I have the impression that the company is doing business based on international standards. For dealing with COVID-19, it is implementing careful measures to prevent the spread of infection and making flexible responses to a range of situations. I think the company's ability to deal with a crisis will help it win even more trust from the stakeholders.

I also expect that the company will push ahead with diversity measures. Because two women, including myself, were appointed as outside directors, the proportion of female directors on the Board of Directors has increased, and I hope that more women and people with various backgrounds will be promoted to important business execution positions at the company.

To remain an organization that continues to offer value to society

As CEO Katsuhiko Teramoto pointed out in the previous year's integrated report, we are facing changes, such as the arrival of the IoT society and the progress of AI, and the importance of services and corporate management that utilize data and advanced technologies is increasing for all organizations. Also, stakeholders are highly interested in how the company is promoting ESG measures in its business management. Based on this recognition, I would like to contribute to increasing the corporate value of the company through proactive discussions at Board meetings. At such meetings I will express my opinions based on my experience working at IT companies and in my capacity as a lawyer as well as on my experience as a woman in the corporate world and also from the viewpoint of stakeholders.

Finally, let me commit myself to fulfilling my duty as an outsider director to help the company provide employees with workplaces where they can feel job satisfaction and offer value to society on a continual basis.

Management Team

Board of Directors (as of March 24, 2020)



Katsuhiro Teramoto

Representative Director, President & CEO
(Dec. 13, 1955)

- Jun. 2007 General Manager, Sales Department No. 1, Precision Equipment Company of Nabtesco Corporation
- Jul. 2008 General Manager, Overseas Sales Department, Precision Equipment Company of Nabtesco Corporation
- Jun. 2009 General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation
- Jun. 2011 Executive Officer of Nabtesco Corporation
- Oct. 2011 Vice President and General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation
- Feb. 2013 Deputy Senior General Manager, Corporate Planning Division, and General Manager, Corporate Planning Department of Nabtesco Corporation
- Jun. 2015 Representative Director (to present), Managing Executive Officer and Senior General Manager of Corporate Planning Division of Nabtesco Corporation
- Mar. 2017 President and Chief Executive Officer (CEO) of Nabtesco Corporation (to present)
- Mar. 2018 President of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Katsuhiro Teramoto has served as Representative Director since June 2015, and has appropriately led and supervised management. In addition, after serving as Vice President of Accessibility Innovations Company and Senior General Manager of Corporate Planning Division, he currently serves as the President, a position bearing the highest responsibilities for business execution, and has broad experience at the Company and extensive insight concerning global business. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 11,400 shares



Daisuke Hakoda

Representative Director
Senior Managing Executive Officer
President, Accessibility Innovations Company
(Oct. 25, 1957)

- Jun. 2007 President of Nabtesco Aerospace, Inc.
- Jun. 2009 General Manager, Accounting & Finance Department of Nabtesco Corporation
- Jun. 2010 General Manager, Corporate Planning Department of Nabtesco Corporation
- May 2013 General Manager, Shanghai Nabtesco Hydraulic Co., Ltd.
- Jun. 2013 Executive Officer of Nabtesco Corporation
- Jun. 2015 Director and Senior General Manager, General Administration & Human Resources Division of Nabtesco Corporation
- Mar. 2017 Managing Executive Officer, Senior General Manager, Corporate Planning Division and Senior General Manager, General Administration & Human Resources Division of Nabtesco Corporation
- Jan. 2018 Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Corporate Communication and Human Resources of Nabtesco Corporation
- Mar. 2018 Representative Director of Nabtesco Corporation (to present)
- Jan. 2019 President, Accessibility Innovations Company of Nabtesco Corporation (to present)
- Jan. 2020 Senior Managing Executive Officer of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Daisuke Hakoda has engaged in management of the Company as Director since June 2015, and has effectively fulfilled his roles and duties. After being engaged mainly in the areas of corporate planning as well as accounting and finance for many years, he currently serves as President of Accessibility Innovations Company, and has broad experience and extensive insight as a corporate manager. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 18,021 shares



Shigeru Naoki

Director
President, Railroad Products Company
(Oct. 21, 1958)

- Jul. 2013 Plant Manager, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Jun. 2014 Executive Officer of Nabtesco Corporation
- Mar. 2017 Vice President, Railroad Products Company of Nabtesco Corporation
- Aug. 2017 President, Railroad Products Company of Nabtesco Corporation (to present)
- Mar. 2018 Managing Executive Officer of Nabtesco Corporation (to present)
- Mar. 2019 Director of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Shigeru Naoki has engaged in management of the Company as Director since March 2019, and has effectively fulfilled its roles and duties. After serving as Plant Manager of Tsu Plant of Precision Equipment Company, he currently serves as President of Railroad Products Company, and has experience and extensive insight as the manager of a broad range of business areas at the Company. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 4,200 shares



Shinji Juman

Representative Director,
Senior Managing Executive Officer, Component Solutions Segment
President, Power Control Company, and in charge of Production Innovation
(Aug. 28, 1957)

- Jan. 2006 General Manager, Cost Control Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Jun. 2006 General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Jun. 2009 Plant Manager, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Jun. 2011 Executive Officer of Nabtesco Corporation and President, Nabtesco Automotive Corporation
- Jun. 2014 President, Precision Equipment Company of Nabtesco Corporation
- Jun. 2015 Managing Executive Officer of Nabtesco Corporation
- Mar. 2017 Director of Nabtesco Corporation
- Jan. 2018 In charge of Production Innovation of Nabtesco Corporation (to present)
- Mar. 2018 Representative Director of Nabtesco Corporation (to present)
- Jan. 2019 Managing Executive Officer, Component Solutions Segment of Nabtesco Corporation (to present)
- Jan. 2020 President, Power Control Company of Nabtesco Corporation (to present)
- Jan. 2020 Senior Managing Executive Officer of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Shinji Juman has engaged in management of the Company as Director from March 2017, and has effectively fulfilled his roles and duties. After serving as President of Nabtesco Automotive Corporation and President of Precision Equipment Company, he currently serves as Managing Executive Officer, Component Solutions Segment, and President of Power Control Company and is in charge of Production Innovation, and has broad experience and extensive insight as a corporate manager. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 8,700 shares



Toshiaki Akita

Director
Senior General Manager, Technology and R&D Division
(Jun. 6, 1957)

- Jul. 2008 General Manager, Engineering Management Department, Railroad Products Company of Nabtesco Corporation
- Oct. 2010 General Manager, Engineering Promotion Department, Railroad Products Company of Nabtesco Corporation
- Jul. 2012 General Manager, Planning Department, and General Manager, Engineering Promotion Department, Railroad Products Company of Nabtesco Corporation
- Jun. 2014 Deputy Senior General Manager (Engineering), Technology and R&D Division of Nabtesco Corporation
- Jun. 2015 Executive Officer of Nabtesco Corporation
- Mar. 2016 President, NABTEC Co., Ltd.
- Jan. 2018 Senior General Manager, Technology and R&D Division of Nabtesco Corporation (to present)
- Mar. 2018 Director of Nabtesco Corporation (to present)
- Jan. 2019 Managing Executive Officer of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Toshiaki Akita has engaged in management of the Company as Director since March 2018, and has effectively fulfilled his roles and duties. After serving as General Manager of Engineering Promotion Department, Railroad Products Company and Deputy Senior General Manager of Technology and R&D Division, etc., he currently serves as Senior General Manager of Technology and R&D Division, and has broad experience and extensive insight concerning technology overall. Additionally, he has experience as a corporate manager, including his role as President of NABTEC Co., Ltd. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 2,993 shares



Kazumasa Kimura

Director
Executive Officer, Corporate Planning, Accounting & Finance,
Information Systems and Corporate Communication
(Aug. 17, 1961)

- Jun. 2011 General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Jun. 2012 General Manager, Manufacturing Department, Tarui Plant, Power Control Company of Nabtesco Corporation
- Apr. 2015 Representative Director and Vice President of Hyst Corporation (merged into Nabtesco Corporation in Apr. 2016)
- Mar. 2016 General Manager, Production Management Department, Power Control Company of Nabtesco Corporation
- Mar. 2017 Executive Officer (to present) and President, Power Control Company of Nabtesco Corporation
- Jan. 2019 Executive Officer, Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication of Nabtesco Corporation (to present)
- Mar. 2019 Director of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Kazumasa Kimura has engaged in management of the Company as Director since March 2019, and has effectively fulfilled its roles and duties. After serving as General Manager of Manufacturing Department, Precision Equipment Company, General Manager of Production Management Department, Power Control Company and President of Power Control Company, he is currently in charge of Corporate Planning, Accounting & Finance, Information Systems as well as Corporate Communication, and has broad experience at the Company and extensive insight concerning production. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 1,679 shares



Yutaka Fujiwara

Outside Director
(Apr. 20, 1951)

- Apr. 1974 Joined MODEC, Inc.
- Nov. 1987 Joined The Yasuda Trust & Banking Co., Ltd. (current Mizuho Trust & Banking Co., Ltd.)
- Aug. 1994 Deputy General Manager, New York Branch of Yasuda Trust & Banking Co., Ltd.
- Jun. 1996 General Manager, Chicago Branch of Yasuda Trust & Banking Co., Ltd. (retired in Jul. 1998)
- Aug. 1998 Joined OMRON Corporation
- Jul. 2001 General Manager, Corporate Planning Department, Corporate Strategic Planning Group, Kyoto Head Office of OMRON Corporation
- Oct. 2002 General Manager, Corporate IR Department, Corporate Planning Division of OMRON Corporation
- Jun. 2005 Executive Officer and General Manager, Financial IR Department of OMRON Corporation
- Mar. 2007 Executive Officer and General Manager, Group Strategy Department of OMRON Corporation
- Jun. 2008 Managing Officer and General Manager, Group Strategy Department of OMRON Corporation
- Dec. 2008 Managing Officer and General Manager, IR & Corporate Information Department of OMRON Corporation (retired in Jun. 2011)
- Aug. 2011 President & CEO of Cross-Border Bridge Corporation
- Jun. 2013 Outside Director of Nabtesco Corporation (to present)
- Jun. 2017 Outside Director of KITZ Corporation (to present)
- Apr. 2018 Representative of Cross-Border Bridge Corporation (to present)

Reasons for appointment

Mr. Yutaka Fujiwara has worked overseas for a number of years and has broad experience and extensive knowledge and insight on global business. He has expertise in advanced corporate strategies and financial affairs, having been in charge of the financial affairs and investor relations sectors of a listed company, and as an Outside Director of the Company from June 2013, he has appropriately supervised management. The Company, having high regard for his experience and insight, has appointed Mr. Yutaka Fujiwara as Outside Director, so that he provides supervision and advice utilizing his knowledge.

Number of shares of the Company held: 500 shares



Mari Iizuka

Outside Director
(Mar. 29, 1959)

- Apr. 1982 Joined Henkel Hakusui Corporation (current Henkel Japan Ltd.)
- Aug. 1987 Joined The World Bank
- Jul. 1992 Assistant Professor of Asian Institute of Management Graduate School of Business
- Apr. 2005 Assistant Professor of Ritsumeikan Asia Pacific University Graduate School of Management
- Apr. 2007 Associate Professor of Ritsumeikan Asia Pacific University Graduate School of Management
- Apr. 2008 Professor of Ritsumeikan Asia Pacific University Graduate School of Management
- Apr. 2010 Professor of Doshisha Business School (to present)
- Mar. 2020 Outside Director of Nabtesco Corporation (to present)

Reasons for appointment

Although Ms. Mari Iizuka has not been directly involved in corporate management, she has a high level of expertise in the fields of global management human resources and international management strategies as a Professor of Doshisha Business School. She also held various posts including Chair of Japan Global Compact Academic Network, which was established for collaboration between business and academia for achievement of Sustainable Development Goals (SDGs). The Company, having high regard for her experience and insight, has appointed Ms. Mari Iizuka as Outside Director, so that we may seek her supervision and advice utilizing her expertise and insight based on the above.

Number of shares of the Company held: 0 shares



Norio Uchida

Outside Director
(Oct. 22, 1950)

- Apr. 1973 Joined Tokyo Optical Co., Ltd. (current TOPCON CORPORATION)
- Jun. 1980 General Manager of Topcon Singapore Pte. Ltd.
- Feb. 1989 President of Topcon Australia Pty Ltd.
- Oct. 1994 Senior Vice President of Topcon Laser Systems, Inc. (current Topcon Positioning Systems, Inc.)
- Jun. 2003 Executive Officer of TOPCON CORPORATION
- Jul. 2003 President and Director of Topcon Sales Co., Ltd. (current Topcon Sokkia Positioning Japan Co., Ltd.)
- Jun. 2005 Director and Executive Officer of TOPCON CORPORATION
- Jun. 2007 Director, Managing Executive Officer, Supervising Sales Promotion Group, and Chief of Positioning Business Unit of TOPCON CORPORATION
- Jun. 2010 Director, Senior Managing Executive Director and Supervising Corporate Planning Group of TOPCON CORPORATION
- Jun. 2011 President & Representative Director of TOPCON CORPORATION
- Jun. 2013 Advisor of TOPCON CORPORATION (retired in June 2015)
- Jun. 2015 Outside director of Nabtesco Corporation (to present)
- Sep. 2015 External Director of ULVAC, Inc. (to present)

Reasons for appointment

Mr. Norio Uchida has served as Representative Director of TOPCON CORPORATION and has broad experience and extensive knowledge and insight as a corporate manager, and as an Outside Director of the Company from June 2015, he has appropriately supervised management. The Company, having high regard for his experience and insight, has appointed Mr. Norio Uchida as Outside Director, so that we may seek his supervision and advice on technical development and global business overall.

Number of shares of the Company held: 0 shares



Naoko Mizukoshi

Outside Director
(Sep. 23, 1967)

- Apr. 1995 Registered at Osaka Bar Association
Joined Miyazaki Law Firm
- Apr. 1998 Registered at Yokohama Bar Association (current Kanagawa Bar Association)
Joined Nomura Research Institute, Ltd.
- Sep. 1999 Registered at Dai-ni Tokyo Bar Association
Joined Autodesk Co., Ltd.
- Sep. 2002 Registered at the State of California Bar
Joined Microsoft Co., Ltd. (current Microsoft Japan, Co., Ltd.)
- Nov. 2006 Joined TMI Associates
- Jan. 2008 Partner of TMI Associates
- Mar. 2010 Partner of Endeavour Law Office
- Jun. 2018 External Director of TIS Inc. (to present)
- Dec. 2018 Partner of Leftright Law & IP (to present)
- Mar. 2020 Outside Director of Nabtesco Corporation (to present)

Reasons for appointment

Although Ms. Naoko Mizukoshi has not been involved in corporate management except as an outside director, she has a high level of expertise as an attorney-at-law. She also held various posts including outside officers of other business entities and posts in public offices including a member of Unfair Competition Prevention Subcommittee, Intellectual Property Committee, Industrial Structure Council, Ministry of Economy, Trade and Industry. The Company, having high regard for her experience and insight, has appointed Ms. Naoko Mizukoshi as Outside Director, so that we may seek her supervision and advice from decisions from an objective and legal viewpoint based on the above.

Number of shares of the Company held: 0 shares

* The average term of office of outside directors was 2.9 years as of March 24, 2020.

* Number of shares held as of December 31, 2019.

Management Team

Audit & Supervisory Board Members (as of March 24, 2020)



Kenichi Kikuchi

Audit & Supervisory Board Member
(Dec. 18, 1959)

Apr. 2015 Senior Manager, Accounting & Finance Department of Nabtesco Corporation
Jul. 2017 General Manager, Business Auditing Department of Nabtesco Corporation
Mar. 2019 Audit & Supervisory Board Member of Nabtesco Corporation (to present)

Number of shares of the Company held: 676 shares



Isao Shimizu

Audit & Supervisory Board Member
(Sep. 3, 1960)

Apr. 2008 General Manager, Production Control Department, Gifu Plant, Aerospace Company of Nabtesco Corporation
Jul. 2010 General Manager, Materials Department, Gifu Plant, Aerospace Company of Nabtesco Corporation
Jul. 2011 General Manager, Supply Chain Management Department, Gifu Plant, Aerospace Company of Nabtesco Corporation
Jun. 2012 Plant Manager, Gifu Plant, Aerospace Company of Nabtesco Corporation
Mar. 2016 General Manager, Production Innovation Division of Nabtesco Corporation
Mar. 2018 Executive Officer of Nabtesco Corporation
Mar. 2020 Audit & Supervisory Board Member of Nabtesco Corporation (to present)

Number of shares of the Company held: 600 shares



Zenzo Sasaki

Audit & Supervisory Board Member (Independent)
(Nov 1, 1952)

Apr. 1979 Appointed Public Prosecutor
Apr. 2000 Deputy General Manager, Special Investigation Department of Tokyo District Public Prosecutor's Office
Sep. 2002 Manager, Facilities Division, Minister's Secretariat of Ministry of Justice
Jan. 2004 General Manager, Public Safety Department and General Manager, Transportation Department of Tokyo District Public Prosecutor's Office
Aug. 2006 Chief Public Prosecutor of Wakayama District Public Prosecutor's Office
Jan. 2008 Public Prosecutor of Supreme Public Prosecutor's Office
Oct. 2008 Chief Public Prosecutor of Mito District Public Prosecutor's Office
Jul. 2010 Chief Public Prosecutor of Sendai District Public Prosecutor's Office
Aug. 2011 Chief Public Prosecutor of Kyoto District Public Prosecutor's Office
Nov. 2012 Retired as Public Prosecutor
Feb. 2013 Registered with Tokyo Bar Association
Joined Harumi-kyowa Law Offices (to present)
Mar. 2016 Audit & Supervisory Board Member (Independent) of Nabtesco Corporation (to present)

Number of shares of the Company held: 0 shares



Takemi Nagasaka

Audit & Supervisory Board Member (Independent)
(Jan 24, 1956)

Oct. 1978 Joined Musashi Audit Corporation (currently Ernst & Young ShinNihon LLC)
Aug. 1981 Joined Sony Corporation
Sep. 1986 Sony Corporation of America/Director, Tax Department
Apr. 2004 Audit & Supervisory Board Member of Sony Financial Holdings Inc.
Jun. 2004 General Manager, Accounting Department of Sony Corporation
Jun. 2004 Audit & Supervisory Board Member of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.)
Jun. 2006 Auditor of Sony Music Entertainment (Japan) Inc.
Apr. 2007 Senior General Manager, Accounting Division of Sony Corporation
Jun. 2010 Senior Vice President, Corporate Executive, Senior General Manager, Accounting Division of Sony Corporation
Jun. 2013 Director of Sony Financial Holdings Inc.
Jun. 2015 Senior Advisor of Sony Corporation
Mar. 2016 Audit & Supervisory Board Member (Independent) of Nabtesco Corporation (to present)
Jun. 2016 Audit & Supervisory Board Member of DAIO Paper Corporation (to present)

Number of shares of the Company held: 500 shares



Tetsuro Hirai

Audit & Supervisory Board Member (Independent)
(Dec. 19, 1955)

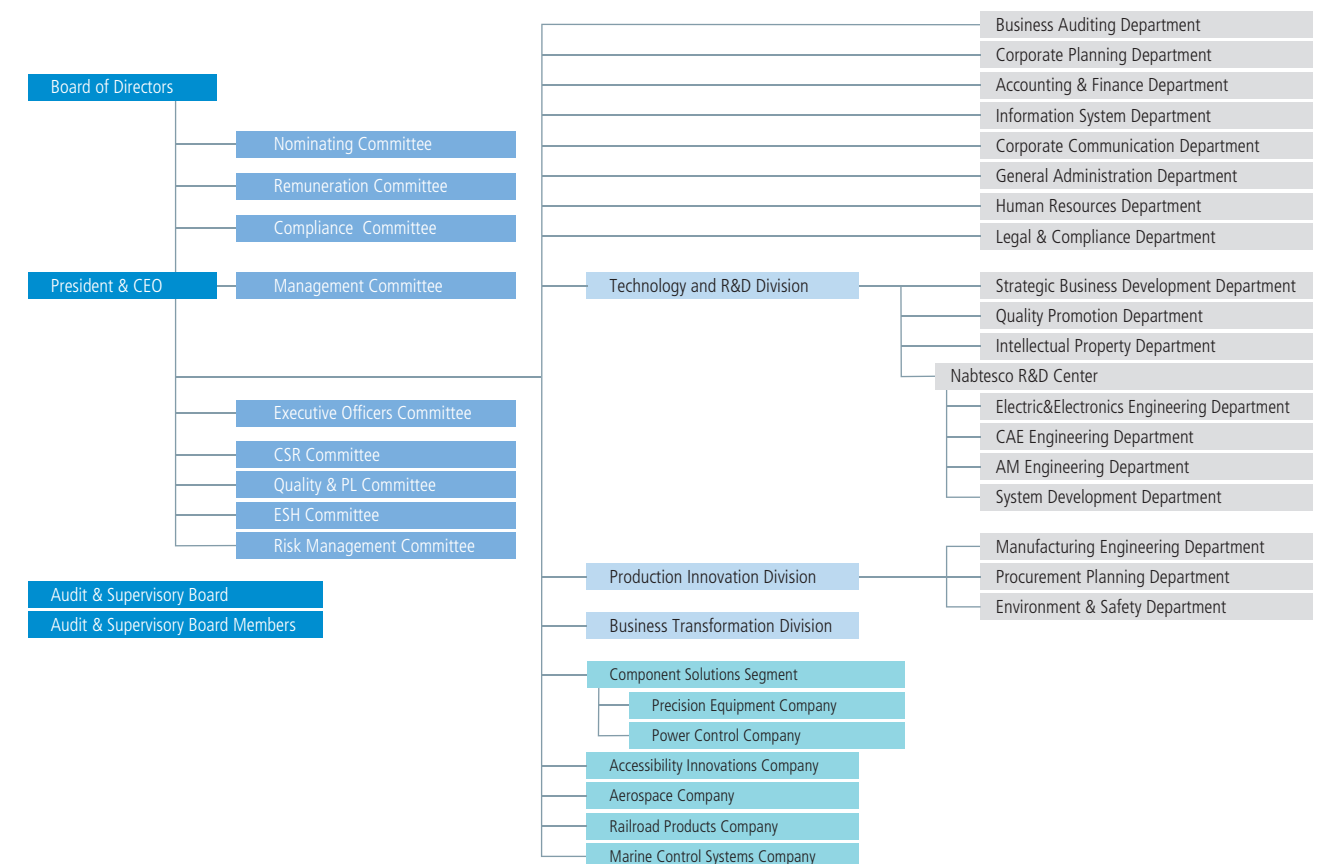
Apr. 1980 Joined Toyota Motor Co., Ltd. (current Toyota Motor Corporation)
Jan. 2006 General Manager, Vehicle Planning Department, Global Strategic Production Planning Division and Project General Manager of China Division of Toyota Motor Corporation
Jan. 2008 General Manager, Machinery Division, Motomachi Plant of Toyota Motor Corporation
Jun. 2010 Executive Officer of Toyota Tsusho Corporation
Jun. 2011 Managing Executive Officer of Toyota Tsusho Corporation
Apr. 2018 Technical Supervisor of Toyota Tsusho Corporation (to present)
Mar. 2019 Audit & Supervisory Board Member (Independent) of Nabtesco Corporation (to present)

Number of shares of the Company held: 0 shares

Executive Officers (as of January 1, 2020)

President	Katsuhiro Teramoto	Chief Executive Officer (CEO)
Senior Managing Executive Officer	Shinji Juman	Senior Managing Executive Officer, Component Solutions Segment President, Power Control Company, and in charge of Production Innovation
Senior Managing Executive Officer	Daisuke Hakoda	President, Accessibility Innovations Company
Managing Executive Officer	Yukihiko Imuta	General Manager, Business Transformation Division
Managing Executive Officer	Shigeru Naoki	President, Railroad Products Company
Managing Executive Officer	Toshiaki Akita	Senior General Manager, Technology and R&D Division
Managing Executive Officer	Akiyoshi Kitamura	President of Toyo Jidoki Co., Ltd
Managing Executive Officer	Atsushi Habe	President, Precision Equipment Company
Managing Executive Officer	Shoji Ijuin	Managing Executive Officer, General Administration, Human Resources and Legal & Compliance
Executive Officer	Kiyoshi Ando	Deputy Senior General Manager, Technology and R&D Division
Executive Officer	Norimasa Takagi	President, Aerospace Company
Executive Officer	Kazumasa Kimura	Executive Officer, Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication
Executive Officer	Tadashige Eto	President, Marine Control Systems Company
Executive Officer	Koji Nakano	President, Shanghai Nabtesco Hydraulic Co., Ltd.
Executive Officer	Ataru Inoue	President, Nabtesco Automotive Co., Ltd.
Executive Officer	Yukihiko Mizutani	Responsible for Domestic Businesses, Accessibility Innovations Company
Executive Officer	Seiji Takahashi	General Manager, Human Resources Department, Business Transformation Division and President, Nabtesco Link Co., Ltd.
Executive Officer	Toshiya Fujiwara	Responsible for production, Plant Manager, Tsu Plant and General Manager, General Administration Department, Precision Equipment Company, and Project Leader, Hamamatsu Plant construction project
Executive Officer	Michihito Suzuki	Responsible for technology and Railroad Products Company
Executive Officer	Yasuhiro Nakagawa	General Manager, Production Innovation Division
Executive Officer	Koichi Miyaguchi	Plant Manager, Kobe Plant, Railroad Products Company
Executive Officer	Hiroshi Usui	General Manager, Planning Department, Aerospace Company
Executive Officer	Masakazu Kurita	General Manager, Sales Management Department and Sales Business Development Department, Precision Equipment Company

Management Structure (as of January 1, 2020)



Financial Data

(¥ Million)

Major Financial Indicators	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2015/12*5	2016/12*6	2017/12	2018/12	2019/12
Net sales	126,249	169,303	198,527	179,543	202,292	219,657	187,000	244,968	282,422	294,626	289,808
Cost of sales	97,817	127,712	148,184	134,859	148,321	158,693	136,576	175,508	201,982	215,043	212,105
Selling, general and administrative expenses (SG&A)	20,467	21,379	27,484	29,670	33,877	37,347	35,129	44,294	51,285	53,184	51,998
Operating income	7,964	20,212	22,858	15,013	20,092	23,615	15,294	25,982	29,468	21,889	25,320
Profit before tax	8,011	21,954	24,847	18,997	23,522	27,026	15,358	26,779	34,907	29,962	27,979
Income taxes expense	3,271	7,485	8,873	5,598	8,140	9,254	5,731	7,843	8,338	6,997	8,028
Non-controlling interests*1	722	1,080	1,217	129	404	25	(1,432)	330	1,423	1,935	2,020
Net income*2	4,017	13,387	14,756	13,269	14,978	17,746	11,059	18,606	25,146	21,029	17,931
At year-end											
Current assets	89,893	119,003	123,929	112,048	134,159	139,321	128,575	143,792	165,695	179,124	179,154
Property, plant and equipment	44,102	44,442	51,509	54,475	55,225	56,877	55,916	63,155	70,700	80,573	87,083
Total assets	149,480	180,729	208,092	203,056	233,984	245,992	233,381	256,973	301,557	328,568	344,558
Current liabilities	43,610	74,892	70,897	52,322	73,161	64,830	73,000	74,876	96,934	112,558	109,614
Interest-bearing debt	19,920	20,157	31,694	26,389	26,204	16,659	15,333	16,949	27,720	45,310	43,936
Equity	85,167	96,531	107,466	120,857	139,471	158,664	148,924	155,904	177,002	189,255	199,133
Equity capital*3	79,404	90,241	99,092	114,038	131,043	149,862	142,068	147,929	167,537	178,702	187,398
Cash flows											
Cash flows from operating activities	14,892	27,997	15,104	12,952	27,597	19,949	8,746	27,730	23,071	24,165	38,433
Cash flows from investing activities	(6,155)	(4,419)	(27,464)	(13,693)	(8,064)	(7,880)	(4,886)	(14,989)	(20,186)	(21,823)	(20,086)
Cash flows from financing activities	(684)	(1,849)	6,035	(10,090)	(8,175)	(15,888)	(19,090)	(4,808)	(950)	8,396	(13,365)
Per share of common stock (¥)											
Net income per share*4	31.70	105.91	116.74	104.57	117.95	140.24	88.85	150.64	203.85	169.65	144.50
Equity attributable to owners of the parent per share	628.29	713.77	784.12	894.86	1,035.68	1,184.17	1,150.41	1,193.79	1,355.72	1,438.64	1,508.53
Cash dividends per share	9.00	25.00	34.00	34.00	38.00	44.00	44.00	50.00	72.00	73.00	73.00
Major management indicators (%)											
Operating income margin	6.3	11.9	11.5	8.4	9.9	10.8	8.2	10.6	10.4	7.4	8.7
Return on assets (ROA)	2.7	8.1	7.6	6.5	6.9	7.4	4.6	7.6	9.0	6.7	5.3
Return on equity (ROE)	5.2	15.8	15.6	12.5	12.2	12.6	7.6	13.0	15.9	12.1	9.8
Payout ratio	28.4	23.6	29.1	32.5	32.2	31.4	49.5	35.1	35.3	43.0	50.5
Equity ratio	53.1	49.9	47.6	56.2	56.0	60.9	60.9	57.6	55.6	54.4	54.4

*1 Net income or net loss attributable to non-controlling interests

*2 Net income attributable to shareholders of the parent company

*3 Equity attributable to owners of the parent

*4 Total basic earnings per share

*5 Due to the change of the accounting closing date of fiscal year since FY2015/12, the results for FY2015/12 are calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for the overseas consolidated subsidiaries.

*6 Adopted IFRS from the fiscal year ended December 31, 2017. Figures for the fiscal year ended December 31, 2016 have been restated in IFRS terms.

Financial Data

	(¥ Million)	
	As of December 31, 2018	As of December 31, 2019
Consolidated Balance Sheets		
Assets		
Current assets		
Cash and cash equivalents	54,039	58,686
Trade receivables	74,952	69,175
Contract assets	1,650	1,000
Other receivables	1,643	1,300
Inventories	43,592	41,257
Other financial assets	280	4,752
Other current assets	2,969	2,984
Total current assets	179,124	179,154
Non-current assets		
Property, plant and equipment	80,573	87,083
Intangible assets	5,076	5,127
Right-of-use assets	—	9,004
Goodwill	15,512	14,161
Investment property	5,382	3,928
Investments accounted for using the equity method	29,641	31,952
Other financial assets	9,558	11,210
Deferred tax assets	2,012	1,868
Other non-current assets	1,690	1,072
Total non-current assets	149,443	165,404
Total assets	328,568	344,558
Liabilities and equity		
Liabilities		
Current liabilities		
Trade payables	50,297	45,021
Contract liabilities	5,232	5,579
Bonds and borrowings	34,067	30,719
Other payables	11,809	14,405
Income taxes payable	3,479	4,040
Provisions	1,625	1,162
Lease liabilities	—	2,236
Other financial liabilities	—	13
Other current liabilities	6,048	6,439
Total current liabilities	112,558	109,614
Non-current liabilities		
Bonds and borrowings	11,243	13,217
Lease liabilities	—	6,568
Liabilities concerning retirement benefit	9,142	9,569
Deferred tax liabilities	4,881	4,540
Other non-current liabilities	1,490	1,916
Total non-current liabilities	26,755	35,810
Total liabilities	139,313	145,424
Equity		
Capital stock	10,000	10,000
Share premium	15,096	14,932
Retained earnings	155,133	163,794
Treasury shares	(2,903)	(2,536)
Other components of equity	1,377	1,208
Equity attributable to owners of the parent	178,702	187,398
Non-controlling interests	10,553	11,735
Total equity	189,255	199,133
Total liabilities and equity	328,568	344,558

	(¥ Million)	
	FY2018	FY2019
Consolidated Statements of Profit or Loss		
Net sales	294,626	289,808
Cost of sales	(215,043)	(212,105)
Gross profit	79,583	77,703
Other income	1,582	1,795
Selling, general and administrative expenses	(53,184)	(51,998)
Other expenses	(6,093)	(2,180)
Operating income	21,889	25,320
Finance income	366	766
Finance costs	(1,473)	(971)
Equity in earnings of affiliates	9,181	2,864
Profit before tax	29,962	27,979
Income tax expense	(6,997)	(8,028)
Net income	22,965	19,951
Net income attributable to		
Owners of the parent	21,029	17,931
Non-controlling interests	1,935	2,020
Net income	22,965	19,951
Net income per share		
Basic earnings per share (¥)	169.65	144.50
Diluted earnings per share (¥)	169.42	144.42

Financial Data

(¥ Million)

Consolidated Statements of Comprehensive Income	FY2018	FY2019
Profit for the year	22,965	19,951
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss		
Remeasurement of net defined benefit liabilities (assets)	(18)	(189)
Net changes in financial assets measured at fair value through other comprehensive income	(16)	288
Share of other comprehensive income of investments accounted for using the equity method	677	328
Total items that will not be reclassified to profit or loss	643	427
Items that may be reclassified subsequently to profit or loss		
Exchange differences on foreign operations	(2,628)	(919)
Total items that may be reclassified subsequently to profit or loss	(2,628)	(919)
Total other comprehensive income after taxes	(1,984)	(492)
Total comprehensive income for the year	20,980	19,459
Comprehensive income attributable to		
Owners of the parent	19,552	17,602
Non-controlling interests	1,428	1,856
Total comprehensive income for the year	20,980	19,459

(¥ Million)

Consolidated Statements of Cash Flows	FY2018	FY2019
Cash flows from operating activities		
Profit for the year	22,965	19,951
Depreciation and amortization	10,011	13,093
Impairment losses	5,223	1,268
Increase (decrease) in net defined benefit assets and liabilities	180	151
Interest and dividends income	(259)	(302)
Interest expenses	124	269
Share of (profit) loss of investments accounted for using the equity method	(9,181)	(2,864)
Loss (gain) on sale and disposal of property, plant and equipment	185	400
Income tax expense	6,997	8,028
Decrease (increase) in trade receivables	(1,496)	5,972
Decrease (increase) in inventories	(4,454)	2,015
Increase (decrease) in trade payables	22	(4,888)
Others	104	2,133
Sub-total	30,421	45,226
Interest and dividends received	1,190	1,230
Interest paid	(112)	(256)
Income tax paid	(7,335)	(7,767)
Net cash provided by operating activities	24,165	38,433
Cash flows from investing activities		
Decrease (increase) in time deposits	(73)	(4,535)
Purchase of property, plant and equipment	(20,650)	(13,743)
Proceeds from sales of property, plant and equipment	168	206
Purchase of intangible assets	(840)	(1,020)
Purchase of share options	(626)	—
Others	198	(994)
Net cash used in investing activities	(21,823)	(20,086)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	18,023	(3,106)
Proceeds from long-term borrowings	130	2,152
Repayment of long-term borrowings	(249)	(232)
Payments of lease liabilities	—	(2,477)
Net decrease (increase) in treasury stock	17	42
Dividends paid	(9,184)	(9,071)
Dividends paid to non-controlling interests	(340)	(674)
Net cash used in financing activities	8,396	(13,365)
Net increase in cash and cash equivalents	10,739	4,982
Cash and cash equivalents at the beginning of the year	44,121	54,039
Effect of exchange rate changes on cash and cash equivalents	(821)	(335)
Cash and cash equivalents at the end of the year	54,039	58,686

Glossary

Term	Meaning
Actuator	An actuator is a device that converts input energy into mechanical motion. An actuator is used with a drive unit, such as a motor or an engine, and peripheral motion control devices. Generally, an actuator converts electrical energy into motion, but there are also various other types of actuators including those that convert hydraulic/pneumatic pressure or magnetic force into motion.
AGV	An automated guided vehicle (AGV) is a type of self-driving vehicle and generally means a self-running cart. It runs along the magnetic guidance of a magnetic tape and other guide paths installed on the floor. AGVs are widely used mainly at manufacturing sites for the transportation of materials, components and finished products. The application of AGVs has recently been expanded to other facilities including hospitals, where AGVs are used to transport meals. Nabtesco's RVW series drive unit is used in AGVs and others. We provide a solution through this unit, into which we have integrated the precision reduction gear RV, a specially designed omnidirectional Mecanum wheel and a motor. It is compact but provides a high load capacity and can move omnidirectionally to reduce the turning radius.
AM	Additive manufacturing (AM) refers to a method used to deposit materials into products in layers by using a 3D printer and other devices. The method is attracting a great deal of attention as a promising tool to reduce the time required for product development as well as development costs. CMET Inc., one of the Nabtesco Group companies, manufactures and sells 3D printers. It provides an AM solution that is useful for both development and production by supplying Stereolithography and Sand Casting Meister additive manufacturing systems. These products and know-how are being utilized also within the Nabtesco Group.
CASE	CASE is an acronym coined from the initial letters of four words: Connected, Autonomous, Shared/Service, and Electric. It is said that the always-on connection of automobiles to the Internet will enable the collection of big data about the situations of automobiles and the surrounding roads, thereby accelerating reforms to the automobile industry.
CDP	CDP is an NGO that collects and evaluates information about companies' environmental measures. The organization is operating a global information disclosure system to help investors, companies, nations, regions and cities manage their environmental impact. Through CDP, companies that account for at least 50% of the world's total market value are disclosing their environmental data, including that related to climate change. Nabtesco has been disclosing its strategies to deal with climate change and its greenhouse gas emission data through CDP since FY2010 and been included in the CDP's Climate Change A list for four years in a row since 2016.
CVC	Through a corporate venture capital (CVC) fund, a company invests in companies that will generate synergy effects with its own business and in ventures in new business fields. Nabtesco established Nabtesco Technology Ventures AG in Zurich, Switzerland as a company to lead its CVC activities in 2018. At the same time, we built a strategic partnership with Emerald Technology Ventures, which has 20 years of experience in corporate venturing and a prominent profile in Western countries, thereby accelerating our collaboration with start-up companies.
DJSI	The Dow Jones Sustainability Indices (DJSI) were developed jointly by S&P Dow Jones Indices of the United States and RobecoSAM of Switzerland. Candidate companies for the DJSI are selected annually based on an assessment of their economic, environmental and social performance, with the stocks of those found to be implementing comprehensive and advanced measures and expected to achieve sustainable growth on a long-term basis included in the indices. Nabtesco has been included in the DJSI World Index for three straight years since 2016 and is thus rated highly on a global basis.
Energy creation	Energy creation means to produce energy internally through photovoltaic power generation and by using fuel cells in addition to promoting energy conservation.
FA	Factory automation (FA) means to automate a series of work processes implemented at a plant, including production and shipment, by using robots, sensors and information systems.
IP Landscape	Intellectual Property (IP) Landscape refers to an analysis method and a management strategy that makes use of intellectual property-related market information. Nabtesco analyzes IP information across a global market to gain insights into customer needs, technological trends and the situations of competitors in a multifaceted manner. Based on these insights, we search for new markets and new application areas, business partnership opportunities, M&A candidates and others.
ISO 26000	ISO stands for International Organization for Standardization, which is a Swiss-based non-profit organization that sets international industrial standards. The standards set by ISO include famous standards such as ISO 9001 for quality management and ISO 14001 for environmental management. The organization also released ISO 26000 on social responsibility as a guidance standard to be followed by both the public and private sectors in 2010, with 99 countries participating in the process to set this international standard. ISO 26000 has seven core subjects: organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues, and community involvement and development.
MRO	To foster after-sale business, Nabtesco provides the maintenance, repair and overhaul (MRO) service widely across its Transport Solutions, Accessibility Solutions and Manufacturing Solutions segments. By providing more functions that contribute to the preventive maintenance of equipment in the service, we are helping customers use our products with more safety and a greater sense of security and comfort.
NEMS	The Nabtesco Energy Management System (NEMS) is an environmental management system used by the company that makes use of IT. NEMS helps us collect environmental information, list energy-saving measures and monitor the consumption of energy in real time. We are using this system to execute a PDCA cycle in our energy conservation activities.

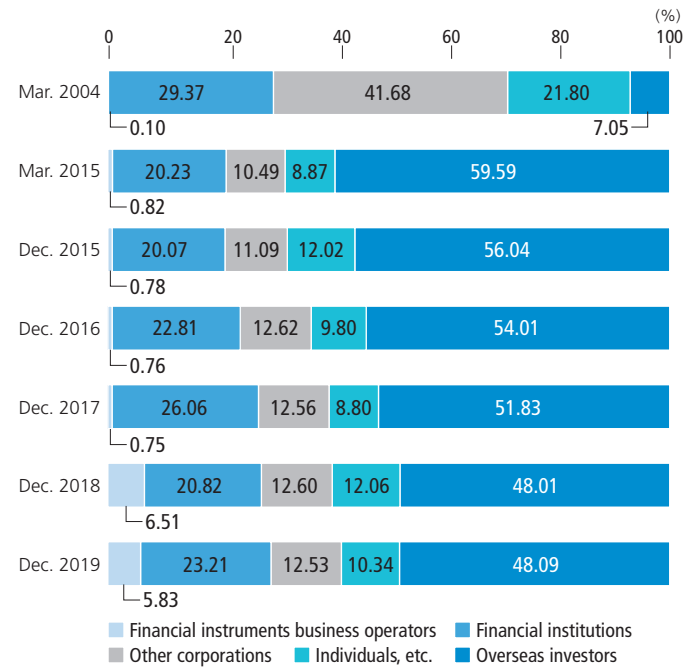
Term	Meaning
OEM	An original equipment manufacturer (OEM) is generally a company that manufactures products to be sold under the brands of other companies. For Nabtesco, however, OEM means to manufacture and sell a component to be used in a new product of a customer.
QCD(S)	QCD refers to the following three important elements for manufacturing: quality (Q), cost (C) and delivery (D). QCDS means QCD plus service (S). Nabtesco is working to improve its QCDS levels by promoting automation, increasing its production management efficiency, enhancing its supply chain management and streamlining its logistics operations.
RBA (Formerly EICC)	The Responsible Business Alliance (RBA) was established as an NGO named the "Electronic Industry Citizenship Coalition (EICC)" in 2004, with a view to set the industry's norms to deal with social, environmental and ethical issues faced across its supply chains. Subsequently, companies engaged in other industries, including carmakers and aircraft manufacturers to which electronic components were supplied, began to participate in the NGO, enabling it to implement a wider range of initiatives to improve the sustainability of supply chains as a whole.
ROIC tree	ROIC is an abbreviation for Return on Invested Capital. An ROIC tree is a tree-structured diagram that shows the elements of ROIC. You can improve ROIC by improving the elements laid out in the tree structure, and the ROIC tree thus provides a method to improve ROIC. For higher profitability and more efficient use of its operating assets, Nabtesco is working to achieve its improvement targets such as the following by breaking them down into the daily tasks to be fulfilled on-site by the business departments: improve the fixed assets turnover, reduce the inventory/receivables turnover period in terms of days, and optimize the payment conditions. Meanwhile, the administrative departments carefully manage the financial affairs, including managing interest-bearing debts and making growth investment and shareholders' return compatible, and are striving to improve the company's capital efficiency.
RPA	Robotic process automation (RPA) represents a type of business process automation technology. RPA helps improve operational efficiency by automating manual operations, such as the manual input of information into computers.
SAQ by suppliers	For the promotion of CSR-oriented procurement across our supply chain, we ask each supplier to complete a self-assessment questionnaire (SAQ), which is intended to increase their awareness of our procurement policy and help them make improvements based on the assessment results.
SBT	The Science Based Targets (SBT) initiative helps companies set their greenhouse gas emissions targets on a medium- to long-term basis toward the attainment of the "two-degree target" (hold the "increase in the global average temperature to well below two degrees Celsius above pre-industrial levels") upheld under the Paris Agreement, which is an international agreement to curb climate change and came into force in 2016. Companies have their CO ₂ emissions reduction targets examined and certified under the SBT initiative, and Nabtesco became the eighth Japanese company to have its long-term CO ₂ emissions target certified under it.
SDGs	The Sustainable Development Goals (SDGs) are the international goals to be attained by 2030 to make the world a better place. The SDGs were included in the 2030 Agenda for Sustainable Development adopted at the UN summit held in September 2015. The SDGs are composed of 17 goals and 169 targets, with a commitment to "Leave no one behind." Nabtesco will proactively implement measures for the attainment of the SDGs. Of the 17 goals comprising the SDGs, we are particularly focusing on those closely related to our materiality (material CSR issues) and will implement measures for the issues with a view to contributing to the creation of a sustainable society.
Systematization	Systematization means to build a system by combining a product with peripheral elements such as engineering and other services for the provision of multifaceted value (and a solution).
TCFD	The Task Force on Climate-related Financial Disclosures (TCFD) was created in December 2015 by the Financial Stability Board (FSB). It is implementing an international initiative to provide a framework for the disclosure of climate change-related financial information, particularly the risks and opportunities posed by climate change, thereby helping investors and others to make appropriate decisions.
United Nations Global Compact	The United Nations Global Compact (UNGC) is a global initiative launched at the UN headquarters in 2000. A range of organizations, mainly companies, demonstrate their leadership in a responsible and creative manner and take actions as good citizens for sustainable growth through this initiative, which states 10 principles in the four areas of human rights, labor, the environment and anti-corruption. Nabtesco signed the UNGC in 2014 and is a member of the Global Compact Network Japan (GCNJ).
3PL	Third-party logistics (abbreviated as "3PL") in logistics operations means the outsourcing of logistics functions to third-party companies. By outsourcing the whole or a part of logistics operations to professional third-party companies, you can utilize external resources to increase the efficiency of your logistics activities.
5S (activity)	5S stands for <i>seiri</i> (sort), <i>seiton</i> (set in order), <i>seiso</i> (shine), <i>seiketsu</i> (standardize), and <i>shitsuke</i> (sustain). It refers to an activity mainly conducted at manufacturing sites to reduce unnecessary things, excessive inventory and accidents for higher QCD performance.

Corporate Profile

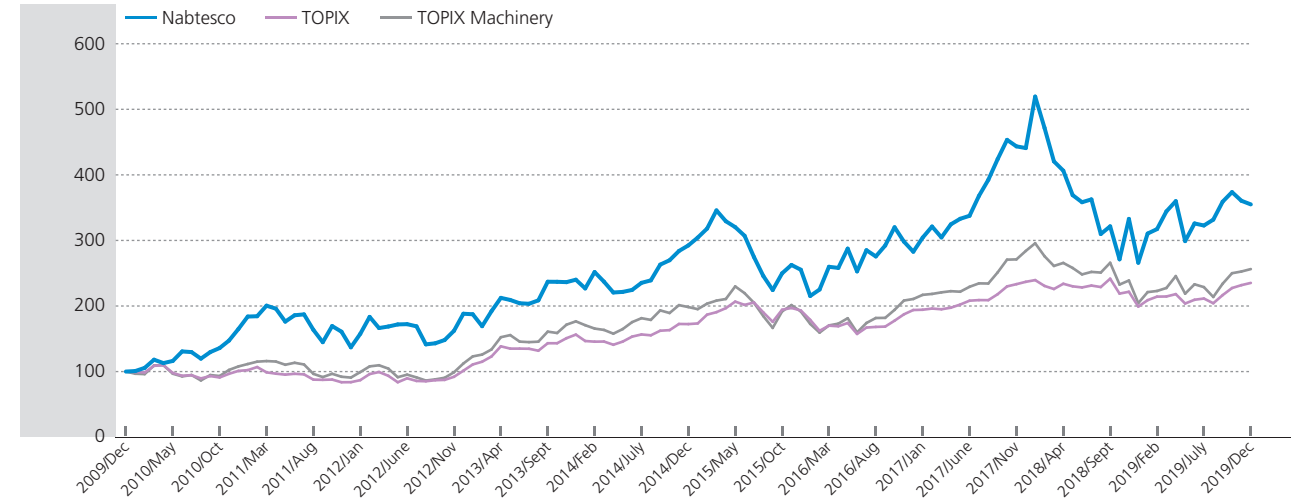
Corporate Profile (as of December 31, 2019)

Company Name	Nabtesco Corporation
Established	September 29, 2003
Address	7-9, Hirakawa-cho 2-chome, Chiyoda-ku, Tokyo 102-0093, Japan
TEL	+81-3-5213-1133
FAX	+81-3-5213-1171
Capital	¥10 Billion
Number of Issued Shares	125,133,799
Minimum Trading Unit	100 All of our issued shares are common stock with a minimum trading unit of 100 shares.
Employees	Non-consolidated 2,323 Consolidated 7,736
Consolidated In Japan	14 (excl. 4 equity method affiliates)
Companies Overseas	48 (excl. 5 equity method affiliates)

Breakdown of Shareholding by Investor Type



Total Shareholder Return (TSR) for the Past 10 Years



Return on Investment (ROI) as of December 31, 2019

	Past one year	Past three years		Past five years		Past 10 years	
	Annualized return	Cumulative return	Annualized return	Cumulative return	Annualized return	Cumulative return	Annualized return
Nabtesco	39.3%	28.1%	8.6%	22.5%	4.1%	255.0%	13.5%
TOPIX	18.1%	21.3%	6.7%	36.4%	6.4%	135.2%	8.9%
TOPIX Machinery	25.4%	21.6%	6.7%	29.2%	5.3%	156.3%	9.9%

(Note 1) Total shareholder return (TSR) refers to total investment return for shareholders by combining capital gains and dividends.
 (Note 2) The above graphs show ROI as of December 31, 2019 in case where investments were made on December 31, 2009. As for the data on Nabtesco shares, investment results calculated based on the stock prices by adding dividends (on the assumption that dividends will not be reinvested) have been indexed by setting the amount of investments as of December 31, 2009 as 100. TOPIX and TOPIX Machinery have also been indexed in a similar manner by using data that included dividends.
 (Note 3) The above chart indicates ROI (dividend-included) as of December 31, 2019 based on the cumulative return and the annualized return in cases where investments were made at respective timing during the period between one year ago (on December 31, 2018) and 10 years ago (on December 31, 2009).
 (Note 4) Figures of annualized return indicate annual average rates of return which are annualized using geometric average of ROI during the applicable period.
 (Source) Prepared by the Nabtesco Group based on the Tokyo Stock Exchange's monthly closing stock prices and other data

Disclosure Policy

Boundary of the Report

Nabtesco Corporation and its consolidated subsidiaries

This report covers activities conducted by Nabtesco Corporation and its consolidated subsidiaries. However, a portion of the nonfinancial data pertains to only Nabtesco Corporation.

Period Covered

January 1, 2019 to December 31, 2019

In light of the importance of providing up-to-date information, some activities conducted after the period are also reported.

Date of Publication

Published in July 2020 (Published annually)

Performance Data

Nabtesco has changed the accounting closing date of the fiscal year from March 31 to December 31 since FY2015. In this report, the results for FY2015 are calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for overseas consolidated subsidiaries.

Nabtesco has also applied the International Financial Reporting Standards (IFRS) to its accounting since FY2017.

For comparison with the results for FY2017, the results for FY2016 were also recalculated in line with the IFRS.

Note about the Forecasts

Forecasts made in this report about numerical figures and measures for the future are based on currently available information and on certain judgments and assumptions that Nabtesco considers reasonable. Actual results may vary significantly from such forecasts due to a variety of important factors, including the economic situations of the company's major markets in and outside Japan and changes in the foreign exchange market.

Third-Party Assurance

Our environmental and social data is examined by Lloyd's Register Quality Assurance Limited with a view to ensuring the reliability of the calculated data.

Guidelines Referenced

- International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC)
- WICI Intangible Reporting Framework published by the World Intellectual Capital/Assets Initiative (WICI)
- G4 Sustainability Reporting Guidelines published by the Global Reporting Initiative (GRI)
- ISO26000 (International standard on the social responsibilities of organizations)
- Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation, Ministry of Economy, Trade and Industry of Japan

Participation in External Initiatives and External Evaluation

The Nabtesco Group announced our support for and signed the United Nations Global Compact in April 2014, thereby further fostering our CSR-oriented management. Our long-term greenhouse gas emission targets have been officially approved by the Science Based Targets (SBT) Initiative.



The Nabtesco Group's CSR initiatives are recognized on an international level, which is evident by the fact that Nabtesco is included in the Dow Jones Sustainability World Index, FTSE4Good, S&P/JPX CARBON EFFICIENT INDEX and all ESG indices adopted by the GPIF. In addition, we have obtained the highest evaluations on environmental measures from the CDP in three different fields.

MEMBER OF
Dow Jones Sustainability Indices
 In Collaboration with RobecoSAM



2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

