



心之為

Leaders in Innovation for the Future

超之為

Nabtesco
moving it. stopping it.

Nabtesco Value Report 2022

Integrated Report FY Ended December 31, 2022



The Nabtesco Value Report 2022 introduces the Nabtesco Group's initiatives for sustainable growth from various perspectives, with the theme of “心之為” (meaning meeting) and “超之為” (meaning exceeding) the expectations of customers and society.

The title was written in Japanese traditional style calligraphy-brush by Atsushi Habe, Managing Executive Officer of Nabtesco, who is responsible for the report.

Developing the world's first full-height platform screen doors in collaboration with a customer to meet and exceed the expectations of society

On March 18, 2023, a new platform was opened in the Umekita Area of Osaka Station. As an innovation-oriented testing ground center for the JR WEST LABO, the Umekita Area has been equipped with the latest technologies that fuse reality with the digital sphere, making it "a station of the future" befitting the gateway to the Kansai region. Among the new technologies introduced to the Area, platform screen doors developed through a creative partnership between West Japan Railway Group and Nabtesco are attracting special attention. Because the location of the door openings can be changed according to the type and composition of train cars, these world-first full-height platform screen doors allow a variety of trains to use the platform.



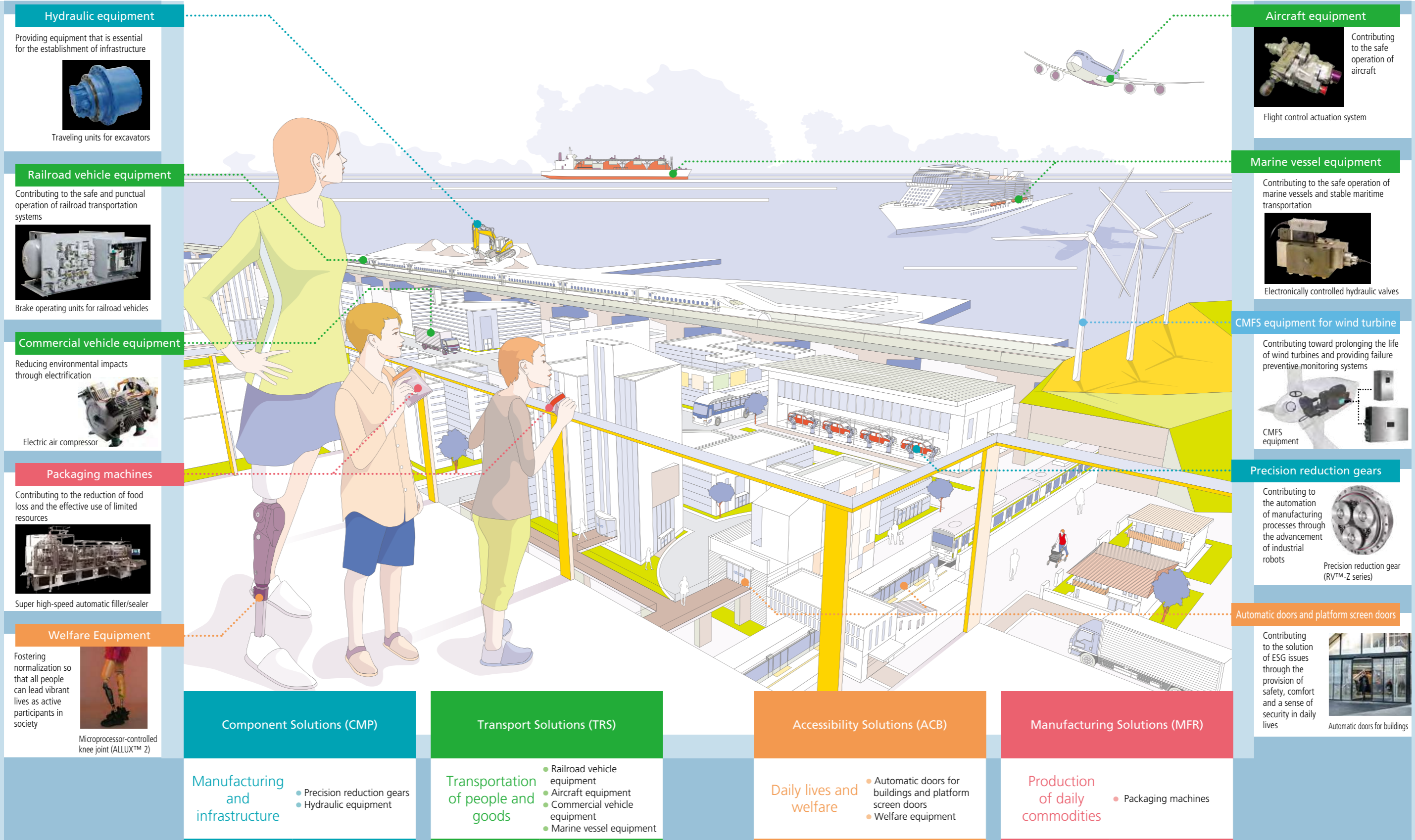
Please read the dialogue on open innovation. →  

Keijiro Nakamura
Vice President, Representative Director, and Executive Officer;
Senior General Manager of Railway Operations Headquarters
West Japan Railway Company

Seiji Takahashi
Director, Managing Executive Officer, President,
Accessibility Innovations Company
Nabtesco Corporation

With its unique motion control technology based on the key concept of “Moving it. Stopping it.,” the Nabtesco Group strives to provide safety, comfort and a sense of security in daily lives.

We contribute to the solution of social issues in a broad range of fields surrounding us including “manufacturing and Infrastructure,” “transportation of people and goods,” “daily lives and welfare” and “production of daily commodities.”



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

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 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 Declaration

By implementing these promises, we will realize “All Stakeholders’ Dreams.”



Editorial Policy

With an eye to helping our stakeholders deepen their understanding of our value creation story, we create our integrated report, titled “Nabtesco Value Report,” based on integrated thinking.

In October 2023, the Nabtesco Group will celebrate the 20th anniversary of its founding. We have created this integrated report for the fiscal year ended December 31, 2022 (Nabtesco Value Report 2022) on the theme of **meeting** and **exceeding** the expectations of customers and society. In the report, we look back on the past 20 years and introduce a range of measures that we are implementing to achieve our long-term vision for the future growth of the Group based on the recognition that we have reached a turning point.

In 2022, we reviewed our management materiality, which is composed of the issues that are important for our value creation story. Please read the story included in this report to understand how we are promoting human capital management as a basis to comprehensively manage the various types of capital available to the Group.

This report also includes four dialogues in which participants talk about how to build a corporate culture that fosters innovation, what desirable open innovation looks like, what stories we should tell for the effective use of

human capital and intellectual property, and what roles the Board of Directors should play in value creation. We hope that the frank opinions exchanged in the dialogues regarding the above questions will help you understand how we are implementing measures to address the problems we are facing based on our commitment to implementing reforms.

In preparing this report, we referred to the International Integrated Reporting Framework, the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization of Intellectual Property and Intangible Assets and other sustainability-related guidelines to ensure the objectivity and transparency of the report while also ensuring the connectivity of information and concise explanations.

In its business management, the Nabtesco Group will continue to attribute importance to dialogues with stakeholders and the mutual understanding and support that they generate. We hope this report helps you to deepen your understanding of our value creation story.



Nabtesco Value Report provides a summary of information that would be of interest to stakeholders, while on the Nabtesco Group’s corporate website we post the latest information and more detailed data. We would like you to take a look at both the report and the website.

Top page

<https://www.nabtesco.com/en/>



Investor Relations

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

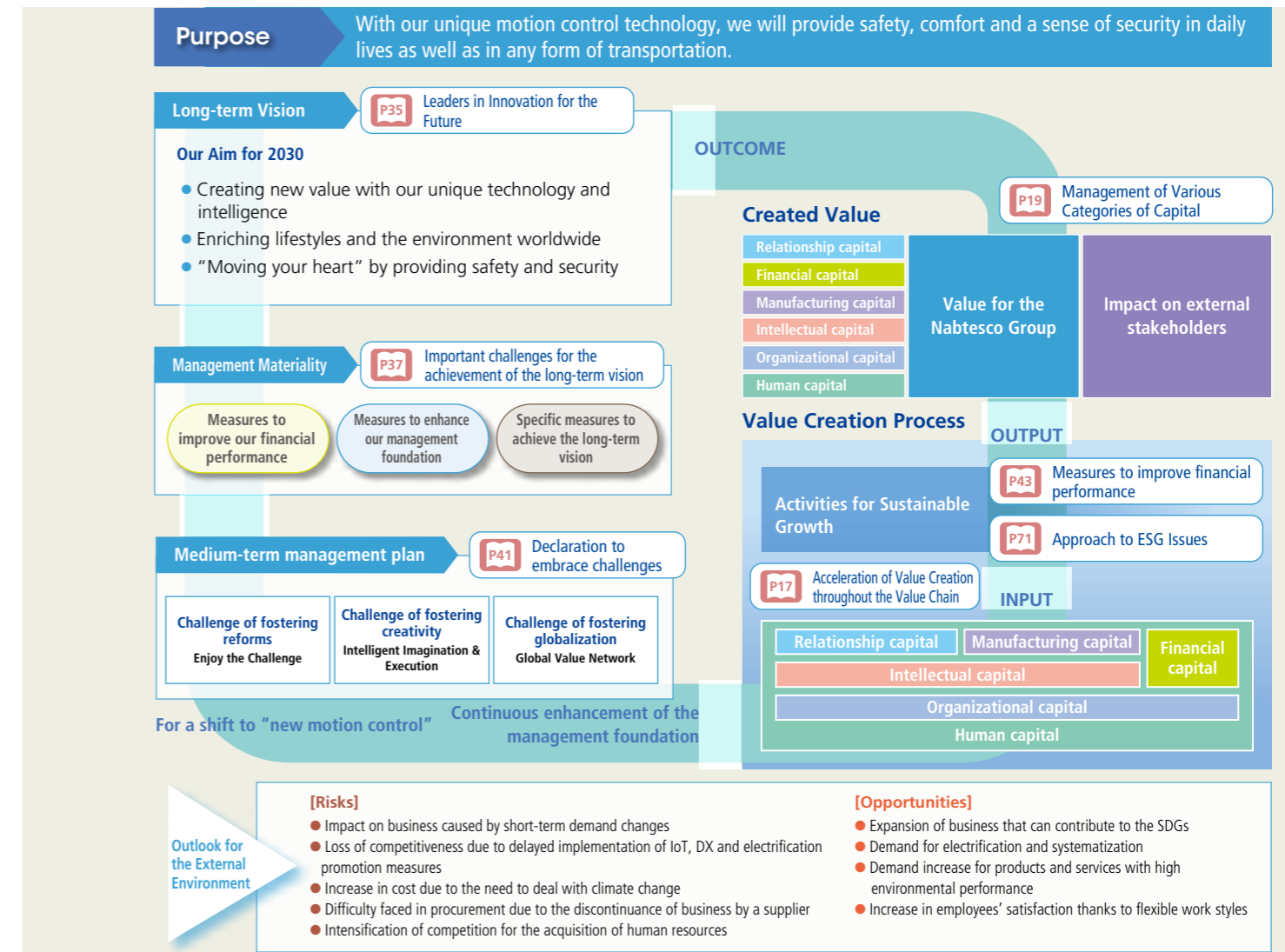


Sustainability

<https://nabtesco.disclosure.site/en>



P15 Value Creation Story



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DNA for Innovation

Meeting and exceeding expectations: Nabtesco's history

The two predecessor companies of Nabtesco repeatedly embraced challenges in their efforts to achieve meaningful growth, and in doing so built the business and technological foundations on which the Nabtesco Group currently stands. Having inherited the corporate DNA for pursuing innovation from its predecessors, the Nabtesco Group has been meeting and exceeding the expectations of customers and society at large.

1986: First adoption of precision reduction gears for industrial robots



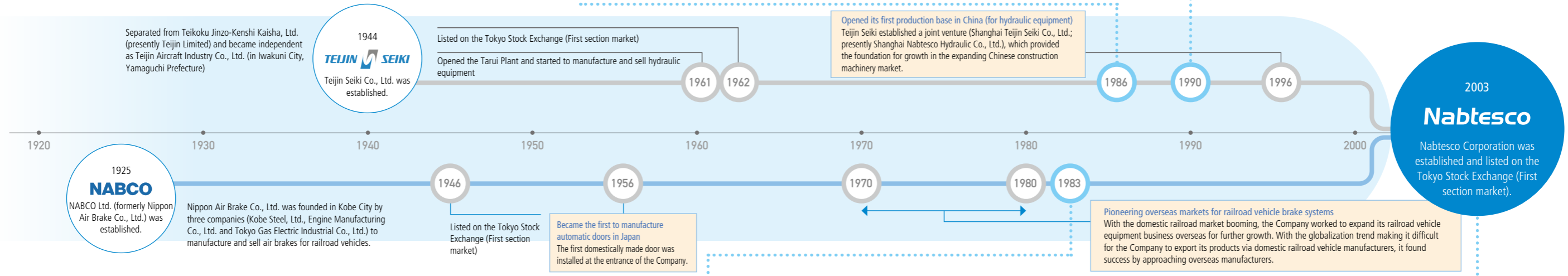
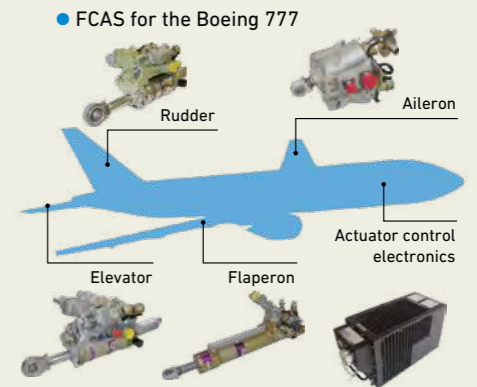
Press conference for the release of the precision reduction gear RV™ (at the Hotel Grand Palace in Tokyo on July 15, 1986)

In the first half of the 1980s, Teijin Seiki's second plant in Gifu (presently Nabtesco's Tarui Plant) was manufacturing hydraulic traveling units for construction machines as its major product. However, the market for the product had almost matured and, needing to find a new market for the plant, the Company looked to industrial robots. Although it was expected that as a late entry the Company would have difficulties in this market, it subsequently succeeded in developing the precision reduction gear RV™ by sophisticating its technology to produce highly rigid and robust speed reduction systems. The Company continued to demonstrate its high product quality, technology and production volume to completely transform the power relationships in the industry. Against this backdrop, Nabtesco's precision reduction gears have continued to contribute to the evolution and expansion of the industrial robot market.

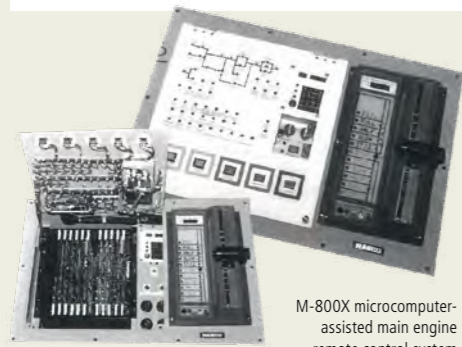
1990: Receipt of orders for the FCAS* to be used in the Boeing 777

In 1990, Teijin Seiki won its first order for its flight control actuation system under the B777 program. The B777, which went on to become a best seller in the large airplane category, became the world's first civil aircraft for which a fly-by-wire actuator was adopted for all major control surfaces. The receipt of the order was a turning point for Teijin Seiki and its market position was dramatically improved in the aircraft equipment business. Furthermore, by participating in the development of the Boeing aircraft, the Company built trust with the customer, which subsequently led to the receipt of orders for the B737 MAX and the leading-edge B777X.

* FCAS stands for flight control actuation system. An FCAS is a system used to control the flight attitude of aircraft by actuating ailerons, tail elevators and other wing surfaces.



1983: Development of microcomputer-assisted remote control equipment for marine vessels



M-800X microcomputer-assisted main engine remote control system

When the oil crises of the 1970s upended the shipping industry, the Company turned its attention to microcomputers, which had just been released onto the market. Through the concerted efforts of the marine vessel equipment business division, the Company worked to develop and mass-manufacture microcomputer-assisted remote control equipment for marine vessels, building a global service system for the equipment as it promoted sales. Meeting customer needs for ship automation and higher fuel efficiency, the equipment became a major product for the Company. Moreover, because the equipment made maintenance easy, the efficiency of service engineers was increased, speeding up the establishment of a global MRO* service system by the Company.

*MRO: Maintenance, Repair and Overhaul

2003: Establishment of Nabtesco Corporation

Teijin Seiki was established to manufacture aircraft components as its main business and NABCO was developed as a manufacturer of air brake systems for railroad vehicles. The two companies were merged in 2003 to create Nabtesco Corporation as an independent company with consolidated net sales exceeding 100 billion yen. As such, Nabtesco shook off the conventional framework of parent company and affiliates and made a move toward independent and solid growth by fusing the various types of capital of the two companies.



President Makoto Okitsu of Teijin Seiki (right) and President Shigeo Iwatare of NABCO (left) shaking hands

History of Growth

Steadily achieving growth based on the business foundations passed down from our two predecessors

Nabtesco Corporation was formed in 2003 through the merger of Teijin Seiki Co., Ltd. and NABCO Ltd. and so will celebrate the 20th anniversary of its founding in 2023. Since the beginning, the Company has been steadily achieving growth by solidifying the foundations of its business passed down from the two predecessors. Toward the achievement of the long-term vision for 2030, we will unwaveringly implement the medium-term management plan "TIME FOR CHALLENGE" for the further growth of the Company.



Conventional portfolio management

Businesses discontinued/restructured after the integration

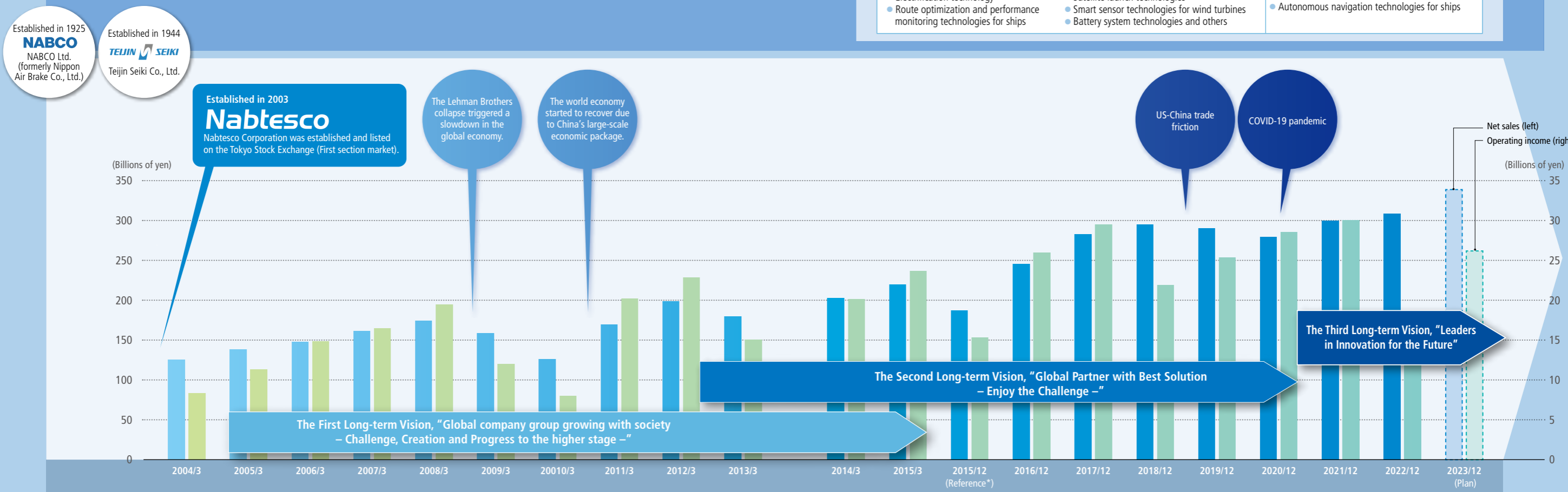
Discontinued businesses	Restructuring
<ul style="list-style-type: none"> IT-related product business Automobile and motorcycle component business Textile machine maintenance business Vacuum equipment business etc. 	<ul style="list-style-type: none"> Divestiture of commercial vehicle equipment business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

Companies that joined the Group through M&A

Hydraulic equipment	Railroad vehicle equipment	Automatic doors	Packaging machines	Head office (Technology and R&D Division)
<ul style="list-style-type: none"> Hyst Corporation 	<ul style="list-style-type: none"> OCLAP S.R.L. (Italy) 	<ul style="list-style-type: none"> Gilgen Door Systems AG (Switzerland) NABCO DOOR Ltd. NABCO SYSTEMS Co., Ltd. 	<ul style="list-style-type: none"> Engilico Engineering Solutions NV (Belgium) 	<ul style="list-style-type: none"> OVALO GmbH, adcos GmbH (Germany)

Co-creation of business

Investments made through CVC		Joint development
<ul style="list-style-type: none"> Electrification technology Route optimization and performance monitoring technologies for ships 	<ul style="list-style-type: none"> Satellite launch technologies Smart sensor technologies for wind turbines Battery system technologies and others 	<ul style="list-style-type: none"> Autonomous navigation technologies for ships



Reinforcement of the management base

- Relationship capital
- Financial capital
- Manufacturing capital
- Organizational capital
- Human capital

- Teijin Seiki and NABCO were absorbed and merged into Nabtesco Corporation, which shifted to an operating holding company.
- 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
- Establishment of the Group ESH Committee

- Formulated the Corporate Philosophy and the First Long-term Vision

- Withdrawn from an unprofitable business for commercial vehicle equipment; Business structure was realigned
- 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

- Changed the accounting closing month from March to December to adopt the same accounting period as overseas consolidated subsidiaries
- Established the Compliance Committee, CSR Committee and Risk Management Committee
- Formulated the CSR Basic Policy
- Established the Nabtesco Group Code of Ethics

- Started to apply voluntarily the International Financial Reporting Standards
- Established the Nabtesco R&D Center
- Formulated the Nabtesco Group Human Rights Policy
- Formulated the Nabtesco Group Community Investment Policy
- Established a CVC fund
- Set the SBT 1.5-degree Celsius aligned targets
- Released a statement entitled "Approach to Ensuring Diversity in the Workforce"

- Revision of the Environmental Philosophy and Environmental Action Guidelines
- Promotion of human capital management
- Intrapreneurship program
- In-house company innovation system
- Revision of The Nabtesco Way
- Establishment of the Innovation Strategy Division

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

To Our Stakeholders



For continuous growth as “Leaders in Innovation”

Nabtesco celebrates the 20th anniversary of its founding in 2023. Also, one year has passed since the launch of the new medium-term management plan under the leadership of Kazumasa Kimura, the new CEO of the Company. In the following, Mr. Kimura looks back on the corporate history and shares his ideas about what it will take for Nabtesco to continue their growth as “Leaders in Innovation,” while asserting his strong commitment to implementing measures that will allow the Company to meet and exceed the expectations of customers and society.

Kazumasa Kimura
Representative Director, President and Chief Executive Officer (CEO)

Strengths built over the last two decades and issues to be solved for sustainable growth

Over the last 20 years—and even before Teijin Seiki and NABCO were merged to create Nabtesco—we have been striving to create value to meet the expectations of customers and society, while facing a range of issues. As a result, we have gained a large market share in our niche market, which provides our business with a strong foundation.

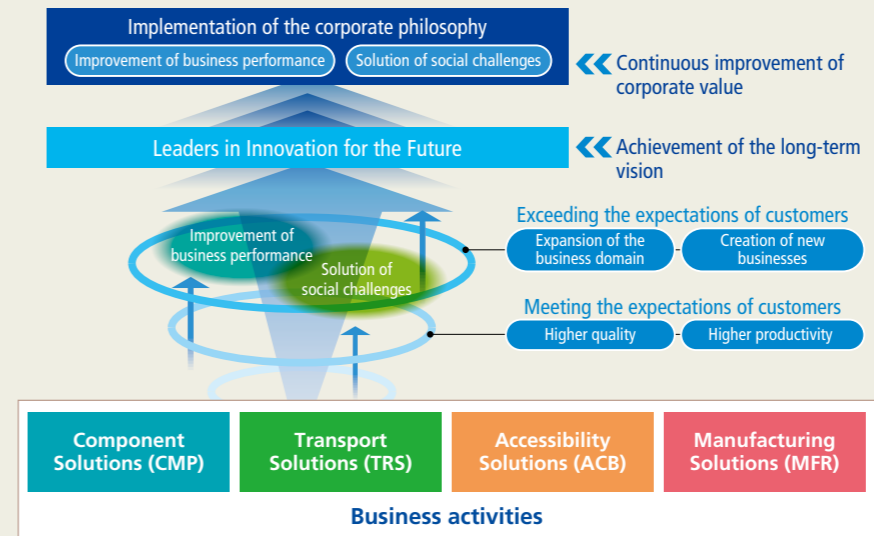
Based on our unique motion control technology, we have built up different types of capital: intellectual capital and manufacturing capital formed through our advanced R&D activities and production technologies; financial capital that supports proactive growth investment; robust relationship capital that is based on the trust we have built with blue-chip corporate customers; organizational capital, which provides us with the basis for the solution of ESG-related issues; and human capital, which supports all of the other categories of capital. By organically combining these different categories of capital, we have built inimitability against our competitors, thereby holding onto our large market shares.

However, to ensure sustainable growth, we need to do more than just continue to successfully meet the expectations of customers. We are now coming to a big turning point and are strongly committed to making reforms that will lead to innovation.

In order to continue our growth for the next one, two and more decades, we repeatedly discussed our ideal state under the leadership of younger employees and set a long-term vision for 2030 in 2021. We will strive for the achievement of the vision, which is to become “Leaders in Innovation for the Future”^{*1} by meeting and exceeding the expectations of customers and society toward solving social issues while improving our own business performance.

^{*1} P35 Long-term Vision

● Nabtesco’s value creation story



Identifying and advancing our management materiality

In 2021, aiming to exceed the expectations of customers and society, we identified the issues that are material for the achievement of the long-term vision as our “management materiality.”^{*2} By implementing both financial and non-financial measures to “improve our financial performance,” “enhance our management foundation” and promote “specific measures to achieve the long-term vision” as our issues of management materiality, we will increase both our economic and social value.

In 2022, based on the recognition that we need to constantly review our management materiality in a proactive manner in order to make flexible responses to dramatic changes in our business and economic environment, we started a review in consideration of the changes in society and in management awareness of relevant issues. As a result, we newly included “Enhance human capital management” in our management materiality items, regarding human capital as a primary source of value creation for the Company.

As the basis to foster human capital management, we think it is important for the following three actors to take more actions for innovation in close cooperation with one another: company & top management; organizations & managers; and individual employees.

Looking back on the first year of the medium-term management plan—the first step to achieve the long-term vision

“TIME FOR CHALLENGE” is our first medium-term management plan^{*3} (“MTMP”) to be launched as the first step to be taken for our management materiality and as the foundation for the achievement of our long-term vision. By cultivating the soil and sowing seeds to make reforms under the MTMP, I believe that we will be able to see the green shoots of innovation in 2024. In the MTMP we are committed to embracing three challenges: challenge of fostering reforms, challenge of fostering creativity and challenge of fostering globalization. For all of these three challenges that we are addressing, we need to promote human resource development and innovation. Accordingly, we have taken actions in a multifaceted manner to enhance both our human and intellectual capital.

■ Challenge of fostering reforms

In October 2022, we launched the intrapreneurship program “Light”^{*4} to encourage the bottom-up proposal of business ideas that can then be selected and refined through internal workshops for the launch of in-house ventures. In the first year we received 21 employee proposals under the program. Nine of them passed the first screening and are now being polished for the second screening.

^{*2} Management Materiality

^{*3} Progress with the Medium-Term Management Plan

^{*4} Intrapreneurship program “Light”

To Our Stakeholders

P42 *5 In-house company innovation system

P81 *6 Implementation of a Personnel System Reform Project

P5 *7 The Nabtesco Way

P22 **P84** Activity to increase employees' awareness of The Nabtesco Way

P27 *8 Special Feature: Talking about the Innovation Strategy Division

P91 *9 CVC (Corporate Venture Capital)

*10 Condition Monitoring system with Fail-Safe (CMFS): Failure prevention monitoring system for yaw drive units used in wind turbines. A yaw drive unit is designed to optimize the movement of the blades of wind turbines according to wind direction and is subject to external forces, not only when the turbines are in operation and generating power but constantly. It is therefore necessary to implement measures to prevent the unit from quickly becoming worn or damaged due to such forces.

P52 *11 Hamamatsu Plant (slated to start operation in October 2023)

Also, in parallel with the measures to provide individual employees with opportunities to embrace challenges, we have enhanced the system to support in-house companies in creating innovation.⁵ The system is designed to encourage the in-house companies to create next-generation technologies by making effective use of our existing business foundation and technologies for the launch of new businesses. I attribute the utmost importance to offering environments where employees can hit upon and propose new ideas in an autonomous manner.

We are also reforming the personnel system⁶ for human capital management and as a reform necessary to steadily promote the creation of new businesses. Under the reformed personnel system we will emphasize employees' commitment to autonomous and sustainable growth, introduce job-based salaries and achieve job-based employment in a transparent manner unique to Nabtesco.

While implementing these specific measures, we are also redefining The Nabtesco Way,⁷ which was established in 2012 to set out the core principles that unify employees. We will redefine it to lead the way in corporate culture reform by encouraging employees to adopt the shared value of embracing challenges.

■ Challenge of fostering creativity

In January 2023, we newly established the Innovation Strategy Division⁸ as the first step to foster innovation in a cross-functional manner. The Division's CVC Promotion Department and Digital Transformation (DX) Promotion Department will make use of external resources and press forward with process innovation through DX toward creating unique products and services.

As an initiative implemented by the Innovation Strategy Division, we are promoting open innovation with startups through CVC⁹ across various fields, including co-creation with Deep Sea Technologies, which provides route optimization and performance monitoring systems for ships, with SPACE ONE, which is promoting its artificial satellite launch business, and with start-ups developing battery technologies.

Moreover, we applied our unique motion control technology to develop CMFS,¹⁰ which is a failure prevention and diagnosis system for yaw drive units used in wind turbines. This system contributes to the stable operation of wind turbines, and we have received lots of inquiries for the system from power generators and wind turbine manufacturers within and outside Japan. By combining eologix's status monitoring sensors with CMFS, it will become possible for us to develop more advanced status monitoring systems and contribute to higher power generation efficiency. By promoting co-creation with a range of companies, we will speed up our effort to meet the challenge of exceeding the expectations of customers and society.

■ Challenge of fostering globalization

Nabtesco has tended to open overseas bases to serve Japanese companies expanding their business overseas, with each of the in-house companies individually establishing local corporations outside Japan.

However, to accelerate our growth outside the country, I think it is essential to build, under the leadership of the overseas headquarters, a local production and local consumption system that meets local needs promptly and autonomously. To this end, we need to address many themes, including enhancing our overseas bases and establishing new ones in regions where we have no bases, developing local leaders through the introduction of a global personnel system, and strengthening our local production capacity to meet future needs in each region.

In FY2022, we opened a representative office in Indonesia and a hydraulic equipment sales base in Europe to this end.

Moreover, we are constructing a leading-edge precision reduction gear plant¹¹ in Hamamatsu City for the start of production in October 2023. Global demand for precision reduction gears, which represent our growth driver, will continue to expand at the annual rate of 10% to 15%, and by the establishment of the Hamamatsu Plant, our production capacity will reach 1.2 million units per year in 2030 to meet the expanding demand. The new plant in Hamamatsu is designed based on the concept of "The world's No. 1 smart plant with manufacturing innovation and high evaluation for SDGs." We will work to increase profitability through advanced automation and achieve environment-friendly and safe manufacturing at the plant.

Aiming for "ROIC: 10%" as a medium-term target

In the MTMP we are upholding "ROIC: 10% or over" as a management target. However, in the first year of the MTMP, or FY2022, we posted ROIC as low as 4.6% due to the dramatic changes in the external environment, such as Russia's invasion of Ukraine and lockdowns in Shanghai. Our profitability was also badly affected by increases in materials prices, a shortage of electronic components and the substantial slowdown of demand in the Chinese construction machinery market. In FY2023, we aim to increase ROIC year on year to 6.5% by steadily offsetting the increases in materials cost by raising our own prices, stabilizing production following the end of the shortage of electronic components and implementing profitability improvement measures, such as promoting the sale of MRO services.

Also, in our effort to improve ROIC toward narrowing the large gap between reality and the 10% target, we newly established the Basic Policy on the Business Portfolio¹² at a Board meeting held at the end of 2022. Under the policy, we subdivide the Group's businesses into business units and evaluate their business performance in a comprehensive manner in terms of their growth potential, competitive advantages and others. In FY2023, we will foster strategic discussions and monitoring at Board meetings to optimize our business portfolio and improve our capital efficiency.

Making contributions to the solution of ESG-related issues

In the MTMP, we are upholding "Focus on solving ESG issues"¹³ as one of our management targets. In 2022, we revised the Environmental Philosophy and Environmental Action Guidelines to incorporate the latest knowledge into our environmental management on a group-wide basis and to clarify our environmental vision and the environmental issues to be tackled by us.

In addition to the initiatives for climate change, conservation of water resources, waste reduction and resource saving and prevention of pollution, we added a new paragraph to the Guidelines on initiatives for biodiversity conservation. We intend to collaborate across the Group as well as with our external stakeholders to contribute as much as we can to the creation of a sustainable society.

As for the CO₂ reduction targets to deal with climate change, we also set a numerical target to go carbon neutral by 2050 in the MTMP. For FY2022, we were able to reduce our CO₂ emissions by 14% relative to the baseline year of 2015 and are thus steadily moving toward achieving the target set in the MTMP.

Making further efforts in my second year as CEO

During my first year as CEO, I continued to embrace challenges in line with the basic policy of "Change Yourself, Change the World," as set out in the MTMP.

I am determined to keep embracing challenges and to make my best efforts to help Nabtesco and its people soar to new heights as "Leaders in Innovation." We cannot innovate if we are too overcome by a fear of failure to even take action. By embracing new challenges to generate innovation and fostering reforms to enhance our business structure, we aim to fulfill our corporate social responsibility and continue to be a company that is indispensable for customers and society.

We will make a concerted effort for the development of the Company, and I would ask all stakeholders for your continued support.



*12 Basic Policy on the Business Portfolio **P43**

*13 Approach to ESG issues **P71**

Value Creation Story

We will meet the challenge of generating innovation with our unique motion control technology.

P19 Management of Various Categories of Capital

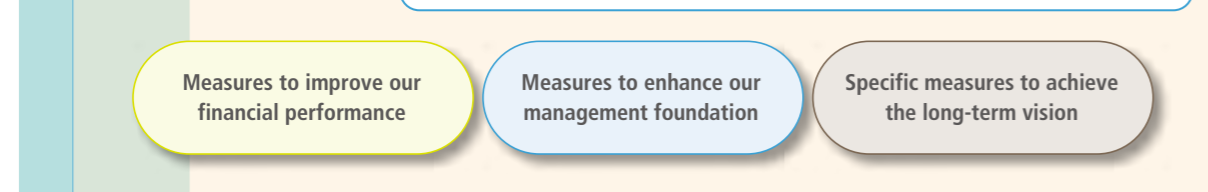
Purpose With our unique motion control technology, we will provide safety, comfort and a sense of security in daily lives as well as in any form of transportation.

Long-term Vision P35 Leaders in Innovation for the Future

Our Aim for 2030

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

Management Materiality P37 Important challenges for the achievement of the long-term vision



Medium-term management plan P41 Declaration to embrace challenges



For a shift to "new motion control" Continuous enhancement of the management foundation

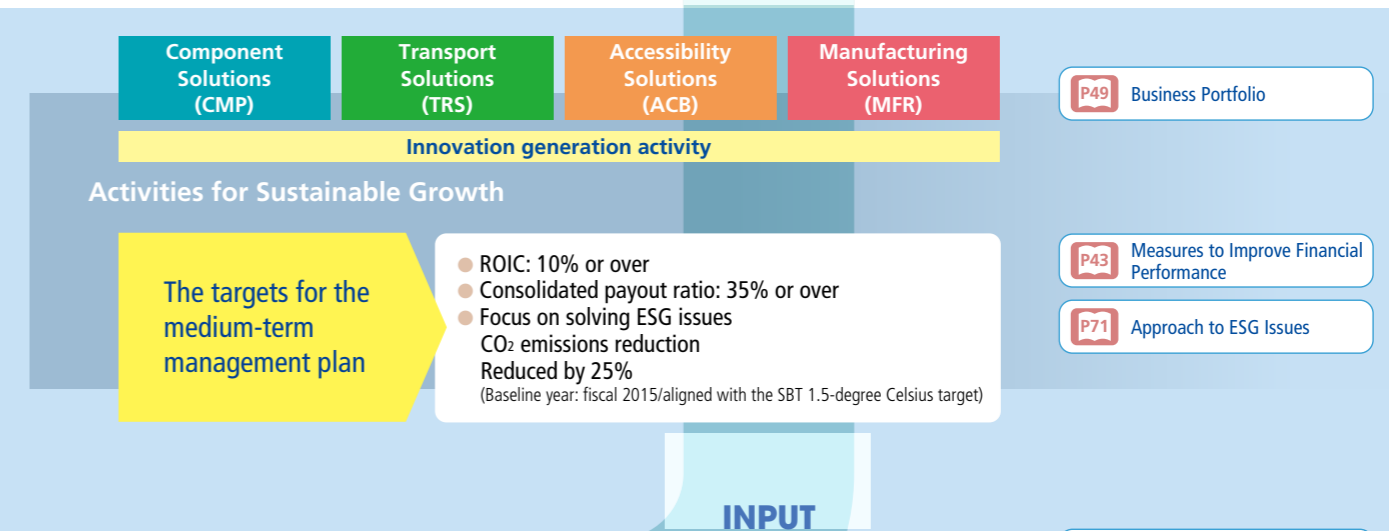
- Outlook for the External Environment**
- [Risks]**
- Impact on business caused by short-term demand changes
 - Loss of competitiveness due to delayed implementation of IoT, DX and electrification promotion measures
 - Increase in cost due to the need to deal with climate change
 - Difficulty faced in procurement due to the discontinuance of business by a supplier
 - Intensification of competition for the acquisition of human resources
- [Opportunities]**
- Expansion of business that can contribute to the SDGs
 - Demand for electrification and systematization
 - Demand increase for products and services with high environmental performance
 - Increase in employees' satisfaction thanks to flexible work styles

OUTCOME

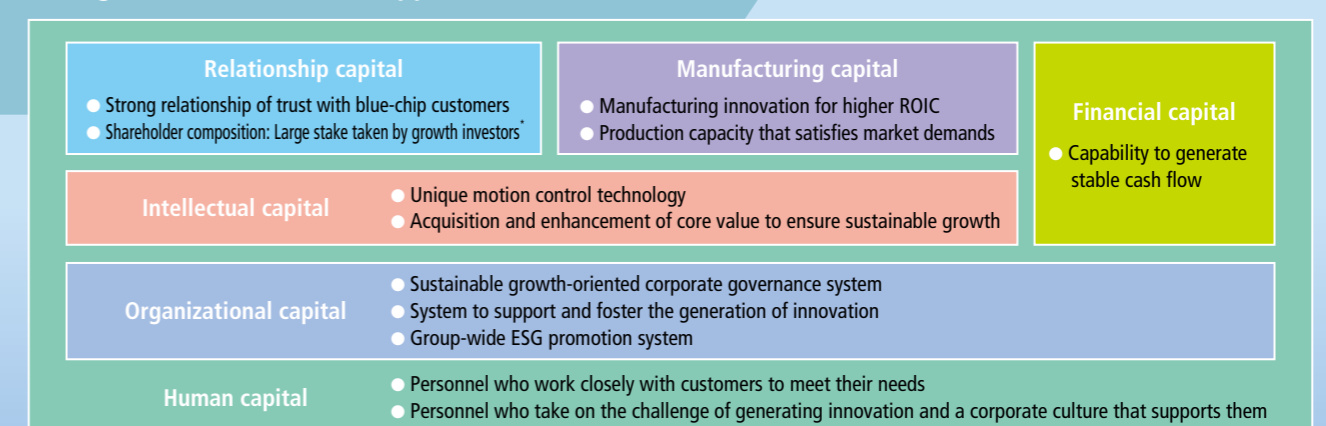
Created Value

	Value for the Nabtesco Group	Impact on 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 realizes growth investments 	<ul style="list-style-type: none"> ● Capital efficiency and stable return of profit that meet shareholders' expectations
Manufacturing capital	<ul style="list-style-type: none"> ● Promotion of smart manufacturing process 	<ul style="list-style-type: none"> ● Provision of safety, comfort and a sense of security and contribution to climate change mitigation and biodiversity
Intellectual capital	<ul style="list-style-type: none"> ● Acquisition of technology for "new motion control" ● Generation and enhancement of core value for sustainable growth 	<ul style="list-style-type: none"> ● Open innovation through co-creation
Organizational capital	<ul style="list-style-type: none"> ● Highly ethical corporate culture based on a global compliance system 	<ul style="list-style-type: none"> ● Management transparency based on the autonomous improvement of its functions by the Board of Directors
Human capital	<ul style="list-style-type: none"> ● Optimization of human capital to become "Leaders in Innovation" 	<ul style="list-style-type: none"> ● Respect for diversity and various expertise in the workplace

Value Creation Process



Managerial Resources that Support Value Creation



P17 Acceleration of Value Creation throughout the Value Chain

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

Acceleration of Value Creation throughout the Value Chain

We will make combined use of the various types of capital uniquely available to us to enhance our competitiveness.

We will speed up our value creation process by making combined and advanced use of the various categories of capital available to us across the value chain.

Effective use of the various categories of capital across Nabtesco's value chain

Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
R&D		
Relationship capital	Relationships of trust with blue-chip customers, which helps in identifying their needs in real time	Promotion of innovation through collaboration with both domestic and foreign universities and research institutes
Financial capital	Balance sheet that supports proactive R&D investment	Acquisition of latest technologies through CVC and others Proactive R&D investment to generate innovation (Budget for 2022 to 2024: ¥40 billion)
Intellectual capital	Unique motion control technology - Cutting, polishing & processing, assembly and inspection technologies - Fluid control and opening/closing control technologies - CAE analysis technology Intellectual property management to secure the competitiveness of "current core value"	Model-based development, and use of metal additive manufacturing and other technologies Advancement and acceleration of development activities by the use of digital twin technology Governance over intellectual property to acquire "future core value"
Organizational capital	In-house company support system provided by the Technology and R&D Division Certification system for environment-friendly/energy-saving products	Promotion of the technological innovation of products in which they are used, including electrification and systematization Enhancement of product development system to contribute to the solution of social issues
Human capital	Human resources equipped with sufficient mechanical skills Robust training system to develop personnel with advanced skills Innovation system that encourages employees to embrace challenges	Acquisition and development of human resources for soft/power electronics and DX Development of an innovation-oriented corporate culture through the revitalization of the innovation system

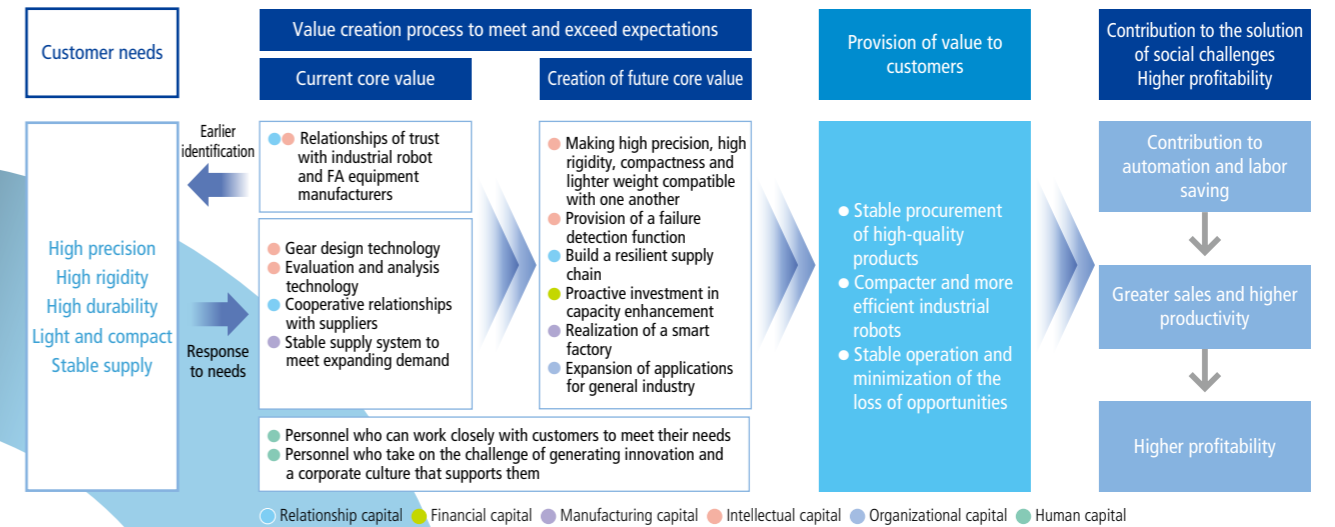
After-sales service/MRO

Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Intellectual capital	Sensing technology and expertise for the effective use of IoT technologies Ability to develop OEM products so as to promote the sales of after-sales services	Creation of new customer value through the effective use of sensing, AI and IoT technologies
Organizational capital	Network to provide MRO services in an attentive manner	Promotion of DX to expand opportunities for and increase the efficiency of MRO services

Production and production management

Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Relationship capital	Close relationship with production equipment manufacturers	Maintenance and enhancement of relationships with production equipment manufacturers
Financial capital	Balance sheet that supports proactive capital investment	Proactive capital investment (Budget for 2022 to 2024: ¥88 billion)
Manufacturing capital	Ability to supply products to meet the demand - System to mass-produce high-precision products Steady energy conservation & creation activities System to flexibly produce a variety of products in small lots	Manufacturing innovation for higher ROIC - Reduction of the inventory turnover period Innovative production management enabled through DX Creation of an environment-friendly smart factory
Intellectual capital	High-precision processing & assembly and surface processing know-how Advanced automation, combined processing and other innovative production know-how	Promotion of advanced automation Development of unique production technologies
Organizational capital	Production management system to support QCDS performance	Even higher QCDS performance
Human capital	Experienced workers for high-precision assembly and processing Quality-oriented culture nurtured since before the integration of the two companies to create Nabtesco Unique human resources education, such as the Quality University courses	Maintenance of the skills of experienced engineers and incorporation of such skills into automated processes Continuous achievement of product safety-related targets - Full achievement of product safety education plans - Full achievement of product safety inspection implementation plans

Causal path for value creation by precision reduction gears



By making combined use of the various categories of capital uniquely available to us across the value chain, we have been able to enjoy a very strong market position for our precision reduction gear business, which drives our corporate growth.

With salespeople who can meet customers' needs by working closely with them, we have built a robust customer base in the fields of industrial robots and FA equipment and are contributing to the solution of social challenges by creating next-generation products based on our development ability, which is underpinned by our long experience. Moreover, we have been making investments to enhance our production capacity to meet expanding demand, while honing our mass production technology to ensure the stable supply of high-precision products. The pursuit of these various elements of our capital constitutes a sustainable growth cycle that helps us increase our competitive advantage.

Sales

Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Relationship capital	Relationships of trust with customers built through the long-term maintenance of large market shares	Maintenance and enhancement of the Nabtesco brand
Organizational capital	Inter-business synergies based on the mutual use of overseas bases System for regional headquarters to support in-house companies' overseas business expansion	Establishment of trust with promising new customers Sharing of information about customers' needs across the Group through the notification system to support the creation of intellectual property
Human capital	Personnel who can work closely with customers with sincerity to meet their needs Open, fair and honest corporate culture	Acquisition of the ability to make proposals that "exceed the expectations of customers"

Procurement

Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Relationship capital	Supply chain to support stable supply Advanced, sustainability-oriented procurement BCP system built across the supply chain	Solution of ESG issues across the supply chain Greater understanding and recognition of the CSR-oriented procurement policy among suppliers Provision of BCP-related support to make the supply chain more resilient
Organizational capital	Procurement network optimized across the in-house companies Efficient logistics network optimized for procurement based on information sharing	Greater synergies for procurement across the Group
Human capital	"BCP buyer" system Enhancement of employees' procurement ability based on the Certified Procurement Professional certification system (CPP-B grade)	Enhancement of the resilience of the supply chain through the development of more "BCP buyers"

Management of Various Categories of Capital

Meeting and exceeding the expectations of customers and society through human capital management

Story of enhancing corporate value through the optimization of human capital

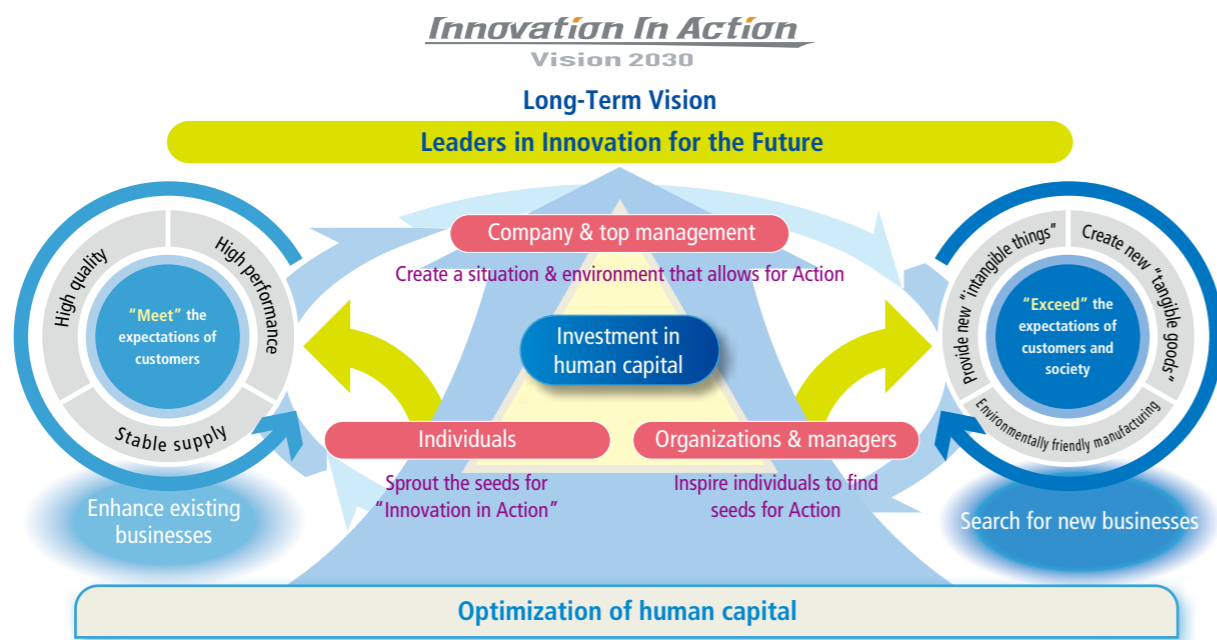
Under the slogan, "Leaders in Innovation," as upheld in its long-term vision, Nabtesco has been striving to increase its corporate value, with a focus on meeting customer needs and exceeding the expectations of both customers and society alike. This effort carries on a long tradition dating back not only to the Company's founding but also to the aims of its two predecessor companies prior to their integration. Toward this goal, we are striving to enhance both our financial impact and social impact by boosting our performance and contributing to the solution of social challenges.

To this end, we need to enhance our existing businesses while also searching for new businesses, as proposed in the theory of organizational ambidexterity. To meet this requirement, we must foster reforms for the various categories of capital that provide us with a foundation for innovation. In particular, human capital is essential for our value creation process, and Nabtesco accordingly aims to manage and optimize its human capital toward becoming "Leaders in Innovation."

In order to "meet" the expectations of customers, we need personnel who are strongly committed to meeting the needs of customers through unyielding technological

innovation, performance & quality improvement and higher productivity. To take the next step of then exceeding the expectations of customers and society, we need to develop and attract personnel who can expand our existing business domains and launch new businesses to create and propose expectation-exceeding value.

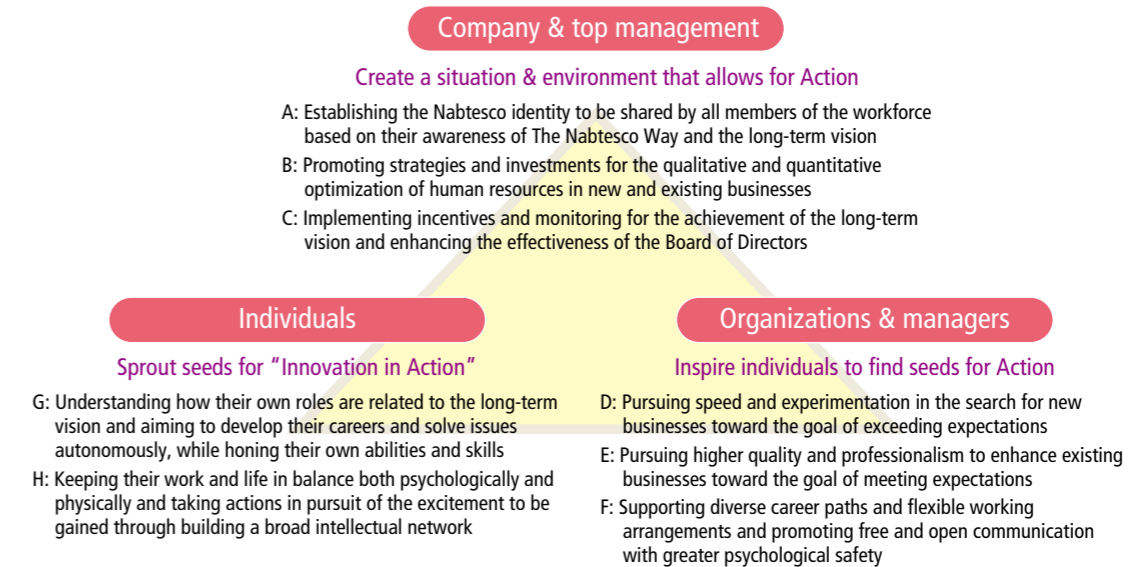
As an organization, we also need to gain the ability to respond agilely to changes in our business environment. To this end, managers are required to play important roles to encourage individual employees to take actions autonomously and independently and to serve as an intermediary to foster not only traditional top-down measures taken under the leadership of top management but also bottom-up measures taken at the initiative of general employees. Nabtesco's human capital management is thus based on measures promoted by the three actors: top management, middle managers, and individual employees. Nabtesco will proactively make investments to support these three actors in fulfilling their respective roles and will strongly repeat the cycle of meeting and exceeding the expectations of customers and society toward the achievement of its long-term vision.



Vision for human capital management

Nabtesco believes that the creation of new value will be promoted by the fulfillment of defined roles by the company & top management, organizations & managers, and individual employees. Based on this recognition, we have set a vision for each of the above for the optimization of human capital.

The role of the company & top management is to create a situation & environment that allows for Action. The role of organizations & managers is to inspire individuals to find seeds for Action. The role of individual employees is to sprout those seeds for "Innovation in Action." Nabtesco upholds this vision for its human capital management.



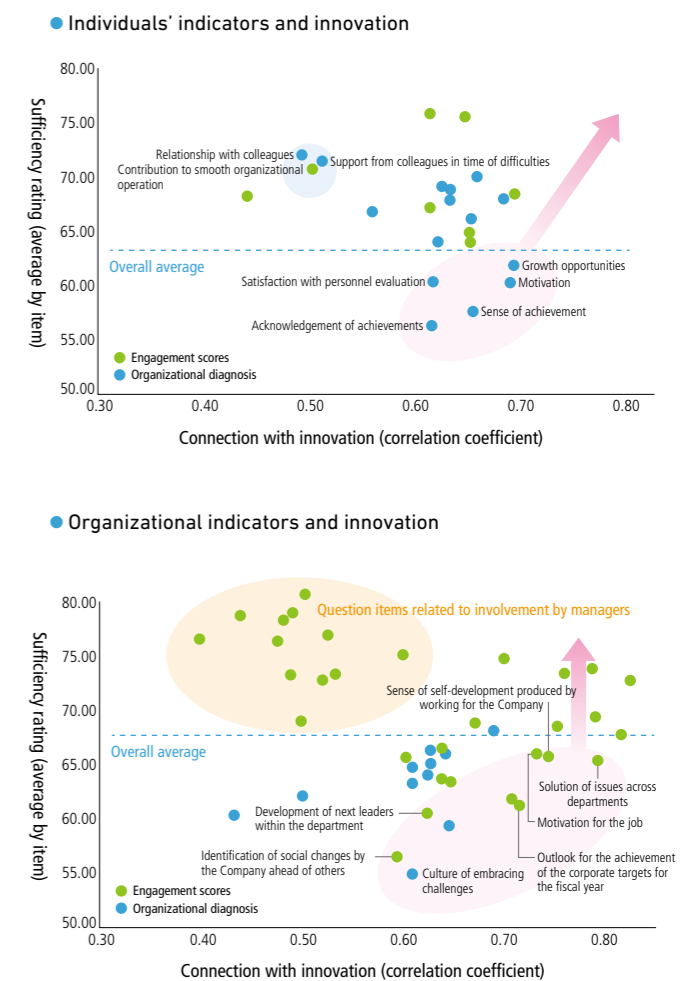
Gaps between reality and vision: Identification of issues

Nabtesco regularly conducts an employee engagement & organizational diagnosis survey to grasp employees' subjective ideas based on their engagement scores (ES) and clarify the present situation from the viewpoint of individuals and organizational culture.

When designing the questionnaire for organizational diagnosis, we first set "innovation items" that are thought to be highly related to challenges, co-creation, learning and creativity—elements that help foster innovation. We then classified the questions into those related to individuals (individuals' indicators) and those related to the organization (organizational indicators). For these two types of indicators, we analyzed the survey results with a focus on correlations between the sufficiency rating given to each of the question items, including both innovation items and others, and the item's connection to innovation. The graph shown on the right indicates the level of each item's connection to innovation (horizontal axis) and its sufficiency rating (vertical axis).

The items shown on the lower right side of the two graphs are items that are strongly connected to innovation but for which the sufficiency rating is low. As for individuals, the survey results imply that a driving force for innovation would be individual employees feeling satisfied with their jobs and able to feel a sense of achievement and self-growth.

For the organizational indicators set for the company & top management and for organizations & managers, the key items are "Outlook for the achievement of targets," "Identification of social changes by the company ahead of others" and "Creation of a culture of embracing challenges" for the former and are "Solution of issues across the departments" and "Development of the next generation of leaders" for the latter. Based on the survey results, we have formulated the following hypothesis: To become "Leaders in Innovation," it is essential for Nabtesco to focus more on these key items.



Management of Various Categories of Capital

Setting various indicators for the innovation, linkage and engagement indexes

In order to narrow the gap as described on the previous page, we have set indexes for innovation, linkage and engagement as indicators to realize the vision set for each of the three actors. These three indicators are set based on the results of the organizational diagnosis and the engagement scores, and we aim to increase the score of each indicator to 75 points. We have also set factor-based indicators that are linked with the progress of individual actions to be taken to increase the scores.

The innovation index is an indicator intended for the creation of the situation & environment that allows for Action. We will further instill The Nabtesco Way across the board and enhance our human resources portfolio to encourage both organizations and individuals to take actions toward their shared goal for innovation.

The linkage index is an indicator designed to enhance

support for individual employees through the establishment and improvement of the personnel assignment, education and evaluation systems and new business creation systems toward encouraging employees to take actions to "meet" and "exceed" our customers' expectations, being inspired to find seeds for Action.

The engagement index is an indicator intended to encourage individuals to sprout seeds for "My Innovation in Action" by implementing The Nabtesco Way with ownership, developing their careers in an autonomous manner, and by fostering reskilling to develop an innovation mindset.

We will sophisticate our human capital management by adjusting the KPIs on human capital in line with changes in related issues, while monitoring progress made with the implementation strategies and for each of the indicators.

Key performance indicators (KPIs) for human capital

	Results-based indicator	Important implementation strategy	Factor-based indicator
Company & top management	Innovation index Actual result for FY2022: 68 Target: 75	Activity to increase employees' awareness of The Nabtesco Way	Degree of penetration and assimilation of The Nabtesco Way
		Activity to give commendations for innovation	Number of Nabtesco award recipients and total amount of monetary prizes
		Enhancement of the human resources portfolio	Fill rate for employment of digital experts, female employees and non-Japanese personnel
		Development of successors for each position	Succession fill rate
Organizations & managers	Linkage index Actual result for FY2022: 63 Target: 75	Increased mobility of personnel within the Company	Numbers of people assigned to new businesses and those transferred across departments, and number of job rotations per person
		Initiatives to "exceed" expectations: Creation of ideas and knowledge	Number of ideas proposed and commercialized, and frequency of cross-departmental meetings held for knowledge sharing
		Initiatives to "meet" expectations: Higher productivity	Total number of working hours saved through higher operational efficiency, and labor productivity indicator (Value added per person and per labor hour)
		Support for diverse people to thrive	Fill rate for digital experts and hiring rate for female new graduates and non-Japanese people
Individuals	Engagement index Actual result for FY2022: 59 Target: 75	Promotion of the process to implement The Nabtesco Way with ownership	Declaration on "My Innovation in Action," and frequency of one-on-one meetings
		Promotion of measures for autonomous career development	Results related to second jobs, overseas studies and in-house job solicitation as well as to trainees dispatched overseas
		Attendance at training seminars for skill enhancement	Total number of hours spent in training, the cost of training and the number of trainees
		Communication measures to promote innovation and the embracing of challenges	Number of managers playing senior roles (relative to their job grades), and frequency of one-on-one feedback meetings

Major actions to be taken to increase the index scores

Innovation index

Organizational diagnosis score regarding awareness and assimilation of The Nabtesco Way

Fiscal Year	Score
2013	68.6
2015	65.7
2017	64.3
2020	71.4
2022	67.1

Increasing employees' awareness of The Nabtesco Way

The Nabtesco Way provides the management team and individual employees with a basis for their decision-making and actions. Nabtesco has been conducting awareness-raising activities on an ongoing basis and we check the level of awareness annually. Unfortunately, it is yet to reach a sufficient level.

In response, we will revise The Way in 2023 to make it more meaningful for the coming era while ensuring that it continues to reflect our long-held values.

In order to become "Leaders in Innovation" as upheld in the long-term vision, we will work to further raise employees' awareness and assimilation of The Nabtesco Way.

Linkage index

Transfer of personnel

Further mobility of personnel within the Company

To revitalize innovation activities, we attribute importance to the indicator describing the mobility of personnel within the Company. We introduced the in-house job solicitation system in 2019 and have since allowed employees to take second jobs with an eye to providing them with more opportunities to make use of their skills and abilities, thereby boosting their motivation and engagement. In 2022, we introduced the intrapreneurship program "Light" and the in-house company innovation system to enhance our existing businesses to meet the expectations of customers while also searching for new businesses in order to exceed the expectations of customers and society.

*1 Including the number of personnel transferred between the in-house companies and administrative departments and those seconded to other Group companies
*2 Excluding directors, Audit & Supervisory Board members and managing executive officers
*3 Included in the target are those enrolled as of December 1 of each fiscal year.

Engagement index

Cost of training and number of trainees

Attending training seminars for autonomous career development

Due to the pandemic, we substantially changed our training style from traditional face-to-face collective training to online and on-demand training. This shift has eased the attendance burden on employees and also contributed to expanding the scope of training to provide employees with more opportunities for autonomous learning. As a result, the number of trainees increased with the expansion of reskilling opportunities.

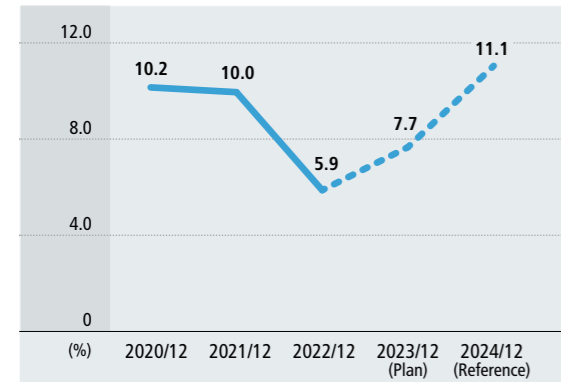
In 2022, we started DX-related training in combination with the assessment of DX skills to help trainees develop their DX skills according to their respective skill levels.

Management of Various Categories of Capital

We will deliver unique value through the enhancement of various categories of capital.

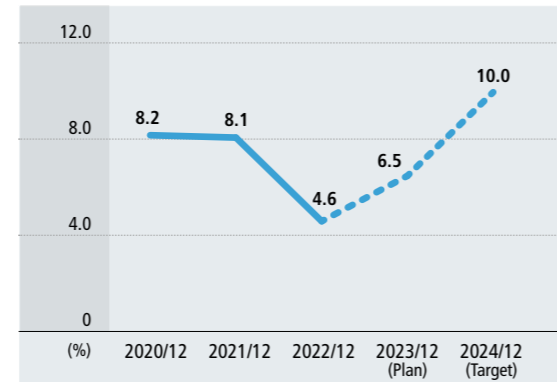
Financial Capital

Operating Income Margin



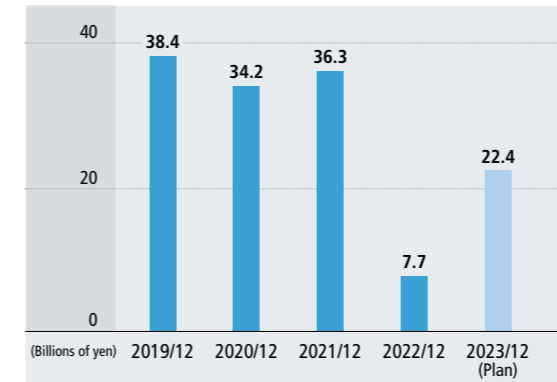
For FY2022, we recorded a decrease in profit in the hydraulic equipment business due to stagnant demand for construction machines in China. Also, influenced by the rise in material and personnel costs, our operating income margin fell sharply year on year. In FY2023, we will implement measures to counter the factors causing a decrease in our profitability, including offsetting rising costs by raising our prices and boosting our productivity. Going forward, we will continue to improve our profitability by expanding the MRO business and adding more value to our products through electrification and systematization.

ROIC



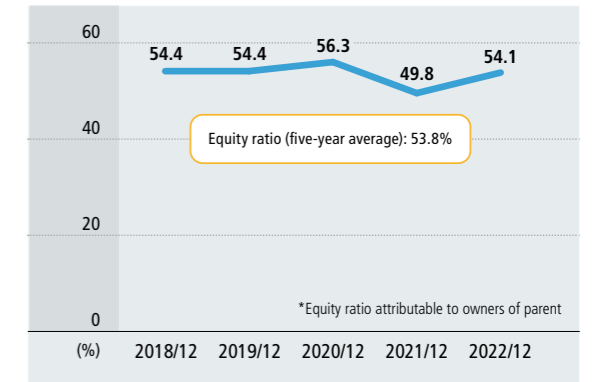
We are working to improve ROIC, upholding "ROIC: 10% or over" as one of our management targets under the medium-term management plan. For FY2022, ROIC was lowered to 4.6% due to a fall in profitability. For FY2023, however, we will raise it again to exceed the level of the previous fiscal year following an increase in profit. In FY2022, we formulated the Basic Policy on the Business Portfolio. By taking actions based on the results of financial and business potential evaluation, we will work to build the optimal business portfolio.

Cash Flows from Operating Activities



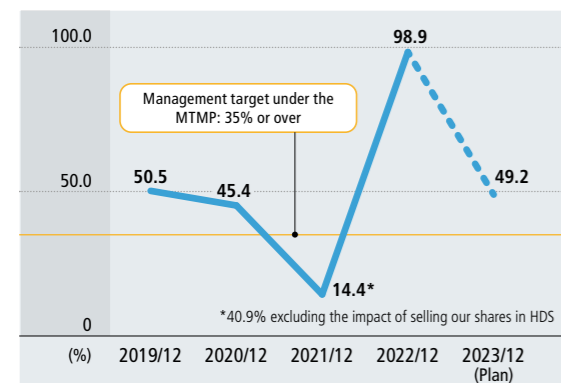
For FY2022, we posted a drop in cash flows as profit before tax decreased because of the payment of corporate tax on the sale of HDS shares. However, we have been able to generate cash flows from operating activities at the level of ¥20 billion to ¥30 billion in a stable manner. We will make effective use of the cash thus generated for capital investment and R&D and also to make growth investments for the achievement of the long-term vision.

Equity Ratio*



The Nabtesco Group is fostering the improvement of capital efficiency and disciplined financial management, being rated A by the credit rating agencies. The equity ratio has been around 53% 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.

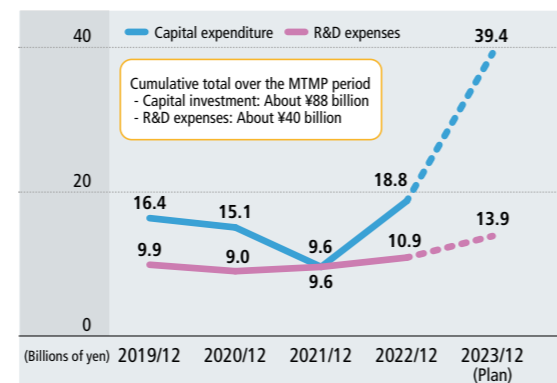
Consolidated Payout Ratio



Due to the posting of financial profit/loss following the selling of HDS shares, the ratio differs between FY2021 and FY2022. However, we have been distributing dividends in a stable manner according to the policy of pursuing a "Consolidated payout ratio of 35% or over" as promised under the medium-term management plan (MTMP). In 2021, we acquired our own shares and cancelled ¥20 billion worth of treasury stock. We will continue to pay dividends in a stable manner to our shareholders.

(Note) HDS: Harmonic Drive Systems Inc.

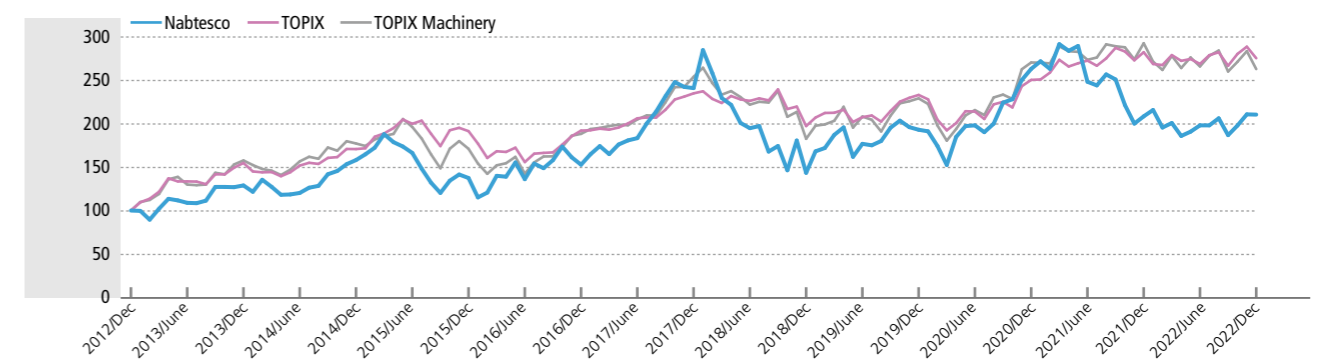
Capital Expenditure/R&D Expenses



Under the medium-term management plan (MTMP), we will make aggressive investments for future growth. As for capital investment, we will make large investments in FY2023 for the construction of a new plant in Hamamatsu city to expand our production capacity for precision reduction gears as well as in the rebuilding of the Tarui Plant to make it an eco-friendly plant in the hydraulic equipment business. For R&D, we will focus on the development of electrified and systematized products.

Relationship capital

Total Shareholder Return (TSR) for the Past 10 Years



Return on Investment (ROI) as of December 31, 2022

	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	1.1%	10.1%	3.3%	-13.4%	-2.8%	109.7%	7.7%
TOPIX	-2.5%	18.1%	5.7%	17.2%	3.2%	174.2%	10.6%
TOPIX Machinery	-10.2%	14.7%	4.7%	3.5%	0.7%	161.8%	10.1%

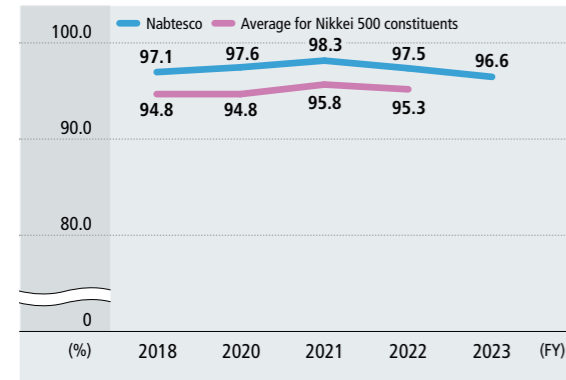
For TSR, cumulative return and annualized return over the past ten years came to 109.7% and 7.7%, respectively, as of the end of 2022. Reflecting a decrease in profit posted for FY2022, Nabtesco's stock price showed a declining trend and was low relative to TOPIX and TOPIX Machinery. We will work to expand TSR by steadily implementing growth investments to generate added value and thereby increase our corporate value.

(Note) The above graphs show ROI as of December 31, 2022 in cases where investments were made on December 31, 2012. 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, 2012 as 100. TOPIX and TOPIX Machinery have also been indexed in a similar manner by using data that included dividends.

(Source) Prepared by the Nabtesco Group based on the Tokyo Stock Exchange's monthly closing stock prices and other data

Management of Various Categories of Capital

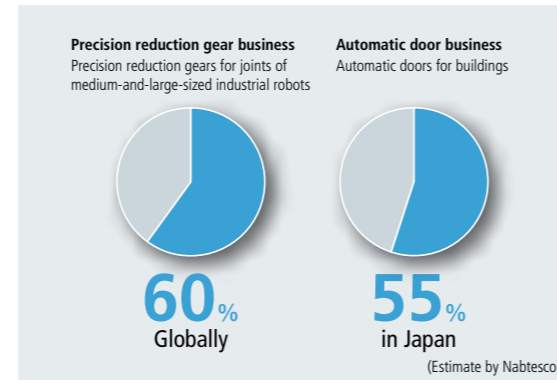
Affirmative Vote Rate of Selected Directors



Nabtesco 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 96% for the past five years, exceeding the average for listed companies in Japan. At the general meeting of shareholders held in March 2023, the rate for Nabtesco was 96.6%.

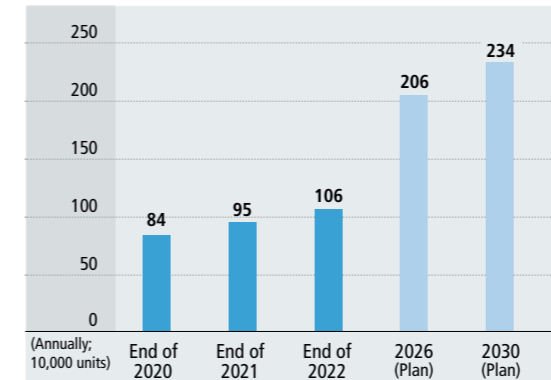
(Note) Nabtesco's affirmative vote rate of selected Directors is the average rate calculated based on the affirmative vote rates recorded for each of the selected Directors at the general meeting of shareholders for the fiscal period. For Nikkei 500 constituents' affirmative vote rates of selected Directors,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

Strong relationships of trust with blue-chip customers



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 leading shares 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 challenges through our business operations.

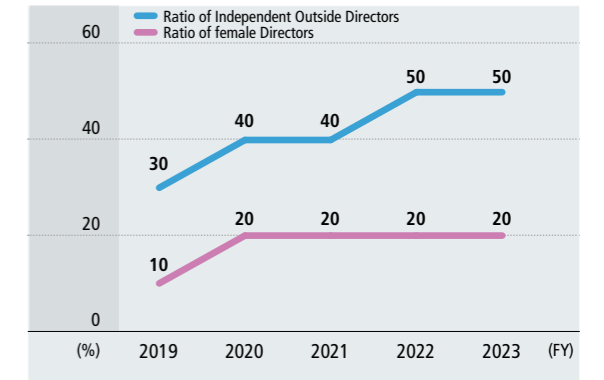
Precision Reduction Gear Production Capacity



Due to expanding needs for EVs, greater labor efficiency and automation, demand for precision reduction gears will remain brisk going forward. In October 2023, the Hamamatsu Plant will be completed as a leading-edge manufacturing base and, in 2030, our regular production capacity for precision reduction gears will reach 2.34 million units per year, almost double that of the current level. We will thus build a system to meet the increasing demand, thereby solidifying our competitive position in the market.

Organizational Capital

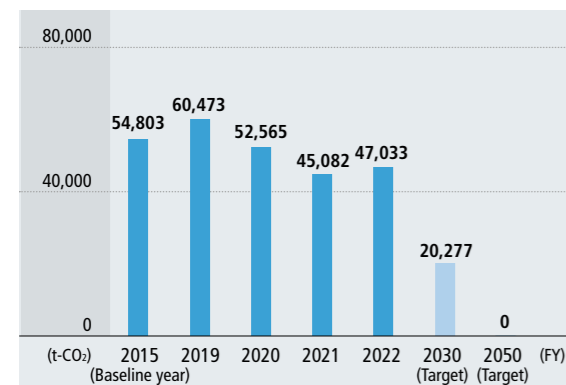
Board of Directors with Increased Diversity



In FY2020, the proportion of female directors on the Board was increased from 10% to 20%, and in FY2022 the number of independent outside directors was also increased by one person, or a proportional increase to 50%. In order to make flexible responses to our dynamically changing business environment and to implement management strategies in consideration of the various features of our business, we choose directors with a focus on diversity.

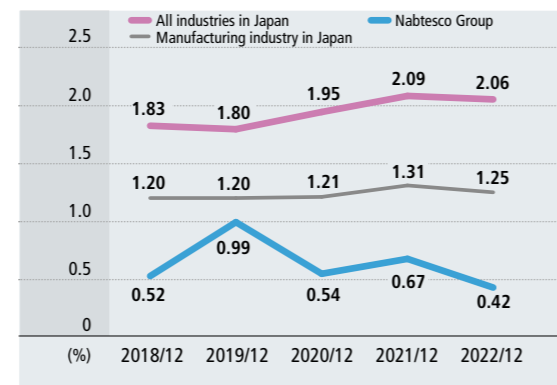
Manufacturing Capital

Global CO₂ Emissions (Total)



As "Countermeasures for climate change," which is included in our management materiality, we set a long-term target of reducing our CO₂ emissions in Scopes 1 and 2 by 63% in FY2030 and by 100% in FY2050 relative to FY2015. We have been steadily conducting energy conservation and creation activities and fostering the procurement of renewable energy (by purchasing certificates) to achieve this target. Also, for Scope 3, we are promoting collaboration with suppliers with the expectation that they will set their own voluntary CO₂ emissions reduction targets in FY2025 and SBTs in 2030. In the meantime, we are urging our primary suppliers, who collectively account for 70% of our procurement in monetary value, to set their targets ahead of schedule in FY2024.

Lost Time Injury Frequency Rate



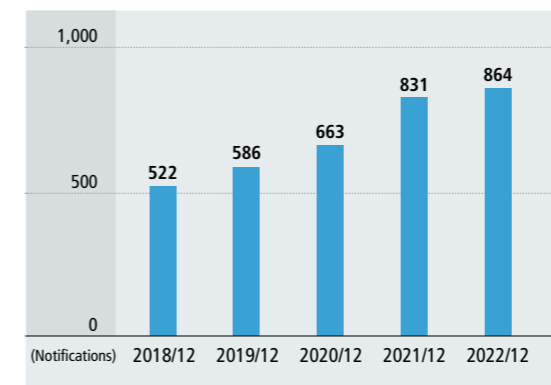
Ensuring safety is a basic precondition for business activities. In the "pursuit of safety, comfort and a sense of security" which is included in our management materiality, we take various actions to eliminate occupational accidents.

Although Nabtesco's lost time injury frequency rate has been lower than the average in all industries and the manufacturing industry in Japan, we have not yet achieved the goal of zero occupational accidents including commuting related ones. For the achievement of the target, we will continuously conduct activities to build the culture of safety in our own way.

(Note) Data for the all-industries average and the manufacturing industry average in Japan are from the 2022 Survey on Industrial Accidents, Ministry of Health, Labour and Welfare.

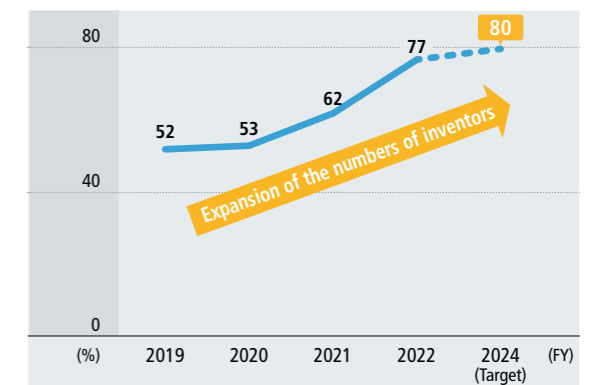
Intellectual capital

Number of Notifications on Intellectual Property Creation



We have set the creation of intellectual property as one of the performance indicators for in-house companies. In order to foster a corporate culture toward innovations, we encourage creative activities by engineers for new business generation, new technology development and accumulation of design/production know-how. Consequently the number of notifications on intellectual property creation has been increasing year on year. Moreover, increasing employees' motivation toward creative activities, we give commendations to excellent inventors who have contributed to our business.

Increase in the Ratio of Inventors Who Will Lead Innovation



The ratio of inventors to the total number of our engineers has been increasing year on year. In the category of engineers, we include not only those engaging in design and development but also those in charge of production technologies at our plants. We have thus steadily nurtured a mindset oriented to the creation of innovation among engineers across the Nabtesco Group.

Special Feature: Talking about the Innovation Strategy Division

Fostering innovation to meet and exceed the expectations of society



<p>Masaru Sasaki Corporate Officer General Manager, Human Resources Department, Innovation Strategy Division, and President, Nabtesco Link Co., Ltd.</p>	<p>Koichi Miyaguchi Executive Officer General Manager, Innovation Strategy Division, and CVC Promotion Department</p>	<p>Hiroki Higuchi Executive Officer General Manager, Corporate Planning Department, and Innovation Strategy Division</p>	<p>Tomohiro Kiriya Executive Officer Senior General Manager, Technology and R&D Division, and Innovation Strategy Division</p>
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In January 2023, Nabtesco established the Innovation Strategy Division as an organization to foster measures to become "Leaders in Innovation" as upheld in the long-term vision. The executives who are in charge of corporate planning, technology and human resources at Nabtesco also have concurrent roles in the Innovation Strategy Division.

They talked with the Division head about their perception of innovation-related issues, the desirable corporate culture for promoting innovation and about the direction of reforms to be taken by the Company.



Higuchi

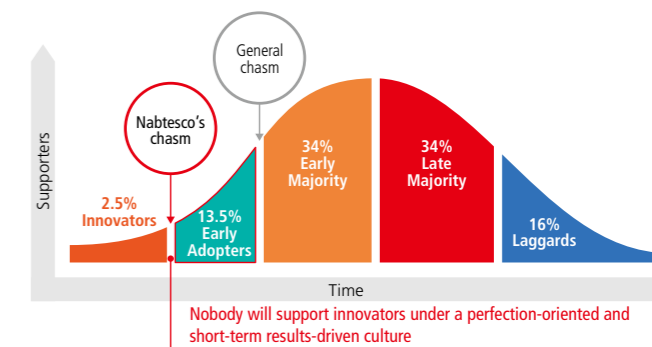
Things that seem to be irrelevant to us might lead us to find something new. We therefore need to broaden our horizons and look beyond the present ahead of society at large, not just ahead of our customers.

To avoid becoming a victim of our own success

Higuchi: Thinking it is essential to foster innovation for the sustainable growth of Nabtesco, we set the catchphrase, "Innovation in Action" for our long-term vision. However, we have not yet successfully fostered innovation to the degree we had hoped for and so the establishment of the Innovation Strategy Division was proposed as a cross-departmental initiative for the strategic promotion of innovation.

Sasaki: Nabtesco was founded in 2003 through the merger of NABCO and Teijin Seiki, which had been founded in 1925 and 1944, respectively, based on the

● Innovation viewed based on Chasm Theory



Japanese government's industrial promotion policy. After the end of World War II, NABCO worked on its pneumatic and hydraulic technologies and Teijin Seiki its hydraulic and speed reduction technologies to contribute to Japan's postwar industrial reconstruction and the establishment of infrastructure while also boosting their own competitiveness. These two companies had been giving first priority to working closely with customers and meeting their needs, and top-class companies adopted our products. This practice of consistently meeting customer needs perfectly and achieving short-term success continued to be valued even after the two companies integrated to become Nabtesco. Amid this prevailing organizational culture, novel ideas unrelated to customers' needs and personnel with unique abilities tended to be overlooked and undervalued. This recognition formed the basis of the hypothesis that is now informing our human capital management.

Higuchi: We had been feeling a sense of crisis about our slow progress with innovation. In 2018, in order to mitigate this feeling, we founded Nabtesco Technology Ventures AG in Switzerland to conduct corporate venture capital (CVC) activities. Subsequently, in 2021, we established the CVC Promotion Division (presently CVC Promotion Department) out of a need, in these turbulent times, to use unconventional methods to find inspiration and not depend solely on our own resources. For example, in the automobile industry, it is impossible for a company to respond to the EV trend by relying solely on its own technologies. The same applies to our industry and we need to apply digital technologies to our products and processes. Accordingly, we now have the CVC Promotion Department and the Digital Transformation Promotion Department under the Innovation Strategy Division. The two departments will strive to create new value by adopting knowledge and expertise from outside the Company to create new businesses together.

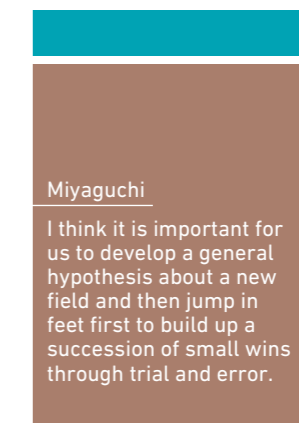
Boosting momentum through both tangible and intangible measures

Sasaki: For the strategic promotion of innovation, it is

essential to conduct CVC and DX activities. We also need to give support to in-house innovators on a company-wide basis toward boosting the momentum for innovation across the board. Chasm Theory has helped us to share an understanding of Nabtesco's innovation-related situation. According to the theory, there is a chasm between early adopters and the early majority, and you can win majority support in the market by successfully crossing the chasm. In the case of Nabtesco, however, the Company might need to cross a chasm to reach early adopters or even to reach innovators. We are concerned that the culture of perfectionism might make it difficult for innovators at the Company, if they appear, to find supporters. I therefore think it is also necessary to create a corporate culture of and momentum for supporting in-house innovators.

Higuchi: Yes, indeed. We have newly established the intrapreneurship program "Light" and the in-house company innovation system with an eye to building a culture for innovation. The establishment of the systems is one of the tangible measures that we have implemented for the Company to proactively listen to employees' ideas for innovation and give support for their materialization.

Sasaki: To support such measures, we also need to implement intangible personnel measures. For human capital management, it is essential to foster both tangible and intangible measures.



Miyaguchi

I think it is important for us to develop a general hypothesis about a new field and then jump in feet first to build up a succession of small wins through trial and error.



Special Feature: Talking about the Innovation Strategy Division



Sasaki

For innovation, it is necessary to implement both tangible and intangible measures.

Kiryama: At the Technology and R&D Division, employees are spending the time saved through work style reforms to participate in the free discussions held for the generation of new ideas under the leadership of younger employees as well as to conduct research independently. I also participate in these activities, thinking it is important for a leader to encourage younger employees to engage in free discussion and provide them with an environment where they can proactively express their opinions, which will in turn help the organization to produce new ideas.

Sasaki: DX-based process innovation is a key factor to save time. DX could be regarded as a purpose rather than a means. If we can increase our operational efficiency through DX to save time and thereby help employees to feel more relaxed, the number of employees who can serve as early adopters might increase. To this end, it is also important to foster communication. Taking the opportunity provided by the 20th anniversary of the founding of Nabtesco, I hope that we will be able to foster communication and thereby promote innovation across the Company.

Exceeding expectations from a long-term viewpoint

Miyaguchi: Nabtesco adopts the in-house company system and each of the in-house companies is responsible for their respective earnings. Accordingly, they tend to pursue short-term profit and inevitably input their resources into their current business activities. A major reason for this is that such activities generate short-term profits. However, activities that are conducted on a long-term basis should also be evaluated, including the struggle to develop new products, the effect of which cannot easily be proven using figures.

Sasaki: In fact, in the performance evaluation of the in-house companies, non-financial elements, such as the creation of intellectual property and the reduction of CO₂ emissions, are becoming increasingly important.

Higuchi: From the viewpoint of profit distribution, it is of course necessary to evaluate short-term results, but focusing too much on them might hinder us from achieving long-term growth. The in-house company innovation system represents one of our tangible measures to support the in-house companies in continuing their innovation efforts, which are absolutely necessary on a long-term basis, and this system is to be implemented in parallel with the intrapreneurship program "Light."

Kiryama: The Technology and R&D Division has created a technological roadmap in collaboration with the in-house companies. We summarize the key technological fields, new market opportunities, and the existing businesses of the in-house companies in a matrix format with a focus on new types of energy, smart robotics and next-generation mobility as new growth fields.

The next challenge for us to meet includes promoting open innovation and M&A based on our existing core technologies. It is also important to identify promising business fields by making effective use of the Intellectual Property (IP) Landscape analysis method. We have already identified the following needs and challenges for the CMFS business, which is a new business that we are currently working on intensively: macro research for patents regarding offshore wind power generation systems; prevention of equipment failures; higher operational efficiency; longer product life and failure detection; and remote monitoring. We are of course also proactively performing IP Landscape analysis in the technological fields of other in-house companies.

Miyaguchi: In the wind power generation field, we are promoting collaboration with eologix, which has advanced technology to monitor the status of wind turbine blades, through CVC investment. We are working to combine eologix's technology with our CMFS to advance it as a condition monitoring system and to contribute to increasing the operational efficiency of wind turbines.

We have two targets to attain through CVC. First, we aim to foster open innovation to support the in-house companies. Second, we are promoting collaboration with startups engaging in new disruptive innovation-related fields. For space development, we have invested in SPACE ONE, and including the space business in our business portfolio has helped us gain great insights. For example, we learned about the strictness of component specifications as well as about the possible scenarios for our future

participation in the satellite business. For new innovative fields, we are committed to speeding up our measures so that we can participate before it is too late for us to become a leader in a niche market or before it has become a mainstream market.

Aiming for 60% rather than being perfect

Sasaki: For us to be innovators, I think we need to jump into a new field when we are 60% ready for it, rather than waiting until we're at 100%, which would be a departure from Nabtesco's perfection-oriented culture. But it is of course important to ensure quality as a precondition for this.

Miyaguchi: For ideas proposed under the Light system, it is absolutely necessary to do so.

Higuchi: From now on, in complete contrast to the past, those proposing new ideas at Nabtesco will be supported by "accelerators," who will guide them toward successful innovation. For the creation of new business ideas, it is important to identify potential needs in society ahead of others, for which we need to take a broader view beyond the scope of our own industry. Things that seem to be irrelevant to us might lead us to find something new. We therefore need to broaden our horizons and look beyond the present ahead of society at large, not just ahead of our customers.

Miyaguchi: I think it is important for us to develop a general hypothesis about a new field and then jump in feet first to build up a succession of small wins through trial and error.

Kiryama: Regarding the free discussion and research activities led by younger employees, which I mentioned earlier, the employees will also be able to learn various new things by participating in trade fairs and seminars, regardless of whether the events are related to their own business field or not. Such experiences will help them make new findings and make connections between those findings and what they are already doing, which will in turn help them hit upon new ideas and make even more findings.

Higuchi: So, you need to learn and know more. It is said that only three out of a thousand ideas lead to innovation, and so we need to increase the number of ideas proposed, for which it is essential to provide employees with an environment where they can gain inspiration.

Kiryama

It is important for a leader to encourage younger employees to engage in free discussion and provide them with an environment where they can proactively express their opinions, which will in turn help the organization to produce new ideas.



Meeting and exceeding expectations as one Nabtesco team

Miyaguchi: Unlike conducting short- and medium-term development activities, in generating innovations that help solve social issues we will face various uncertainties. However, compared with when we started CVC activities, I think the in-house companies and employees have become more open-minded. How should we try to cross the chasm? To cross it, we need a corporate culture that enables employees to think together as an organization, and I would like to create such a culture as a member of this team of four.

Higuchi: Learning lessons from past failures to commercialize new ideas, we set up the Innovation Strategy Division. We will make full use of Nabtesco's resources to implement both tangible and intangible measures toward the commercialization of innovative ideas.

Kiryama: The four of us share the same commitment. We will collaborate with one another to create new products and businesses that will be Nabtesco's next-generation mainstays. I would of course like to cooperate with members of both the administrative departments and in-house companies to work as one Nabtesco team.

Sasaki: Successful innovation depends on whether or not we can motivate personnel and increase the momentum of the entire organization. As for personnel, I would like to make necessary investments proactively and foster measures to increase our corporate value on a medium- to long-term basis.

While valuing the fact that we have long been meeting the expectations of our customers, we will make it part of our corporate culture to strive to exceed customer expectations, even just a little, for which I would like to foster personnel measures to support employees in making such efforts.

All four: It is important for us to keep the momentum for innovation going.

World's first full-height platform screen doors developed through open innovation



Keijiro Nakamura

Vice President, Representative Director, and Executive Officer; Senior General Manager of Railway Operations Headquarters
West Japan Railway Company



Seiji Takahashi

Director, Managing Executive Officer, President, Accessibility Innovations Company
Nabtesco Corporation

The West Japan Railway (JR WEST) Group and Nabtesco have jointly developed the world's first full-height platform screen doors.

Vice President Keijiro Nakamura of JR WEST and Seiji Takahashi, President of the Accessibility Innovations Company talked about the open innovation process used to develop the full-height platform screen doors, the vision set for the "Umekita Area" of Osaka Station, significance of the "JR WEST LABO" as an experimental space for innovation, and the outlook for open innovation.

Making the "Umekita Area" of Osaka Station a "station of the future"

Takahashi: Please again briefly describe the concept of the "Umekita Area" of Osaka Station.

Nakamura: In the lead-up to Expo 2025 Osaka, Kansai,

Japan, we are implementing a project to make the "Umekita Area", located in the north (kita) area of Osaka Station, a JR WEST "station of the future" for the Kansai region.

In the "Umekita Area", which we regard as a center for the "JR WEST LABO", we are conducting experiments to concretize the technological vision of JR WEST, with an eye to developing even more advanced safety systems

by fusing the real and digital worlds while meeting the challenge of providing customers with value that increases their satisfaction.

Specifically, we are promoting co-creation through open innovation with a range of advanced companies, including those in the entertainment and software industries, in way that is similar to Silicon Valley. To make the "Umekita Area" incorporating the LABO center a "station of the future," we have been carrying out demonstrations to introduce a face recognition system at the ticket gates, AI-based guide robots, customized guide services for individual passengers, and guide services for people with visual impairments. We will thereby provide new value in the Area going forward.

Developing a world-first platform screen door unit by thinking outside the box

Takahashi: Let me ask you about the "Osaka Station's new Umekita platform" opened in March 2023.

Nakamura: We relocated the existing freight railway underground and established a new platform for express trains linking Kisei, Kansai International Airport and Kyoto. In the future, the platform will also be used for trains running on the Naniwasuji Line and the Nankai Line, and so we needed to develop and install platform screen doors that would be suitable for a range of train cars. Moreover, because freight trains will run underground, it is necessary to deal with the train wind effect. To meet these requirements, we planned to develop and install full-height platform screen doors and asked your company, which has a proven track record for such doors, to collaborate with us in a co-creation project.

Takahashi: When we were first contacted by your company for the project in the spring of 2017, we were unable to promise you that we would be able to develop a platform screen door unit that could be used for various train cars, as there were many technological problems to be solved. One year later, however, your company proposed a concept for a new platform door unit. Generally, waist-high type platform screen doors are installed into the floor. However, you proposed that a platform screen door unit, which is composed of multiple doors and a door pocket, be hung from the ceiling to make it possible to slide the unit left and right. It really was an out-of-the-box idea and we were impressed by the passion and dedication you demonstrated in trying to come up with an innovative door system.

We are proud of ourselves as a pioneer of platform screen doors, and we decided to draw on our expertise and

resources to engage in the co-creation project.

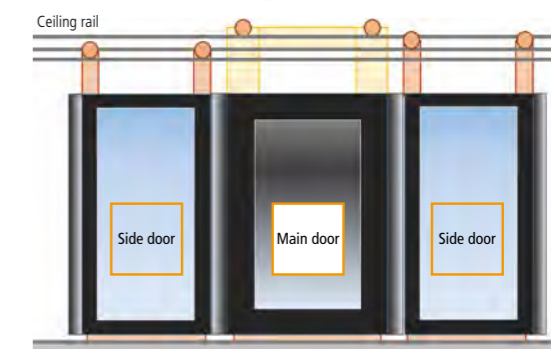
Your company, West Japan Railway Techsia Co., Ltd. and Nabtesco all worked together for the development of the door unit and faced a range of challenges in the development process. In particular, the heavy weight of the unit posed a problem. We at Nabtesco, also by thinking outside the box, changed the design from a structure consisting of "two side doors supported by the main door" to one consisting of "each of the main door and side doors being supported separately by being hung from the ceiling rail" to reduce the weight and distribute the load of the door unit, including the doors and the supporting structure, and to simplify the overall design. As a result, we were finally able to have a clear outlook for the project.

The platform door unit is composed of one main door and two side doors. A total of 50 units are now lined up on the platform, and by controlling their respective main and side doors, you can easily change the locations of the openings. In order to control the doors, however, we had to meet a range of challenges. It was especially difficult to slide the adjacent side doors together without creating a gap between them. By tossing new ideas around among the three companies, we were finally able to meet this challenge. Specifically, we installed electromagnetic locks between the side doors to have the doors pulled closely together by the sliding main door.

Nakamura: In 2019, I saw the prototype doors at Nabtesco's Konan Plant. I am grateful that you were able to develop the doors within a short time frame. After the development, we also faced difficulties when installing the doors.

Takahashi: We paid special attention to ensure safety, as the doors differed from conventional platform screen doors in terms of structure and movement. Giving first priority to ensuring the safety of passengers, even after

● Distributing the load by hanging the main and side doors separately from the ceiling rail



By controlling the unit composed of a main door and side doors, you can freely locate the openings. Platform screen doors are usually installed into the floor, but these doors are hung from the ceiling, which helps distribute the load and has led to the reduction of the door unit weight and the simplification of its structure.



Nakamura

For the fusion of the real and virtual worlds, what digital functions can we give to “doors,” through which you enter/exit real facilities? There are various possibilities, I think.

mass production had started, we changed the design to add a sensor to the door unit. We thus avoided making any compromises. For the installation of the door units, we confirmed the details with West Japan Railway Techsia, including the installation procedures and criteria, so that the door units would be installed with the precision we specified. Through the concerted effort of the three companies, we were able to achieve high safety & reliability as well as a beautiful design for the door unit.

Nakamura: We had only about one month for the trial run of the trains after the railroad track adjustment work was completed for the opening of the platform. All staff made a concerted effort to adjust the schedule and carry out checks on a range of train cars and multiple sets of cars to increase the reliability of the opening/closing operation of the door units as well as sensors mounted on the units. We were able to make functional improvements as planned within a short period of time. We faced various hardships, but Nabtesco completed all its tasks despite the tight schedule. Since the opening of the platform, we have been able to operate the door units with no major problems.

The “Umekita Area” of Osaka Station attracted a lot of attention due to the introduction of a face recognition system at the ticket gates and the installation of the full-height platform screen doors, and soon after the opening of the platform, the number of users, including visitors to the Area, amounted to 30,000 people per day. We expect that the number of passengers will further increase after the completion of the major facilities in the “Umekita Area” and the opening of the Naniwasuji Line.

Takahashi: We were able to meet a range of challenges by collaborating with JR WEST. Especially for the pursuit of safety, we learned a lot from the project.

Speeding up open innovation through the JR WEST LABO

Takahashi: How will JR WEST accelerate open innovation?

Nakamura: JR WEST has previously tended to attribute importance to doing everything independently, but we are in a new age. We need to be flexible and adopt excellent technologies also from outside the company. In the past we were sometimes unable to receive good proposals because we failed to communicate the challenges we were facing and what it would take for us to meet them.

We will change our attitude and search for co-creation partners to embrace challenges through the “JR WEST LABO”. We are eager to make use of our capital and human resources to grasp promising business opportunities.

It is important for us to fuse the real and digital worlds for the railroad business so that we can serve individual customers in a more attentive manner. To this end we are enhancing our WESTER app for customers. With regard to digitalization and virtualization, I hear some people opposed the idea of broadcasting sumo matches on TV as it would mean fewer live spectators at the Ryogoku Kokugikan sumo hall. On the contrary, however, sumo actually became more popular, bringing more spectators to the hall every day. Similarly, I think we can increase the number of passengers by making use of digital technologies to add new functions to our stations.

Takahashi: The COVID-19 brought digitalization forward, including with online meetings and online selling. However, I think it is still important for people to be able to physically touch things and have hands-on experiences in their daily lives, and stations represent a place that can combine the digital and real worlds.

Doors can be an “entrance” to bridge the real and virtual worlds

Nakamura: Also, for tourism, we have started to create a “virtual Osaka Station.” Having a virtual experience of traveling will encourage people to make trips in the real world.

How can we increase the public’s curiosity and interest in traveling? We used to have separate reward programs for customers in our railroad, hotel and retailing businesses but this spring we integrated the programs into the “WESTER point” rewards program. We will also enhance the provision of digital information through WESTER and provide users with convenient interactive

services while giving them “points” as special rewards, thereby contributing to increasing the attractiveness of western Japan and expanding exchange opportunities in the region.

Takahashi: I hear you will add an electronic financial settlement function to “WESTER”, which I think is appealing for those visiting Japan from overseas, as it will make it unnecessary for them to buy actual tickets or exchange money. In the future, it might become possible for hotel guests to automatically complete the check-in procedures by simply passing through the entrance door.

Nakamura: Yes, indeed. For the fusion of the real and virtual worlds, what digital functions can we give to “doors,” through which you enter/exit real facilities? There are various possibilities, I think.

Takahashi: You need to pass through a door to enter a facility. Stations are a starting point for lots of journeys and many people go there. Automatic doors could play additional new roles as entrances to various facilities. In our automatic door business, we are implementing a range of initiatives by creating digital technologies for the launch of new businesses, including those related to digital signage and ads. Going forward, I would like to foster co-creation with JR WEST also in the automatic door business.

Nakamura: The functions served by stations will change over the next five to 10 years. For example, passengers still need to take some action to pass through the ticket gates. The face recognition system introduced to the “Umekita Area” of Osaka Station will become a standard system in the near future. It is one of our innovation themes to make our services even more convenient for customers.

However, ensuring safety will continue to be our first priority. Platform screen doors are a social good and through the barrier-free fare system launched on April 1 this year, our passengers are now sharing the cost of making our facilities barrier-free, and we therefore need to speed up the barrier-free promotion measures even further.

Developing innovation leaders while also meeting social challenges

Takahashi: We will also create more opportunities to interact with start-up companies and experts to foster innovation. Moreover, we will listen to the opinions of end users and make innovative proposals to meet social challenges, such as the labor shortage and the need for decarbonization.

This June, we launched a new business promotion department within the Accessibility Innovations Company to develop businesses for next-generation automatic doors and in peripheral areas and to provide remote maintenance services based on the use of IoT technologies.

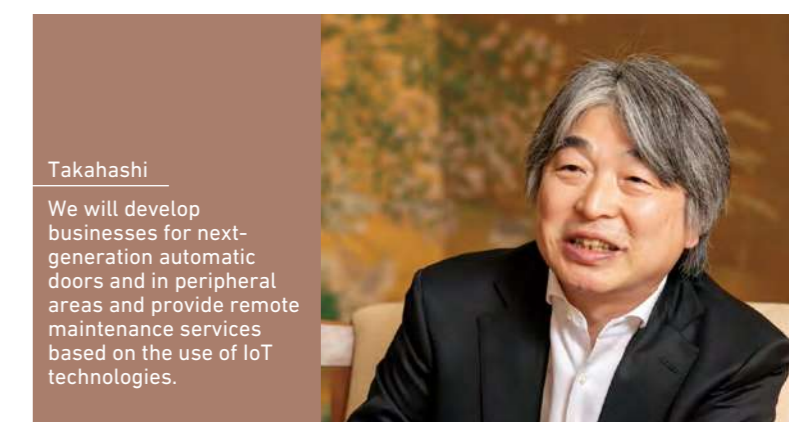
I also think it is important to provide younger employees, who will lead innovation in the future, with workplaces where they can conduct activities in comfort. To this end, we must create a corporate culture that allows employees to fail. I hear from young employees at our company that they were able to freely propose ideas and express their opinions in the co-creation project with JR WEST.

Nakamura: At JR WEST, we also give first priority to safety, and it is true that employees tend to try and avoid failure. However, we need to allow young engineers to be adventurers if we are to become a truly innovative company.

In the project, we were able to innovate largely because the young team members felt comfortable and had the freedom they needed. They were striving passionately to achieve the targets, which I believe has given them great confidence.

Going forward, we will continue to work for the solution of social issues and will generate and deliver innovations for the decarbonization of our society and for the SDGs, for which we would like to embrace challenges with Nabtesco.

Takahashi: We will take measures to contribute to the project that you are implementing to create attractive local communities. Thank you for today.



Takahashi

We will develop businesses for next-generation automatic doors and in peripheral areas and provide remote maintenance services based on the use of IoT technologies.

Long-term Vision

Aiming to become “Leaders in Innovation for the Future”

In 2021, we set our long-term vision, “Leaders in Innovation for the Future.” Based on this vision, we will create new value in the market by making proposals that anticipate our customers’ needs and respond to them in a precise and meticulous manner. In doing so, we aim to acquire the trust of our customers and make Nabtesco a leading innovative and proposal solution company which can compete with global competitors around the world.

Innovation In Action Vision 2030

2030 Vision Leaders in Innovation for the Future



Our Aim for 2030

Creating new value with our unique technology and intelligence

Enriching lifestyles and the environment worldwide

“Moving your heart” by providing safety and security

What we will enhance more

Technology

Combine mechanical and digital technologies in an innovative manner to design a new way of “moving.” Create new value which was never seen in the world as a leader in the industry by making use of Nabtesco’s technologies.

Globalization

Always be a top runner with overwhelming proposal capabilities and technological prowess among global competitors and create a global standard. We act swiftly to provide new value demanded around the world.

Contribution

Each and every employee of Nabtesco will be expected to be strongly committed to social contribution. Guided by the SDGs and an ESG concept at all times, we will spontaneously make contributions to the development of society and protection of the environment through our work styles, technologies, products and services.

What we will continue to value toward the future

Reliable “Monozukuri” and Meisters in Manufacturing

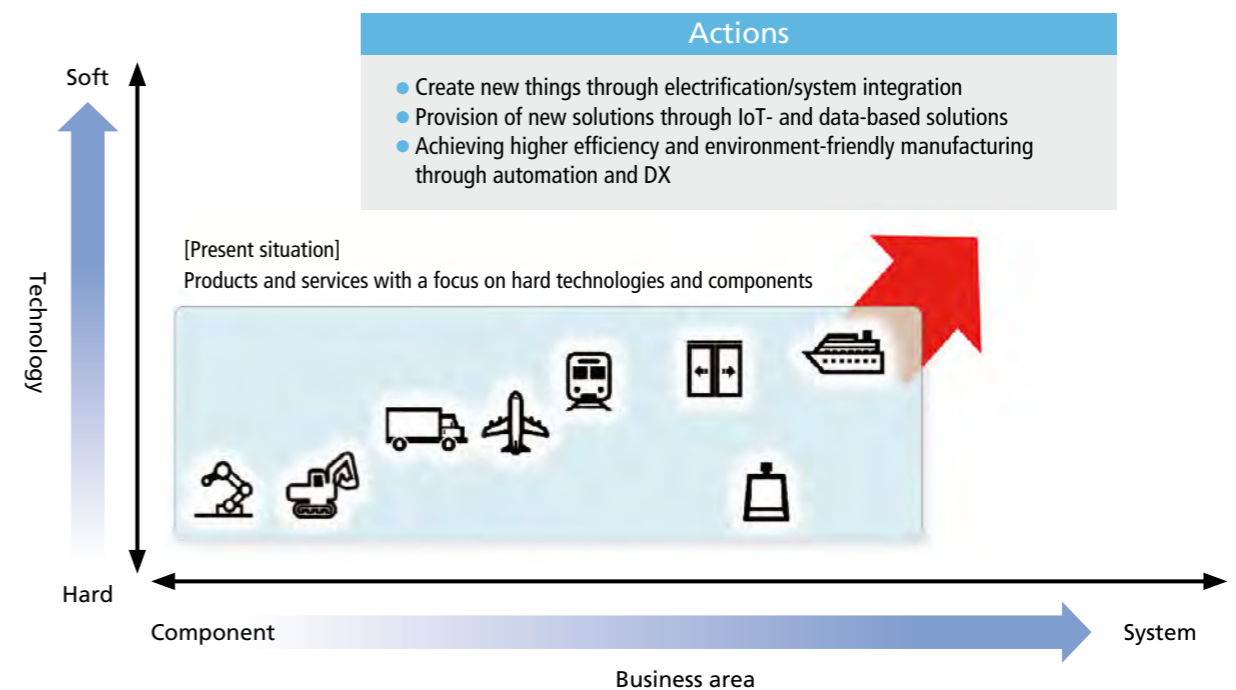
The capacity that Nabtesco has built up to meet the trust of customers provides us with a basis for value creation. We will continuously work to hone this capacity.

Enjoy the Challenge

We will continue to enjoy embracing challenges together as an expression of our corporate culture, which has driven Nabtesco’s growth to the present. Each of us has dreams, and we will persist in taking on challenges to make those dreams come true.

Targeted growth fields

For a shift to “new motion control”

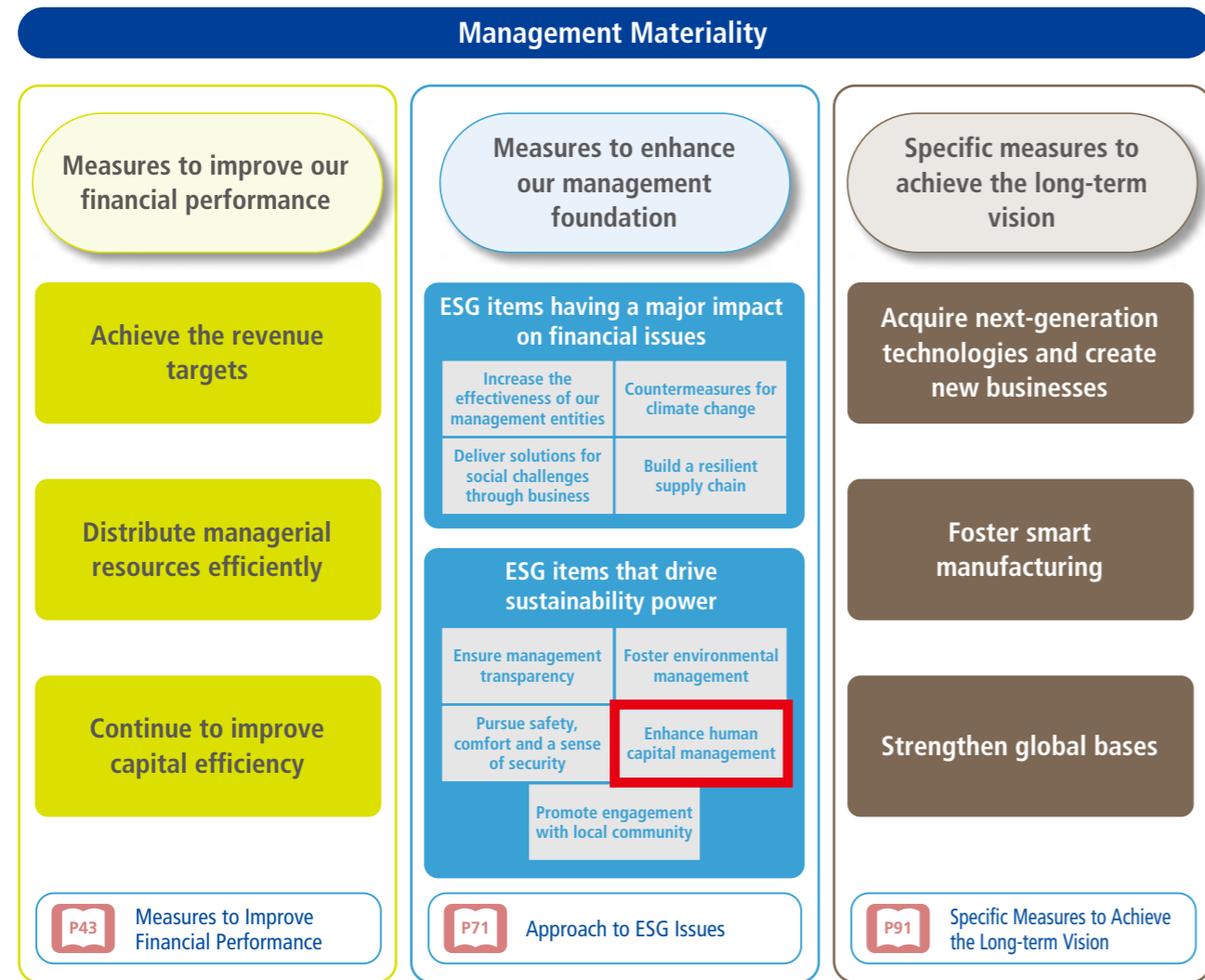


As growth fields for the future, we will focus on new energy, smart robotics and next-generation mobility and advance our core motion control technology to achieve growth in these fields.

Management Materiality

Identifying the issues to be addressed for the achievement of the long-term vision

The Nabtesco Group has identified the material management issues to be addressed for the achievement of its long-term vision. Our management materiality comprises three pillars. By fostering financial and non-financial measures, we will create both economic and social value from a long-term perspective. We will review the issues of management materiality in response to social changes and changes in management awareness of the issues and take actions toward providing our stakeholders with value on a continual basis while maintaining our own profitable growth.



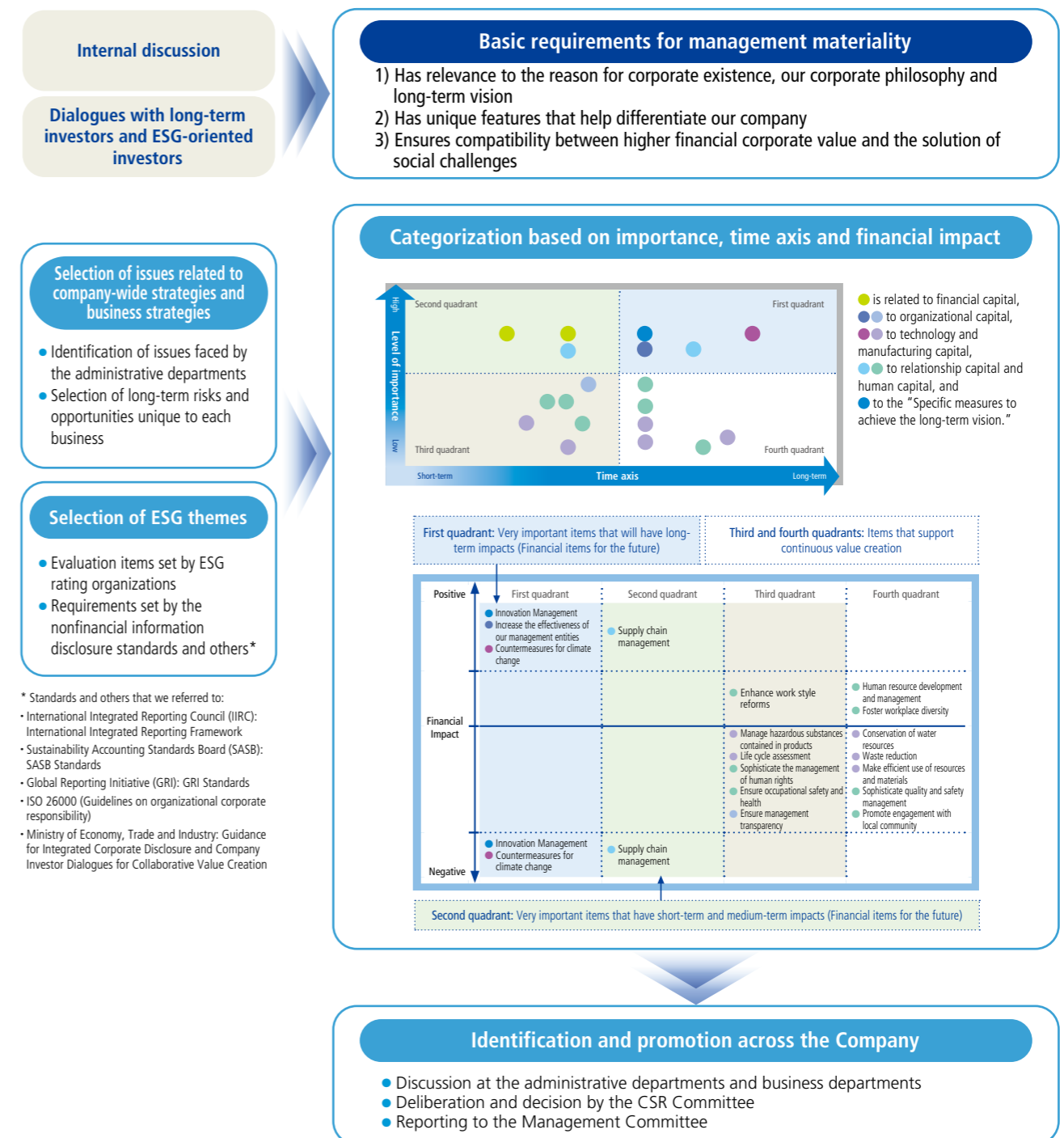
Items Reviewed in 2022

The Nabtesco Group deems it important to "dynamically" change the focus of its management materiality according to changes in the business and management environments. Based on the concept of "dynamic materiality," we will regularly review our management materiality so as to respond to such changes in a nimble manner.

In 2022, in order to redefine human capital as a primary source of value creation and implement integrated measures based on the new definition, we revised the human capital-related item to "Enhance human capital management" and also reviewed the actions to be taken for each related item. The results have already been approved by the Management Committee after deliberation by the CSR Committee and have also been reported to the Board of Directors. We will continue to steadily take actions for the achievement of the long-term vision, thereby further solidifying our management foundation in our pursuit of greater corporate value.

Management materiality identification process

In order to identify the issues important to our management materiality, we summarized the "requirements for materiality" as the following three points based on suggestions received through dialogues with multiple long-term investors and ESG investors. For the enhancement of our corporate value, we take a broader view of materiality so that it covers not only CSR issues but also the specific issues that we need to address for the attainment of our long-term vision for 2030. In the identification process, we held a series of discussions on a company-wide basis and made a final decision after deliberations by the CSR Committee and reporting to the Management Committee.

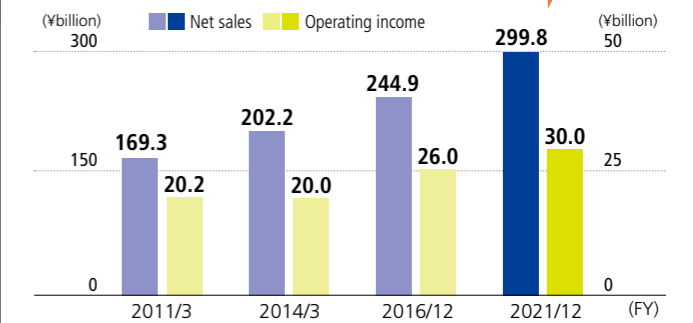


Results and Challenges for the Past Medium-Term Management Plans

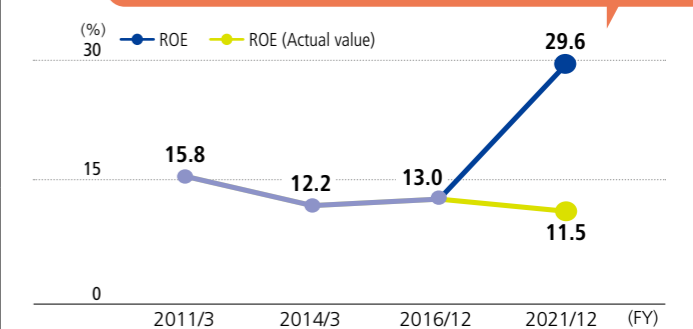
Achieving growth in domestic and overseas markets by maintaining the trust of customers through the provision of solutions

Previous long-term vision	(From the fiscal year ended March 31, 2012 to that ended December 31, 2020) Global Partner with Best Solution —Enjoy the Challenge—			<ul style="list-style-type: none"> - Continue to provide society with new innovative solutions (products, services and business models) - Pursue excellence through continuous technological innovation - 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"
Medium-term management plan	(From FY2012/3 to FY2014/3) Global Challenge: Advance to the Next Stage	(From FY2015/3 to FY2016/12) Think Global! Act Local! For the Second Decade	(From FY2017/12 to FY2021/12) —Create "New Value 2020"—	
Positioning and policy	In Pursuit of Further Growth in the Global Expanding Market Aiming at surviving global mega-competition and continuing to increase our corporate value through enhancement and expansion of our overseas business, promotion of global management and enhancement of domestic business bases	Company-wide strategies -Endless pursuit of customer satisfaction -Further expansion of international businesses -Development of new technologies and open innovation -Establishment of global production system -Improvement of shareholders' value and corporate value	Key strategies -Obtain new markets by accelerating overseas business and developing new domains -Create new solutions through transition from components to systems and services -Improve corporate value by raising profitability through production reforms and operational reforms as well as by seeking better capital efficiency * The plan was originally slated to end in 2020, but the period was extended by one year due to COVID-19.	
Strategy	Basic policies -Development and training of global human resources -Development of emerging markets (Further enhancement and expansion of overseas business) -Further enhancement of strong domestic business bases -Promotion of new business in response to structural changes (in industries and society) -Establishment of a global consolidated management system	Market Creation -Launch of new value-added products -Acceleration of overseas expansion -Enhancement of MRO -Branding buildup Technology Innovation -Implementation of technological development -Acceleration of global production system -Transformation of domestic production bases into mother factories Financial Strategy -Pursuit of asset efficiency -Utilization of financial leverage -Improvement of stakeholder return	Market Creation -Create new markets by accelerating the development of overseas businesses, including through M&A, as well as of new business domains -Expand after-sales services (MRO) business through the effective use of ICT and IoT Technology Innovation -Expand business domains from components to the provision of system solutions -Establish new competitive advantages in products through "manufacturing innovation" including the development of new engineering processes -Realize highly efficient production, high environmental capabilities and a comfortable working environment by introducing smart factory solutions Operational Excellence -Reinforce operation bases through production reforms, structural reforms and operation reforms -Pursue the improvement of profitability and capital efficiency by adding ROIC to the internal management indicators	
Target	FY2013 Net sales of ¥240 billion, operating income of ¥31.3 billion (operating income margin of 13.0%), ROA of 9.5% and ROE of 17.0%	FY2016 Net sales of ¥280 billion, operating income of ¥34 billion (operating income margin of 12.0%), ROA of 7.5% and ROE of 15.0%	FY2021 (1) ROE: 15% (2) Consolidated payout ratio: 35% or over (3) Focus on solving ESG issues	FY2020 (FY2021) reference values Net sales: ¥330 billion Operating income: ¥42 billion (operating income margin: 12.7%)
Result	FY2013 Net sales of ¥202.2 billion, operating income of ¥20 billion (operating income margin of 9.9%), ROA of 6.9% and ROE of 12.2%	FY2016 Net sales of ¥244.9 billion, operating income of ¥23.4 billion (operating income margin of 9.6%), ROA of 7.6% and ROE of 13.0%	FY2021 Net sales of ¥299.8 billion, operating income of ¥30 billion (operating income margin of 10.0%), ROA of 15.6% and ROE of 29.6%	
Evaluation	Qualitative evaluation Expansion of the sales network and service system to speed up overseas business development -Established a sales subsidiary for precision reduction gears/hydraulic equipment (in China) -Made automatic door sales companies consolidated subsidiaries (in Canada) -Established a local corporation for the packaging machine business (in the United States) -Acquired a manufacturer of railroad vehicle doors (in Italy) Promotion of new business -Established the New Energy Business Development Division (Integrated the solar tracking equipment business and the wind turbine drive unit business into one) Formulated The Nabtesco Way -Enhanced unity across the Group and solidified the business foundation	Expansion of high value-added products and services -Released actuators (optimized by the combined use of precision reduction gear and servomotor technologies) into the market Effective use of external resources through proactive M&A -M&A to pioneer a new market (to expand the domestic and overseas sales network for the automatic door business) -M&A to expand the product lineup (for hydraulic equipment/commercial vehicle equipment) Enhancement of the development promotion system -Established the NDEC (as an R&D base for open innovation) Increase of MRO sales -Increased MRO sales across the Company Progress with production reforms at the plants -Restructuring of the production bases in China Maintenance of stable dividend payment -Maintained the payout ratio at 30% or higher during the period	Establishment of a foundation to pioneer new fields -Obtained the technologies and a base in Europe for model-based development by acquiring OVALO Achievement of innovation in manufacturing -Increased operational efficiency through an ICT-based production management system -Promoted plant automation -Reviewed procurement for total optimization Fulfillment of the commitments -Maintained the payout ratio at 35% or higher during the period -Focused on solving ESG issues (Reduced CO ₂ emissions, carried out LCA, ^{*1} conducted 3R ² activities, performed DD ³ for human rights, reduced the average overtime work hours, increased the rate of outside directors, and identified management materiality) <small>*1 Product life cycle assessment *2 Reduce, Reuse and Recycle *3 Due diligence</small>	
	Quantitative evaluation	The Great East Japan Earthquake occurred during the MTMP period, which was followed by the European debt crisis and economic slowdown in China. Amid such an extended difficult business environment, we achieved none of the consolidated performance targets, mainly due to stagnant sales in the railroad vehicle equipment and hydraulic equipment businesses, especially in China.	We achieved none of the consolidated performance targets due to the degradation of the Chinese construction machinery market, which had been expected to grow, changes in the solar thermal power generation market and other external factors as well as to internal factors, such as substantially delayed overseas market expansion and failure to achieve sales targets for new products and new businesses.	Due to the COVID-19 pandemic, US-China trade frictions and other unexpected market changes, we were unable to make progress with overseas expansion and development in new fields as planned. We were unable to achieve the target of "ROE: 15%."
Challenges for the next MTMP	- Build a corporate structure that enables us to pursue growth while minimizing the impact of changes in the business environment - Promote a shift to become a company that can make more value-added proposals	- Pursue profitable growth - Speed up development and make recovery in overseas markets - Develop highly value-added products (by using IoT and sensing technologies and developing new engineering processes to offer more value to customers) - Increase manufacturing efficiency for higher profitability	- Improve profitability and capital efficiency - Expand the business domain to include new fields - Build a production system that is more resilient to market changes	

Net sales and operating income Achieved growth although the targets were unattained

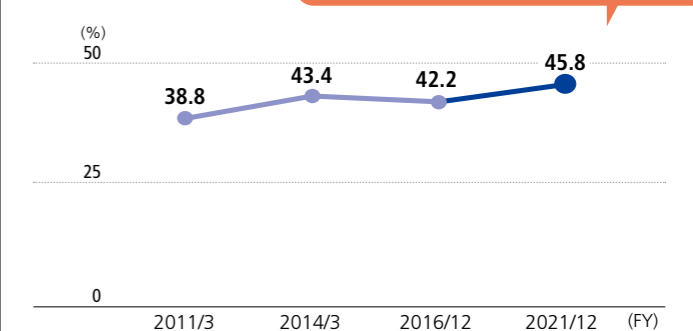


ROE Achieved "ROE: 15%" due to a special factor, but did not achieve actual value*

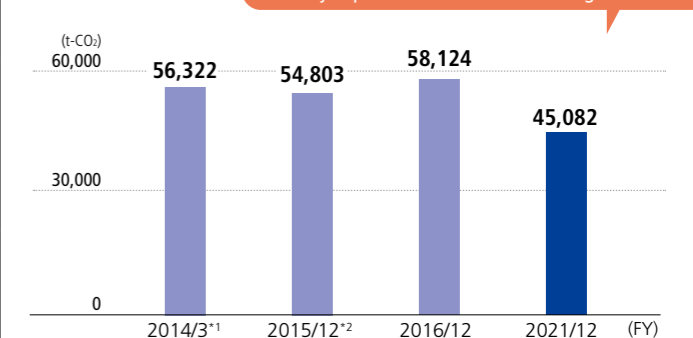


* Actual value calculated by excluding the financial impact of selling the shares in Harmonic Drive Systems

Overseas sales ratio Expanded sales in emerging markets



CO₂ emissions Steadily implemented anti-climate change measures



*1 Started measuring CO₂ emissions on a consolidated basis.
*2 Base year for long-term CO₂ emissions target

Progress with the Medium-Term Management Plan

Declaration to embrace challenges

The Nabtesco Group launched the medium-term management plan, "TIME FOR CHALLENGE" in 2022 based on the results of and issues identified under the previous medium-term management plan. We at Nabtesco will continue to embrace the three challenges as described below to transform ourselves and our company into "Leaders in Innovation for the Future."

Medium-Term Management Plan (FY2022 - FY2024)

Enjoy the Challenge

–Change the corporate culture to embrace failure and encourage employees to take on challenges–

"Change ourselves"
Redefine our current Action Guidelines

"Change the Company"
Implement innovation systems/tools

Innovation for "New Motion Control"

–Create and provide new value through DX, electrification and systematization–

TIME FOR CHALLENGE

–Change Yourself, Change the World–

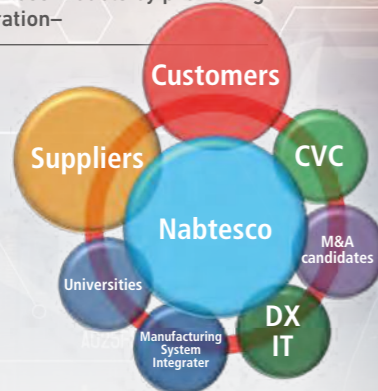
Challenge of fostering creativity

Challenge of fostering reforms

Challenge of fostering globalization

Intelligent Imagination & Execution

–Create new business models by promoting external collaboration–



Global Value "Network"

–Strengthen global management systems–



Targets for medium-term management plan

ROIC 10% or over

Consolidated payout ratio 35% or over

Focus on solving ESG challenges ... CO₂ emissions reduction Reduced by 25% (Baseline year: fiscal 2015/aligned with the SBT 1.5-degree Celsius target)

Measures implemented in the first year of the medium-term management plan and progress made to date



Challenge of fostering reforms

"Change the Company" Implement innovation systems

Intrapreneurship program "Light"

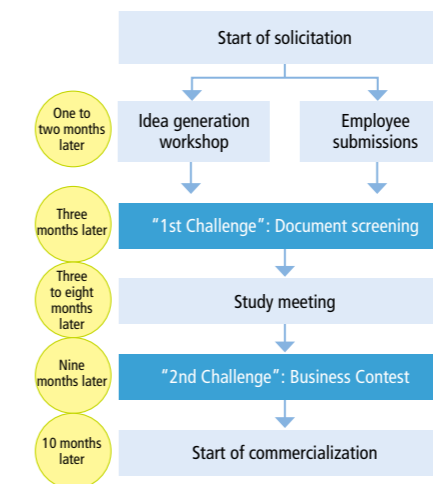
We started to implement the intrapreneurship program "Light" in October 2022. Under the program, we solicit business ideas from employees and then screen and workshop the ideas proposed. The ones thus selected are to be transformed into new businesses with the help of a newly launched in-house venture unit tasked with commercialization. Employees also receive support from "accelerators" to refine their business ideas through study meetings. We allocate a budget for the ideas chosen and internally disclose how they are being transformed into new businesses to encourage more employees to participate in the program. Since the launch of the program, nine ideas out of 21 proposals have been selected through the first screening process. We plan to conduct the second screening process (called the "Business Contest") in July 2023 to determine the business feasibility of the ideas with reference to the results of a vote.

Basic concept of Light

- Provide highly motivated personnel with a range of opportunities to embrace challenges
- Implement the program as a company-wide initiative under the leadership of top management
- Respect and applaud the commitment to embracing a challenge, even when ideas fail to achieve commercialization
- Cultivate an entrepreneurial mindset among employees
- Link, tie and connect people, ideas and expertise in an open manner to boost knowledge creation

In-house company innovation system

Through this company-wide system aimed at promoting the creation of new businesses based on existing businesses and technologies, we support the innovation promotion measures implemented by the in-house companies. As part of this support, we provide a dedicated budget that is separate from the general revenue budget set for conventional businesses. Since the system was launched in August 2022, a total of seven projects have been supported.



"Change ourselves" Redefine our current Action Guidelines

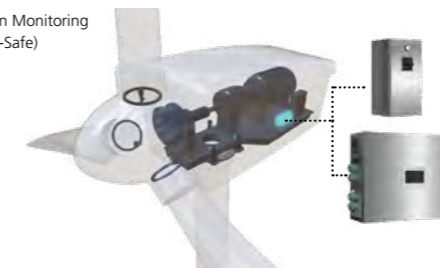
The Nabtesco Way: Redefinition of the Action Guidelines

We are currently conducting examinations with a view to revising The Nabtesco Way by the end of FY2023. Based on the results of the employee survey on the assimilation of The Way in the workplace, we will make revisions toward reforming our corporate culture in alignment with the long-term vision of becoming "Leaders in Innovation."

Challenge of fostering creativity

As part of our new business creation effort, we started the CMFS business in 2021. The CMFS helps prevent failures in wind turbines and prolongs their product life by monitoring their status in real time. To do this, we provide a cloud-based diagnosis service using CMFS equipment in a subscription format. Going forward, we will focus on promoting sales of this service to power generators and wind turbine manufacturers in Europe and other regions.

CMFS (Condition Monitoring system with Fail-Safe)



Challenge of fostering globalization

Each of our overseas bases will build a system to meet the needs of local customers through a local production and local consumption system established under the leadership of the overseas regional headquarters toward the restructuring of our global management system. We will also enhance our overseas bases, including expanding our business into new regions, and will introduce a global personnel management system to develop local leaders.

Overseas bases established in FY2022

- Launch of an office in Indonesia
Function: Local marketing for entry into a new market
- Launch of a hydraulic equipment sales base in Germany
Function: Sales promotion targeting European construction/agricultural machinery manufacturers and provision of support to Japanese manufacturers operating in the region

Measures to Improve Financial Performance

Financial strategy to achieve the long-term vision

Nabtesco has been working to increase its capital efficiency by implementing “Measures to improve our financial performance” as part of its management materiality. In the medium-term management plan, we uphold the improvement of ROIC as one of our management targets. To achieve this target, we are making efforts as described in the following.

Atsushi Habe

Representative Director
Managing Executive Officer
Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication



We will build the optimal business portfolio for increasing our corporate value on a medium- to long-term basis.

Introduction of business portfolio management

Nabtesco formulated a medium-term management plan for three years from 2022 (hereinafter, “the MTMP”), upholding “ROIC: 10% or over” as one of the management targets with an eye to fostering optimal portfolio management for profitable growth, in addition to promoting capital efficiency-oriented management.

To this end, we set the Basic Policy on the Business Portfolio at the Board of Directors meeting held at the end of 2022. The policy requires us to carry out financial evaluation and business potential evaluation for each business unit to visualize the position of the unit within the business portfolio. We have been managing our business portfolio based on this policy since FY2023.

In financial evaluation, we evaluate whether or not each business has generated returns beyond the cost of capital and has achieved sustainable growth. For the evaluation, we classify each of our in-house companies and the group businesses into business units and map the units in a matrix comprising four quadrants, with the vertical axis showing ROIC and the horizontal axis the sales growth rate. We also show the average Economic Value Added (EVA) for the six terms by business unit to visualize the status of the unit.

According to the matrix showing ROIC and the sales growth rate, Nabtesco is lacking in business units categorized as belonging in the “Development and selection” quadrant, and we thus need to increase the number of such units, for which we should take both intangible and tangible measures. Accordingly, we have already been implementing intangible measures to optimize our human capital and create intellectual property, while establishing the intrapreneurship program “Light” and the in-house company innovation system in 2022 as tangible measures. We will also foster the use of the CVC fund and examine M&A to increase the number of business units included in the “Development and selection” quadrant.

Financial situation

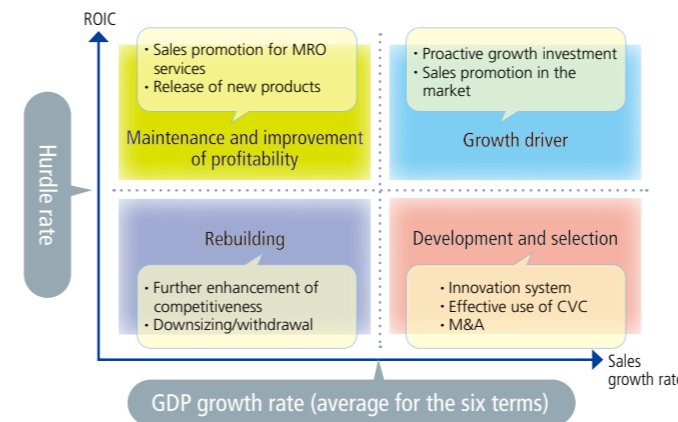
For the fiscal year ended December 31, 2022, our consolidated net sales hit a record high of ¥308.7 billion, being driven by the continued brisk demand for precision reduction gears used in industrial robots as well as by the impact of the weaker yen, and despite demand for hydraulic equipment used in construction machines dropping sharply in the Chinese market. On the other hand, operating income came to ¥18.1 billion, affected by decreased sales and profit in the hydraulic equipment business, sharp rises in materials prices in the Component Solutions Segment, a shortage of electronic components in the Accessibility Solutions Segment, and increased costs in the overseas platform screen door project.

For the fiscal year ending December 31, 2023, demand will continue to be brisk for precision reduction gears and marine vessel equipment. Also, in the automatic door business, demand for our products will expand for use in large commercial buildings in Japan, and demand will recover on a full scale for aircraft equipment in both the civil and national defense sectors. Accordingly, we expect that net sales will increase by 9.8% year on year to ¥339 billion. Operating income will also rise by 44.8% year on year to ¥26.2 billion thanks to increased sales as well as to the offsetting of rises in materials prices by the raising of our own prices and the recovery of production volumes due to the resolution of the shortage of electronic components.

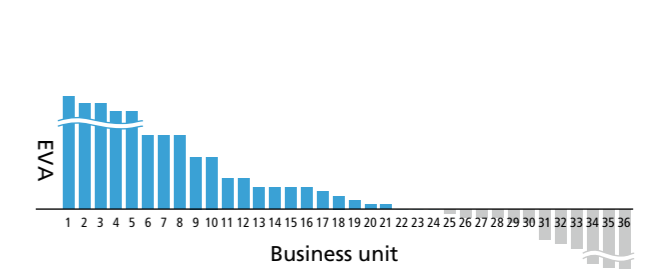
Financial evaluation

- Categorize all of the businesses into 36 business units
- Evaluate whether or not each of the units has generated returns beyond the cost of capital and has achieved sustainable growth
- Speed up the actions to increase the number of business units included in the “Development and selection” quadrant

Matrix showing ROIC and the sales growth rate



Distribution of EVA by business unit



In the business potential evaluation, we evaluate whether or not each of the business units has objective market potential and possibilities that cannot be identified through financial evaluation as well as the ESG-related risks and opportunities posed to the business unit. Based on the results of the financial evaluation and business potential evaluation as described above, we will engage in deeper discussions on the direction of our business portfolio at Board meetings. We will then conduct examinations to set an action plan for each business unit so that we can proactively make growth investments and promptly take necessary actions, including the downsizing of or withdrawal from a business, toward building a business portfolio that is optimal for Nabtesco.

Business potential evaluation

- Evaluate whether or not each of the business units has objective market potential and possibilities that cannot be identified through financial evaluation
- Evaluate ESG-related risks and opportunities posed to the business unit

Industry attractiveness	<ul style="list-style-type: none"> • Market size • Growth potential • Attractiveness of the industry
Strength of the Company	<ul style="list-style-type: none"> • Market share, competitive advantage • Inimitability • Brand value • Synergies with other businesses
ESG-related risks	<ul style="list-style-type: none"> • Environment (Amount of CO₂ emissions and others) • Social (Occupational accidents and others) • Governance (Frequency of product defect-related incidents and others)
ESG-related opportunities	<ul style="list-style-type: none"> • Initiatives implemented to solve social challenges through business

Approach to capital allocation

In the MTMP, we attribute importance to financial discipline for long-term growth. We sold part of our shares in Harmonic Drive Systems in 2021 and the remainder in 2022. As for the allocation of capital including the cash gained through the sale of the shares, we prioritize the use of funds for growth investment toward the achievement of the long-term vision. For capital investment, we are making a large investment in FY2023 in the new plant to be completed in Hamamatsu city to increase our production of precision reduction gears. We will also make proactive R&D investment for the electrification and systemization of our products.

For shareholders' return, we uphold the policy of keeping our consolidated dividend payout ratio at 35% or over. We purchased our own treasury stocks in the amount of ¥20 billion in 2021 while paying dividends in line with the policy.

Due to the deposit related to the sale of our shares in Harmonic Drive Systems, we now have cash on hand at a level higher than usual, whereas we make it a rule to secure cash on hand at the amount equivalent to our average sales for two months. Also, for flexible borrowing, we will maintain our “A” rating from credit rating organizations, for which we will keep our equity ratio at around 50%.

CEO Dialogue

Exceeding the expectations of customers and society through human capital management



Tetsuyuki Kagaya
 Doctor of Philosophy in Commerce
 Professor, Department of Business
 Administration, Graduate School
 of Business Administration,
 Hitotsubashi University

Kazumasa Kimura
 Representative Director,
 President & CEO,
 Nabtesco Corporation

Toshiya Takahata
 Outside Director,
 Nabtesco Corporation

Minoru Matsubara
 Managing Executive Officer,
 Responsible Investment
 Resona Asset Management Co., Ltd.

What will it take for Nabtesco and its people to become the next generation of "Leaders in Innovation" able to exceed the expectations of customers and society? The CEO and an outside director of the Company talked about this question with two guests, one of whom led the formulation of the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization of Intellectual Property and Intangible Assets and the other an investor who makes investments from a long-term perspective.

Mindset gap between companies and investors

Kimura: Thank you for providing us with a precious opportunity to talk with you today. We would like to talk about what it will take for Nabtesco to achieve sustainable growth. Dr. Kagaya, you chair the group that formulated the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization of Intellectual Property and Intangible Assets. Could you brief us on the revised Guidelines that were released as Ver. 2.0 in March 2023?

Kagaya: Following the revision of the Corporate Governance Code in 2021, we formulated Ver. 1.0 of the Guidelines in January 2022. The Guidelines represented summarized findings of discussions I had had with investors and business leaders in the group with the aim of fostering investment in intellectual property, intangible assets and



Kagaya
 It is important for you to tell a story to promote human capital management to revitalize your "niche top" strategies.

human capital. Subsequently, however, it was revealed that there was a mindset gap between companies and investors regarding the details that the parties think should be disclosed. We released Ver. 2.0 to narrow that gap.

Matsubara: For example, companies tend to emphasize that they have very competitive intellectual property, but in order to make investments in companies from a long-term viewpoint, we need to focus more on how companies will make use of their intellectual property for value creation rather than on the value of specific intellectual property. There is indeed a gap between the information that we need and the explanations companies provide to us.

Takahata: I agree with what you have pointed out. Many Japanese companies disclose the details of the patents they own, wanting to help stakeholders gain a better understanding of their intellectual property. However, what is important for investors is the "stories" the companies tell about how they will make effective use of the intellectual property in their business.

Importance of an integrated story

Kimura: Let me talk about Nabtesco's story. This year we celebrate the 20th anniversary of our founding. In the course of the past two decades, we formulated and implemented a long-term vision spanning a period of about 10 years. The theme set for our previous long-term vision was "Global Partner with Best Solution" and for 10 years we continued to focus on meeting customers' needs and achieved our own growth. We are conducting a range of businesses, in which we fortunately have excellent customers, and have taken the top spots in our niche markets. However, when discussing the formulation of a new long-term vision, we discovered a shared sense of crisis about the fact that Nabtesco had not been able to generate any really great innovations recently. Based on this recognition, we set a new long-term vision with the theme, "Leaders in Innovation for the Future." We aim not only to "meet" but also to "exceed" the expectations of customers to contribute to solving social issues while achieving our own growth.

We regard new/renewable energy, smart robotics and next-generation mobility as growth fields, and as a precondition to doing business in these domains, we need to advance our core motion control technology to "smart motion control technology." The key to meeting this requirement is intellectual property. Human capital is also important, as it provides us with a primary source of reforms and a foundation for value creation. In order to take a more integrated approach to human resources-related themes, we reviewed our management materiality last year to address issues related to human capital



Kimura
 As the saying goes, "People make a company." We are at a turning point and will steadily foster human capital management, thereby achieving sustainable growth going forward.

management more squarely.

Kagaya: It is indeed important for companies to tell their stories, just like the one that you have just told. Many companies tend to regard human capital as just one of their disclosure items and do not think about why the capital is important for them. In order to "meet" and "exceed" the expectations of your customers and society, how will you foster human capital management?

Human capital strategy implemented through close cooperation between three actors

Kimura: Companies used to be managed mainly through a top-down approach, but this tends to make for passive employees. For the achievement of the long-term vision, I have been saying, "Individual employees need to commit themselves to becoming innovators." We must pursue our ideal state toward innovation through close cooperation between three actors, or the company & top management, organizations & managers, and individual employees. We specified the gap between reality and vision and set out a hypothesis for narrowing the gap. Based on the hypothesis, we set our innovation, linkage and engagement indexes and aim to increase the score of each index from the present roughly 60 points to 75 points. We thus have room to make improvements on these three KPIs and will implement multifaceted measures to this end.

Matsubara: I have the impression that you have been formulating your strategies carefully and meticulously. By identifying any gaps between reality and vision and working to narrow them, you are making plans for your next strategies.

Takahata: In my capacity as an outside director, I think it is important for Nabtesco to repeat the process of making a hypothesis and verifying it. If you find a mistake in the verification process, you need to take corrective actions promptly and boldly. The same applies to DX. The term "digital" tends to be contrasted with the term "analog," but for me digital transformation is highly related to people as

CEO Dialogue

it plays a range of roles to benefit people, including making digital technologies more friendly for users and providing them with more comfort and happiness. I think Nabtesco will be able to advance its human capital management by making both DX and human resources function well. What is important is to foster close cooperation between the three actors, for which it is essential to provide the actors with opportunities for such cooperation. It is commendable that Nabtesco created the intrapreneurship program "Light" as the first step to this end. I also think it is necessary for the Company to take an integrated approach rather than implementing individual measures separately.

Kagaya: Concerning "Purpose" and "Visionary," which have often been mentioned in relation to corporate management, what you have said to us today assures me that you are committed to managing the Company based on its Purpose and in a scientific manner.

Matsubara: We are interested in the value that provides a source of growth. You can provide such value not only through individual technologies but also by sharing



Takahata

Sustainability is positioned at the top of a corporate value creation story. To achieve sustainability, you need intellectual property and DX, which are supported by human capital.

your commitment to exceeding expectations across the Company and having the systems to support the fulfillment of the commitment. And the value is also related to intellectual property and human capital. You are indeed creating your "story" based on integrated thinking.

Kagaya: You are taking the top spot in multiple niche markets. It is important for you to tell a story to promote human capital management to revitalize your "niche top" strategies.

Causal path for value creation by precision reduction gears

Kimura: As for our "niche top story," our precision reduction gears used in industrial robots represent a product that serves as a growth driver. Let me therefore tell our story about this product as an example.

Industrial robots are operated on automobile produc-

tion lines and if the operation of even one of them is suspended, it will have a big adverse impact on the entire production. Based on this recognition, we independently developed precision reduction gears with high positioning precision and durability. Because of these features, which are indispensable for the stable operation of production robots, we were able to gain a roughly 60% share of the global precision reduction gear market. Subsequently, as industrial robots became used more widely and got more advanced, we also advanced the performance of our precision reduction gears to achieve further growth in the business.

Going forward, industrial robots will need to be more compact and multifunctional. Accordingly, precision reduction gears used in them will need to be smaller and lighter without compromising their performance, for which manufacturers of the gears need to foster technological innovation and have technologies to mass-produce high-precision products. Nabtesco has competitive strength in this regard as its core value. In addition to the technologies required to develop products, we also have production technologies to manufacture the developed products, which is indeed an important factor. Moreover, based on the relationships of trust we enjoy with industrial robot manufacturers across the world, our sales personnel can identify various customer needs, and this kind of relationship capital is also an important factor to keep up the cycle of developing new technologies and intellectual property. Innovation initiated by human capital is thus supported not only by technologies but also by all of its people, including those engaging in sales, procurement and other activities. Unless individual employees take on new challenges as innovators, we will not be able to follow a causal path in any of our businesses.

Takahata: It is important that Nabtesco includes strengths and know-how for which the Company intentionally does not apply for patents in its core value. Production technologies, invisible know-how, and relationships with customers and suppliers are all deemed important as part of the comprehensive strength of the Company.

Kimura: We have a limit on our growth potential in each of the niche markets in which we boast the top share. Because customers purchase from multiple suppliers in principle for reasons including ensuring BCP, it is difficult for us to increase our share in a niche market beyond 60%, and in order to exceed this limit we have no choice but to depend on the growth of the entire market. We are at a turning point to overcome this hurdle, for which it is essential for us to create intellectual property for smart motion control.

We are also formulating our intellectual property strategies toward the achievement of the long-term vision and define our core value from present and future

perspectives. The results of the cross-functional intellectual property-related activities are reported to the Board of Directors once a year, including the results of deliberations made by the departmental heads including myself and the activities of the relevant committee and others. The company & top management, organizations & managers and individual employees are closely cooperating as three actors to increase the number of notifications made for the creation of intellectual property and to increase the number of inventors who lead innovation, with these two KPIs being included in the criteria to give incentives to employees and executives.

Establishment of the Basic Policy on the Business Portfolio

Matsubara: Your story is reproducible and has room for further development and is therefore quite persuasive. Moreover, the stories about your intellectual property and human capital are not "short stories" but the chapters of a long novel.

Kagaya: The market strength of your precision reduction gears has been built through a complex causal path, and for the governance of your intellectual property, you have well-aligned strategies. What you said has helped me understand these facts, but for investors to get more interested in your story, you also need to share a message about your business portfolio, which includes businesses other than the precision reduction gear business.

Kimura: We set a target for ROIC in the medium-term management plan, and the improvement of ROIC depends on how we deal with our business portfolio. We engaged in a lot of discussion at Board of Directors meetings to formulate the Basic Policy on the Business Portfolio. We will roll out the policy in and after this year.

Takahata: ROIC is of course a very important management indicator, and it is critical for employees to understand it appropriately. If they can understand the positioning of their business within the business portfolio and want to reform the business based on that understanding, it will lead to the birth of new innovators.

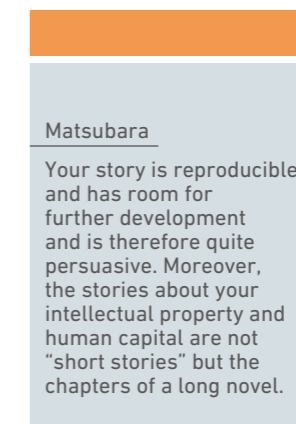
Matsubara: From a long-term perspective, corporate value is composed of employee value, customer value, intellectual property value and various other types of value. Based on this recognition, you need to discuss how to make use of your future core value for your portfolio management, which I think will help you narrow the mindset gap between companies and investors.

Sustainability and public interest

Kagaya: Value creation and sustainability are two inseparable concepts. If you can foster close cooperation between the three actors as you have described, I think you will be better able to share a commitment to sustainability across the Company toward more sustainability-oriented business.

You face issues and address them steadily by coming up with hypotheses to solve them, which is quite aggregable. I think you can have more "fans" of your company by disclosing your story and inviting more people to engage with it.

Matsubara: You make effective use of your intellectual property and human resources for value creation basically for your own benefit. However, from the viewpoint of sustainability, you can also contribute to the public interest by the effective use of your intellectual property. Meeting and exceeding social expectations could also mean fostering a shift from closed to open strategies.



Matsubara

Your story is reproducible and has room for further development and is therefore quite persuasive. Moreover, the stories about your intellectual property and human capital are not "short stories" but the chapters of a long novel.



Finally, as an investor I would like to read a corporate "novel" that is supported by strategic consistency and integrity. Please continue to tell a story that increases expectations for the future among your stakeholders and leads to an increase in your stock prices. I would like to be a reader of such a story.

Takahata: Sustainability is positioned at the top of a corporate value creation story. To achieve sustainability, you need intellectual property and DX, which are supported by human capital. As an outside director of the Company, I would like to talk a great deal with employees working at the forefront of business and would like to give some advice for the creation of an attractive story.

Kimura: Thank you very much for giving us such a precious opportunity today. As the saying goes, "People make a company." We are at a turning point and will steadily foster human capital management, thereby achieving sustainable growth going forward.

Business Portfolio

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

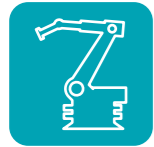
The Nabtesco Group continues to achieve profitable growth with a portfolio of multiple mutually complementary businesses in different industries.

Business Features by Segment

Business segment	Characteristics	Subsegment	Outline
Component Solutions (CMP)	Significant impact of changes in production/sales volume on profitability	<ul style="list-style-type: none"> Precision reduction gears Hydraulic equipment 	In the Component Solutions Segment, which comprises the precision reduction gear business and the hydraulic equipment business, we focus on Original Equipment Manufacturer (OEM) 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 be easily influenced by changes in market demand, while great synergy effects can be generated in the segment through the joint procurement of materials and flexible use of core production staff.
Transport Solutions (TRS)	After-sales 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 Others 	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 among the businesses.
Accessibility Solutions (ACB)		<ul style="list-style-type: none"> Automatic doors 	The Accessibility Solutions Segment, in which we conduct the automatic door business including the platform door 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 and 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 aftersales service) to integrate the production and marketing processes to generate more profit.
Manufacturing Solutions (MFR)		<ul style="list-style-type: none"> Packaging machines Others 	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 for daily necessities.

Financial highlights by segment

Business segment	Results and plans	Financial results for FY2022/12	Outlook for FY2023/12																																																		
Component Solutions (CMP)	<p>Net sales (¥ Billion)</p> <table border="1"> <tr><th>Year</th><th>Precision reduction gears</th><th>Hydraulic equipment</th><th>Total</th></tr> <tr><td>2021/12</td><td>77.5</td><td>60.6</td><td>138.1</td></tr> <tr><td>2022/12</td><td>89.7</td><td>51.0</td><td>140.6</td></tr> <tr><td>2023/12 (Plan)</td><td>106.3</td><td>48.5</td><td>154.8</td></tr> <tr><td>2024/12 (Reference value)</td><td>-</td><td>-</td><td>156.5</td></tr> </table> <p>Operating income (¥ Billion)</p> <table border="1"> <tr><th>Year</th><th>Operating income</th><th>Operating income margin</th></tr> <tr><td>2021/12</td><td>22.9</td><td>16.6%</td></tr> <tr><td>2022/12</td><td>15.9</td><td>11.3%</td></tr> <tr><td>2023/12 (Plan)</td><td>19.6</td><td>12.7%</td></tr> <tr><td>2024/12 (Reference value)</td><td>28.5</td><td>18.2%</td></tr> </table>	Year	Precision reduction gears	Hydraulic equipment	Total	2021/12	77.5	60.6	138.1	2022/12	89.7	51.0	140.6	2023/12 (Plan)	106.3	48.5	154.8	2024/12 (Reference value)	-	-	156.5	Year	Operating income	Operating income margin	2021/12	22.9	16.6%	2022/12	15.9	11.3%	2023/12 (Plan)	19.6	12.7%	2024/12 (Reference value)	28.5	18.2%	<p>Net sales:</p> <p>Precision reduction gears</p> <ul style="list-style-type: none"> Brisk demand continued for precision reduction gears to be used in industrial robots thanks to the promotion of EV-related capital investment in the automotive industry. <p>Hydraulic equipment</p> <ul style="list-style-type: none"> Demand continued to be favorable in Europe, the US and Southeast Asia but dropped sharply in the Chinese market. <p>Operating income:</p> <p>For precision reduction gears, we worked to offset the rises in material and personnel costs by raising our prices, but the effect was limited. For hydraulic equipment, demand from Chinese construction machinery manufacturers dropped sharply, causing sales and profit to fall. As a result, we posted a year-on-year decrease in profit in the segment.</p>	<p>Net sales:</p> <ul style="list-style-type: none"> For hydraulic equipment, sales will decrease due to continued stagnant demand in the Chinese market and the intensification of competition. For precision reduction gears, demand will continue to be brisk thanks to the promotion of EV-related capital investment and we will record an increase in sales. <p>Operating income:</p> <ul style="list-style-type: none"> Despite a decrease in sales in the hydraulic equipment business, we will be able to post an increase in profit in this segment thanks to the increased production of precision reduction gears and steady offsetting of cost increases by raising our own prices. <p>Medium-term priority measures:</p> <ul style="list-style-type: none"> Precision reduction gears: Start of operation at the Hamamatsu Plant and the advanced automation of the production process to meet expanding demand Hydraulic equipment: Sales promotion in Western and emerging markets and product development to meet the needs for electrification and automation 															
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Precision Reduction Gear Business

Precision Equipment Company

Contributing to the automation of manufacturing processes through the advancement of industrial robots

SDGs related to our business



Outline of the Precision Reduction Gear Business

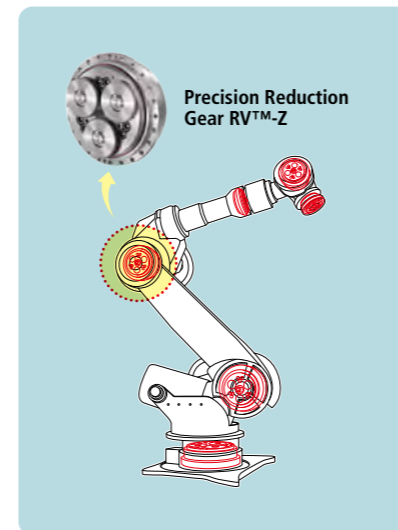
In 1986, Nabtesco launched the precision reduction gear business by applying the technology developed in its hydraulic equipment business. By developing innovative precision reduction gears that helped industrial robot manufacturers to solve their problems related to vibration and fragility, we built close relationships with the industrial robot manufacturers and other customers. In the global market for precision reduction gears used in the joints of medium- and large-sized industrial robots, we now boast a share of nearly 60%.

Product Features

- 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 help boost the controllability of robots based on our proprietary mechanism designed to reduce vibrations and increase behavioral precision.
- We mass-produce a medium-level variety of products that are customized to meet customers' needs.
- It takes us about four weeks on average from the receipt of an order to the delivery of the product.

Social Value Provided by Products

- Industrial robots contribute to reducing dangerous manual labor, solving the issue of labor shortages and stabilizing quality and increasing productivity at factories.
- Nabtesco's precision reduction gears help increase the safety and efficiency of industrial robots.



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	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 Roboter (Germany), ABB Robotics (Sweden) Machine tools: YAMAZAKI MAZAK, Okuma, DMG Mori
Sales by geographic segment (Full-year results)**	Sales to Japanese robot manufacturers: Approx. 65%; Sales to overseas robot manufacturers: Approx. 35%** *1 Sales to industrial robot manufacturers *2 Including sales to the overseas plants of Japanese robot manufacturers

Strengths

- Close relationships with major customers
- Capability to build a highly efficient automated production line
- High-performance and high-quality products
- Capability to develop technologies to meet customers' needs
- Wide product lineup for general industry

Opportunities

- Growth in 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

Weaknesses

- High level of dependence on demand for industrial robots

Threats

- 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

Competitive Advantage

Products and Technology

- Precision Reduction Gear RV™ products are light and compact but provide high durability and high positioning accuracy.
- We are selling 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

- We will foster leading-edge automation by building a highly efficient automated production line that cannot be imitated by competitors.

Business Environment

According to the International Federation of Robotics (IFR), global demand for industrial robots will continue to expand on a medium- to long-term basis because the needs for digital and automated production equipment will continue to increase and the effective use of industrial robots is expected to contribute to carbon neutrality despite the adverse short-term global economic impacts of sharply rising energy and material costs combined with shortages of electronic components. Accordingly, we expect the market to grow at an annual compound average growth rate (CAGR) of around 10% to 15%.

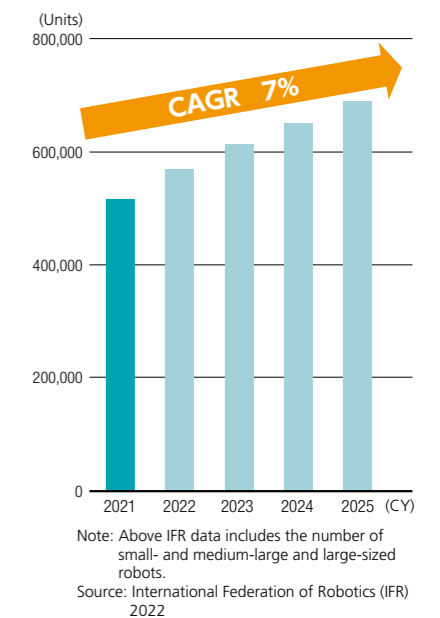
Opportunities and Risks

- Driven by expanded demand for EVs and HVs, production lines will be modified and newly installed by the automotive industry, which is a major customer of industrial robots.
- Also, in other industries, labor-saving and automation needs are expected to dramatically increase, leading to the introduction of more robots and automation equipment.
- We regard the intensification of competition with existing competitors and the potential for equalizing gains by manufacturers in emerging markets as a potential risk.

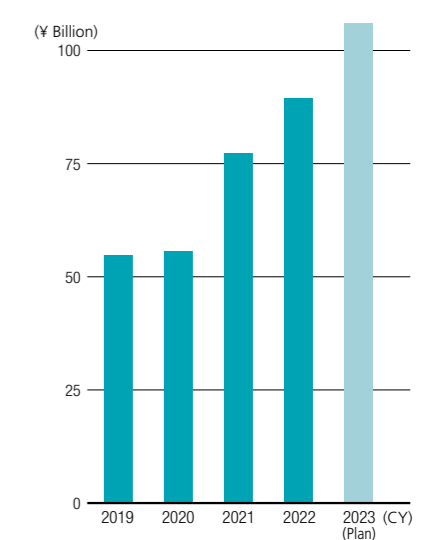
For the Achievement of the Medium-Term Management Plan

- By advancing the existing technologies to reduce the weight and size of precision reduction gears and fostering R&D for the use of optimal materials, we will expand our lineup of highly competitive products.
- Going forward, we will also focus on expanding the product lineup for general industry, for which there is sufficient room for further expansion.
- In order to meet automation needs, which will further expand, we will build a new plant in Hamamatsu City in addition to our existing plants in Tsu City in Japan and Changzhou in China, with a view to nearly doubling our production capacity to two million units per year by 2026.

Worldwide Annual Shipment of Industrial Robots (Forecast)



Net Sales in the Precision Reduction Gear Business



Providing our precision reduction gear, we will contribute to automation of manufacturing processes and to solving labor shortages due to the forthcoming aging society. Moreover, we will continue to provide our products that contribute to stabilizing customers' product quality and the automation of logistic operations.

President, Precision Equipment Company
Toshiya Fujiwara



Innovation in Action

We aim to make the new plant in Hamamatsu City, which will start operation in October 2023, a smart facility with an automation rate as high as 90%. We will do this by introducing industrial robots for processing and assembly tasks as well as a state-of-the-art logistics system. Through such automation, we will increase the plant's productivity and ability to respond to changes in demand, which will in turn increase its profitability.



Hydraulic Equipment Business

Power Control Company

Providing equipment that is essential for the establishment of infrastructure

SDGs related to our business



Outline of the Hydraulic Equipment Business

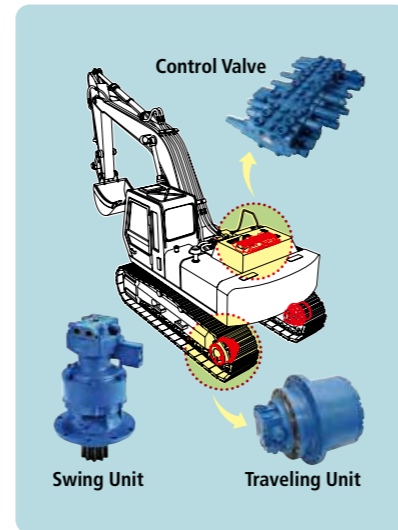
Both Teijin Seiki and NABCO, which were integrated into Nabtesco, had already been conducting the hydraulic equipment business before the integration. In our long history of the business, which dates back to 1930, we have built up the capacity to develop high-quality, high-value-added products. In addition to expanding our product lineup, we will work on the further systematization of our products and foster research into electric control technologies to pursue innovation and meet the needs of our customers even before they identify them.

Product Features

- Our traveling units are compact but highly efficient and produce large amounts of power. They provide energy-saving performance and have the durability and reliability required for use in harsh environments.
- We have a product lineup that includes traveling units, swing units, control valves, pumps and other control units for construction machines.
- We produce our products in regions where there is demand for them.
- It takes us about a week on average from the receipt of an order to the delivery of the product.

Social Value Provided by Products

- We are building the foundation for further industrial development and supporting daily life by providing products to be used in construction machinery that plays an essential role in the creation of physical infrastructure.
- We are also contributing to the development of local industries by manufacturing our products in regions where there is demand for them.



Competitive Advantage

Products and Technology

- We are capable of developing high-quality and high-value-added products that meet our customers' needs.

Production

- The Tarui Plant, which is the mother plant for our hydraulic equipment, has a range of advanced machining technologies and boasts high productivity through the automation of its processing and assembly work and logistics reforms.
- Based on the principle of local production for local consumption, we can further increase our production efficiency.

Business Environment

In Southeast Asia, business has remained favorable, driven by demand for construction machinery in the mining industry. The Chinese market, however, experienced a reactionary decline in demand following the application of exhaust gas regulations to the construction machinery industry alongside a stagnating real estate market. Moreover, the emergence of local hydraulic equipment manufacturers and in-house production by construction machinery manufacturers have caused the competition to intensify.

From a medium- to long-term viewpoint, we can begin to 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.

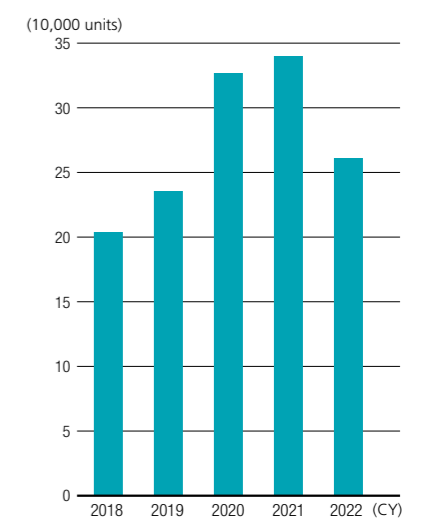
Opportunities and Risks

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

For the Achievement of the Medium-Term Management Plan

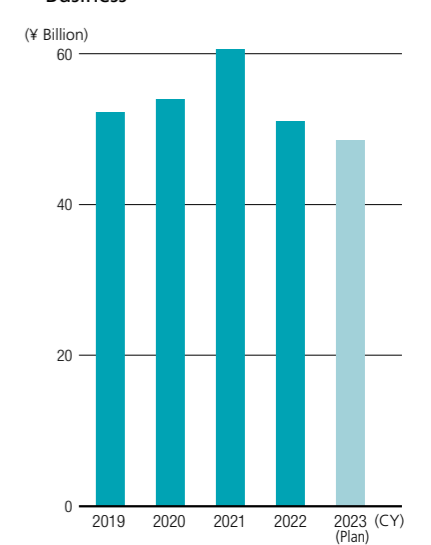
- We will develop products that contribute to fostering ICT and electrification for construction machinery.
- We will implement measures to promote sales of our products for new applications other than excavator use and further boost our market share by strategically releasing new products.
- We will enhance our ability to make proposals to customers by focusing more on system products.
- By making investments to transform the Tarui Plant into a smart plant, we will further increase its productivity and reduce its environmental impacts.
- We will enter Western markets on a full scale to find new customers among local construction machinery manufacturers and to provide Japanese construction machinery manufacturers operating in the respective countries with appropriate services and support. Through these measures we will promote sales and enhance our relationships with local customers in regions other than China.

Annual Volume of Excavators in China



Source: China Construction Machinery Association

Net Sales in the Hydraulic Equipment Business



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	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	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. 40%, China: Approx. 40%, Others: Approx. 20% * In terms of the final destinations of excavators

Strengths

- Highly efficient and durable products
- Wide product lineup
- Global production system to respond flexibly to changes in demand

Opportunities

- Expanded use of ICT and promotion of electrification by the construction machinery industry
- Demand for infrastructure driven by the boost of economic stimulus packages

Weaknesses

- Lineup of systematized products

Threats

- Change in demand for construction machinery
- Rise of local competitors in emerging markets



We will continue to supply highly efficient equipment for construction machinery used for infrastructure development, while enhancing the lineup of our system products. We will also promote R&D for ICT and electrification in the construction machinery market and innovate to meet our customers' needs, thereby contributing to social and industrial developments.

President, Power Control Company
Kiyoshi Ando

Innovation in Action



We are refurbishing the aged Tarui Plant to transform it into a next-generation facility equipped with highly efficient systems. We will increase the mother plant's productivity 1.5-fold through automation and will adopt highly energy-efficient building design and introduce energy-saving air-conditioning and power generation equipment for even more environment-friendly manufacturing. We aim to make the plant carbon-free in the future.



Railroad Vehicle Equipment Business

Railroad Products Company

Contributing to the safe and punctual operation of railroad transportation systems

SDGs related to our business



Outline of the Railroad Vehicle Equipment Business

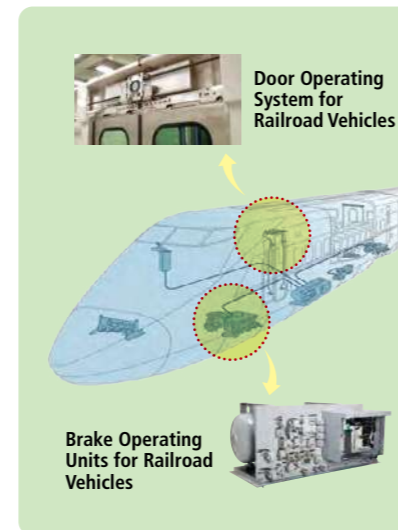
Since receiving our first order for air brake equipment from the former Japanese Ministry of Railways in 1925, we have long nurtured the ability to develop technologies to provide customers with products that meet their individual needs as well as the high reliability and durability requirements set for railroad vehicle equipment, which supports transportation infrastructure. By capitalizing on this ability, we are contributing to railroad transportation within and outside Japan.

Product Features

- Our brake control systems, door operators and others are adopted for railroad vehicles both in Japan and abroad.
- Our products contribute to the weight reduction and higher energy efficiency of railroad vehicles in addition to increasing their safety.
- The user tends to place an order for MRO services about four years after we deliver a product.
- It takes us about four to six months on average from the receipt of an order to the delivery of the product.

Social Value Provided by Products

- By providing highly safe and reliable products, we are contributing to the safe and punctual operation of railroad transportation systems.
- Optimization of railroad transportation helps reduce traffic congestion as well as CO₂ emissions from automobiles.



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	Brake systems: Approx. 50% domestic market share Door opening systems: Approx. 60% domestic market share
Production bases	Kobe City, Hyogo Prefecture, Japan/Jiangsu Prefecture, China/Piedmont, Italy
Major customers	Japan Railways (JR) companies, private railway companies, bullet train and subway projects in China
Sales by geographic segment (Full-year results)	Japan: Approx. 65%, Overseas: Approx. 35%

Strengths

- Ability to customize products to meet the needs of customers
- Organizational approach to promote sales of MRO services
- Three production footprints for "local consumption" in Japan, China and Europe

Opportunities

- Expansion of an urban traffic network (including subways) in China
- Stable growth of the European railroad vehicle market
- Increase in the number of new railway projects in emerging markets

Weaknesses

- Customer foundation in Europe and Asia

Threats

- Competition with local manufacturers in China

Competitive Advantage

Products and Technology

- We have nurtured the ability to develop highly reliable and durable products to meet the needs of our customers.

Services

- By using our system to check the maintenance cycle of the products that we have delivered, we will provide MRO services in an appropriate manner.

Production

- We are working to conduct optimal development, procurement, production and sales activities under the product system built across three regions, namely, Japan, China and Europe.

Business Environment

Demand for new railroad vehicles, which comprise part of the country's social infrastructure, will remain stable in the Japanese market on a medium- to long-term basis, despite a tendency among customers to cut investment. For Chinese subways, demand will continue to expand for the improvement of urban transportation and solving the issue of environmental pollution.

In Europe, the railroad vehicle market will continue to grow steadily and in emerging markets, including those in Southeast Asia, demand is likewise expected to expand.

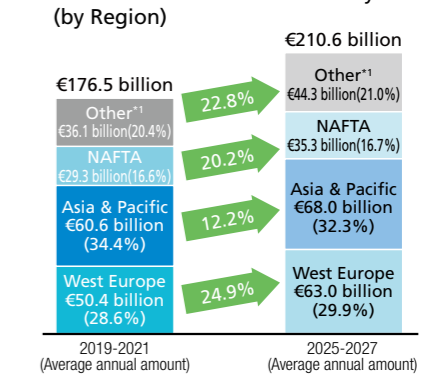
Opportunities and Risks

- We can find more business opportunities in overseas markets by completing the acquisition of certification for European standards, which are globally adopted.
- On a short-term basis, we might face stagnant sales due to restrictions on investments caused by the delayed recovery of passenger demand.
- We also regard competition with local manufacturers in China as a risk factor.

For the Achievement of the Medium-Term Management Plan

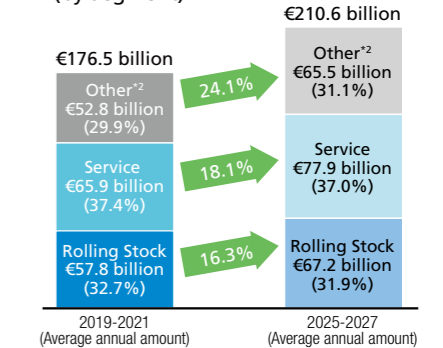
- We will develop products that meet our customers' needs and thereby contribute to the next generation of standard vehicles.
- We will make proposals to help reduce maintenance burdens imposed on customers, including MRO-related proposals.
- For subways in China, we will work with partners to win more orders with a strategic focus on certain cities.
- We will make proposals that meet customers' needs based on the effective use of our products developed in line with European standards, which are globally adopted, thereby winning more orders outside Japan.

Market Size of Railroad Industry (by Region)



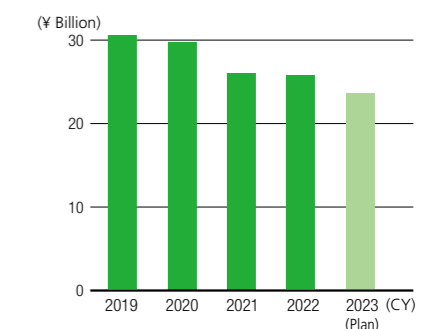
*1 Other: East Europe, CIS, Africa & Middle East and Latin America other than NAFTA

Market Size of Railroad Industry (by Segment)



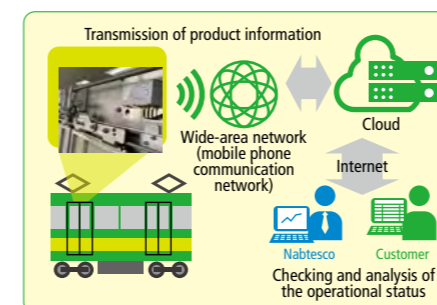
*2 Other: Infrastructure, railroad signals and control equipment
Source: UNIFE

Net Sales in the Railroad Vehicle Equipment Business



We will supply important and safety components for railroad vehicles to contribute to the safety, security and comfort of railroad transportation and help the railroad industry become more environment-friendly to deliver solutions for social issues.

President, Railroad Products Company
Michihito Suzuki



Innovation in Action

The Railroad Products Company is developing a remote control and monitoring system for its products mounted on railroad vehicles. By checking the remotely obtained product information against accumulated and pre-existing data, the system will detect any product abnormalities to prevent failures, reducing the need for daily inspections. With this system, we will contribute to higher maintenance efficiency for railroad vehicles and to stable railroad transportation.



Aircraft Equipment Business

Aerospace Company

Contributing to the safe operation of aircraft

SDGs related to our business



Outline of the Aircraft Equipment Business

Having launched the aircraft equipment business during the war, we have long been developing technologies and know-how to expand our product lineup.

We are offering highly reliable aircraft components and attentive after-sale service to major aircraft manufacturers and airlines within and outside Japan, thereby contributing to the safe operation of aircraft.

Product Features

- Flight control actuation systems, which represent our core product, control the movements of aircraft in three dimensions. Receiving electric signals from the cockpit, the system tilts the aircraft up and down and left and right and also activates the brake system through hydraulic control.
- The user tends to place an order for our MRO services about five years after we deliver a product.
- It takes us about one year on average from the receipt of an order to the delivery of the product for civil aircraft and up to around two years for defense aircraft.

Social Value Provided by 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 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.



Competitive Advantage

Products and Technology

- We have long built up the capacity to develop aircraft technologies in both the defense and civil sectors.

Services

- 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

- At the Gifu Plant, which is our mother plant for aircraft equipment, we have established a highly environmentally friendly and efficient production system that allows us to excel in QCDS.

Business Environment

Demand for civil aircraft is recovering as passenger demand increases following the easing of regulations imposed due to COVID-19. From 2023 to 2024, RPK* is also expected to recover to exceed the 2019 level.

In the defense sector, demand will remain almost flat on a medium- to long-term basis, the defense equipment budget has been increased and demand is on a recovery trend.

* RPK stands for revenue passenger kilometers.

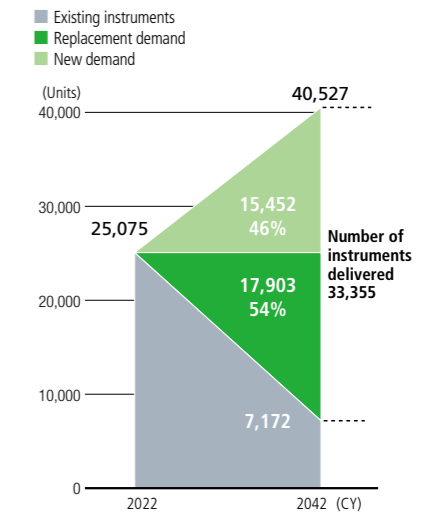
Opportunities and Risks

- Demand for aircraft might be affected by the slowdown in global economic growth as well as by geopolitical risks including shifting political landscapes.
- Demand for aircraft is expected to expand on a long-term basis, which will help us win new orders for our products and increase our business opportunities.

For the Achievement of the Medium-Term Management Plan

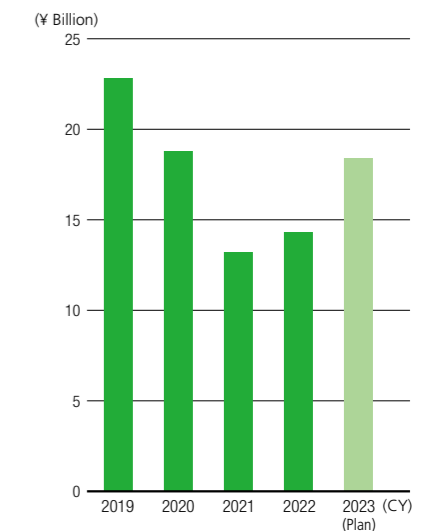
- In the market recovery phase, we will identify changes in our customers' needs to offer them products and services that meet such needs.
- As a unique OEM manufacturer, we will pursue value-added services and expand the MRO business.
- We will proactively promote technological development for future aircraft and solidify our growth foundation.
- We will continue to improve our productivity and rebuild our supply chain to raise our QCDS level in anticipation of the recovery and expansion of the production rate.

Forecast for Jetliner Demand



* Based on the pre-COVID-19 business environment
Source: Japan Aircraft Development Corporation

Net Sales in the Aircraft Equipment Business



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	Flight control actuation system: Approx.100% market share for domestically-produced aircrafts
Production bases	Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan/State of Washington, the United States
Major customers	The Boeing Company (U.S.), Kawasaki Heavy Industries, Mitsubishi Heavy Industries, IHI, SUBARU, the Japanese Ministry of Defense, airline companies and others
Sales by geographic segment (Full-year results)	Japan: Approx. 45%, Overseas: Approx. 55%

Strengths

- 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

Opportunities

- Recovery of passenger demand following the lifting of restrictions on people's movement
- Increase in demand due to increased budget for national defense

Weaknesses

- Less experience for the electrification of aircraft

Threats

- Restrictions on people's movement due to a pandemic



We will contribute to society by expanding the production of high-reliability products that support the safety of aircraft in the long-term growth market of civil aviation, while working to reduce our own environmental impacts.

President, Aerospace Company
Norimasa Takagi

Innovation in Action



Like other industries, the aviation industry deems it essential to implement measures for carbon neutrality by 2050. In response, the Aerospace Company proactively engages in technological exchange with The Boeing Company, one of its major customers, to foster research into the elemental technologies required for the next generation of environment-friendly aircraft, to be introduced in the 2030s. We are also focusing on promoting innovation. Specifically, we are striving to have our proprietary technologies adopted for advanced air mobility, which is anticipated to be a future mode of transportation, and for rockets developed by the private sector. We will thereby contribute to providing new lifestyle options for the enrichment of people's lives.



Commercial Vehicle Equipment Business

Nabtesco Automotive Corporation Reducing environmental impacts through electrification

SDGs related to our business



Outline of the Commercial Vehicle Equipment Business

In 1937, we became the first company in Japan to commercialize air brake products, which were adopted for most of the heavy-duty commercial vehicles manufactured in Japan. In the commercial vehicle market in which electrification is currently becoming mainstream, we will continue to develop and offer products that meet our customers' requirements, thereby providing them with sustainable value going forward.

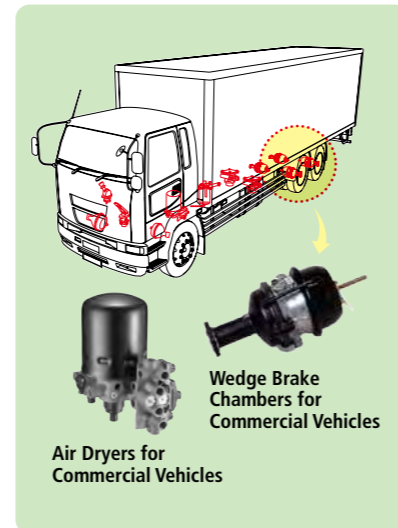
Product Features

- Our air brake products have excellent operability and are designed to be light enough to contribute to the fuel efficiency of vehicles.
- We have also succeeded in developing an electric compressor mainly for electric buses.
- The user tends to place an order for our MRO services about two years after we deliver a product.
- It takes us about a week on average from the receipt of an order to the delivery of the product.

Social Value Provided by Products

- Our wedge brake chamber system helps increase the fuel efficiency of vehicles, which in turn contributes to reducing environmental impacts.
- 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 of the vehicles by supplying air dryers and also by the release of an EDSS* into the market.

* EDSS stands 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.



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	Wedge brake chambers for commercial vehicles: Approx. 75% domestic market share Air dryers for commercial vehicles: Approx. 70% domestic market share
Production bases	Murayama City, Yamagata Prefecture, Japan/Samutprakarn, Thailand/Haryana, India
Major customers	Isuzu Motors, Hino Motors, Mitsubishi Fuso Truck and Bus, UD Trucks
Sales by geographic segment (Full-year results)	Japan: Approx. 95%, Overseas: Approx. 5%

Strengths	<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 and India Highly precise and efficient production system established by introducing fully automated equipment
Opportunities	<ul style="list-style-type: none"> Expansion of market opportunities driven by the electrification trend Increasing demand for advanced safety technologies for great changes, as represented by CASE* <p>* CASE: Connected, Autonomous, Shared/Service, Electric</p>
Weaknesses	<ul style="list-style-type: none"> Ability to propose systematized products
Threats	<ul style="list-style-type: none"> Competition in the market with leading European manufacturers

Competitive Advantage Products and Technology

- The technology to separate the oil contained in compressed air gives us an advantage.

Production

- With a view to quickly responding to the needs of automakers, who engage in small lot production for a range of products, all of our equipment is designed and made in-house by specialists engaged in the various manufacturing processes.
- Moreover, we have built a quality assurance system in line with global standards and introduced fully automated equipment for highly precise and efficient production, thereby making "high quality" and "cost reduction" compatible.
- We are also strengthening our cost competitiveness while meeting the local quality standards in each region under our global production system.

Business Environment

The impact of production cuts by customers will be mitigated as semiconductors become more available. Also, demand will continue to be brisk in Southeast Asia. On the other hand, the automotive industry is reaching a turning point with the trends for CASE and electrification. Moreover, there are a range of issues to be addressed, including the need to reduce CO₂ emissions and to create a safer automobile society. In Japan it is also necessary to deal with the shortage of drivers and other logistics problems. In response, we are expected to offer more value-added products and services.

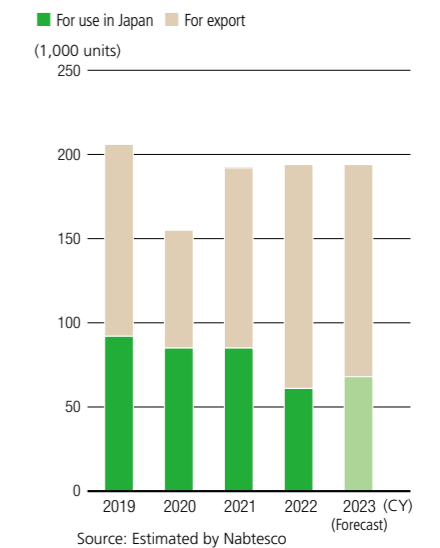
Opportunities and Risks

- By responding to the trend for electrification promptly, we will be able to capture more growth opportunities in line with the expansion of the market.
- If we fall behind our European competitors in meeting the challenges, including fostering decarbonization in transportation by truck, our market share may be negatively impacted.

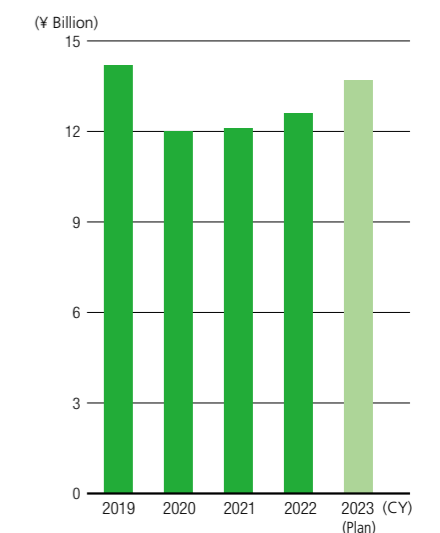
For the Achievement of the Medium-Term Management Plan

- We will develop various products for electric vehicles, thereby providing customers with a broader product lineup to meet the market requirement.
- We will work to acquire next-generation technologies through open innovation and enhance our development ability.
- We will enhance our position in the Chinese market, which we have newly entered.
- We will strive for further automation and higher productivity at our plants to raise our QCDS level.

Production of Large Trucks and Buses



Net Sales in the Commercial Vehicle Equipment Business



For the decarbonization of society, we will press forward with the development of products that contribute to the electrification of commercial vehicles, thereby contributing to the solutions of social challenges.

President, Nabtesco Automotive Corporation
Ataru Inoue



Innovation in Action

In response to the trend for electrification of automobiles and commercial vehicles, we pressed forward with our own R&D and succeeded in developing an electric compressor for electric buses. We are making particular efforts to promote sales of the compressor in the Chinese market, which has a high EV penetration rate. We will contribute to the decarbonization of society through the development and provision of electrified products, which will help boost the fuel efficiency of commercial vehicles.



Marine Vessel Equipment Business

Marine Control Systems Company

Contributing to the safe operation of marine vessels and stable maritime transportation

SDGs related to our business



Outline of the Marine Vessel Equipment Business

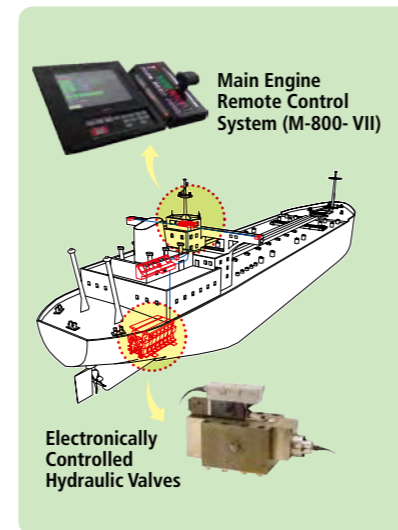
In 1963, we became the first company in Japan to develop a pneumatic remote control system for marine vessel engines to meet the standards set by the Classification Society of each country. Since then, we have developed products that meet the needs of customers in line with market trends, thereby broadening our product lineup. With MRO service bases stationed across the globe, we are contributing to safe and stable maritime transportation.

Product Features

- Our marine vessel engine remote control systems are equipped with an advanced, high-security networking function and a liquid crystal touch panel to provide excellent operability and scalability.
- Electronically controlled hydraulic valves used in electronically controlled engines contribute to higher fuel efficiency, higher operational efficiency, reduction of NOx emissions and others, thereby helping ensure compliance with environmental laws.
- We tend to receive an order for MRO services for a new ship about five years after its first navigation.
- It takes us about four months on average from the receipt of an order to the delivery of the product.

Social Value Provided by Products

- We supply highly safe, reliable and environment-friendly marine vessel equipment for use in marine vessels, which provide a means of transportation with low environmental impact per unit moved. Through such equipment, we contribute to reducing the environmental impact of ships and to their safe navigation as well as to safe and stable maritime transportation.



Competitive Advantage

Products and Technology

- We have the product development capability and product lineup to meet customer needs and keep up with market trends.

Services

- We have MRO service bases across the globe in order to be ready to provide MRO services 24 hours a day, 365 days a year.
- We can help customers diagnose the status of equipment we have supplied in a real-time manner, predict and detect failures, and reduce their maintenance lead time.

Production

- We have achieved local production for local consumption at our three bases in Japan, China and South Korea, thereby providing high QCDS performance.

Business Environment

In the global maritime industry, efforts to reduce GHG emissions and save labor are being pursued as a mega trend, which in turn is driving demand for technologies that help customers comply with environmental regulations as well as technologies for DX-based autonomous operation and status monitoring.

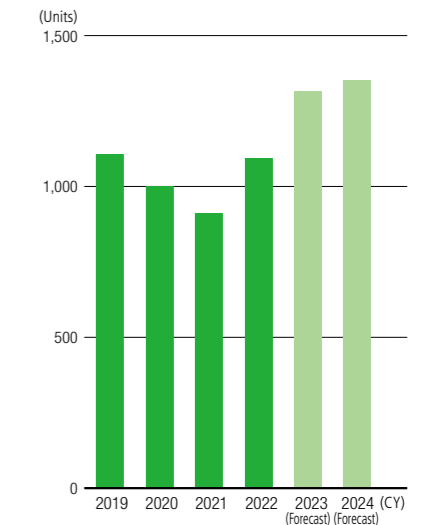
Opportunities and Risks

- We can grasp opportunities for growth by developing and releasing new products that help reduce GHG emissions and save labor.
- Our MRO business will get a boost if more customers undertake retrofitting or replace their equipment to ensure compliance with environmental regulations.
- Both for our existing businesses and growth businesses, demand might decrease depending upon the global economic situation.

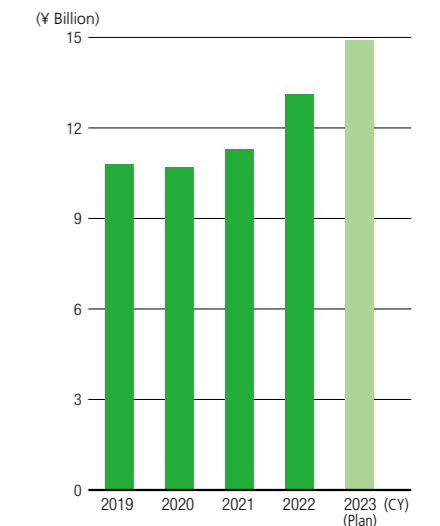
For the Achievement of the Medium-Term Management Plan

- We will expand our product and service lineups to secure revenues in the existing businesses.
- We will speed up open innovation and develop technologies for autonomous operation and status monitoring in cooperation with other companies.
- We will foster the development of hydrogen gas valves and other products that support the use of new types of fuel for decarbonization.
- We will expand the scope of our MRO services to include remote support, status monitoring and other DX-based services.

Global Production of 2-stroke Diesel Engines for Marine Vessels



Net Sales in the Marine Vessel Equipment Business



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	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, Japan Engine Corporation, Makita, Hitachi Zosen, Mitsui E&S Holdings, 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. 55%, Overseas: Approx. 45%

Strengths

- Broad lineup of environment-friendly products
- Ability to make proposals on entire control systems
- Global production and service system
- Proposals on preventive maintenance

Opportunities

- 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.

Weaknesses

- Cost competitiveness

Threats

- Change in demand for new shipbuilding due to global economic fluctuations



Piling up the technologies and expertise that we have already cultivated, we will work on technological reforms to contribute to the manufacturing of smart ships and decarbonization as well as to the sound development of the shipbuilding and marine vessel equipment industries.

President, Marine Control Systems Company
Yukihiro Mizutani

Innovation in Action



Based on our technology for main engine remote control systems, we are participating in pilot programs for the practical use of autonomous navigation ships as part of our R&D efforts toward the integrated control of propulsion systems, which are becoming more complex and advanced. Moreover, we have used CVC to form a partnership with Greek company Deep Sea Technologies to jointly develop for sale its AI technology-based optimal navigation route selection and status monitoring solutions. We are thus pushing ahead with technological development to promote decarbonization and DX for ship navigation.



Automatic Door Business

Accessibility Innovations Company

Contributing to the solution of ESG issues through the provision of safety, comfort and a sense of security in daily lives

SDGs related to our business



Outline of the Automatic Door Business

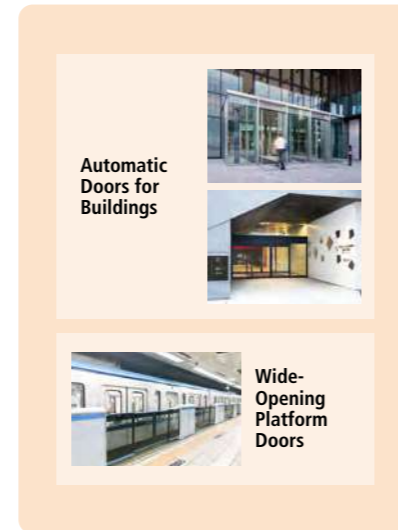
We provide a range of automatic doors, including automatic doors for buildings, barrier-free doors, super-large automatic doors for industrial use and platform doors. We have established our position as a top-level automatic door manufacturer serving customers in the world's major four markets (Japan, the US, Europe and China).

Product Features

- We have developed high-performance and highly energy-efficient automatic doors for buildings by adopting state-of-the-art sensors and advanced door control technologies.
- We have a broad lineup of platform doors, including full height-type doors and movable doors. Our newly developed full-height flexible platform doors are compatible with various railroad vehicles regardless of their door positions, making it possible for the doors to be used at stations serviced by multiple train car models.

Social Value Provided by Products

- We contribute to the reduction of environmental impacts by providing energy efficient automatic doors that discern differences in the movements of pedestrians to avoid unnecessary opening or closing as well as barrier-free and contactless automatic doors.
- Our platform doors are adopted for railway lines in major cities around the world so as to provide safety, comfort and a sense of security to passengers while also contributing to the punctual operation of railroad transportation systems.



Competitive Advantage

Products and Technology

- We developed an automatic door ahead of other companies in Japan in 1956 and have continued to differentiate ourselves since with our high-level technological capabilities and abundant experience.

Services

- In Japan we have built up a network of more than 100 service bases to ensure that we can meet the needs of customers at all times, including needs for our products, installation work and MRO services.

Production

- We have built a system to supply our products in the following four major automatic door markets: Japan, North America, China and Europe (North America: NABCO Entrances, Inc.; China: NABCO AUTO DOOR (BEIJING) CO., LTD.; Europe: Gilgen Door Systems AG)

Business Environment

Demand for automatic doors for buildings will continue to be stable worldwide. In Japan, demand will increase due to urban redevelopment projects and in Western countries demand will remain stable. Meanwhile, in Southeast Asia the establishment of infrastructure will be further promoted. For platform doors, demand will expand across the world in line with an increase in the need to provide passengers with greater safety and more barrier-free facilities at stations.

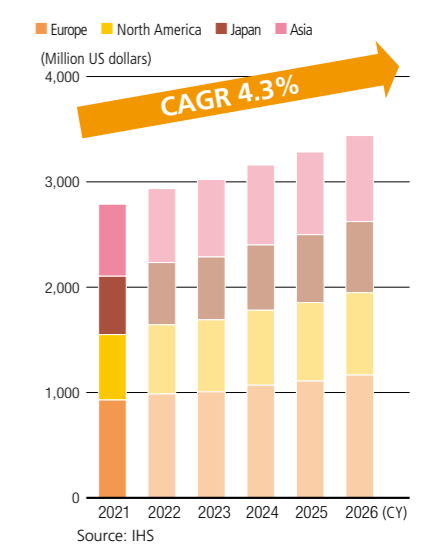
Opportunities and Risks

- The value of contactless automatic doors has recently been getting a lot of attention due to the COVID-19, providing us with more sales opportunities.
- On a long-term basis, the Japanese market might shrink due to demographic aging and the declining birth rate. However, the global market will remain brisk.

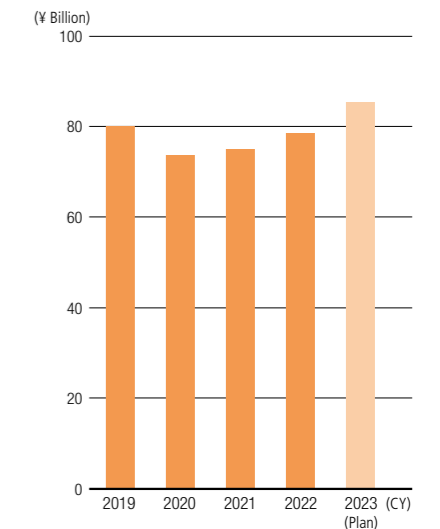
For the Achievement of the Medium-Term Management Plan

- Receiving more orders with a focus on urban development projects in Japan. In the domestic market, demand for automatic doors is expected to expand thanks to the implementation of urban development projects. We will boost our sales by seizing the opportunities provided by these projects.
- Enhancing our value chain outside Japan. We will establish branches and support our distributors in overseas markets to enhance our local value chain, thereby expanding our share in each market.
- Developing new products and launching automatic door-related businesses. By making effective use of IoT technology and enhancing our ties with various networks, we will establish new product systems and services to launch next generation businesses in the automatic door and peripheral markets.

Automatic Door Markets (Forecast)



Net Sales in the Automatic Door Business



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	Automatic doors for buildings: Approx. 55% domestic market share Platform screen doors: Approx. 95% domestic market share
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, subways in major overseas cities, others
Sales by geographic segment (Full-year results)	Japan: Approx. 55%, Overseas: Approx. 45%

Strengths	<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
Opportunities	<ul style="list-style-type: none"> • Stable growth of the automatic door market mainly in developed countries • Installation of more platform screen doors in Japan driven by the railway station barrier-free fare system
Weaknesses	<ul style="list-style-type: none"> • Branding in emerging market countries
Threats	<ul style="list-style-type: none"> • Long-term tendency for the domestic market to shrink due to maturity • Chronic shortage of human resources in the construction industry



We are contributing to the resolution of social issues by offering energy-saving automatic doors that do not open unnecessarily as well as platform doors that incorporate principles of universal design. Going forward, we will develop sensors with a view to providing the users of our doors with an even greater sense of safety, comfort and security.

President, Accessibility Innovations Company
Seiji Takahashi

Innovation in Action



In 2024, we will undertake a full-scale launch of a new business in which we will make effective use of the glass part of our automatic doors as a space for digital signage to obtain ad revenues. (In a pilot program, automatic doors with space for digital signage are installed on the first floor of Building 17 at Waseda University.)



Packaging Machine Business

PACRAFT Co., Ltd.

Contributing to the reduction of food loss and the effective use of limited resources

SDGs related to our business



Outline of the Packaging Machine Business

Automatic fillers/sealers are machines designed to package things using the packaging materials supplied by their manufacturers. These machines are used for the production of food products, chemical products such as detergents, pet food and various other products. In particular, for automatic fillers/sealers for retort food, we boast a large market share in Japan of around 85%.

Product Features

- We have 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.
- We provide custom-made packaging machines to meet various requirements of customers, as well as demand for "total line systems."

Social Value Provided by Products

- We can greatly contribute to the reduction of food loss by providing packaging machines that adapt to individual small packaging and help prolong the expiration period of food products.
- Recently, we have provided high value-added fillers/sealers by incorporating a range of inspection devices, such as X-ray and infrared cameras, thereby contributing to food safety.
- By using refillable pouches instead of bottles as containers for chemical products, we will contribute to reducing the use of plastic for such containers by 80%.



Business Overview (Fiscal year ended December 31, 2022)

Market share (Estimate by Nabtesco)	Packaging machines for retort pouch foods: Approx. 85% domestic market share
Production bases	Iwakuni City, Yamaguchi Prefecture, Japan/Dalian, China, State of Illinois, U.S.A.
Major customers	Mitsui DM Sugar, Ajinomoto, NH Foods, MARUDAI FOOD, HOUSE FOODS, Otsuka Foods, ARIAKE JAPAN, Procter & Gamble Japan, Kao, Lion, food/beverage companies in North America, food companies in China
Sales by geographic segment (Full-year results)	Japan: Approx. 60%, Overseas: Approx. 40%

Strengths
<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 machines • Official distributors located in major overseas cities • System to meet needs for mass production
Opportunities
<ul style="list-style-type: none"> • Expanded needs for small-lot and 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
Weaknesses
<ul style="list-style-type: none"> • Lack of global recognition
Threats
<ul style="list-style-type: none"> • Changes in market share due to participation by manufacturers in emerging market countries and to the release of low-cost products

Competitive Advantage Products and Technology

- Since developing the world's first rotary packaging machine that integrates a series of filling and packaging processes into one line, we have accumulated the ability to develop technologies as our strength.

Services

- 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

- In addition to the Iwakuni Plant and the production base in Dalian, China, we have enhanced our local production capacity in North America to build a production system that can meet future increases in demand for packaging machines.

Business Environment

Demand for packaging machines will expand on a medium- to long-term basis, being driven by increasing needs for small-lot and lightweight food packaging, factory automation and improved labor productivity, as well as by the need to reduce both the use of packaging materials and food loss to save resources.

Also, due to the diversification and sophistication of customer needs, demand for "total line systems," which include both front-end and back-end processes, is on the rise.

Opportunities and Risks

- Demand for pouch food packaging is expanding, being driven by an increase in the number of individuals who eat alone and in the public's awareness about food safety. This will provide us with an opportunity to expand the business.
- In addition, if we can meet the needs for environment-friendly packaging materials and for value-added products, such as the "total line systems," it will help us find new business opportunities.
- Market entry by manufacturers from emerging markets and the emergence of lower cost packaging machines pose risks to us.

For the Achievement of the Medium-Term Management Plan

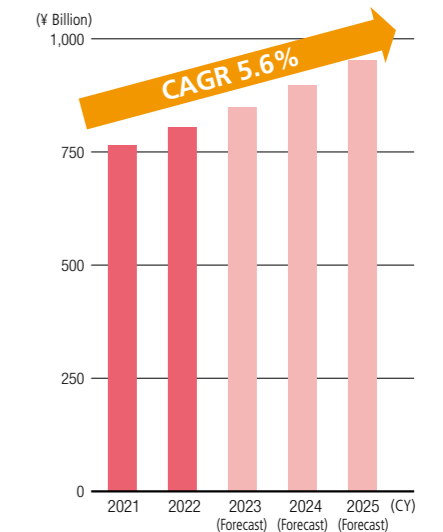
- Transforming the Company into a system integrator that focuses on packaging machines
By providing "total line systems" that perform the functions of both packaging and inspection, we will broaden our product lineup and offer more value to customers.
- Expanding our overseas business at a greater speed
We will establish more bases in Southeast Asia and other regions to boost our overseas sales.
- Enhancing our packaging technologies and digitizing our maintenance service
We will increase the efficiency of our MRO service by enhancing our element technologies for packaging machines that support the use of environment-friendly packaging materials and digitizing our maintenance service for remote maintenance.



Innovation in Action

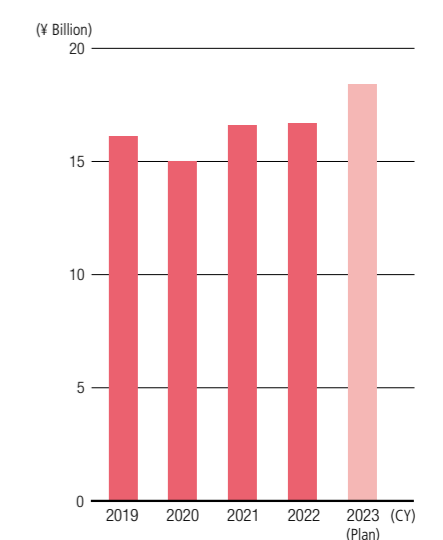
We are offering "total line systems" that perform the functions of both packaging and inspection by making effective use of the AI-based image processing and analysis technologies owned by Engilico of Belgium, which we acquired in 2021. With the inspection function, users of the systems can quickly detect errors that cannot be detected by conventional video camera-based systems. By providing advanced automation solutions, we will contribute to meeting labor-saving needs as well as to food safety.

Global Pouch Packaging Machinery Market



Source: Technavio

Net Sales in the Packaging Machine Business



We are contributing to the reduction of food loss and less use for plastic by fostering the packaging of food in small bags and the packaging of refills. We will work to meet the expanding needs for eco-friendly packaging materials, thereby supporting environmentally conscious lifestyles.

President, PACRAFT Co., Ltd.
Akiyoshi Kitamura

Governance Dialogue

Roles to be played by the Board of Directors for value creation



Katsuhiko Teramoto
Director, Chairman of the Board,
Nabtesco Corporation

Mari Iizuka
Outside Director,
Nabtesco Corporation

Naoko Mizukoshi
Outside Director,
Nabtesco Corporation

Naoki Hidaka
Outside Director,
Nabtesco Corporation

In this age of big changes, what challenges should Nabtesco address to continue its sustainable growth, and what roles should the Board of Directors play to meet the challenges? Board Chairman Katsuhiko Teramoto, who chairs Board meetings, talked with three of the Company's outside directors about how to further increase the effectiveness of the governing body.

Challenges identified for sustainable growth

Teramoto: I feel grateful that Nabtesco has continued to achieve sustainable growth for over 20 years since its founding. However, for Nabtesco to stay on this path amid this dramatically changing environment, I firmly believe that we ourselves must change with a focus on two priorities, which are innovation and globalization. As outside directors of the Company, what do you think

Nabtesco should do to continue its sustainable growth and achieve the long-term vision set to this end? I would invite you to speak frankly.

Hidaka: I think Nabtesco has built a very stable business foundation, capitalizing on its excellent products and technologies. The Company also earns tremendous trust from its OEM customers. However, serving as a supplier to customers, mainly Japanese companies, as their OEM partner could undermine Nabtesco's ability to closely monitor changes that occur over time and in the market. I therefore think it is important for Nabtesco to further foster innovation and conduct activities in closer contact with end users.

Mizukoshi: I joined the Board of Directors in time for the formulation of the long-term vision and the new medium-term management plan. For innovation and globalization, which are the challenges to be addressed by Nabtesco, I think Board members share the commitment to meeting them. I regard it as one of our roles to discuss the challenges, including both their positive and negative impacts, and propose improvements.

Iizuka: I was appointed as an outside director of the Company at the same time as Ms. Mizukoshi assumed

Hidaka

I think it is important for Nabtesco to further foster innovation and conduct activities in closer contact with end users.

her position. Amid the COVID-19 pandemic, I felt uneasy, unsure as to whether or not I could fulfill my responsibility as a director of the Company, including responding to the crisis caused by the spread of the disease. However, by learning about the details of Nabtesco's business through preparatory lectures and study meetings, I was able to readily participate in the Board's discussions.

Whether or not the effectiveness of the Board of Directors is ensured

Teramoto: Thank you for your frank opinions. Each of the outside directors has their respective expertise and experience, and what you point out about Nabtesco is truly valuable for the Company. Could you share your opinions about the effectiveness of the Board?

Iizuka: The composition of the Board is commendable. Each member of the Board has their own expertise, and I do not believe that the outside directors were selected simply to "make up the numbers." It is important to select appropriate individuals for the Board to make it effective in terms of diversity and internationality. Presently, the Board has no non-Japanese members but many of the current members have long overseas experience and I therefore think the Board is international enough.

Mizukoshi: The Board is composed of 50% inside directors and the other 50% outside directors, and this creates a certain tension, in a good way. The five outside directors

Teramoto

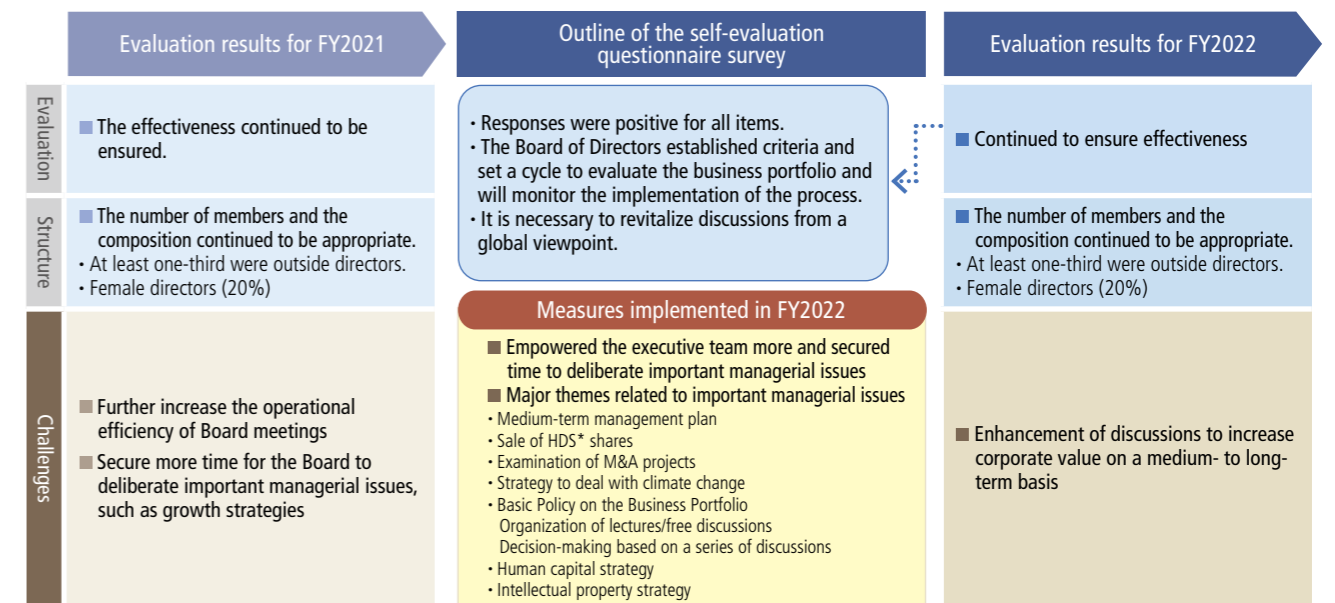
As the roles to be shared by the Board of Directors and the executive team are clarified further, the importance of the Board will increase accordingly. I would like to demonstrate leadership to foster effective discussions for the growth of the Company.



specialize in different fields, which is also commendable. As a medium- to long-term challenge to meet, I think it is necessary for the Company to develop personnel who can demonstrate leadership outside Japan as members of the executive team.

Hidaka: And Mr. Takahata newly joined the Board as a specialist in the digital domain, expanding the scope of expertise that can be contributed by the outside directors. Ten short years ago, I became a member of the Board of Directors at the Company that I used to work for. Compared with that time, the role of a company board has changed substantially. In the past, its main role was to monitor and make decisions on large projects and accounting issues. But over time the board has become expected to discuss how to boost the corporate value and deliberate on the desirable direction to be taken by the Company to increase its value on a medium- to long-term basis.

Measures to enhance the effectiveness of the Board of Directors



*HDS: Harmonic Drive Systems Inc.

Governance Dialogue



Mizukoshi

We need to think about how to involve our people and organizations in innovation organically. I believe meeting this challenge will help improve our business portfolio and lead to the achievement of the long-term vision.

The Board of Director's functions changing with the times

Teramoto: For a long period after Nabtesco was established 20 years ago, the Company only had two outside directors. Then Ms. Mizukoshi and Ms. Iizuka joined the Board and the number of outside directors increased to four, and Mr. Takahata also joined the Board in 2022 to make the ratio of inside to outside directors five to five. As Mr. Hidaka has said, the role to be played by the Board of Directors has changed and now the Board is expected to identify what it takes to increase corporate value.

In 2022, we held a series of discussions to formulate the Basic Policy on the Business Portfolio as an important theme for the Board of Directors, although it had traditionally been a theme discussed solely by the executive team. I think this represents tremendous progress in the Company's process for deciding on its future direction.

Hidaka: For the formulation of the Basic Policy on the Business Portfolio, we did not seek to hastily finalize the Policy by simply discussing the draft prepared by the executive team. Instead, we started to create our own draft, which enabled us to have a profound discussion on Nabtesco's current business portfolio and its future direction. As a result, I think we were able to show the executive team a draft that they could accept as a blueprint.

Mizukoshi: Last year, we decided to discuss the medium- to long-term strategies more intensively at Board meetings. Based on this decision, we had three meetings where the business portfolio was the first important item on the agenda. And we identified relevant problems based on the current situation, which I think promoted a shared understanding about the related issues between the Board and each of the in-house companies.

Iizuka: Thanks to the efforts made for the business portfolio, both the Board and the executive team were able to reaffirm with a sense of urgency that Nabtesco has not yet developed new growth businesses. Board members share the recognition that Nabtesco will not have a bright future if it cannot develop new businesses, and I think we now share this sense of urgency with the executive team.

Going forward, we need to think about how to involve

our people and organizations in innovation organically. I believe meeting this challenge will help improve our business portfolio and lead to the achievement of the long-term vision.

Teramoto: We used to evaluate our businesses for each of the in-house companies. By subdividing the in-house companies into smaller business units, I think we will be able to get a more granular and perhaps quantified understanding.

For further globalization

Iizuka: Thanks to the in-house magazine, I have opportunities to talk with Nabtesco's employees working outside Japan. These employees are thinking seriously about the future of Nabtesco from an external viewpoint. I get a strong sense of the difference between the speed at which they do business and the speed of business in Japan. This fact, however, has not been fully recognized across the Company, and I think Nabtesco might be able to take the first step toward further globalization by listening more to those who are working overseas and experiencing global trends and taking on more of their recommendations.

Hidaka: Nabtesco's products are widely used as OEM products around the world, but the downside of this business model is that it makes it difficult to identify local needs directly. Nabtesco has challenges to address regarding its ability and system for understanding what it takes to do business in a localized manner. However, the Company has not yet established any of the personnel or job allocation systems that are required to meet such challenges. I therefore think it is necessary for the Board of Directors to discuss "how to foster globalization" as the next discussion theme following the business portfolio theme.

Teramoto: In fact, although Nabtesco seems to be a global business, 50% of its sales are from customers in Japan and the part of the overseas sales are from Japanese companies operating overseas. We thus still depend mainly on Japanese corporate customers for our sales. We have direct overseas customers only in the precision reduction gear and aircraft equipment businesses. We need to foster innovation and implement new measures to truly globalize Nabtesco, including releasing products that we can supply directly to overseas customers.

Mizukoshi: Systems, commercial customs and ways of thinking differ by region and country, and I think Nabtesco does not have a well-established system to share an understanding of these differences and foster personnel exchange between Japan and overseas.

Commitment to sustainability

Iizuka: From the viewpoint of an outsider, it seems that Nabtesco is seriously committed to sustainability. However, the Company might need to examine whether

or not to include contribution to sustainability in the personnel evaluation items as an incentive to encourage individual employees to make such a contribution. I think Nabtesco can examine the affinity between this issue and its corporate culture. It is also related to the Company's approach to human capital.

Mizukoshi: Regarding both the environment and human rights, I think Nabtesco has been seriously committed to protecting them based on a sufficient understanding of the situation of the Group and its supply chain.

Also, when appointing the CEO and management team members, consideration is given to their understanding of sustainability and ESG issues. I hope that we will be able to talk more about how Nabtesco should address global issues and what support systems are required to this end.

Hidaka: Sustainability has been increasing in importance as an element of corporate value. The members of Nabtesco's executive team are highly aware of the importance of sustainability and compliance. They are performing their duties with a genuine commitment, which is indeed part of the corporate culture.

Teramoto: Nabtesco has been highly applauded by international rating organizations for its commitment to sustainability and ESG issues. We have a system whereby the executive team reports the results of their discussions and relevant data to the Board of Directors, and it can be said that we have a well-functioning system for these issues. And we will of course continue to give first priority to sustainability and governance.

To further increase the Board's effectiveness

Teramoto: Nabtesco has two committees that serve as advisory organizations for the Board of Directors, namely the Nomination Committee and the Remuneration Committee. I chair both of these committees, which are composed of outside directors and Audit & Supervisory Board members. Please share your evaluation of the activities of the committees and your opinions about their future directions.

Mizukoshi: Our focus has shifted from the appointment of the CEO, which was indeed an important task for the Board, to the development of future candidates for top management positions, who should demonstrate leadership for the empowerment of women and the development of globally competitive human capital.

Iizuka: I feel glad that we were able to discuss the possibility of making further improvements when reviewing the process to select the CEO. The three final candidates had already been fulfilling heavy responsibilities as members of the executive team and so they pulled together to demonstrate teamwork under the new CEO.

Hidaka: I am a member of the Remuneration Committee. For the development of globally competitive talent, I think



Mizukoshi

I would like to continue to discuss how to help Nabtesco make steady achievements in the domains of innovation and globalization, which are indeed important themes to address.

we need to discuss how to enhance the compensation system to increase the motivation of those serving as directors and officers.

Teramoto: I think we were able to discuss how to create a better future through the review process implemented by the Nomination Committee. At a meeting of the Remuneration Committee, Mr. Hidaka kindly made a proposal on incentives and about how to estimate non-financial achievements, such as those related to sustainability.

Hidaka: Presently, I think the Board of Directors is functioning well. As a challenge to meet going forward, the Board needs to establish a personnel system that helps develop new growth businesses and a system to back up such development efforts. I would like to make use of my past experience to make contributions, even small ones, to help Nabtesco meet these challenges.

Mizukoshi: The targets upheld in the long-term vision and the medium-term management plan were set based on the recognition of Nabtesco's strong and weak points. I would like to continue to discuss how to help Nabtesco make steady achievements in the domains of innovation and globalization, which are indeed important themes to address.

Iizuka: For the growth of the Company, the Board of Directors should make progress, and I must also develop myself in order to fulfill the important role assigned to me, which is to help the Company embrace challenges for its medium- to long-term growth.

Teramoto: We held discussions with a focus on the business portfolio last year. This year, we are having a lot of discussions on how to promote globalization for the future of the Company, and I expect that the executive team will execute our directives. As the roles to be shared by the Board of Directors and the executive team are clarified further, the importance of the Board will increase accordingly. As the chairperson of Board meetings, I would like to demonstrate leadership to foster effective discussions for the growth of the Company, for which I would ask for your ongoing support.

Approach to ESG Issues

The Nabtesco Group has been steadily executing a PDCA cycle for taking actions to enhance its management foundation, which it regards as a pillar of its management materiality, for the solution of ESG issues.

Measures to Enhance Our Management Foundation							Impact on the Nabtesco Group			Major SDGs of Relevance
General Category	ESG Category	Major Initiatives and Related Pages	Desirable Direction/ Major Actions	Targets for FY2022	Achievements in 2022 (Extracts)	Important targets for FY2023	Negative Impacts	Positive Impacts	Quantitative Indicators	
ESG items having a major impact on financial issues	Environment (E)	Countermeasures for Climate Change ▶ P.73	<ul style="list-style-type: none"> Achieve medium- to long-term CO₂ emissions reduction targets Foster environmental information disclosure 	<ul style="list-style-type: none"> Reduce CO₂ emissions by 12.6% relative to 2015 in line with MTMP target Build a system to procure renewable energy (CO₂-free electricity) at sites in Japan Foster information disclosure in line with the TCFD 	<ul style="list-style-type: none"> Reduced CO₂ emissions by 14% relative to 2015 in line with the MTMP target Began the procurement of renewable energy at 10 sites in Japan Fostered information disclosure in line with the TCFD (promoted scenario analysis) 	<ul style="list-style-type: none"> Reduce CO₂ emissions by 19% relative to 2015 in line with the MTMP target Build a system to procure renewable energy (CO₂-free electricity) at bases outside Japan Launch environment-friendly leading-edge plants (the Hamamatsu and Tarui Plants) 	<ul style="list-style-type: none"> Due to the realization of disaster/energy risks and the enhancement of regulations, <ul style="list-style-type: none"> business operations are disrupted; or financial cost increases. 	<ul style="list-style-type: none"> As a result of preventing the materialization of disaster/energy risks, <ul style="list-style-type: none"> business operations can be secured; or financial risks can be reduced. As a result of selling products with high environmental performance, <ul style="list-style-type: none"> business opportunities increase. 	<ul style="list-style-type: none"> Amount of CO₂ emissions Amount of energy used 	
	Society (S)	Deliver Solutions for Social Challenges Through Business ▶ P.76	<ul style="list-style-type: none"> Promote environment- and safety-conscious design and development Create new businesses and products that contribute to the social challenges 	<ul style="list-style-type: none"> Promote environment- and safety-conscious design and development 	<ul style="list-style-type: none"> Launched the CMFS business Released electric compressors in the market Provided optimal navigation route planning and status monitoring systems for ships 	<ul style="list-style-type: none"> Foster the use of the intrapreneurship program and the in-house company innovation system 	<ul style="list-style-type: none"> Due to the failure to meet social needs sufficiently, <ul style="list-style-type: none"> competitiveness in the product market declines. 	<ul style="list-style-type: none"> As a result of the provision of products that provide safety, comfort and a sense of security, <ul style="list-style-type: none"> trust of customers is gained. As a result of contributing to the solution of social issues, <ul style="list-style-type: none"> competitiveness in the product market is improved. 	<ul style="list-style-type: none"> Number of notifications on intellectual property creation Ratio of inventors Number of products certified under the energy-saving product certification system 	
	Society (S)	Build a Resilient Supply Chain ▶ P.77	<ul style="list-style-type: none"> Deal with supply risks posed by suppliers Help suppliers solve ESG issues Support suppliers in BCP 	<ul style="list-style-type: none"> Continue to make improvements on the SAQ process Carry out audits on suppliers with a focus on human rights and the environment Encourage suppliers to set their own CO₂ emissions reduction targets 	<ul style="list-style-type: none"> Performed CSR audits based on the SAQ results Did due diligence for human rights and the environment Created the Nabtesco Group Statement on Responsible Sourcing of Minerals Newly established a hotline for business partners 	<ul style="list-style-type: none"> Promote CSR audits Foster sustainability awareness-raising activities Support the acquisition of resilience certification 	<ul style="list-style-type: none"> As a result of the realization of procurement risks, <ul style="list-style-type: none"> supply of raw materials and components is suspended. As a result of the interruption or suspension of business operations, <ul style="list-style-type: none"> competitiveness in the product market is lowered. 	<ul style="list-style-type: none"> As a result of controlling procurement risks, <ul style="list-style-type: none"> raw materials and components are procured sustainably. As a result of securing highly qualified suppliers, <ul style="list-style-type: none"> competitiveness in the product market is improved. 	<ul style="list-style-type: none"> Amount of CO₂ emissions (Scope 3) Supplier SAQ Number of companies undergoing CSR audits Number of support cases for resilience certification acquisition 	
	Governance (G)	Increase the Effectiveness of Our Management Entities ▶ P.85	<ul style="list-style-type: none"> Build a diversity-based management system Enhance discussions on medium- to long-term strategies at Board of Directors' meetings 	<ul style="list-style-type: none"> Increase the management efficiency of the Board of Directors 	<ul style="list-style-type: none"> Promoted the empowerment of the executive team and fostered the deliberation of important issues (business portfolio, human resource strategies, climate change-related strategies and others) 	<ul style="list-style-type: none"> Increase the management efficiency of the Board of Directors Foster the deliberation of important issues (global strategies, sustainability governance and others) 	<ul style="list-style-type: none"> As a result of slow decision-making by the Board of Directors, <ul style="list-style-type: none"> opportunities to increase corporate value are lost. 	<ul style="list-style-type: none"> As a result of quick decision-making, <ul style="list-style-type: none"> corporate value can be maintained or improved. 	<ul style="list-style-type: none"> Affirmative vote rate for selected directors 	
ESG items that drive sustainability power	Environment (E)	Foster Environmental Management ▶ P.75	<ul style="list-style-type: none"> Reduce environmental impact (Reduce the use of water and chemical substances and the generation of waste) Conserve biodiversity 	<ul style="list-style-type: none"> Review the Environmental Philosophy and the Environmental Action Guidelines 	<ul style="list-style-type: none"> Totally revised the Environmental Philosophy and the Environmental Action Guidelines Conducted an impact assessment survey for biodiversity 	<ul style="list-style-type: none"> Implement the Environmental Philosophy and the Environmental Action Guidelines globally Reduce environmental impact (Reduce the use of water and chemical substances and the generation of waste) 	<ul style="list-style-type: none"> Due to the lack of the contribution to solving environmental issues, <ul style="list-style-type: none"> reputation is damaged; or trust of customers declines. 	<ul style="list-style-type: none"> As a result of the contribution to solving environmental issues, <ul style="list-style-type: none"> reputation is maintained and improved. 	<ul style="list-style-type: none"> Zero emissions rate Amount of water and chemical substances used and the amount of waste generated Number of bases that might have adverse impacts on biodiversity 	
	Society (S)	Pursue Safety, Comfort and a Sense of Security ▶ P.79	<ul style="list-style-type: none"> Advance quality and safety management 	<ul style="list-style-type: none"> Enhance product safety measures 	<ul style="list-style-type: none"> Set product safety-related targets and worked to achieve them 	<ul style="list-style-type: none"> Achieve the product safety-related targets Conduct activities to create a culture of safety 	<ul style="list-style-type: none"> As a result of deficiencies, accidents, etc., involving products, <ul style="list-style-type: none"> business operations are interrupted/suspended or financial loss is incurred; or financial cost increases. As a result of the lack of meeting of customer and social needs, <ul style="list-style-type: none"> competitiveness in the product market declines. As a result of labor issues or labor accidents, <ul style="list-style-type: none"> productivity declines. 	<ul style="list-style-type: none"> As a result of the provision of products that provide safety, comfort and a sense of security, <ul style="list-style-type: none"> trust of customers is gained. As a result of the pursuit of customer needs, <ul style="list-style-type: none"> in-house technologies are enhanced, or human resources are developed. As a result of the realization of safe working environments, <ul style="list-style-type: none"> productivity is enhanced. 	<ul style="list-style-type: none"> Product safety indicator Frequency of occupational accidents Number of fatal accidents Occupational illness frequency rate (OIFR) 	
	Society (S)	Enhance Human Capital Management ▶ P.19.81	<ul style="list-style-type: none"> Shift to business-focused management of human resources Promote diversity & inclusion/ Advance the management of human rights Improve employee engagement 	<ul style="list-style-type: none"> Implement diversity promotion measures Advance human rights management Foster health management Increase productivity through the introduction of flexible work styles 	<ul style="list-style-type: none"> Launched a project to reform the personnel system Did due diligence for human rights based on the revised human rights policy Conducted health consciousness-raising activities Established the rules on side jobs 	<ul style="list-style-type: none"> Foster the project to reform the personnel system Enhance the disclosure of information about human capital management Revise The Nabtesco Way Advance health management 	<ul style="list-style-type: none"> Due to malfunctioning human capital management, <ul style="list-style-type: none"> organizational strength and engagement decrease; or competitiveness in the employment market decreases. Due to the realization of human rights-related risks, <ul style="list-style-type: none"> reputation is damaged. Due to the degradation of employees' health status, <ul style="list-style-type: none"> employee engagement decreases; or financial cost increases. 	<ul style="list-style-type: none"> As a result of fostering human capital management, <ul style="list-style-type: none"> organizational strength and engagement increase; or competitiveness in the employment market increases. As a result of preventing the realization of human rights-related risks, <ul style="list-style-type: none"> reputation is maintained/improved. As a result of promoting employees' health, <ul style="list-style-type: none"> employee engagement is improved; or financial cost decreases. 	<ul style="list-style-type: none"> Innovation index Linkage index Engagement index 	
	Governance (G)	Promote Engagement with Local Community	<ul style="list-style-type: none"> Promote community investment 	<ul style="list-style-type: none"> Promote community investment 	<ul style="list-style-type: none"> Promoted community investment in the areas of the environment, education and welfare 	<ul style="list-style-type: none"> Promote community investment in the areas of the environment, education and welfare 	<ul style="list-style-type: none"> As a result of sluggish local economy/society, <ul style="list-style-type: none"> the product market shrinks and employment opportunities are lost. 	<ul style="list-style-type: none"> As a result of the development of trust with and contribution to the local community, <ul style="list-style-type: none"> reputation is maintained and improved; or the product market expands and employment opportunities are gained. 	<ul style="list-style-type: none"> Donations Community investment Commercial initiative 	
Governance (G)	Ensure Management Transparency ▶ P.87	<ul style="list-style-type: none"> Enhance corporate governance Ensure risk management and compliance Proactively engage in dialogue with stakeholders 	<ul style="list-style-type: none"> Conduct a compliance awareness survey on a global scale Enhance the disclosure of non-financial information in line with management materiality 	<ul style="list-style-type: none"> Revised the Nabtesco Group Code of Ethics and the anti-bribery guidelines and informed Group bases within and outside Japan of the revisions Conducted a compliance awareness survey at Group bases including those in Western countries and Asia Reviewed the management materiality 	<ul style="list-style-type: none"> Implement the Nabtesco Group Code of Ethics on a global scale Globally implement measures to ensure compliance with anti-monopoly laws and prevent corruption Hold the IR DAY event 	<ul style="list-style-type: none"> As a result of malfunctioning corporate governance, <ul style="list-style-type: none"> corporate value is damaged. As a result of the materialization of a risk or non-compliance, <ul style="list-style-type: none"> business is suspended or discontinued; or financial cost increases. As a result of a decline in stakeholders' trust, <ul style="list-style-type: none"> competitiveness is lowered; or reputation is damaged. 	<ul style="list-style-type: none"> As a result of the global enhancement of the compliance system, <ul style="list-style-type: none"> business is continued; or corporate value is maintained and improved. As a result of cooperation and the establishment of relationships of trust with stakeholders, <ul style="list-style-type: none"> business is continued, and more business opportunities are gained; talent is secured; or reputation is maintained and improved. 	<ul style="list-style-type: none"> Number of non-compliance cases Allowance for the payment of penalties and settlement money Political contributions Total amount of membership fees paid to trade organizations 		

Countermeasures for Climate Change

Mitigation of Climate Change

Countermeasures for Climate Change

The Nabtesco Group expressed its support for the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD). Accordingly, we are fostering the disclosure of related information in line with the TCFD's recommendations, including that about the progress made with our climate change-related measures.

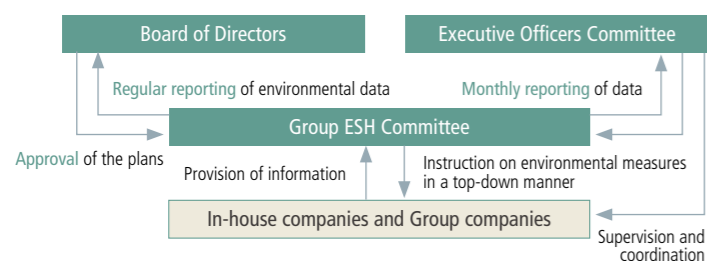
◆ Governance

Nabtesco Corporation's Board of Directors determines and supervises our strategies, basic policies and the execution of important operations by sharing information through reports on important issues. Regarding climate change, a director in charge of environmental security reports on the progress toward the CO₂ emission reduction targets and the status of major environmental facility investments.

Under the guidance of and supervision by the Board of Directors, the President and CEO establishes the Nabtesco Group Environmental Philosophy, Environmental Action Guidelines and long-term targets. At the Management Committee (composed of the CEO, directors and executive officers in charge), the director in charge of environmental security reports the status of CO₂ emissions at the in-house companies and main Group companies. If there is a gap between the current status and the goal, we identify the causes and take measures accordingly. If any item under discussion or report is deemed to affect our business, the CEO determines appropriate measures and reflects them in our business strategies.

As a promoting organization under the direct control of the CEO that is involved in ESH management, Nabtesco has established the Group ESH Committee with jurisdiction over the entire Nabtesco Group. The CEO appoints the chairperson and members of the Group ESH Committee from among our officers, including members of the Board of Directors. The chairperson of the Group ESH Committee collects important information on the environment, safety and health, including climate change-related risks and opportunities, from the in-house companies and Group companies. For confirmation, the chairperson also visits each site and leads the organization of company-wide energy conservation meetings and the implementation of ESH audits. The Group ESH Committee uses the results of these monitoring efforts to evaluate the materiality of identified issues and deliberate measures for any issues deemed to be important.

● Nabtesco's system to deal with climate change



◆ Strategies

We are analyzing the possible impact of climate change on our business activities based on multiple scenarios developed by external parties. When the result of the audits by the Group ESH Committee shows that any issues (risks or opportunities) associated with climate change have an important effect on our business, they are reflected in our business strategies by the determination of the CEO.

In the future, the following risks are anticipated depending on requests from the market or customers: increase in carbon prices, increase in operating costs due to the purchase of electricity from renewable sources, increase in capital expenditures for the introduction of power generation equipment, etc., using renewable resources and the increase in R&D costs for energy-saving product development. There are also physical risks such as business interruption due to damaged infrastructure or unstable electric power supply caused by wind or water disaster.

On the other hand, the enactment of new laws and regulations, including those to make energy-efficiency labeling mandatory, is expected to provide new business opportunities. Also, the need to prolong product lives for CO₂ emissions reduction will increase in line with growing public awareness of climate change, which will in turn expand opportunities for our MRO business.

Going forward, Nabtesco Corporation will make more efforts to identify risks and opportunities associated with the environment and take more measures to address the risks and realize the opportunities, including the promotion of energy conservation activities.

◆ Risk management

The Group ESH Committee collects information about climate change-related risks and opportunities from each in-house company and Group company. The Committee evaluates their financial impact on the Group's business activities and the possibility of their materialization. Then the Committee discusses measures to address those that would have a large impact on the activities. For risks, regardless of their financial impact, measures are formulated first of all to deal with risks with a high possibility of materialization and the Group ESH Committee discusses these measures. The Committee also evaluates issues related to water resource and biodiversity conservation, waste, chemical substances, and the safety and health of employees.

Promotion of autonomous environmental measures through the provision of environmental incentives

- Linking of the CO₂ emissions reduction rate with the performance-linked compensation for executives in charge
- Promotion of development through the energy-saving product certification system

● Measures taken in line with the TCFD's recommendations: Results of risk assessment (Scenario we referred to: IEA450/RCP2.6/RCP8.5)

● : Risks ● : Opportunities

Type	Climate change-related risk item	Impact assessment	Business risk/Opportunity				Measures taken by Nabtesco
			(Short-term)	(Medium-term)	(Medium- to long-term)	(Long-term)	
Transition risk	Higher carbon tax rate	Large			● Increase in energy & procurement costs ● Differentiation by low-carbon products ● Better evaluation due to appropriate information disclosure		● Promote the use of renewable energy ● Introduce carbon pricing ● Promote efficient replacement with substitute materials
	Regulation (energy conservation & low carbon)	Large	● Increase in energy conservation cost ● Larger sales of products with higher fuel efficiency	● Increase in development cost to deal with regulations (Example: TRS and MFR segments) ● Increase in demand for products that comply with the regulations (Example: TRS and MFR segments)		● Decrease in demand for old models due to new regulations (Example: TRS segment) ● Increase in demand for more efficient new models (Example: TRS segment)	● Operate the energy-saving product certification system ● Follow the guidelines on capital investment and energy conservation ● Expand the lineup of products with higher fuel efficiency ● Develop products for which new types of fuels can be used
	Policies	Large		● Increase in cost to deal with laws and regulations			● Invest in the development of technologies and products ● Strategically disclose climate change-related information
	Technology	Medium		● Increase in cost to acquire new element technology ● Entry into a new market by the development of new element technology		● Increase in cost due to the diversification of needs	● Make technological investments, develop products and form partnerships with other companies in line with the regulatory and development trends ● Develop new mobility products
	Market	Large		● Lagging behind competitors in development activities ● Need for electrification (Example: CMP segment)		● Higher competitiveness based on technologies superior to those of competitors	
	Market uncertainties	Large		● Increase in cost due to increased need to reduce CO ₂ emissions ● Increase in demand due to modal shift and electrification (Example: TRS segment)		● Increase in the operational cost due to RE100 measures ● Better evaluation due to appropriate information disclosure	● Promote the use of renewable energy
Physical risk	Criticism against the industry	Medium		● Negative reputation due to a delay in environmental measures ● Increase in sales of environmentally friendly products ● Better brand image due to the implementation of environmental measures			● Promote the use of renewable energy ● Strategically disclose climate change-related information
	Frequent occurrence of typhoons	Large	● Damage to infrastructure, suspension of operations ● Increase in need to increase the resilience of power infrastructure (Example: CMFS equipment for wind turbines)			● Foster BCP ● Procure components from multiple suppliers ● Increase the resilience of the electricity system ● Optimize the on-site assignment of employees ● Use weather forecast services and take emergency measures	
	Heavy rain/drought events	Large	● Damage to infrastructure, suspension of operations ● Increase in need to establish water resource infrastructure (Example: CMP segment) ● Increase in demand for construction machinery for reconstruction activities (Example: CMP segment)				
Chronic	Changes in precipitation patterns	Large			● Suspension of operations due to floods ● Increase in the need to establish water resource infrastructure (Example: CMP segment)	● Examine measures against storms and floods with suppliers ● Increase resilience of the electricity system ● Review the location of bases ● Reuse water and review the water circulation system ● Use weather forecast services and take emergency measures	
	Rise in average temperatures	Large			● Increase in air-conditioning and capital investment costs ● Increase in electricity costs due to lower power generation efficiency ● Increase in the need for higher efficiency at plants (Example: CMP segment)		

Type	Climate change-related risk item	Impact assessment	Business risk/Opportunity				Measures taken by Nabtesco
			(Short-term)	(Medium-term)	(Medium- to long-term)	(Long-term)	
Acute	Frequent occurrence of typhoons	Large	● Damage to infrastructure, suspension of operations ● Increase in need to increase the resilience of power infrastructure (Example: CMFS equipment for wind turbines)				● Foster BCP ● Procure components from multiple suppliers ● Increase the resilience of the electricity system ● Optimize the on-site assignment of employees ● Use weather forecast services and take emergency measures
	Heavy rain/drought events	Large	● Damage to infrastructure, suspension of operations ● Increase in need to establish water resource infrastructure (Example: CMP segment) ● Increase in demand for construction machinery for reconstruction activities (Example: CMP segment)				
	Changes in precipitation patterns	Large				● Suspension of operations due to floods ● Increase in the need to establish water resource infrastructure (Example: CMP segment)	● Examine measures against storms and floods with suppliers ● Increase resilience of the electricity system ● Review the location of bases ● Reuse water and review the water circulation system ● Use weather forecast services and take emergency measures
Chronic	Rise in average temperatures	Large				● Increase in air-conditioning and capital investment costs ● Increase in electricity costs due to lower power generation efficiency ● Increase in the need for higher efficiency at plants (Example: CMP segment)	

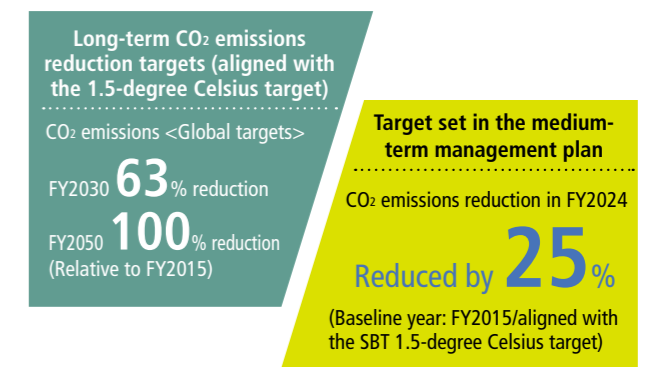
* As for impact, we classified the size into "Large," "Medium" and "Small" based on the frequency of occurrence and financial impact. Frequency of occurrence: Occurs frequently/Has occurred/May occur/May not occur/Will never occur. Financial impact: Serious (¥5 billion or more)/Large (¥2.5 billion to ¥5 billion)/Medium (¥500 million to ¥2.5 billion)/Minor (¥100 million to ¥500 million)/Very minor (Less than ¥100 million)

◆ Indicators and targets

The Nabtesco Group upholds long-term greenhouse gas emissions targets, which are to reduce the CO₂ emissions of the entire Group by 63% by FY2030 and by 100% by FY2050 (baseline year: FY2015). These long-term targets are 1.5 degrees-aligned and SBT-certified. We reduced our emissions by 14% as of the end of FY2022 and have thus been making steady progress to attain the targets.

In addition, we have begun to expand activities from our company alone to our suppliers as well. Of the greenhouse gas emissions from the entire supply chain, the percentage of emissions from purchased goods and services (category 1 of Scope 3 emissions) is high, making it essential for our suppliers to take initiatives to reduce their greenhouse gas emissions. In response, we began a survey of our main suppliers (top suppliers that constitute 70% of our annual procurement) to see whether they have set voluntary targets to reduce their greenhouse gas emissions. According to the results of the FY2022 survey, 72% 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.



Striving for Harmony with Global Environment Combating Climate Change <https://nabtesco.disclosure.site/en/themes/126>

Scope of Environmental and Other Data <https://nabtesco.disclosure.site/en/themes/148>

Foster Environmental Management

Revision of the Environmental Philosophy and Environmental Action Guidelines

Revision of the Nabtesco Group's Environmental Philosophy and Environmental Action Guidelines

With environmental issues becoming more serious of late, the Nabtesco Group deems it important to foster environmental management in response. In 2022, the Group reviewed its Environmental Philosophy and Environmental Action Guidelines to clarify their scope of application and the environmental problems to be addressed. The results of the review were then approved by the Management Committee and reported to the Board of Directors for the official revision of the Philosophy and Action Guidelines.

Under the new Philosophy and Guidelines, we will foster collaboration within the Group and with stakeholders to

meet environmental challenges, including those related to climate change, conservation of water resources, waste reduction and resource saving, prevention of pollution and biodiversity conservation, toward the creation of a sustainable society.

Major revisions (made to clarify the following items)

- Vision: Creation of a sustainable society
- Scope of application: All directors and employees
- Targeted value chain: Nabtesco, its suppliers, customers and others
- Environmental issues to be addressed: Initiatives for climate change, conservation of water resources, waste reduction and resource saving, prevention of pollution and biodiversity conservation
- Details of environmental management: Commitment, outline, roles, responsibilities and others

[The Nabtesco Group's Environmental Philosophy, Environmental Action Guidelines](https://nabtesco.disclosure.site/en/themes/125)
https://nabtesco.disclosure.site/en/themes/125

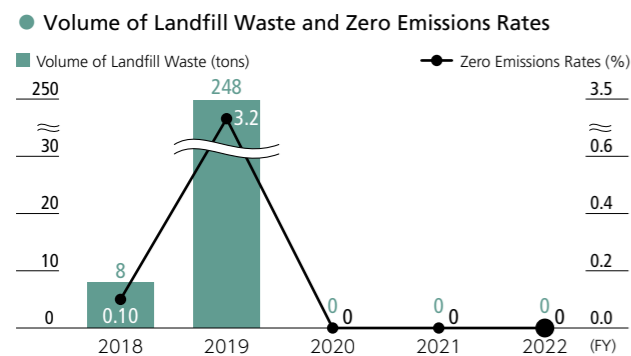
Waste Management

Waste Reduction

For zero emissions, the Nabtesco Group has been working to reduce the amount of landfill waste generated in the course of its business through the 3Rs (reduce, reuse, recycle)—the basic practice for establishing a resource-circulating society.

Until 2019, we sent non-hazardous metal, plastic and glass waste to landfill. However, in 2020, our zero emissions rate* finally reached 0%. We will continue to promote the 3Rs across the Group to continuously achieve the zero emissions goal of 0%.

* 0.05% or below is rounded to zero



Mitigation of Environmental Impact through Products and Services

Product Life Cycle Assessment (LCA)

Our products, which are used in a range of fields, have an impact on the environment throughout their life cycle. We quantify their environmental impact for each of their life cycle stages to implement necessary environmental measures to reduce that impact. The LCA results are widely used for product design.

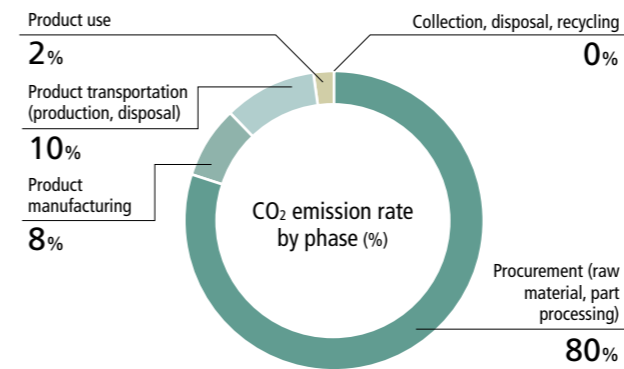
LCA Results

In the precision reduction gear and hydraulic equipment businesses, we work to reduce the weight and increase

the recyclability of our products in view of the high CO₂ emission risks posed by materials used in the products. In the automatic door business, we strive to reduce the power consumption and opening/closing frequency of our products, which tend to create large amounts of CO₂ emissions in their use stage.

[Mitigation of Environmental Impact Caused by Products and Services](https://nabtesco.disclosure.site/en/themes/126#391)
https://nabtesco.disclosure.site/en/themes/126#391

CO₂ emission rate by phase



Certification System for Energy-Saving Products

We established a certification system to foster the research and development of energy-saving products in order to promote environmental protection and the development of a sustainable society. Through this system we are contributing to the mitigation of global warming while increasing the environmental awareness of our employees.

For products that have obtained the certification, we issue certificates, approve the use of the certification mark and make announcements about the certification in our in-house notification system. We internally evaluate our products to be released into the market and certify the following as energy-saving products: those that meet at least one of the certification criteria and that are at least equal to conventional products on all of the unmet criteria.

[Certification System for Energy-Saving Products](https://nabtesco.disclosure.site/en/themes/126#391)
https://nabtesco.disclosure.site/en/themes/126#391

Conservation of Water Resources and Biodiversity

Conservation of Water Resources

The Nabtesco Group does not require a large amount of water nor water of a certain quality for our 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.

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 FY2022, we had no cases of non-compliance with environmental laws and regulations. We will further promote the management of water use and wastewater.

The total volume of water used by the Nabtesco Group in FY2022 amounted to 690,000m³, showing a slight decrease from the level of 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 fluids 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 FY2022 we spent ¥6.33 million to enhance the rainwater discharging function, and make our facilities more water-resistant.

Targets for water use and FY2022 results

Item	Targets	FY2022 results	Status
Global water use (Per unit of sales)	Year-on-year reduction of water use to: 2.48 m ³ / ¥1 million	2.24 m ³ / ¥1 million	Achieved

[Conservation of Water Resources](https://nabtesco.disclosure.site/en/themes/191)
https://nabtesco.disclosure.site/en/themes/191

Biodiversity Conservation

Following the revision of the Environmental Philosophy and Environmental Action Guidelines, the Nabtesco Group evaluated the impact of its business activities on biodiversity by using an external tool, namely the SBTN Sectoral Materiality Tool¹. As the first step for the evaluation, we carried out a screening to identify the materiality of the impact on biodiversity of the sectors to which our businesses are related. As a result of performing the analysis by defining the pressure categories given the score of "Medium" or higher as "material pressure categories," we found out that all our Group's businesses needed to be assessed in more detail. We next used the WWF Biodiversity Risk Filter² to identify the impact according to the location of each base. As a result, two of our bases were assessed to have a large impact on forests with regard to the use of construction materials. However, major materials used at the bases are stainless steel and others, and we believe the actual impact is not so high. We will work continuously for biodiversity conservation while advancing our impact assessment method.

¹: Tool to assess the impact on biodiversity provided by the Science Based Targets Network (SBTN). Users of the tool can assess the materiality of impacts on a six-point scale for the selected business activities (sectors) and pressure categories.

²: Impact assessment tool provided by the World Wide Fund for Nature (WWF). Users of this tool can assess biodiversity-related global risks based on the use of 50 or more biodiversity-related dataset groups.

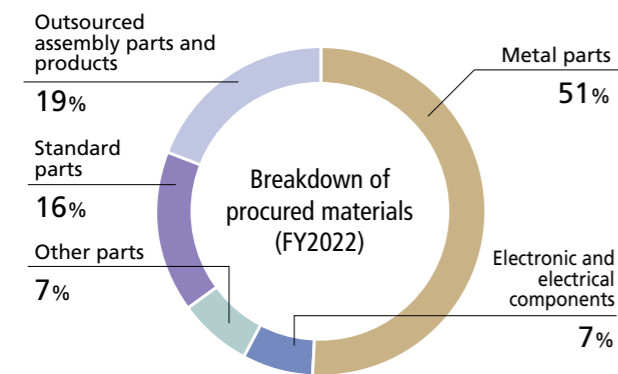
Build a Resilient Supply Chain

Nabtesco Group's Procurement Activities

Fundamental Approach for Proper, Fair and Transparent Procurement Activities

The Nabtesco Group conducts business with about 1,600 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. In order to achieve medium- to long-term growth, we need to build a robust supply chain. To this end, we are closely collaborating with suppliers while conducting fair and transparent business transactions under a proper cost structure. Also, we are well aware of the importance of meeting the demands and expectations of society regarding social and environmental impacts of activities in our supply chain. Based on this recognition, the Nabtesco Group is committed to fulfilling its social responsibilities across the entire supply chain, placing emphasis on local procurement and local employment.

Materials Procured by the Nabtesco Group (in Japan)



Nabtesco Group's CSR-Oriented Procurement Policy

The Nabtesco Group is promoting CSR-oriented procurement to solve ESG issues in its supply chain. In view of the need to prevent the actualization of supply chain risks, which have been becoming increasingly complex and diverse in recent years, we revised the Nabtesco Group CSR-Oriented Procurement Policy in 2020 after obtaining approval for it from the Management Committee and announced that we would further strengthen our supply chain management. As part of the revision, we also integrated our procurement guidelines with the Policy to deepen all suppliers' understanding of our commitment to CSR-oriented procurement.

We will continue to execute a PDCA cycle based on the Policy (available in Japanese, English, Chinese and Thai) and foster communication with suppliers for CSR-oriented procurement.

The Nabtesco Group's CSR-Oriented Procurement Promotion System

The Nabtesco Group has been fostering CSR-oriented procurement in collaboration with suppliers with the aim of strengthening our comprehensive procurement capabilities from the perspectives of sustainability, including QCDS and technological development.

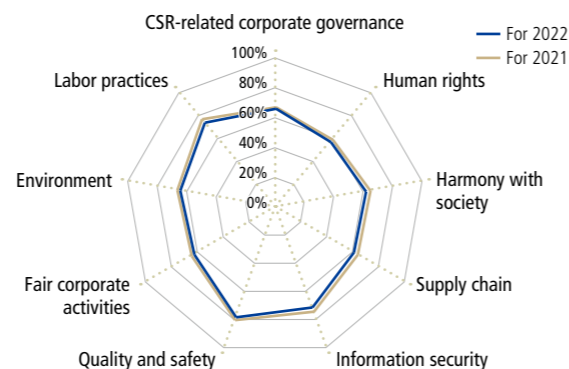
In order to promote CSR-oriented procurement, we need to have expertise and know-how on environment- and human rights-related issues, which are not conventionally handled by procurement departments. Therefore, the Procurement Planning Department of the Production Innovation Division, in collaboration with the head office departments, plays a central role in promoting CSR-oriented procurement, including supporting the activities conducted to this end by the in-house companies and Group companies. The Procurement Planning Department discusses and decides on the related policies and measures at the Group Procurement Meeting held with the participation of the procurement departments of each in-house and Group company, providing education and training for procurement managers. Through these Group-wide efforts, we endeavor to fulfill our social responsibility throughout the supply chain in cooperation with our suppliers.

Implementation of Self-Assessment Questionnaire (SAQ) to Suppliers

Since 2014, we have been annually conducting the SAQ survey on our primary suppliers in and outside Japan, including key suppliers, to ensure CSR-oriented procurement. The Nabtesco Group identifies the key suppliers who are essential for its business continuity based on their transaction volume, QCDS performance, technological development capability, financial soundness and other factors.

In FY2022, we conducted the survey targeting 1,137 primary suppliers (847 in the previous survey) and received responses from 77% of them (67% in the previous survey). The response rate for our 100 major suppliers, who account for about 70% of our procurement in terms of transaction amount, was 95% (76% in the previous

Results of the SAQ conducted on primary suppliers in FY2022 (Average among all suppliers)



survey). We analyzed and evaluated the questionnaire results for each supplier and gave relevant feedback to them. In addition, we have been making use of the results to identify, monitor and make improvements on ESG risks. In FY2022, we received no reports of serious non-compliance with labor- and environment-related laws or regulations from any parties engaged in our supply chain. We will continue our efforts to improve the SAQ, including the questions and the response method.

Interviews, Audits and Briefing Sessions Targeting Suppliers

In 2022, we interviewed 26 major suppliers and conducted audits on them both online. Following the revision of the CSR-Oriented Procurement Policy, we have added the following items to the audit items: those related to labor issues and health management as well as those related to due diligence (DD) for human rights and the environment. Moreover, in 2022, we set the target for the number of suppliers interviewed by us as a medium-term KPI, thereby showing our commitment to boosting opportunities to communicate with suppliers. We will continue to conduct individual interviews especially with major suppliers whose ESG-related performance seems to be low according to the SAQ results. As part of the interviews we will audit the suppliers to help them identify their ESG-related risks and will propose improvement measures to them, and take corrective actions as necessary.

Furthermore, we have been holding a collective briefing session for suppliers since the latter half of FY2014 to help them increase their awareness about CSR issues.

Nabtesco Group Statement on Responsible Sourcing of Minerals

For the responsible sourcing of minerals, the Nabtesco Group has made a statement that the Group will cooperate with its suppliers to prevent the use of conflict minerals*, which are supplied via parties in supply chains that are

complicit in the abuse of human rights in conflict-affected and high-risk areas in the Democratic Republic of the Congo (DRC) and surrounding countries.

In 2020, we added a paragraph entitled "Responsible procurement of minerals" to the Nabtesco Group's CSR-Oriented Procurement Policy. We also ask suppliers to submit a letter of consent to the Policy. Also, in 2022, we asked our 100 major suppliers, who account for about 70% of our procurement in terms of transaction amount, to participate in a survey to confirm safety related to the procurement of minerals, which we conducted by using the survey format shared across the industry.

In response to our customers' requests, we have been conducting surveys on the countries of origin of minerals in cooperation with our suppliers. In the event that the use of conflict minerals is detected through such surveys, we will bring up the issues with related suppliers and promptly take actions to discontinue their use.

*The term "conflict minerals" refers to the four mined minerals (gold, tantalum, tin and tungsten) that may be partially used to fund armed groups and exacerbate conflicts in the Democratic Republic of the Congo (DRC) and surrounding countries. In the United States, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act established in 2010, companies using these minerals are required to report such use to the Securities and Exchange Commission (SEC).

Partnership with Suppliers

The Nabtesco Group is proactively helping suppliers increase their productivity and solve their ESG-related issues. For the products to be manufactured and delivered to us by suppliers, we give them instructions on the improvements to be made for quality management, help them conduct "5S" activities on a regular basis for the management of their plants, and support them in using the value engineering (VE) method to perform functional analyses of their products and daily operations to increase their productivity. In addition, we regularly provide suppliers with training for the solution of ESG-related issues toward enhancing our capability to deal with such issues across our supply chain.

Nabtesco Group's BCP Activities

Supporting Suppliers in Enhancing Their BCP*

With a view to increasing the resilience of its supply chain in cooperation with suppliers, the Nabtesco Group has been supporting each supplier in building their BCP system through the procurement departments of our business divisions. Since 2018, we have been providing our suppliers with a range of training opportunities to support them in formulating their business continuity plans and acquiring practical BCP skills. We also provide important suppliers with individual support. Moreover, we have established a unique position ("BCP buyer") within our procurement team and have already trained 19 people into "BCP buyers." We are thus enhancing BCP across our supply chain to reduce the procurement risks posed to the Nabtesco Group.

Our BCP support activities have attracted the attention

of the Ministry of Economy, Trade and Industry, the Small and Medium Enterprise Agency and local government and have been shared as model examples. We have thus also contributed to increasing the public awareness of BCP.

* BCP usually stands for "Business Continuity Plan." For Nabtesco, however, BCP stands for "Business Continuity Power," and we are striving to enhance the BCP of our organizations and increase our capability to mount effective responses to a crisis.

Support for the Acquisition of Resilience Certification*

We are supporting suppliers in acquiring Resilience Certification for the establishment of their BCP systems, aiming to help 40 suppliers obtain the certification by 2023. As of today, 24 suppliers have already acquired it.

* Resilience Certification is awarded under the certification system implemented by the national government based on the basic law on national resilience. It is granted to enterprises that are steadily increasing their ability to resume their business operations promptly after crises such as disasters.

Pursue Safety, Comfort and a Sense of Security

Management of Occupational Safety and Product Safety

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

Nabtesco upholds the pursuit of "safety, comfort and a sense of security" as one of the issues that are material to its management. 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 a precondition for us to deliver safe products to customers.

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.

As an organization to foster ESH activities across the entire Group, we have our Group ESH Committee, which reports directly to the president.

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 PDCA cycle to steadily increase the safety of our manufacturing facilities.

 **Nabtesco Group ESH Basic Policy and Management Targets**
<https://nabtesco.disclosure.site/en/themes/121>

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 promote "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 more than 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 Management of Various Categories of Capital on page 25.

 **Lost Time Injury Frequency Rate**

Starting New Activities to Nurture a Safety Culture

In order to further improve workplace safety, we have been conducting activities aimed at nurturing a safety culture and ensuring that the entire organization adopts a more safety-oriented attitude since 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.

● Activities to create a safety culture

Activity	Details
STOP3 activity	Conducted to reinforce measures against the factors that cause the following three accidents, which account for a large percentage of occupational accidents experienced by the Group: accidents resulting in cuts/bruising; getting caught by/dragged into (machines); and falling/tumbling
Establishment of a stratified safety education system	Intended to provide both managers and general employees with adequate safety education beyond the scope of that provided on-site at plants, thereby helping to raise the safety awareness of all individuals regardless of workplace/department
Safety model workplaces	From each plant, one workplace is selected to be a "safety model workplace," where safety education and measures are to be provided and implemented intensively, with the results to be analyzed for improvements and for the implementation of the improvement measures at other workplaces.
Environmental safety forum	Held annually and features a seminar presented by an external expert as well as achievement reports by safety model workplaces and plants with excellent environmental activity records


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 & PL Committee.

At the Group Quality & 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. In line with the Group Quality and PL Policy, each in-house company has set its own quality- and PL-related targets in consideration of the actual situation and is conducting activities to achieve them.

Moreover, in FY2022, we set two KPIs for important product safety activities undertaken by the entire Nabtesco Group, specifically the achievement rate for employee education on product safety and the implementation rate for product safety examination. We then made a concerted effort across the Group and achieved the targets for both KPIs.

 **Nabtesco Group Quality and PL (Product Liability) Policy**
<https://nabtesco.disclosure.site/en/themes/117>

Targeted rate for the achievement of the plans to conduct product safety reviews:
Target for FY2022: **100%** ➔ Result: **100%**

Targeted rate for the achievement of the plans to educate employees for product safety:
Target for FY2022: **100%** ➔ Result: **100%**

Measures to Enhance the Foundation for Quality

In addition, we provide our young engineers with mandatory education on quality in the form of intensive training and also hold quality training and give improvement instructions on-site at our overseas bases. Furthermore, in response to COVID-19, we are providing employees with more remote quality education and e-learning opportunities. We are thus building a system for continuous quality education.

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, the education was subsequently incorporated into level-specific training. Now, around 30 to 40 young employees participate in a six-month Quality University course every year 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.

Enhancement of Functional Safety and Cyber Security Measures

As the importance of electrifying and systematizing products increases, we need to further speed up innovation for quality assurance toward achieving "new motion control." In the transportation industry, demand for functional safety and cyber security measures is expanding for transportation by rail, air, sea and road, with most of the demand coming from overseas markets. In response, the Nabtesco Group has already acquired ABS CyberSafety certification* and developed railroad vehicle equipment that supports functional safety. Going forward, we will widely implement and firmly establish a development process for systematized products across the Company.

For example, to this end, we will refer to Automotive SPICE and various other functional safety standards adopted by each industry to continue to enhance our development process for systematized products toward providing customers with new innovation.

 **Acquiring the World's First* ABS CyberSafety® Product Design Assessment (PDA) Certification for Marine Vessel Engine Remote Control Systems**
<https://www.nabtesco.com/pdf/53c2b028366aafb-d8df1e1ec1903a3d4.pdf>

Enhance Human Capital Management

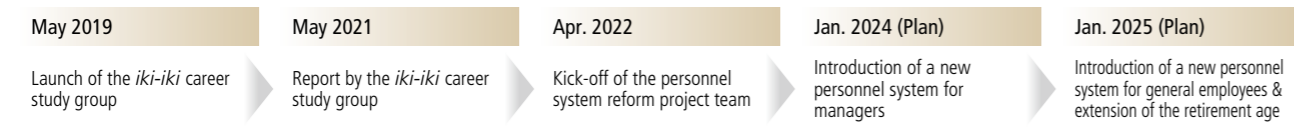
Implementation of a Personnel System Reform Project

Nabtesco has been implementing a personnel system reform project based on the premise of extending the retirement age. This project was launched after the *iki-iki* ("vigorous") career study group composed of representatives of both labor and management discussed the definition of a desirable career in the context of the 100-year life.

While responding to immediate changes in the environment, we are implementing both tangible and

intangible measures to reform our personnel systems and ensure our organizations and personnel have the capacity to generate innovation toward achieving our long-term vision for 2030. As the basis to foster such measures, we will introduce a new job-based personnel system for managers in 2024 and a new personnel system for general employees that incorporates the extension of the retirement age and the criteria for job roles in 2025.

History of the Personnel System Reform Project



Fostering Workplace Diversity

Approach to Ensuring Diversity in the Workforce

Nabtesco announced "Approach to Ensuring Diversity in the Workforce" in 2021 and has since been striving to promote workplace diversity. We make employment offers to a range of people regardless of attributes such as age, gender, nationality and desired form of employment, and strive to provide them with jobs that they can perform with high motivation and by demonstrating their respective abilities to the fullest. To this end, we are committed to improving our workplace environment and providing our managements with the education they need.

In order to achieve "Innovation in Action," as upheld in our long-term vision for 2030, we will implement human resource measures that will help diverse employees enjoy and be excited about taking on challenges as part of their work.

Proactive Recruitment of Non-Japanese Nationals Including Foreign Students Studying in Japan

Non-Japanese employees have different ways of looking at things and active attitudes toward working. As such, they are expected to bring fresh perspectives to their workplaces. For new graduates employed by Nabtesco as career-track employees in and after 2023, the Company has set the target of increasing the proportion of non-Japanese nationals to 20%. For managerial positions, it has set the target of increasing the proportion of non-Japanese nationals to 2% by 2030. In order to attain these targets, we will proactively recruit non-Japanese nationals while supporting our existing non-Japanese employees in their career development.

Employment of Women

Nabtesco conducts recruitment activities by upholding the target of increasing to 30% the proportion of women

among the total number of new graduates employed by the Company as career-track employees in and after 2023. The annual number of female graduates employed by Nabtesco varies a lot each year depending on the recruitment plans made (for engineers and others) for the year. In regard to engineering students in particular, women account for a very small percentage in the total number of our primary recruitment targets (students who major in mechanical engineering, electrical/electronic engineering and information science), and we therefore need to differentiate our company from competitors to attract female students.

To meet this requirement, we will hold events targeting these female students as early as possible and provide them with more opportunities to interact with our employees. Through these measures we will help more of these students learn about Nabtesco throughout the year, while also working to increase the comfort levels at our workplaces and giving due consideration to regional characteristics for ongoing recruitment.

Nabtesco's General Employer Action Plan made under the Act on Promotion of Women's Participation and Advancement in the Workplace (From April 1, 2023 to March 31, 2027)

Goal 1 (Related to the provision of career opportunities)

Increase the proportion of female managers from 2.1% (in 2023) to 4.1% by the end of the period set for the action plan.

Goal 2 (Related to the compatibility of work and family life)

Of male workers eligible for each of the following leave types, increase the percentage of those who take paternity leave following the birth of a child¹ to 100% and that of those who take childcare leave for three or more weeks² to 60% by the end of the period set for the action plan.

¹ The percentage is calculated by including all male workers taking leave under the childcare schemes.

² The period of three or more weeks: Eligible employees are expected to take childcare leave for a total of four weeks, including the paternity leave period of five days to be taken following the birth of their children.

Gender pay gap (for FY2022)

Classification	Gender pay gap (Ratio of women's salaries to men's)
All workers	80.0%
Regular workers	82.1%
Non-regular workers	70.9%

* Targeted period: FY2022 (January 1 to December 31, 2022)
 * Regular workers: Managers and regular employees
 * Non-regular workers: Part-timers and fixed-term workers including reemployed retirees
 * Salaries: Include basic pay, overtime allowance and other allowances and bonuses but exclude retirement and commuting allowances. Salaries of expatriates are calculated based on the amounts that they would receive if working in Japan, and the salaries of part-timers among non-regular employees are calculated based on the amounts that they would receive if working full time.
 * Scope of calculation: Nabtesco on a non-consolidated basis and calculated based on its human resources data.

Indicator	Target	FY2019	FY2020	FY2021	FY2022
Percentage of women among the total number of managers	Non-consolidated	1.1%	1.1%	1.36%	2.1%
	Non-consolidated	12.3%	21.4%	24.1%	55.0%
Childcare leave-taking rate	Non-consolidated Men	1.4%	15.4%	18.5%	49%
	Non-consolidated Women	100%	100%	100%	114%*
	Non-consolidated				

* The childcare leave-taking rate exceeds 100% for women due to the time lag between the date of birth and the childcare leave start date

Employment of Persons with Disabilities

Nabtesco has endeavored to maintain the employment of persons with disabilities. The percentage of persons with disabilities in the total number of regular employees was 2.39% for FY2022, and we have thus continued to achieve the statutory employment rate.

Going forward, we will make further efforts to promote the employment of persons with disabilities for the continuous achievement of the rate.

Human Capital Development

Toward building the optimal human capital portfolio

As a means to secure, both quantitatively and qualitatively, personnel necessary for us to become "Leaders in Innovation" as upheld in the long-term vision, we are reforming our education and training systems to enhance our human capital through education and reskilling while also bringing in new talent through recruitment.

In addition to the conventional level- and theme-specific training, we have also proactively adopted online and on-demand training to improve our training content and thereby built an environment that enables individuals to learn autonomously according to their job roles and based on their own ambitions and aptitude.

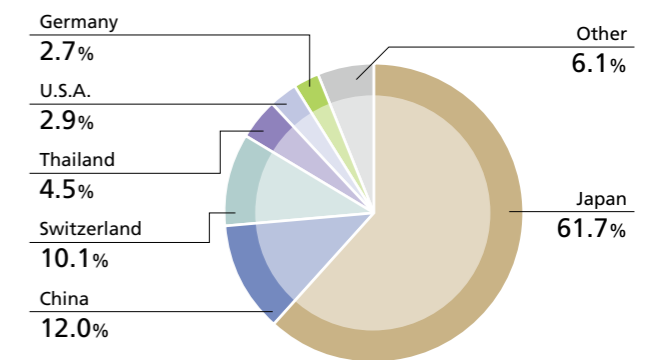
Attending training seminars for autonomous career development

Moreover, for the achievement of the long-term vision, we decided to focus on digital-, women-, global and older personnel-related items as priorities for our human capital portfolio management and are enhancing and improving related training and educational opportunities.

Empowerment of Non-Japanese Employees

The Nabtesco Group operates in 18 countries and regions across the world and has 65 bases globally employing around 7,900 workers. In this global enterprise, around 3,000 employees (or roughly 38% of all Nabtesco Group employees) are non-Japanese and have diverse backgrounds. We are fostering the employment of local people at our overseas Group companies and working to secure a diversity of talent with differences in terms of their experience, culture and values as required for our global operations. We will continue our efforts to build a global management system.

Non-Japanese employees as a percentage of Nabtesco Group employees (as of the end of December 2022)



Fostering Workplace Diversity
<https://nabtesco.disclosure.site/en/themes/122>

Development of Experts in Digital Fields

In order to foster innovation in each of our businesses, we urgently need to create a new DX-based business model and have our own internal experts in DX to increase the efficiency of our operational process. At Nabtesco, each employee has their DX level assessed and then receives DX-related training accordingly. We thereby identify personnel who have the potential to meaningfully contribute to DX and help them become experts in the field.

Moreover, we are enhancing our on-demand training to provide employees with autonomous capacity building and reskilling opportunities toward increasing the IT literacy of the entire organization.

Empowerment of Women

We are working on the further empowerment of women, regarding it as one of the priority issues that we must address to ensure our organizations have access to a diverse workforce of capable personnel. For such empowerment, we deem it essential to build an organizational culture that focuses on fairness beyond simply implementing general measures to ensure gender equality and to provide both men and women with equal growth opportunities. Based on

Enhance Human Capital Management

this belief we are reforming our corporate culture through initiatives such as training intended to help eliminate unconscious bias against female employees.

In FY2022, to give a boost to the next generation of female leaders, we provided special training to mid-career female managerial candidates and their managers. We are thus enhancing support for women's career development.

Development of Globally Competitive Human Capital

In order to select, educate and retain personnel who can lead global business development, which we aim to promote going forward, we have introduced a short-term overseas training system for young employees to provide them with opportunities to gain hands-on experience in international business. We also provide mid-career employees with an overseas trainee system (to study and work overseas) to

develop them into global leaders for Nabtesco.

Furthermore, we are proactively developing human resources at overseas Group companies. Specifically, we are employing a greater number of local people at the companies and provide local employees with a range of education programs to help them improve their skills.

Empowerment of Older Workers

For the optimization of human capital, we aim to empower all our employees to make meaningful contributions. To this end, we focus on providing employees aged 50 and older, who represent a large age group at Nabtesco, with environments where they can exert the full range of their abilities. In 2021, we offered next career training to employees in that age group to provide them with an opportunity for reskilling so that they can bring their abundant experience to bear in working on new tasks.

Human Rights Management

Human Rights Policy

In FY2016, we established the Nabtesco Group Code of Ethics to uphold human rights and prevent corruption, thereby fostering measures to "Respect diversity and various expertise in the workplace*," which was one of the Group's material management issues. Further, Nabtesco has committed itself to the Nabtesco Group Human Rights Policy to promote respect for human rights. We formulated the Policy in 2017 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. We regularly review the Policy in response to changes in community standards and expectations and revised it in 2021.

* Integrated into "Enhance human capital management" as a result of the review conducted in 2022.

Human Rights Due Diligence

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.

● Implementation of a survey on human rights-related risks

Item	Details
Survey period	Mar. to Apr. 2022
Survey target	53 Group companies (100% coverage rate for employees)
Survey method	Questionnaire on human rights-related risks
Survey item	40 items on a total of eight themes: management system, employment discrimination, child labor, forced labor, working conditions, freedom of association and collective bargaining rights, occupational health and safety, and local communities
Results	No immediate and material risks were found either in Japan or outside the country.
Result reporting	The CSR Committee organized a meeting to report the results to executives.

Follow-up Survey and Corrective Actions

We made a detailed analysis of the results of the survey on human rights-related risks and detected no serious risks or non-compliance with local laws and regulations or international norms. However, the analysis caused us to have some concerns regarding human rights and, in response, as detailed below, we conducted a follow-up survey to reduce human rights-related risks posed to us. We will continue to conduct the survey going forward.

Implementation period	Nov. to Dec. 2020
Number of bases for which we have some concerns (about human rights-related risks)	Nine bases/14 risks
Follow-up survey and corrective actions	<ol style="list-style-type: none"> 1. Identified answers that were negative or implied uncertainties through detailed analysis of the results of the survey on human rights-related risks. 2. Conducted a follow-up survey for each of the bases that submitted such answers. 3. Received answers from all the bases (with the response rate of 100%). 4. Among the bases, nine bases were revealed to be facing problems. 5. Gave instructions to the departments in charge at the nine bases to take necessary corrective actions.

Supporting the Ministry of Justice's "My Declaration of Human Rights" Initiative

Nabtesco Corporation supports the Japanese Ministry of Justice's My Declaration of Human Rights initiative and has publicly made its own declaration on human rights. The initiative aims to create a society where everyone's human rights are respected through the making of declarations by companies, organizations and individuals on their willingness to take actions to respect human rights.



[Nabtesco's Human Rights Due Diligence](https://nabtesco.disclosure.site/en/themes/193)
<https://nabtesco.disclosure.site/en/themes/193>

Increasing Employees' Awareness of The Nabtesco Way

Activities to Increase Employees' Awareness of The Nabtesco Way

In order to share and instill the values upheld in The Nabtesco Way throughout the Group, we hold workshops and briefings on The Way as part of level-specific training and on other occasions. In addition, we have been organizing the Nabtesco Way Month campaign since FY2013, during which each of our workplaces holds a meeting on The Way.

During the Nabtesco Way Month in FY2022, we surveyed all Group employees to check their alignment with The Nabtesco Way. Based on the results we are working on revising The Way to better motivate Group employees to

become "Leaders in Innovation" as upheld in the long-term vision.

During the Nabtesco Way Month of 2024, we plan to conduct activities to help all Group employees in Japan and abroad raise their awareness of the revised Way.

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

[Increasing Our Employees' Awareness of the Nabtesco Way](https://nabtesco.disclosure.site/en/themes/123)
<https://nabtesco.disclosure.site/en/themes/123>

Promoting Health and Productivity Management

Health and Productivity Management Policy

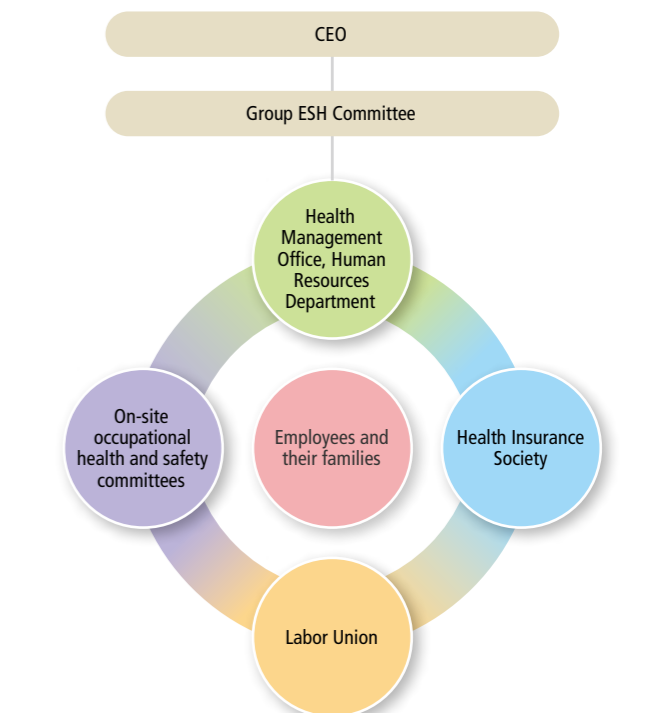
"The Nabtesco Group, with our unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any forms of transportation." As a precondition for the Nabtesco Group to implement this corporate philosophy and achieve sustainable growth, we deem it essential for the Group to ensure that all its employees and their families are both physically and mentally healthy and can feel safety, comfort, and a sense of security in their daily lives.

To this end, we will implement measures for a better work-life balance including those to ensure appropriate working hours, in addition to offering employees a variety of ways to work. We are committed to creating workplaces where employees are excited about their work and taking on new challenges, and we will also work to increase the health literacy of employees and their families.

The ultimate goal of Nabtesco's business activities is to improve the well-being of all those associated with the Company. Based on this recognition, we will promote health and productivity management through the concerted efforts of all employees and their families, the Labor Union, the Health Insurance Society, and the Company.

Together with the Nabtesco Group CSR-Oriented Procurement Policy and the Nabtesco Group Human Rights Policy, this Policy complements the Nabtesco Group Code of Ethics and applies to all officers and employees of the Nabtesco Group. We will also continuously encourage our business partners, including suppliers, to understand the Policy and will cooperate with them in promoting health and productivity management.

● Health and productivity management promotion system



Health measures	EAP*	Collaboration for health
<ul style="list-style-type: none"> ■ Post-checkup measures ■ Screening for lifestyle-related diseases ■ Prevention of disease aggravation ■ Improvement measures for obesity ■ Support for quitting smoking 	<ul style="list-style-type: none"> ■ External contact for consulting 	<ul style="list-style-type: none"> ■ Collaboration with the Health Insurance Society ■ Planning of insurance services ■ Analysis of the health status and medical expenses for each member of the Society

* Employee Assistance Program

[Health and Productivity Management](https://nabtesco.disclosure.site/en/themes/197)
<https://nabtesco.disclosure.site/en/themes/197>

Increase the Effectiveness of Our Management Entities

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.

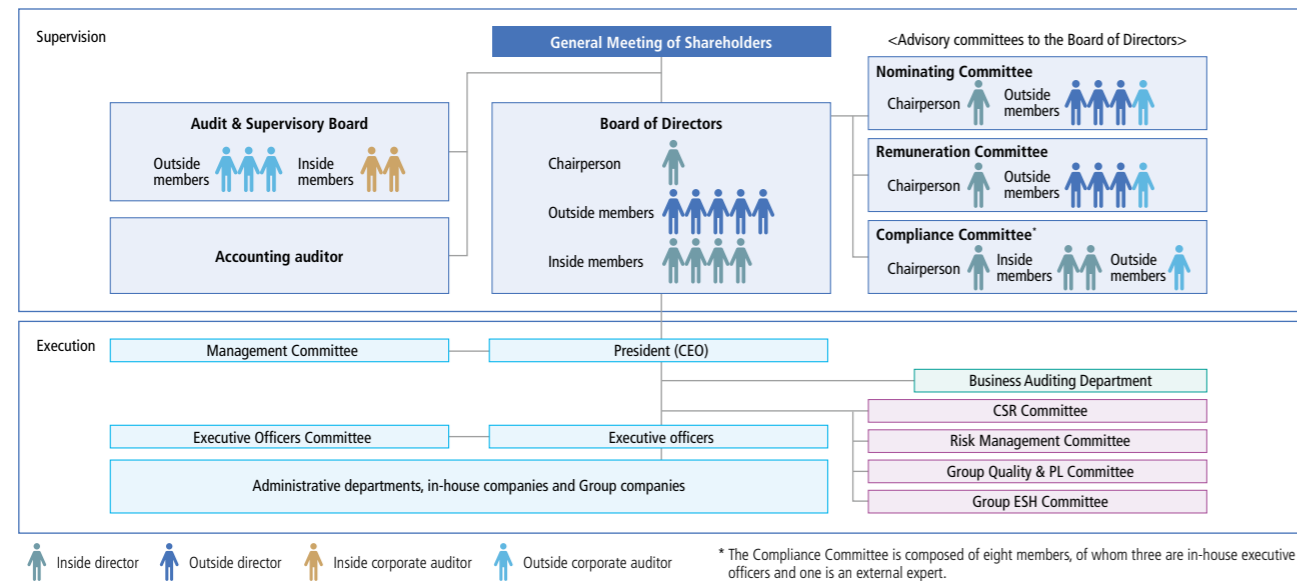
Specifically, we have been increasing the number of independent outside directors to further enhance the independence and objectivity of the Board of Directors as a supervisory organization, and now five out of 10 directors, or 50% of the total number, are independent outside

directors. To advise the Board of Directors, we also have the Nominating and Remuneration Committees, each of which have independent outside directors constituting the majority of members. Moreover, we annually evaluate the effectiveness of the Board of Directors and provide the directors as well as members of the Audit & Supervisory Board with training for further enhancement of the corporate governance system.

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

P26 **Board of Directors with Increased Diversity**

Corporate Governance System (As of March 23, 2023)



Measures to Enhance the Corporate Governance System

	2004 to 2007	2008 to 2011	2012 to 2015	From 2016	To be revised in 2023
Corporate Philosophy	2005: Formulation of the Corporate Philosophy		2012: Formulation of The Nabtesco Way		2023: Revised
Corporate Governance Basic Policy			2015: Established	2018: Revised	2021: Revised
Evaluation of the Board of Directors' effectiveness			2015: Start of the effectiveness evaluation		
No. of directors (10)					
Ratio of outside directors	2004: 20%	From 2005: 10%	2012: 20% 2013: 30%	From 2014: 20% From 2016: 30%	From 2020: 40% From 2022: 50%
Ratio of female directors					From 2016: 10% From 2020: 20%
No. of Audit & Supervisory Board members (five)					
Ratio of outside members	60%*1				
Committees	From 2008: Remuneration Committee		From 2015: Nominating Committee		
	From 2004: Group ESH Committee				
	From 2004: Group Quality Committee and Group PL Committee (Group Quality & PL Committee from 2008)				
	From 2016: Compliance Committee, CSR Committee and Risk Management Committee				
Remuneration for inside directors*2	From 2004: Monthly compensation and retirement benefits		From 2009: Monthly compensation (Fixed compensation + short-term performance-linked compensation)		
			From 2009: Stock compensation (stock option) as long-term performance-linked compensation	From 2014: Stock compensation (stock option)*3	From 2017: Board Benefit Trust*3
Accounting standards	From 2004: Fiscal year ended March 31 (J-GAAP)		From 2015: Fiscal year ended December 31 (I-GAAP)	From 2017: Fiscal year ended December 31 (IFRS)	

*1 For FY2011 and FY2015, the number of Audit & Supervisory Board members temporarily dropped to four (with three being outside members) due to the mid-term resignation of a member for personal reasons.
 *2 Outside directors receive only monthly compensation. *3 Medium-term performance-linked compensation and long-term performance-linked compensation

Evaluation of the Effectiveness of the Board of Directors

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 the Board's functions. Also, in FY2022, we 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 the number of members and the structure of the Board were appropriate and that open, natural and constructive discussion was taking place in FY2022, as in the previous fiscal year. In FY2020 we increased the number of female directors and in FY2022 we also increased the number of independent outside directors by one person, bringing the proportion of independent outside directors to 50% of the total. The Board is thus discussing issues from a wider range of viewpoints. Judging from these facts, the effectiveness of the Board is considered to be well secured.

As of FY2022 more meeting time has been allocated for the Board to deliberate important issues related to management, such as growth strategies. We will continue to pursue more effective deliberation by the Board to increase our corporate value on a medium- to long-term basis.

P68 **Measures to enhance the effectiveness of the Board of Directors**

Skill Matrix of Directors and Audit & Supervisory Board Members

Nabtesco selects its directors and Audit & Supervisory Board members from both inside and outside the Company by identifying candidates with the required skills.

In order to make flexible responses to our dynamically changing business environment and to implement management strategies in consideration of the various features of our business, we choose directors with a focus on diversity.

● Skill Matrix of directors and Audit & Supervisory Board members (as of March 23, 2023)

	Term of service	Level of independence	Field of specialization							Nominating Committee	Remuneration Committee	Compliance Committee*1
			Corporate management	Global	Legal, personnel & labor affairs and risk management	Financial accounting	Manufacturing and technology	Sales and marketing	Digital transformation (DX)			
Directors	Katsuhiro Teramoto	7 yrs. & 9 mths.	✓	✓		✓		✓		✓	✓	
	Kazumasa Kimura	4 yrs.	✓			✓	✓					✓
	Atsushi Habe	2 yrs.	✓	✓		✓		✓				✓
	Toshiya Fujiwara	1 yr.	✓				✓					✓
	Seiji Takahashi			✓		✓						
	Mari Iizuka	3 yrs.	✓		✓	✓			✓	✓		
	Naoko Mizukoshi	3 yrs.	✓		✓	✓			✓	✓		
	Naoki Hidaka	2 yrs.	✓	✓	✓			✓		✓		
	Toshiya Takahata	1 yr.	✓	✓			✓				✓	
	Seiichiro Shirahata		✓	✓	✓			✓				
Audit & Supervisory Board members	Isao Shimizu	3 yrs.					✓					
	Koji Nakano		✓			✓						
	Zenzo Sasaki	7 yrs.	✓		✓						✓	
	Takemi Nagasaka	7 yrs.	✓		✓		✓				✓	
	Tetsuro Hirai	4 yrs.	✓	✓			✓		✓			

The above does not represent an exhaustive list of the directors' expertise.
 *1 The Compliance Committee is composed of eight members, including three in-house executive officers and one outside expert in addition to directors.

Ensure Management Transparency

Strengthen Corporate Governance

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 function as an incentive to improve the medium- to long-term performance.
- Determine compensation for directors through a highly objective and transparent process.

◆ Method for determining compensation

For the policy on compensation for directors, the structure of the compensation system, the compensation level and the specific amount to be paid to each director, the Remuneration Committee composed of one inside director, three outside directors and one Audit & Supervisory Board Member (Independent) deliberates and reports the results to the Board of Directors for final decisions.

For compensation for auditors, details are determined through discussions by the 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 – 4.00)

For Directors in charge of internal companies, short-time 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 – 4.00)
 * 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 no performance-linked compensation, as these officers are in a position independent from business execution.

◆ Clawback clause

As a result of having to revise the financial results of past fiscal years due to inappropriate accounting, etc., the Company has stipulated a clawback clause in the internal compensation regulations so as to demand the return of all or part of performance-linked compensation

in the event of material revisions in the performance of past fiscal years which was the basis of the calculation of performance-linked compensation, or in the event that the Company incurs material loss due to an officer's wrongful or illegal act.

● Composition of compensation

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	25%	35%	25%	15%	
Director	25%	35%	25%	15%	

Model set based on the assumption that the achievement level is 100% for the targets included in the criteria to decide on the amount of performance-linked compensation, with a median value for each position being used for calculation.

Amount of Compensation Paid to Directors (FY2022)

● 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)	371 (47)	188 (47)	79	12	92	12 (5)
Audit & Supervisory Board Members (Independent)	78 (24)	78 (24)	-	-	-	5 (3)
Total	448	266	79	12	92	17

(Notes)

- The "Number of Directors and Audit & Supervisory Board Members" for Directors includes two Directors 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).

● Actual performance of principal indicators related to performance-linked compensation (FY2022)

ROIC	Net sales	Operating income	Profit
8.1%	¥299,802 million	¥30,017 million	¥64,818 million

As for performance-linked compensation for FY2022, we calculated the amount based on the actual results for FY2021. During the period, we posted a gain on valuation with regard to the exclusion of Harmonic Drive Systems Inc. from the scope of equity method affiliates. We made an adjustment about this profit for the principal indicators.

Treatment/Reduction of Cross-Shareholdings

Nabtesco makes it a rule to dispose of cross-holdings of shares that are revealed to have lost their significance as of the end of the most recent fiscal year. In line with this basic policy, the Board of Directors annually 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.

At the Board meeting held on February 28, 2023, the directors confirmed the appropriateness of keeping the

cross-holdings of shares issued by 10 companies (as of the end of FY2022) as a result of examining the significance of the cross-holding as well as the economic rationality for each of the stocks. The Company will continue to reduce the balance of cross-holdings of shares.

 Consolidated Financial Statements (With Independent Auditors' Report)
https://www.nabtesco.com/en/ir/library/settlement/2022_12.html

Ensure Management Transparency

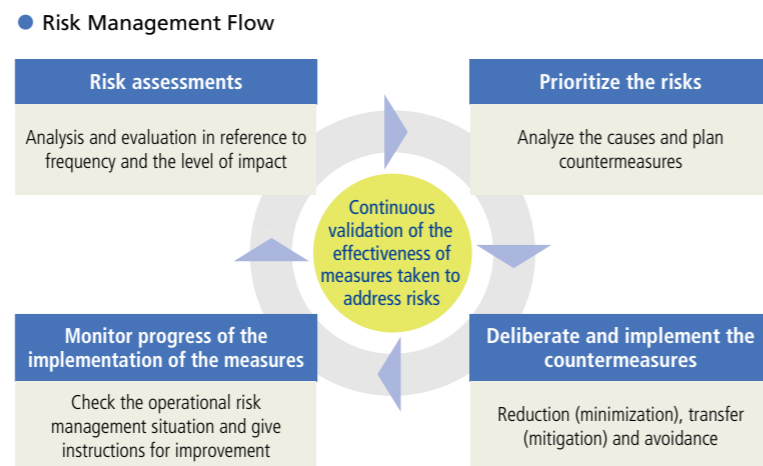
Advancement of Risk Management

Our Approach to Risk Management

The Nabtesco Group seeks to understand and manage the range of risks attributable to its business activities, mitigate the damages and losses if such risks were to actually occur through the exercise of appropriate risk management and maintain and enhance the Nabtesco Group's corporate value. With this stance in mind, we undertake risk management on a Group-wide basis.

Risk Management System

In 2016, the Nabtesco Group established the Risk Management Committee as an organization that deliberates important issues related to risk management. It directly reports to the CEO, who appoints the members of the committee. Since 2017, this committee has been identifying serious risks related to the entire Company based on the results of risk assessments made by the administrative departments, in-house companies and Group companies, discussing countermeasures for these risks and also following up on the progress made for the implementation of the countermeasures. Moreover, the chairperson of this committee holds discussions and makes adjustments as required with members of the CSR Committee, the Group Quality & PL Committee and the Group ESH Committee. The chairperson also regularly reports on the committee's risk management measures to the management entities, such as the Executive Officers Committee and the Board of Directors.



Principal Risk Management Activities
<https://nabtesco.disclosure.site/en/themes/136>

Crisis Management

In preparation against incidents, accidents, disasters and quality problems that might have serious impacts on the Nabtesco Group's performance, financial situation or reputation, we have our own in-house reporting rules as well as prompt and appropriate emergency information communication and response systems in place. Moreover, we have established a crisis management system, under which, in the event of a serious incident that could force us to suspend our business activities or have other material impacts on us, we will immediately establish a crisis response headquarters headed by the CEO. The headquarters will report to the Board of Directors and deal with the incident promptly for its resolution.

Risk Management
<https://nabtesco.disclosure.site/en/themes/136>

Enhancement of Compliance

Our Approach to Compliance

The Nabtesco Group gives first priority to promoting and enhancing compliance management based on the recognition that compliance is a precondition for the Group to achieve its corporate philosophy through business operations and to be selected as a business partner in the global business environment.

Compliance System

We have our Compliance Committee as an advisory board to the Board of Directors. It is chaired by the CEO and includes external experts among its members. 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 regions, North America and Europe).

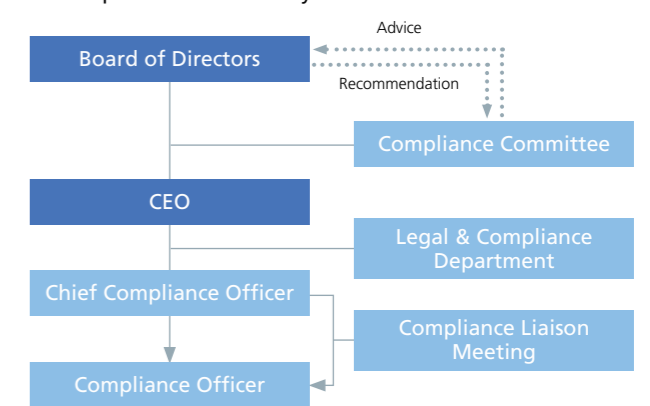
Raising Awareness of the Nabtesco Group Code of Ethics

The Nabtesco Group set the Nabtesco Group Code of Ethics to show each director, officer and employees how they should behave to conduct their business activities in line with the corporate philosophy.

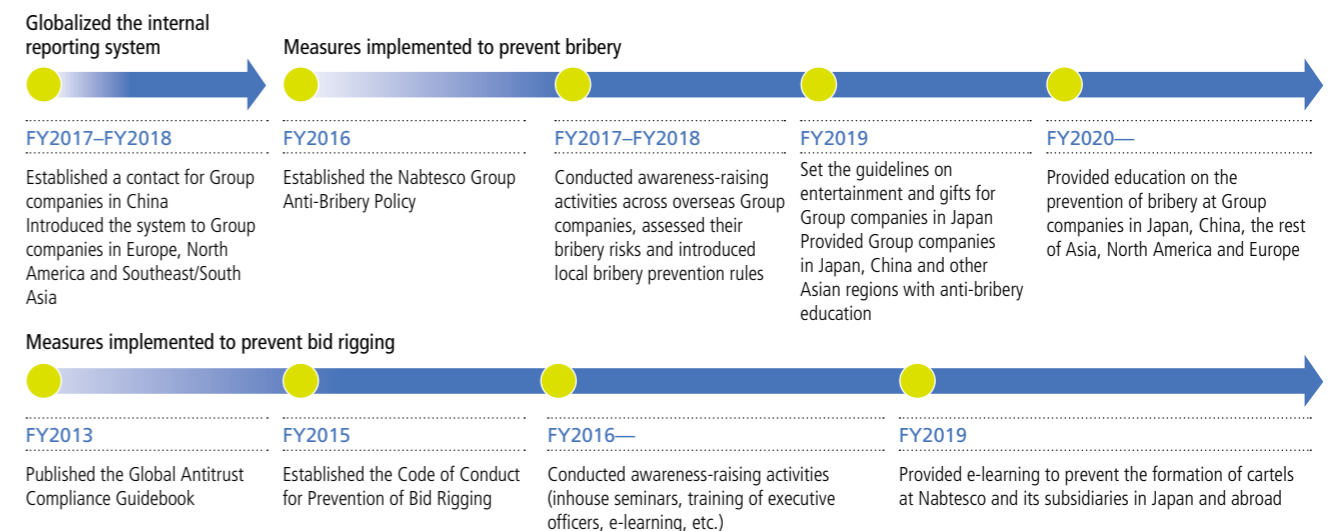
We check the effectiveness of the Code of Ethics every year and revised it in April 2022 in response to the recent revision of related laws and regulations, changes in the global business environment and situation, and the requirements to be met concerning action plans on business and human rights.

In order to help directors, officers and employees to deepen their understanding of the Code of Ethics and take specific actions based on it, we created the Code of Ethics and the Compliance Handbook in multiple languages for use in compliance education and awareness-raising activities within and outside Japan.

Compliance Promotion System



Established a global compliance system



Fostering Compliance Awareness

In order to raise the compliance awareness of directors, officers and employees, we annually provide a range of compliance education, including level- and theme-specific collective and e-learning seminars.

Also, in order to raise employees' compliance awareness, we regularly hold a compliance meeting at each of our workplaces for on-site employees to freely talk about a compliance theme.

Compliance Awareness Survey

Once every year, we check the level of compliance awareness among Nabtesco Group employees. In FY2022, we conducted the survey targeting Group employees in Asia including in Japan and China, and in North America.

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.

In FY2022, we received around 36 reports through the system. In response to each of the reports, we conducted a survey to check the details and make appropriate responses. The operational status of the system is reported regularly to the Compliance Committee.

Compliance
<https://nabtesco.disclosure.site/en/themes/137>

Specific Measures to Achieve the Long-term Vision


Acquire Next-Generation Technologies and Create New Businesses

Promoting a Shift to “New Motion Control”

The Nabtesco Group has been providing high-precision and high-efficiency products by evolving its unique motion control technology. Going forward, we will strive for a steady shift to “new motion control” to achieve further growth. To this end, we will enhance our sensing and IoT technologies, and make more effective use of AI technology to broaden our lineup of systems and solutions that diagnose failures of products and their surrounding environments for preventive maintenance. We will thereby deliver high value-added products and boost our maintenance, repair and overhaul (MRO) business. Moreover, by constantly introducing advanced technologies for the future, we will develop world-class components and systems to create new products and businesses that will enrich our society.

● Innovation for “New Motion Control”

Actions
<ul style="list-style-type: none"> ● Create new “tangible goods” through electrification and system integration ● Create new “intangibles” through IoT and data solutions ● Attain highly efficient and environmentally friendly manufacturing through automation and DX

 Innovation activities <https://nabtesco.disclosure.site/en/themes/79>

Establishment of the Innovation Strategy Division

The Nabtesco Group established the Innovation Strategy Division in January 2023. The Division is composed of the CVC Promotion Department and the Digital Transformation Promotion Department. Through the Division, we will foster collaboration with startups and promote DX-based product & process innovations to create unique products and services and reform our operations, thereby boosting our competitiveness.

products and create new businesses for its long-term growth.

Nabtesco Technology Ventures AG, which is based in Switzerland, has formed a strategic partnership for CVC operations with Emerald Technology Ventures and is searching for co-creation partners by making use of the expertise.

The CVC Promotion Department is strategically searching for co-creation partners to generate synergies based on the market access, technologies and intellectual properties owned by the Nabtesco Group. The department is playing a role in the management of the invested projects by CVC and aiming to accelerate new business creation.

Co-Creation of Business with Startups

Through corporate venture capital (CVC), the Nabtesco Group has been identifying the technologies and product domains to be addressed for the Group to develop new

● Examples of investments made through the CVC fund

Business area	Name of the investee company
Maritime solutions in vessel condition monitoring and voyage optimization	R.K. Deep Sea Technologies Ltd.
Smart sensors for wind turbines	eologix sensor technology gmbh
Artificial satellite launch system	SPACE ONE CO., LTD.
Battery-related technologies	NanoGraf Corporation/Colibri Energy GmbH

Accelerating Electrification and Systematization

The Nabtesco Group acquired OVALO GmbH in 2017 and has since been making effective use of this German company’s ability to develop motor-control unit integrated products toward electrifying and systematizing the Group’s products. We are also utilizing the model-based development technology owned by adcos GmbH, which became a consolidated subsidiary of Nabtesco as well, to develop mechatronics products.

Further, through cross-organizational activities conducted by the Digital Transformation Promotion Department, we are promoting the entire Group’s DX. Specifically, we are working on the establishment of a business model to accumulate, analyze and utilize the data obtained from various sensors mounted on our products, with an eye to adding more value to our existing businesses, reforming our operations, improving our productivity and enhancing our foundation for next-generation business management.

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 is implementing the management strategies to ensure the competitiveness of its existing and future core value (intellectual properties and intangible assets) in its pursuit for higher corporate value.

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

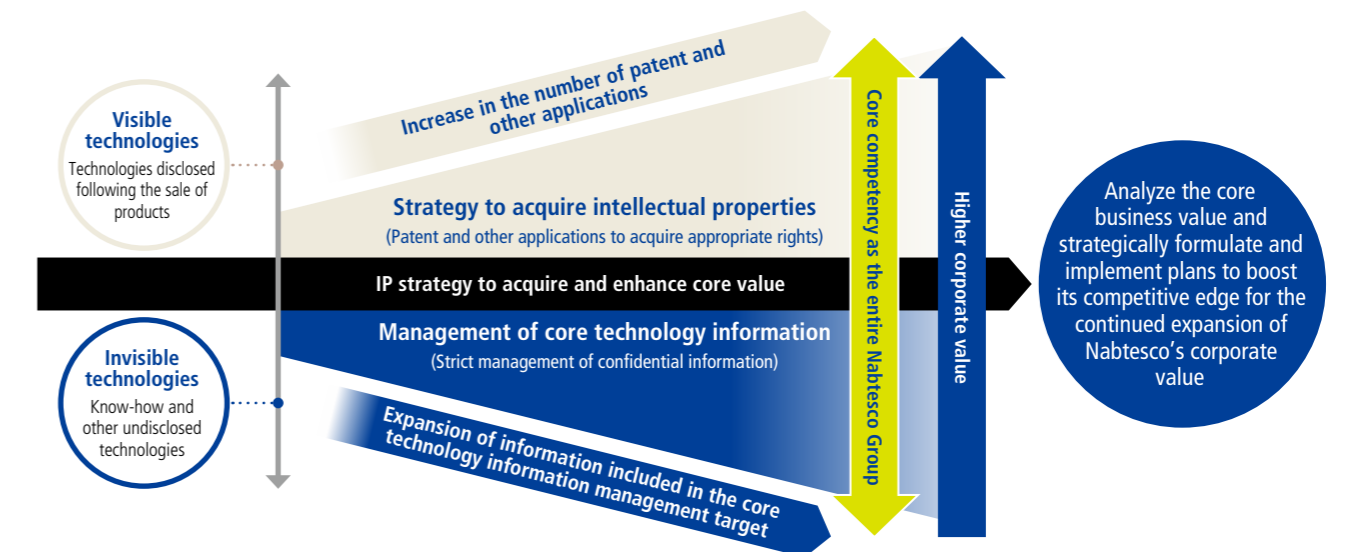
The Nabtesco Group’s competitive advantages, which provide us with core value (intellectual properties and intangible assets), include not only invention but also deep relationships of trust with customers, successful branding in the market, ideas for products and services, design and manufacturing know-how, its supply chain and human resources. For the core value that we can keep confidential, we impose strict management controls to protect them as 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 core competency regarding intellectual property, in turn, increasing our corporate value.

Creation of New Business through IP Landscape Analysis

The Nabtesco Group is working to enhance its core value and acquire new value by searching for new market/customer needs by the effective use of IP landscape analysis. Regarding the equipment and systems for which the Group’s products and services are adopted, we globally collect information available in the public domain, including patent and other intellectual property information, as well as information available from papers, magazines and other companies, in order to conduct macroanalyses of the related technologies, market trends and customer needs. Based on the analysis results, we search for new business themes and new market/customer needs, verify our development themes, and also search for open innovation partners in our effort to set our future business policies and promote discussion across internal organizations, such as in-house companies, about collaboration with other companies.

● Intellectual property strategy to acquire and enhance core value



 Intellectual Property Activities to Support Innovative Creation <https://nabtesco.disclosure.site/en/themes/80>

Specific Measures to Achieve the Long-term Vision

Intensive Management of Intellectual Property and Promotion of Utilization for Businesses

Following on our plan for core value acquisition and upgrading core value, we are centrally managing the following information: information about the notifications made on internally created intellectual property, including ideas, know-how and designs; data collected through the IP landscape method about patents and other rights owned by customers or competitors; and information about technological agreements. Utilizing the system, we widely share such information within the Group and strengthen our businesses.

In the future, we will establish one stop service through the IP information shared system by making technical information related to design, development, manufacturing and services as well as information about our business partners including suppliers available through the system. We will utilize this system for new business creation, M&A and enhancement of our patent portfolio.

Intellectual Property Governance System

We have the Group Intellectual Property Strategy Committee comprising Nabtesco's CEO and executives, which meets once a year to discuss and deliberate on the basic policies for groupwide intellectual property strategies. In line with the policies set by the Committee, the Company Intellectual Property Strategy Committee, which is established by each of the in-house companies and Group companies, meets twice a year to discuss and deliberate on the company's own intellectual property strategies. This Committee is composed of the in-house/Group company's executives, including the in-house company president, who serves as chairperson of the Committee. Moreover, we have the Nabtesco Intellectual Property Strategy Subcommittee, which meets also twice a year to share information about the activities of the Company Intellectual Property Strategy Committees and intellectual property-related issues faced commonly by the in-house and Group companies. This Subcommittee is composed of the heads of the administrative departments and representatives of the in-house and Group companies and is chaired by the head of the Technology and R&D Division. What the Subcommittee discussed at its meetings is reported to the

Group Intellectual Property Strategy Committee in the form of a proposal about the strategies to be deliberated by the Committee, and the deliberation results are referred to when the Committee sets the basic policies on groupwide intellectual property strategies for the next year. As described above, the activities of the Group Intellectual Property Strategy Committee, the Company Intellectual Property Strategy Committees and the Nabtesco Intellectual Property Strategy Subcommittee are organically linked for the spiral development of their activities.

Moreover, since February 2022, the basic policies on groupwide intellectual property strategies have been annually reported to and checked by the Board of Directors. As for the intellectual property strategies for individual businesses, reports are made to and the details are checked by the Board of Directors as necessary.



Intellectual Property Strategy
<https://nabtesco.disclosure.site/en/themes/80>

Foster Smart Manufacturing

Promoting Manufacturing Innovation

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 the Group

We identify the strong and weak points of each in-house company to share the strong points across the board and further enhance them. Presently we have 20 KPIs, based on which we set our daily improvement themes. Among the KPIs, we attribute special importance to the following three indicators (in blue) to strengthen our abilities to manage production and deal with environmental issues toward achieving the following management targets set in the new medium-term management plan: "ROIC: 10% or over" and "Focus on solving ESG issues."

Management KPIs

- | | |
|---|---|
| 1. Net sales | 12. Procurement cost reduction |
| 2. Operating income (margin) | 13. Procurement-related nonconformity rate |
| 3. Value added per employee | 14. Internal nonconformity rate |
| 4. Labor productivity per employee | 15. Quality complaint rate |
| 5. ROE | 16. CO ₂ emissions |
| 6. ROIC | 17. CO ₂ emissions per unit of sales |
| 7. Inventory | 18. CO ₂ emissions reduction |
| 8. Inventory turnover period | 19. Frequency rate of occupational accidents |
| 9. Production lead time | 20. Frequency of traffic accidents |
| 10. On-time delivery rate for customer services | |
| 11. On-time delivery rate for procurement | |

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. Moreover, 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

In our supply chain, we strive to promote information sharing and enhance logistics efficiency through 3rd party logistics (3PL) as well as the milk-run system^{*1} and modal shift^{*2}. For cost reduction, we will review our procurement activities across our in-house companies, create synergies through joint purchasing and foster intensive purchasing from suppliers that consistently demonstrate high QCDS performance. We will thereby further increase our cost competitiveness to outstrip our competitors. Also, during the current medium-term management plan period, we will foster sustainability-oriented procurement and build an optimal procurement system for each area for co-prosperity with our suppliers.

*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.

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 cost reduction synergies <ul style="list-style-type: none"> Centralized/joint procurement Optimal procurement system for each area
Increasing assets turnover	<ul style="list-style-type: none"> Shortening production lead times Shortening inventory turnover period 	Strengthening production management ability	<ul style="list-style-type: none"> Renewal of production management with the use of ICT Logistics reform <ul style="list-style-type: none"> Realization of 3PL, milk-run system, etc.


Development of the Next Generation of Human Resources for Manufacturing

In order to maintain and further develop Nabtesco's unique manufacturing approach over coming generations, we are attributing importance also to the development

of employees who are in charge of production and procurement activities. We are working to increase the operational skills of these employees by supporting their autonomous research activities and providing them with new educational courses.

Management Team

Board of Directors (as of March 23, 2023)



Katsuhiro Teramoto
(Dec. 13, 1955)
Director
Chairman of the Board

- 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, 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
- Mar. 2018 President of Nabtesco Corporation
- Mar. 2022 Chairman of the Board of Nabtesco Corporation (to present)

Reasons for appointment:
Mr. Katsuhiro Teramoto had served as Representative Director since June 2015, appropriately leading and supervising management. He had fulfilled his duties as President, a position bearing the highest responsibilities for business execution, from March 2017 to March 2022.
He has broad management experience at the Company and extensive insight concerning global business in particular. He has therefore been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company has appointed Mr. Katsuhiro Teramoto as Director.
Number of shares of the Company held: 19,461 shares



Atsushi Habe
(Nov. 27, 1959)
Representative Director
Managing Executive Officer
Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication

- Sep. 2006 General Manager, International Sales Department, Aerospace Company of Nabtesco Corporation
- Jun. 2011 General Manager, Planning Department, Aerospace Company of Nabtesco Corporation
- Nov. 2012 General Manager, Planning Department, Precision Equipment Company of Nabtesco Corporation
- Feb. 2016 General Manager, Sales Department, Precision Equipment Company of Nabtesco Corporation
- Oct. 2016 General Manager, Sales Promotion Department, Precision Equipment Company of Nabtesco Corporation
- Mar. 2017 Executive Officer of Nabtesco Corporation
- Mar. 2018 Vice President and General Manager, Sales Promotion Department, Precision Equipment Company of Nabtesco Corporation
- Jan. 2019 President, Precision Equipment Company of Nabtesco Corporation
- Jan. 2020 Managing Executive Officer of Nabtesco Corporation (to present)
- Jan. 2021 Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Business Transformation and Corporate Communication of Nabtesco Corporation
- Mar. 2021 Director of Nabtesco Corporation
- Jan. 2023 Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication of Nabtesco Corporation (to present)
- Mar. 2023 Representative Director (to present)

Reasons for appointment:
Mr. Atsushi Habe has engaged in management of the Company as Director since March 2021, and has effectively fulfilled its roles and duties. He possesses diverse operational experience in company businesses and corporate divisions, and currently fulfills his responsibilities supervising corporate divisions.
He has broad management experience and extensive insight obtained at the Company. He has therefore been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company has appointed Mr. Atsushi Habe as Director.
Number of shares of the Company held: 9,275 shares



Seiji Takahashi
(Feb. 12, 1966)
Director
Managing Executive Officer,
President, Accessibility Innovations Company

- Jun. 2010 General Manager, Human Resources Department of Nabtesco Corporation
- Jul. 2015 General Manager, Human Resources Department of Nabtesco Corporation and President of Nabtesco Link Co., Ltd.
- Aug. 2017 General Manager, Human Resources Department, Business Transformation Division of Nabtesco Corporation and President of Nabtesco Link Co., Ltd.
- Mar. 2018 Executive Officer of Nabtesco Corporation
- Jan. 2021 Vice President, Accessibility Innovations Company, and in charge of Business Management of Nabtesco Corporation
- Jan. 2022 Vice President, Accessibility Innovations Company of Nabtesco Corporation
- Jan. 2023 Managing Executive Officer (to present), President, Accessibility Innovations Company of Nabtesco Corporation (to present)
- Mar. 2023 Director of Nabtesco Corporation (to present)

Reasons for appointment:
Mr. Seiji Takahashi has served as Vice President of the Accessibility Innovations Company since January 2021 and President of the Accessibility Innovations Company since January 2023, and fulfills his responsibilities.
He has broad experience and extensive insight in human resources divisions at the Company. He has therefore been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company has appointed Mr. Seiji Takahashi as Director.
Number of shares of the Company held: 3,250 shares



Kazumasa Kimura
(Aug. 17, 1961)
Representative Director
President
Chief Executive Officer

- 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 and President, Power Control Company of Nabtesco Corporation
- Jan. 2019 Executive Officer, Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication of Nabtesco Corporation
- Mar. 2019 Director of Nabtesco Corporation
- Jan. 2021 Managing Executive Officer, Component Solution Segment, Senior General Manager, Technology and R&D Division, and in charge of Production Innovation
- Jan. 2022 Assistant to CEO of Nabtesco Corporation
- Mar. 2022 Representative Director (to present), President (to present), and Chief Executive Officer 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. He possesses diverse operational experience spanning all aspects of the Company's businesses. He also has served as Representative Director since March 2022, appropriately leading and supervising management, and has fulfilled his duties as President, a position bearing the highest responsibilities for business execution.
He has broad management experience at the Company and extensive insight concerning production in particular. He has therefore been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company has appointed Mr. Kazumasa Kimura as Director.
Number of shares of the Company held: 4,616 shares



Toshiya Fujiwara
(Mar. 3, 1960)
Director
Managing Executive Officer
Component Solutions Segment, President, Precision Equipment Company, and in charge of Production Innovation and Hamamatsu Plant Construction Project

- Jul. 2013 General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Mar. 2017 Plant Manager, Tsu Plant and General Manager, General Administration Department, Precision Equipment Company of Nabtesco Corporation
- Jan. 2019 Executive Officer of Nabtesco Corporation
- Jan. 2020 Responsible for production, Plant Manager, Tsu Plant and General Manager, General Administration Department, Precision Equipment Company, Project Leader, Hamamatsu Plant Construction Project of Nabtesco Corporation
- Jan. 2021 President, Precision Equipment Company of Nabtesco Corporation
- Jan. 2022 Managing Executive Officer of Nabtesco Corporation (to present), Component Solutions Segment, President, Precision Equipment Company, and in charge of Production Innovation of Nabtesco Corporation
- Mar. 2022 Director (to present), Component Solutions Segment, President, Precision Equipment Company, in charge of Production Innovation, and in charge of Hamamatsu Plant Construction Project of Nabtesco Corporation (to present)


Reasons for appointment:
Mr. Toshiya Fujiwara has engaged in management of the Company as Director since March 2022, and has effectively fulfilled its roles and duties. He currently fulfills his responsibilities as Managing Executive Officer, Component Solutions Segment, President, Precision Equipment Company, and in charge of Production Innovation and Hamamatsu Plant Construction Project.
He has broad experience and extensive insight at the Company, primarily regarding production. He has therefore been determined to be an appropriate person to realize sustainable improvement in corporate value, and the Company has appointed Mr. Toshiya Fujiwara as Director.
Number of shares of the Company held: 1,739 shares



Mari Iizuka
(Mar. 29, 1959)
Outside Director

- Apr. 1982 Joined Henkel Hakuui Corporation (currently 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 Director of Nabtesco Corporation (to present)

Reasons for appointment:
Although Ms. Mari Iizuka has not been involved in corporate management except as an Outside Director of the Company, 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), and as an Outside Director of the Company from March 2020, she has appropriately supervised management.
Based on her experience and insight, the Company has appointed Ms. Mari Iizuka as Outside Director, as we expect her to provide supervision and advice utilizing her insight.
Number of shares of the Company held: 0 shares



Naoki Hidaka
(May 16, 1953)
Outside Director

- Apr. 1976 Joined SUMITOMO CORPORATION
- Apr. 2001 General Manager, Chicago Branch, Sumitomo Corporation of U.S.A.
- Apr. 2007 Executive Officer, General Manager of Metal Products for Automotive Industry Division of SUMITOMO CORPORATION
- Apr. 2009 Managing Executive Officer, Head of Chubu Block of SUMITOMO CORPORATION
- Apr. 2012 Senior Managing Executive Officer, Head of Kansai Block of SUMITOMO CORPORATION
- Jun. 2013 Representative Director, Senior Managing Executive Officer, and General Manager, Transportation & Construction Systems Business Unit of SUMITOMO CORPORATION
- Apr. 2015 Representative Director, Executive Vice President, Executive Officer, and General Manager, Transportation & Construction Systems Business Unit of SUMITOMO CORPORATION
- Jun. 2018 Special Adviser of SUMITOMO CORPORATION
- Jun. 2019 Adviser of SUMITOMO CORPORATION (retired in March 2020)
- Jun. 2020 Outside Director of BROTHER INDUSTRIES, LTD. (to present)
- Mar. 2021 Director of Nabtesco Corporation (to present)
- Jun. 2022 Outside Director of TOPCON CORPORATION (to present)

Reasons for appointment:
Mr. Naoki Hidaka has been engaged in the overseas businesses of SUMITOMO CORPORATION. After serving as General Manager of the Transportation & Construction Systems Business Unit, which operates in the same business domain as the Company, he served as Representative Director of SUMITOMO CORPORATION, and has broad experience and extensive knowledge and insight as a corporate manager. As an Outside Director of the Company from March 2021, he has appropriately supervised management.
Based on his experience and insight, the Company has appointed Mr. Naoki Hidaka as Outside Director, as we expect him to provide supervision and advice utilizing his knowledge.
Number of shares of the Company held: 0 shares



Seiichiro Shirahata
(Mar. 3, 1961)
Outside Director

- Apr. 1983 Joined Nippon Paint Co., Ltd. (currently Nippon Paint Holdings Co., Ltd.)
- Apr. 2009 Division Director, Surface Treatment of Nippon Paint Co., Ltd.
- Apr. 2013 Executive Officer of Nippon Paint Co., Ltd.
- Apr. 2015 Senior Executive Officer of Nippon Paint Holdings Co., Ltd.
President, Representative Director of the Board of Nippon Paint Surf Chemicals Co., Ltd.
- Jan. 2018 Vice President of Nippon Paint Holdings Co., Ltd. President, Representative Director of the Board of Nippon Paint Marine Coatings Co., Ltd.
- Mar. 2018 Vice President, Director of the Board of Nippon Paint Holdings Co., Ltd.
- Mar. 2020 Vice President of Nippon Paint Holdings Co., Ltd.
- Jan. 2022 Adviser of Nippon Paint Holdings Co., Ltd. (retired in December 2022)
- Mar. 2023 Director of Nabtesco Corporation (to present)

Reasons for appointment:
Mr. Seiichiro Shirahata possesses diverse operational experience, including a long-term overseas assignment as an engineer at Nippon Paint Co., Ltd. (currently Nippon Paint Holdings Co., Ltd.), and he was also responsible for the said company's transition into a holding company and the spin-off of its business segments. He has also served as Director and Senior Executive Officer of Nippon Paint Holdings Co., Ltd., and has broad experience and extensive knowledge and insight as a corporate manager.
Based on his experience and insight, the Company has appointed Mr. Seiichiro Shirahata as Outside Director, as we expect him to provide supervision and advice utilizing his insight.
Number of shares of the Company held: 0 shares



Naoko Mizukoshi
(Sep. 23, 1967)
Outside Director

- Apr. 1995 Registered at Osaka Bar Association Joined Miyazaki Law Firm
- Apr. 1998 Registered at Yokohama Bar Association (currently Kanagawa Bar Association) Joined Nomura Research Institute, Ltd.
- Sep. 1999 Registered at Dai-ri Tokyo Bar Association Joined Autodesk Co., Ltd.
- Sep. 2002 Registered at the State of California Bar
Joined Microsoft Co., Ltd. (currently 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 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. As an Outside Director of the Company from March 2020, she has appropriately supervised management.
Based on her experience and insight, the Company has appointed Ms. Naoko Mizukoshi as Outside Director, as we expect her to provide supervision and advice utilizing her insight.
Number of shares of the Company held: 0 shares



Toshiya Takahata
(Nov. 19, 1963)
Outside Director


- Apr. 1986 Joined Seiko Epson Corporation
- Apr. 2012 Deputy Chief Operating Officer, Printer Operations Division of Seiko Epson Corporation
- Jun. 2014 Executive Officer of Seiko Epson Corporation
- Jun. 2015 General Administrative Manager, Intellectual Property Division of Seiko Epson Corporation
- Jun. 2016 Executive Officer of Seiko Epson Corporation (retired in March 2021)
- Oct. 2018 General Administrative Manager, Corporate Planning Division of Seiko Epson Corporation
- Apr. 2019 General Administrative Manager, DX Division of the Seiko Epson Corporation
- Jun. 2019 Director of Seiko Epson Corporation (retired in June 2021)
- Apr. 2020 General Administrative Manager, Corporate Strategy Division, General Administrative Manager, Sustainability Promotion Office of Seiko Epson Corporation
- Mar. 2022 Director of Nabtesco Corporation (to present)

Reasons for appointment:
Mr. Toshiya Takahata has been engaged in operations related to intellectual property, digital transformation, corporate planning, and sustainability at Seiko Epson Corporation. He has also served as a Director of Seiko Epson Corporation, and has broad experience and extensive knowledge and insight as a corporate manager. As an Outside Director of the Company from March 2022, he has appropriately supervised management.
Based on his experience and insight, the Company has appointed Mr. Toshiya Takahata as Outside Director, as we expect him to provide supervision and advice utilizing his insight.
Number of shares of the Company held: 0 shares

* The number of shares of above Directors is as of March 23, 2023.

Management Team


Audit & Supervisory Board Members (as of March 23, 2023)



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

- 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 General 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: 3,937 shares



Koji Nakano
(Jan. 2, 1962)
Audit & Supervisory Board Member

- Jun. 2010 General Manager, Accounting & Finance Department of Nabtesco Corporation
- Jun. 2015 General Manager, Corporate Planning Department of Nabtesco Corporation
- Mar. 2018 General Manager of Shanghai Nabtesco Hydraulic Co., Ltd. Executive Officer of Nabtesco Corporation
- Jan. 2022 Executive Officer, Business Audit of Nabtesco Corporation
- Mar. 2023 Audit & Supervisory Board Member of Nabtesco Corporation (to present)


Number of shares of the Company held: 11,552 shares



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

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

- Oct. 1978 Joined Musashi Audit Corporation (currently Ernst & Young ShinNihon LLC)
- Aug. 1981 Joined Sony Corporation (currently Sony Group Corporation)
- Jun. 2004 General Manager of Accounting Department, Sony Corporation (currently Sony Group Corporation)
- Jul. 2007 Vice President, Senior General Manager of Accounting Division, Sony Corporation (currently Sony Group Corporation)
- Jun. 2010 Corporate Executive and Senior Vice President, Senior General Manager of Accounting Division, Sony Corporation (currently Sony Group Corporation)
- Oct. 2013 Corporate Executive and Senior Vice President in charge of Accounting of Sony Corporation (currently Sony Group Corporation)
- Jun. 2015 Senior Adviser of Sony Corporation (currently Sony Group Corporation)
- Mar. 2016 Audit & Supervisory Board Member (Independent) of Nabtesco Corporation (to present)
- Audit & Supervisory Board Member (Independent) of SOLIZE Corporation
- Jun. 2016 Audit & Supervisory Board Member (Independent) of DAIO PAPER Corporation (to present)
- Dec. 2022 Outside Director of SOLIZE (to present)

Number of shares of the Company held: 1,601 shares



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

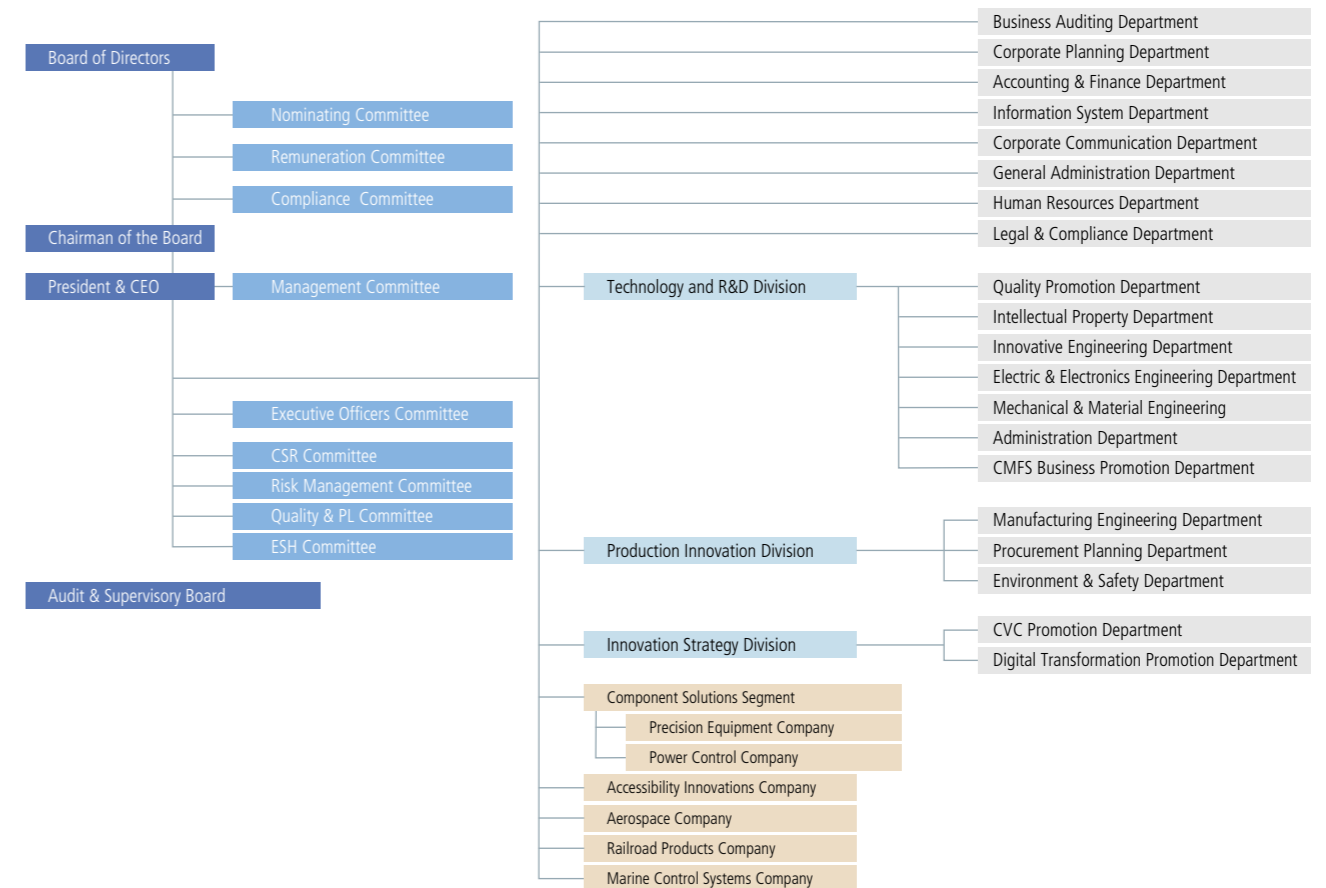
- Apr. 1980 Joined Toyota Motor Co., Ltd. (currently Toyota Motor Corporation)
- Jan. 2006 General Manager, Vehicle Planning Department, Global Strategic Production Planning Division and Project General Manager of China Division of Toyota Motor Corporation
- Jan. 2008 General Manager, Machinery Division, Motomachi Plant of Toyota Motor Corporation (retired in Jun. 2010)
- 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
- 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 March 23, 2023)

President	Kazumasa Kimura	Chief Executive Officer (CEO)
Managing Executive Officer	Akiyoshi Kitamura	President, PACRAFT Co., Ltd.
Managing Executive Officer	Atsushi Habe	Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, and Corporate Communication
Managing Executive Officer	Toshiya Fujiwara	Managing Executive Officer, Component Solutions Segment, President, Precision Equipment Company, and in charge of Production Innovation and Hamamatsu Plant Construction Project
Managing Executive Officer	Shoji Ijuin	Managing Executive Officer, General Administration, Human Resources and Legal & Compliance
Managing Executive Officer	Seiji Takahashi	President, Accessibility Innovations Company
Executive Officer	Kiyoshi Ando	President, Power Control Company
Executive Officer	Norimasa Takagi	President, Aerospace Company
Executive Officer	Ataru Inoue	President, Nabtesco Automotive Co., Ltd.
Executive Officer	Yukihiro Mizutani	President, Marine Control Systems Company
Executive Officer	Michihito Suzuki	President, Railroad Products Company
Executive Officer	Yasuhito Nakagawa	General Manager, Production Innovation Division
Executive Officer	Koichi Miyaguchi	General Manager, Innovation Strategy Division, and CVC Promotion Department
Executive Officer	Hiroshi Usui	Vice President, Aerospace Company, and Plant Manager, Gifu Plant
Executive Officer	Masakazu Kurita	Responsible for Production, Plant Manager, Tsu Plant, Precision Equipment Company
Executive Officer	Tomoaki Shiramizu	President, Shanghai Nabtesco Hydraulic Co., Ltd.
Executive Officer	Akihito Enomoto	Responsible for Sales Management, General Manager, Sales Department, Railroad Products Company
Executive Officer	Hiroshi Nerima	President, Nabtesco Technology Ventures AG
Executive Officer	Hiroki Higuchi	General Manager, Corporate Planning Department, and Innovation Strategy Division
Executive Officer	Tomohiro Kiriya	Senior General Manager, Technology and R&D Division, and Innovation Strategy Division
Executive Officer	Kazumasa Shimizu	President, Nabtesco Service Co., Ltd.
Executive Officer	Takeshi Hanafusa	Plant Manager, Konan Plant, Accessibility Innovations Company
Executive Officer	Hiroki Mori	General Manager, Sales Management Department and Sales Business Development Department, Precision Equipment Company

Management Structure (as of January 1, 2023)



* The average term of office of Board members, including Board of Directors and Audit & Supervisory Board Members, is about 3.0 years as of March 23, 2023.
* The number of shares of above Directors is as of March 23, 2023.

Financial Data

	2013/3	2014/3	2015/3	2015/12 ^{*2}	2016/12 ^{*3}	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12
(¥ Million)											
Major Financial Indicators											
Net sales	179,543	202,292	219,657	187,000	244,968	282,422	294,626	289,808	279,358	299,802	308,691
Cost of sales	134,859	148,321	158,693	136,576	175,508	201,982	215,043	212,105	206,166	217,759	232,007
Selling, general and administrative expenses	29,670	33,877	37,347	35,129	44,294	51,285	53,184	51,998	50,655	52,520	59,620
Operating income	15,013	20,092	23,615	15,294	25,982	29,468	21,889	25,320	28,533	30,017	18,097
Profit before tax	18,997	23,522	27,026	15,358	26,779	34,907	29,962	27,979	33,718	101,966	15,763
Income taxes expense	5,598	8,140	9,254	5,731	7,843	8,338	6,997	8,028	10,206	34,073	4,376
Non-controlling interests ^{*1}	129	404	25	(1,432)	330	1,423	1,935	2,020	3,008	3,075	1,923
Net income attributable to owners of the parent	13,269	14,978	17,746	11,059	18,606	25,146	21,029	17,931	20,505	64,818	9,464
At year-end											
Current assets	112,048	134,159	139,321	128,575	143,792	165,695	179,124	179,154	183,110	288,900	295,524
Property, plant and equipment	54,475	55,225	56,877	55,916	63,155	70,700	80,573	87,083	89,522	89,020	96,082
Total assets	203,056	233,984	245,992	233,381	256,973	301,557	328,568	344,558	351,723	481,718	459,293
Current liabilities	52,322	73,161	64,830	73,000	74,876	96,934	112,558	109,614	113,662	191,315	172,577
Interest-bearing debt	26,389	26,204	16,659	15,333	16,949	27,720	45,310	43,936	39,866	17,587	20,309
Equity	120,857	139,471	158,664	148,924	155,904	177,002	189,255	199,133	211,641	254,995	263,228
Equity attributable to owners of the parent	114,038	131,043	149,862	142,068	147,929	167,537	178,702	187,398	198,031	239,910	248,696
Cash flows											
Cash flows from operating activities	12,952	27,597	19,949	8,746	27,730	23,071	24,165	38,433	34,203	36,340	7,717
Cash flows from investing activities	(13,693)	(8,064)	(7,880)	(4,886)	(14,989)	(20,186)	(21,823)	(20,086)	(10,710)	67,147	13,231
Cash flows from financing activities	(10,090)	(8,175)	(15,888)	(19,090)	(4,808)	(950)	8,396	(13,365)	(17,497)	(57,960)	(13,456)
Per share of common stock (¥)											
Basic earnings per share	104.57	117.95	140.24	88.85	150.64	203.85	169.65	144.50	165.18	534.67	78.87
Equity attributable to owners of the parent per share	894.86	1,035.68	1,184.17	1,150.41	1,193.79	1,355.72	1,438.64	1,508.53	1,594.10	1,999.10	2,071.87
Cash dividends per share	34.00	38.00	44.00	44.00	50.00	72.00	73.00	73.00	75.00	77.00	78.00
Major management indicators (%)											
Operating income margin	8.4	9.9	10.8	8.2	10.6	10.4	7.4	8.7	10.2	10.0	5.9
Return on assets (ROA)	6.5	6.9	7.4	4.6	7.6	9.0	6.7	5.3	5.9	15.6	2.0
Return on equity (ROE)	12.5	12.2	12.6	7.6	13.0	15.9	12.1	9.8	10.6	29.6	3.9
Payout ratio	32.5	32.2	31.4	49.5	35.1	35.3	43.0	50.5	45.4	14.4	98.9
Equity ratio	56.2	56.0	60.9	60.9	57.6	55.6	54.4	54.4	56.3	49.8	54.1

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

*2 Due to the change of the accounting closing date of the 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.

*3 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

Consolidated Balance Sheets	(¥ Million)	
	As of December 31, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	112,771	124,413
Trade receivables	74,957	77,227
Contract assets	2,065	2,165
Other receivables	1,300	1,301
Inventories	41,880	49,210
Other financial assets	7,821	1,733
Other current assets	3,588	5,445
Total	244,382	261,494
Assets held for sale	44,519	34,030
Total current assets	288,900	295,524
Non-current assets		
Property, plant and equipment	89,020	96,082
Intangible assets	4,251	6,373
Right-of-use assets	8,877	10,129
Goodwill	16,184	17,899
Investment property	2,162	2,066
Investments accounted for using the equity method	15,475	17,729
Other financial assets	53,860	10,041
Deferred tax assets	1,997	2,281
Other non-current assets	992	1,168
Total non-current assets	192,818	163,768
Total assets	481,718	459,293
Liabilities and equity		
Liabilities		
Current liabilities		
Operating payables	51,974	56,119
Contract liabilities	5,704	7,652
Borrowings	14,690	19,943
Other payables	10,776	19,250
Income taxes payable	19,788	11,734
Provisions	1,206	1,678
Lease liabilities	2,158	2,640
Other financial liabilities	77,878	47,267
Other current liabilities	7,139	6,292
Total current liabilities	191,315	172,577
Non-current liabilities		
Borrowings	2,897	366
Lease liabilities	7,575	8,403
Liabilities concerning retirement benefits	9,079	8,472
Deferred tax liabilities	13,922	4,054
Other non-current liabilities	1,936	2,193
Total non-current liabilities	35,408	23,488
Total liabilities	226,723	196,064
Equity		
Capital stock	10,000	10,000
Share premium	14,961	15,048
Retained earnings	214,791	215,670
Treasury shares	(4,784)	(4,646)
Other components of equity	4,942	12,624
Equity attributable to owners of the parent	239,910	248,696
Non-controlling interests	15,084	14,532
Total equity	254,995	263,228
Total liabilities and equity	481,718	459,293

Consolidated Statements of Income	(¥ Million)	
	FY2021	FY2022
Net sales	299,802	308,691
Cost of sales	(217,759)	(232,007)
Gross profit	82,043	76,684
Other income	1,180	1,373
Selling, general and administrative expenses	(52,520)	(59,620)
Other expenses	(686)	(340)
Operating income	30,017	18,097
Finance income	126,977	708
Finance costs	(57,126)	(5,828)
Equity in earnings of affiliates	2,099	2,787
Profit before tax	101,966	15,763
Income tax expense	(34,073)	(4,376)
Net income	67,893	11,387
Net income attributable to		
Owners of the parent	64,818	9,464
Non-controlling interests	3,075	1,923
Net income	67,893	11,387
Net income per share		
Basic earnings per share (¥)	534.67	78.87
Diluted earnings per share (¥)	534.53	78.85

Consolidated Statements of Comprehensive Income	(¥ Million)	
	FY2021	FY2022
Net income	67,893	11,387
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement of net defined benefit plans	1,148	586
Net changes in financial assets measured at fair value through other comprehensive income	274	444
Total items that will not be reclassified to profit or loss	1,422	1,030
Components that may be reclassified subsequently to profit or loss		
Exchange differences on foreign operations	6,480	8,088
Total components that will be reclassified to profit or loss	6,480	8,088
Other comprehensive income after taxes	7,902	9,118
Total comprehensive income	75,795	20,505
Comprehensive income attributable to		
Owners of the parent	71,444	17,956
Non-controlling interests	4,351	2,549
Total comprehensive income	75,795	20,505

Financial Data

	(¥ Million)	
	FY2021	FY2022
Consolidated Statements of Cash Flows		
Cash flows from operating activities		
Net income	67,893	11,387
Depreciation and amortization	13,266	14,483
Increase (decrease) in liabilities concerning retirement benefits	297	208
Interest and dividend income	(528)	(603)
Interest expenses	168	199
Valuation loss (gain) due to exclusion of companies accounted for by the equity method	(125,107)	—
Decrease (increase) in valuation on investment securities	56,958	5,535
Equity loss (gain) in earnings of affiliates	(2,099)	(2,787)
Loss (gain) on sales of fixed assets	382	87
Decrease (increase) in sales on investment property	—	(65)
Expenses of income tax	34,073	4,376
Decrease (increase) in trade receivables	1,545	2,072
Decrease (increase) in inventories	(3,846)	(5,135)
Decrease (increase) in operating payables	5,040	2,302
Others	(355)	(2,198)
Subtotal	47,686	29,861
Interest and dividends received	1,023	1,267
Interest paid	(165)	(194)
Income taxes refunded (paid)	(12,204)	(23,216)
Net cash and cash equivalents provided by operating activities	36,340	7,717
Cash flows from investing activities		
Increase (decrease) in time deposits (Increase)	1,484	311
Purchases of tangible fixed assets	(7,738)	(8,809)
Proceeds from sales of tangible fixed assets	89	42
Purchase of intangible fixed assets	(1,561)	(2,559)
Proceeds from sales on investment property	17	103
Payments for acquisition of subsidiaries	(746)	—
Proceeds from sale of investment securities	79,014	47,690
Payments for settlement of sales price on investment securities	—	(28,471)
Payments of leasehold and guarantee deposits	(11,528)	(93)
Proceeds from refund of leasehold deposits	5,031	6,573
Proceeds from sale of investments accounted for using equity method	3,156	—
Others	(71)	(1,555)
Cash flows from investing activities	67,147	13,231
Cash flows from financing activities		
Increase (decrease) in short-term bank loans	(12,601)	2,077
Proceeds from long-term loans payable	30	—
Repayment of long-term loans payable	(222)	(232)
Redemption of bonds	(10,000)	—
Payments of lease liabilities	(2,522)	(2,854)
Decrease (Increase) in treasury shares	(20,969)	33
Cash dividends paid	(8,800)	(9,380)
Capital contribution from non-controlling interests	51	—
Dividends paid to non-controlling interests	(2,928)	(3,101)
Cash flows from financing activities	(57,960)	(13,456)
Increase (decrease) in cash and cash equivalents	45,527	7,492
Cash and cash equivalents at the beginning of term	64,665	112,771
Effect of exchange rate changes on cash and cash equivalents	2,579	4,150
Cash and cash equivalents at the end of term	112,771	124,413

Glossary

■ Terms related to Nabtesco's business ■ Terms related to financial and non-financial issues ■ Terms related to technologies

Term	Meaning
MRO	To foster after-sale business, Nabtesco provides maintenance, repair and overhaul (MRO) services 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.
OEM	Original equipment manufacturing (OEM) usually means to manufacture products under the brand name of the customer, but for Nabtesco OEM means to manufacture and sell components to be used in its customers' new products.
QCDS	QCDS refers to the following four important elements for manufacturing: quality (Q), cost (C), delivery (D) and 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.
Component	A component is a functional part of a device.
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).
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. In 2021, we established the CVC Promotion Division as an organization under the direct control of the CEO to accelerate our collaboration with start-up companies.
Digital Transformation (DX)	DX means to reform business and operational processes by using the latest digital technologies. Nabtesco is implementing a range of reform projects, such as those for work style reforms and manufacturing innovation. In these projects, we are fostering DX by making more effective use of IoT technologies and introducing advanced digital tools.
Retrofitting	Retrofitting means to improve and remodel old-type machines to update them. When new components are necessary to replace old ones for retrofitting, we might win new orders for our products.
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.
ROIC	ROIC is an abbreviation for Return on Invested Capital. 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.
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 the Nabtesco Group also had its long-term CO ₂ emissions target certified under it.
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.
Dynamic Materiality	"Materiality" is a concept that was initially conceived in the accounting field to refer to factors that have a serious impact on financial affairs. The scope has since been expanded to mean material corporate, social and economic issues and the concept is now used in the area of sustainability, for example, under the framework used to disclose sustainability information. "Dynamic materiality" implies that materiality changes dynamically according to changes in the environment and that the priorities to be addressed for the creation of economic and social value can change depending upon changes in business and economic conditions.
The Guidelines on Disclosure and Governance of Strategies for Investment and Utilization of Intellectual Property and Intangible Assets	This document was published under the leadership of the Cabinet Office of Japan to provide companies with guidance on the disclosure and governance of their strategies regarding investment in and utilization of intellectual property and other intangible assets. Version 2.0 of the document provides a communication framework for companies to foster dialogue with investors and improve the quality of their information disclosure. It is designed to help Japanese companies to use their intellectual property and intangible assets more effectively and make more proactive investments in such assets to boost their international competitiveness.
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.
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.
Digital Twin	Digital twin refers to a technology involving the transmission of a range of information to a digital space to create a digital counterpart of something that exists in physical form. It is expected to increase the precision of monitoring and simulation, which could in turn help speed up R&D activities and improve maintenance services.

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, 2022 to December 31, 2022

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 June 2023 (Published annually)

Performance Data


The Nabtesco Group 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.



Independent Assurance on Environmental and Social Data
Assurance Statement related to GHG Emissions for CY2022
<https://nabtesco.disclosure.site/en/themes/141>

Guidelines Referenced

- International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC)
- SASB Standards by Sustainability Accounting Standards Board (SASB)
- WICI Intangible Reporting Framework published by the World Intellectual Capital/Assets Initiative (WICI)
- GRI Standards by the Global Reporting Initiative (GRI)
- The Guidelines on Disclosure and Governance of Strategies for Investment and Utilization of Intellectual Property and Intangible Assets (Ver. 2.0)
- 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 the United Nations Global Compact and for the recommendations made by the Task Force on Climate-related Financial Disclosures. Also, our long-term greenhouse gas emissions reduction targets have been officially approved by the SBT Initiative to be aligned with its 1.5 degrees Celsius scenario.



The Nabtesco Group's approach to ESG issues is highly recognized globally, which is evident by the fact that Nabtesco is included in the Dow Jones Sustainability World Indices, FTSE4Good, STOXX Global ESG Leaders Indices, S&P/JPX CARBON EFFICIENT INDEX and others. In addition, we have obtained the highest evaluations on environmental measures from the CDP in three different fields.

Member of Dow Jones Sustainability Indices

Powered by the S&P Global CSA



2022 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

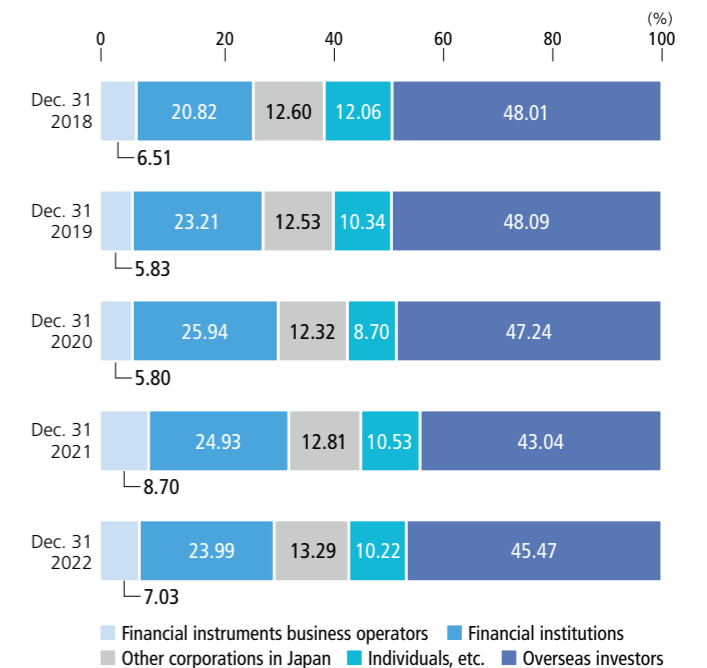


Corporate Profile


Corporate Profile (as of December 31, 2022)

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	121,064,099
Minimum Trading Unit	100 All of our issued shares are common stock with a minimum trading unit of 100 shares.
Employees	Non-consolidated 2,390 Consolidated 7,928
Consolidated Subsidiaries in Japan	14 (excl. 3 equity method affiliates)
Consolidated Subsidiaries outside Japan	50 (excl. 5 equity method affiliates)

Breakdown of Shareholding by Investor Type



Validity Statement



Atsushi Habe
Representative Director
Managing Executive Officer
Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication

About the Publication of Nabtesco Value Report 2022 for the Fiscal Year Ended December 31, 2022 (FY2022)

The Nabtesco Group has been publishing the "Nabtesco Value Report" as its integrated report since FY2016 to help stakeholders, including shareholders and investors, understand the Group's measures to increase its corporate value on a medium- to long-term basis.

In FY2021 we launched a new medium-term management plan on the theme "TIME FOR CHALLENGE" under a new management system. In the plan, for our sustainable growth, we clearly stated that we would embrace three challenges to become "Leaders in Innovation," as upheld in our long-term vision for 2030.

In this integrated report, we make clear our commitment to promoting human capital management and increasing our corporate value through the sophistication of our business portfolio management. We also include four dialogues to communicate the specific measures that we have been implementing to boost our corporate value.

As the Executive Officer supervising the creation of the report, I hereby state that in creating the Nabtesco Value Report 2022 an appropriate process was followed to ensure the validity of the information included in it. I hope that the report will help all our stakeholders deepen their understanding of Nabtesco.

I would also like to thank all of the stakeholders who have read the report and everyone both within and outside the Company who kindly cooperated with us for its publication. Going forward, we will continue working to improve the contents of the report by attributing importance to engaging in dialogues with our stakeholders.