

Governance Dialogue

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



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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

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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

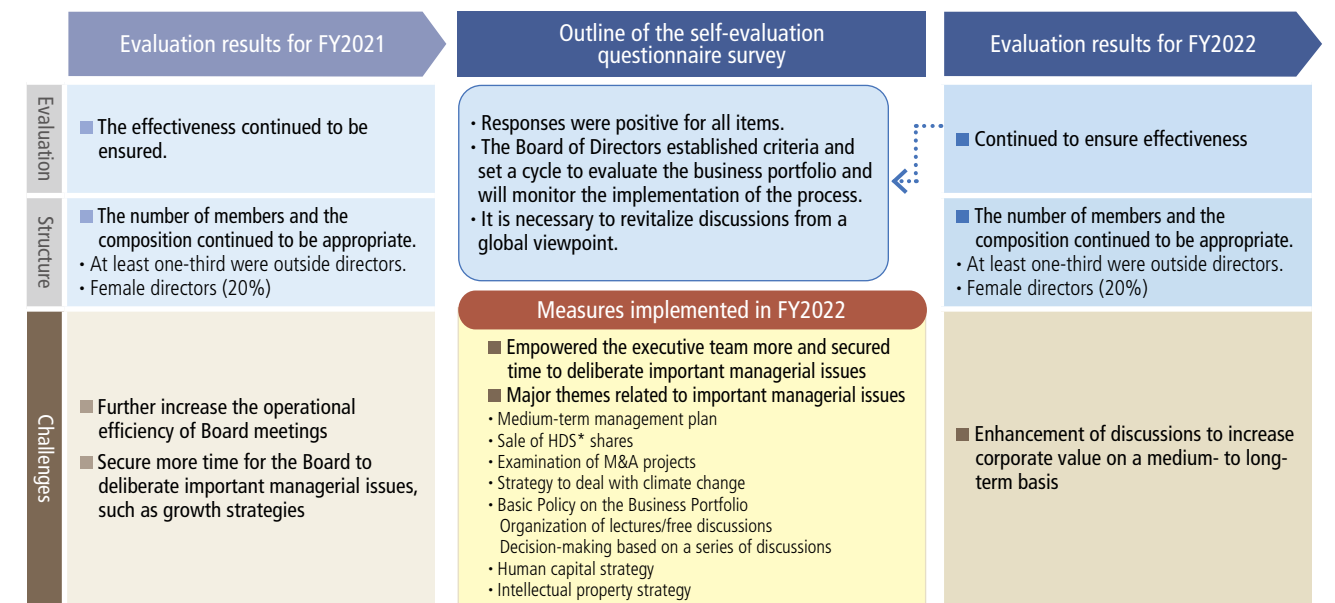
As the roles to be shared by the Board of Directors and the executive team are clarified further, the importance of the Board will increase accordingly. I would like to demonstrate leadership to foster effective discussions for the growth of the Company.



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.

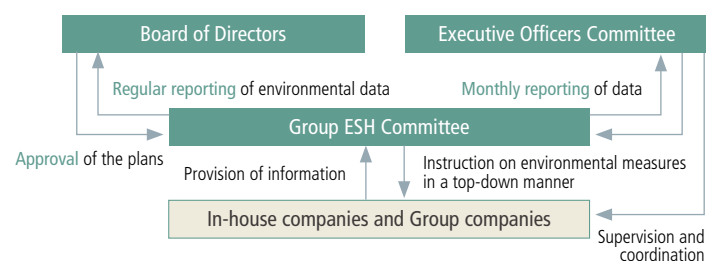
◆ Governance

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.

● 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			<ul style="list-style-type: none"> Increase in energy & procurement costs Differentiation by low-carbon products Better evaluation due to appropriate information disclosure 	<ul style="list-style-type: none"> Promote the use of renewable energy Introduce carbon pricing Promote efficient replacement with substitute materials 	
	Regulation (energy conservation & low carbon)	Large	<ul style="list-style-type: none"> Increase in energy conservation cost Larger sales of products with higher fuel efficiency 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> Decrease in demand for old models due to new regulations (Example: TRS segment) Increase in demand for more efficient new models (Example: TRS segment) 	<ul style="list-style-type: none"> 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		<ul style="list-style-type: none"> Increase in cost to deal with laws and regulations 			<ul style="list-style-type: none"> Invest in the development of technologies and products Strategically disclose climate change-related information
	Technology	Replacement with low-carbon products	Medium		<ul style="list-style-type: none"> Increase in cost to acquire new element technology Entry into a new market by the development of new element technology 	<ul style="list-style-type: none"> Increase in cost due to the diversification of needs 	<ul style="list-style-type: none"> Make technological investments, develop products and form partnerships with other companies in line with the regulatory and development trends Develop new mobility products
	Market	Changes in consumption behavior	Large	<ul style="list-style-type: none"> Lagging behind competitors in development activities Need for electrification (Example: CMP segment) 	<ul style="list-style-type: none"> Higher competitiveness based on technologies superior to those of competitors 		
	Market	Market uncertainties	Large	<ul style="list-style-type: none"> Increase in cost due to increased need to reduce CO₂ emissions Increase in demand due to modal shift and electrification (Example: TRS segment) 	<ul style="list-style-type: none"> Increase in the operational cost due to RE100 measures Better evaluation due to appropriate information disclosure 		<ul style="list-style-type: none"> Promote the use of renewable energy
Reputation	Criticism against the industry	Medium	<ul style="list-style-type: none"> 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 			<ul style="list-style-type: none"> Promote the use of renewable energy Strategically disclose climate change-related information 	

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)	
Physical risk	Acute	Frequent occurrence of typhoons	Large	<ul style="list-style-type: none"> Damage to infrastructure, suspension of operations Increase in need to increase the resilience of power infrastructure (Example: CMFS equipment for wind turbines) 			<ul style="list-style-type: none"> 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
	Chronic	Heavy rain/drought events	Large	<ul style="list-style-type: none"> 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) 			<ul style="list-style-type: none"> 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
		Changes in precipitation patterns	Large	<ul style="list-style-type: none"> Suspension of operations due to floods Increase in the need to establish water resource infrastructure (Example: CMP segment) 			
Chronic	Rise in average temperatures	Large	<ul style="list-style-type: none"> 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) 				

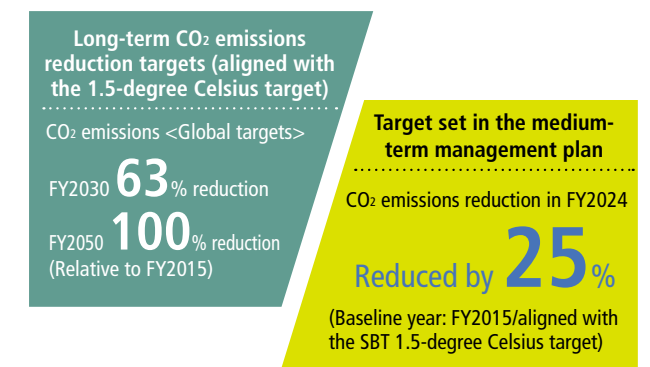
* As for impact, we classified the size into "Large," "Medium" and "Small" based on the frequency of occurrence and financial impact. Frequency of occurrence: Occurs frequently/Has occurred/May occur/May not occur/Will never occur. Financial impact: Serious (¥5 billion or more)/Large (¥2.5 billion to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

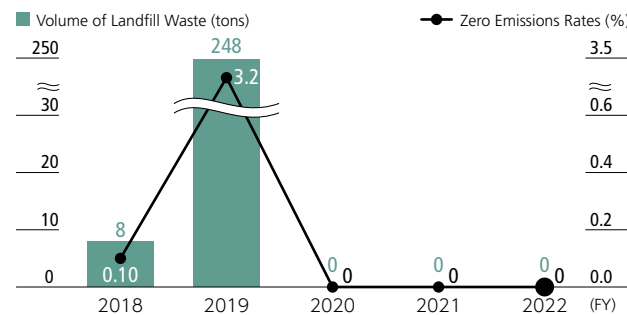
Waste Reduction

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

Volume of Landfill Waste and Zero Emissions Rates



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.

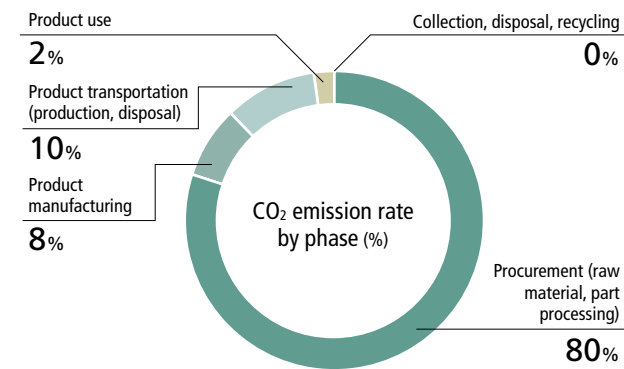
LCA Results

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.

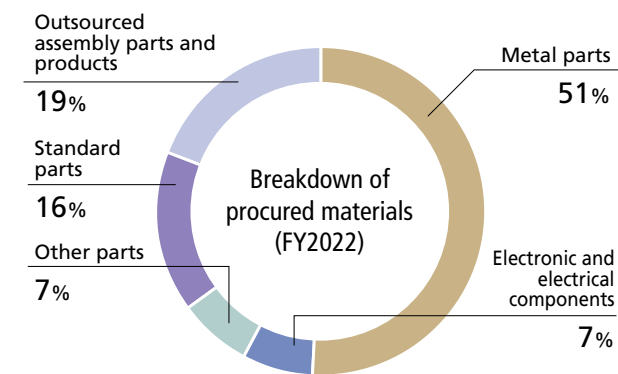
Build a Resilient Supply Chain

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.

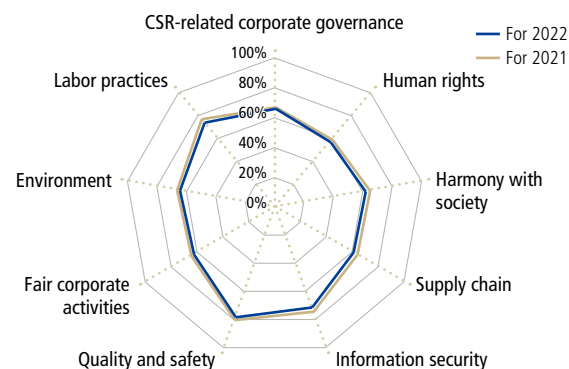
In order to promote CSR-oriented procurement, we need to have expertise and know-how on environment- and human rights-related issues, which are not conventionally handled by procurement departments. Therefore, the Procurement Planning Department of the Production Innovation Division, in collaboration 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

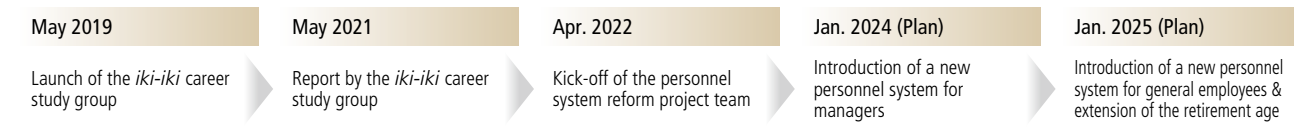
Implementation of a Personnel System Reform Project

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.

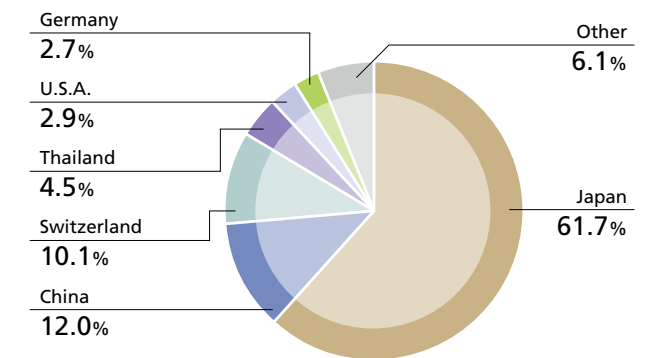
Attending training seminars for autonomous career development

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

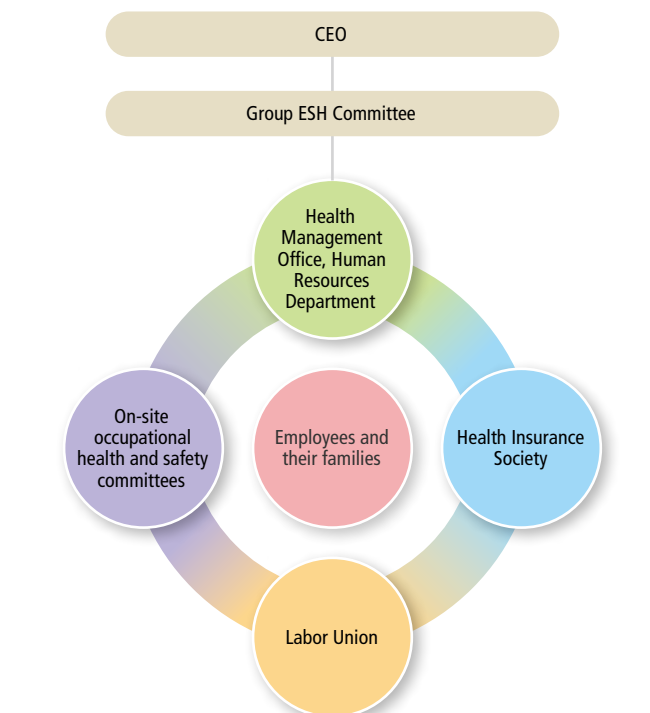
"The Nabtesco Group, with our unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any forms of transportation." As a precondition for the Nabtesco Group to implement this corporate philosophy and achieve sustainable growth, we deem it essential 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.

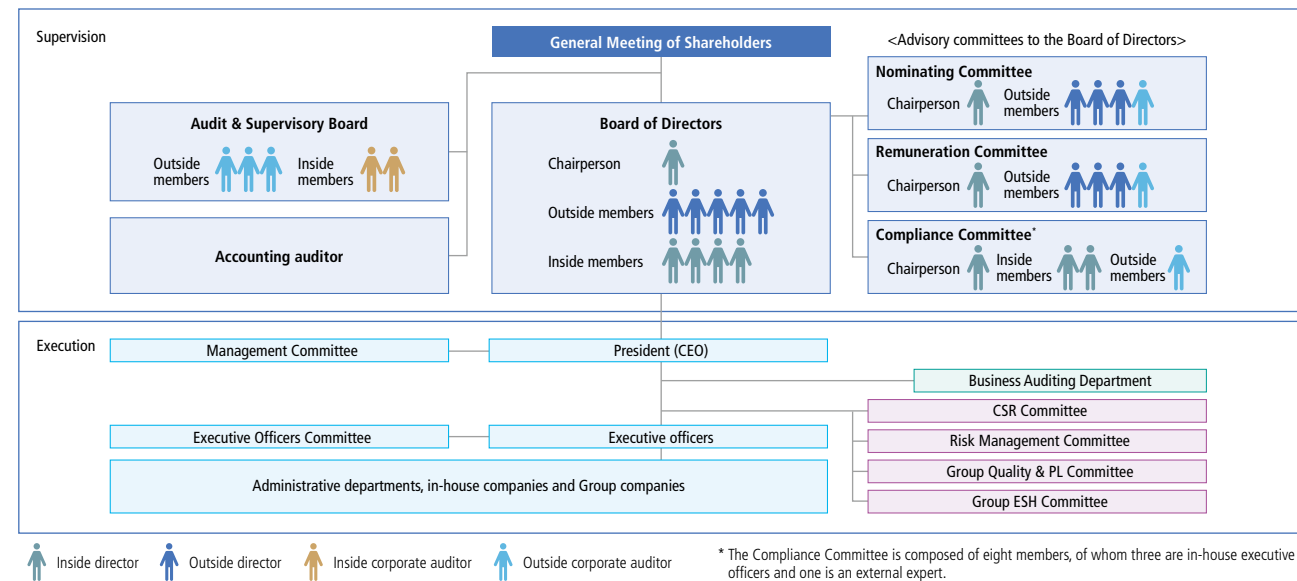
Specifically, we have been increasing the number of independent outside directors to further enhance the independence and objectivity of the Board of Directors as a supervisory organization, and now five out of 10 directors, or 50% of the total number, are independent outside

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 (J-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

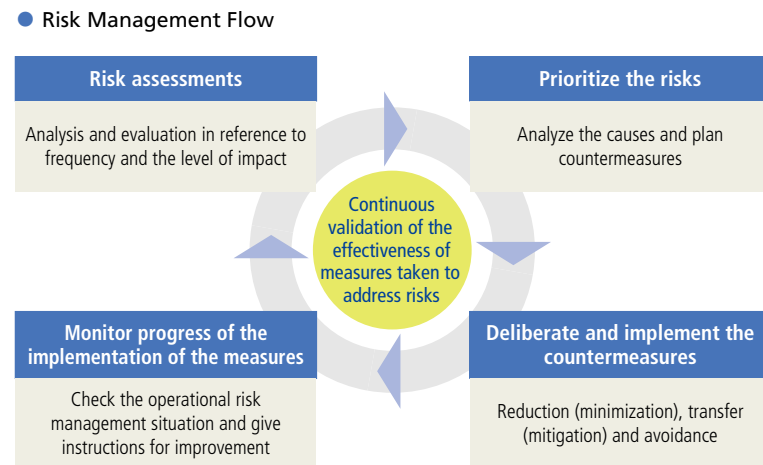
Advancement of Risk Management

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).

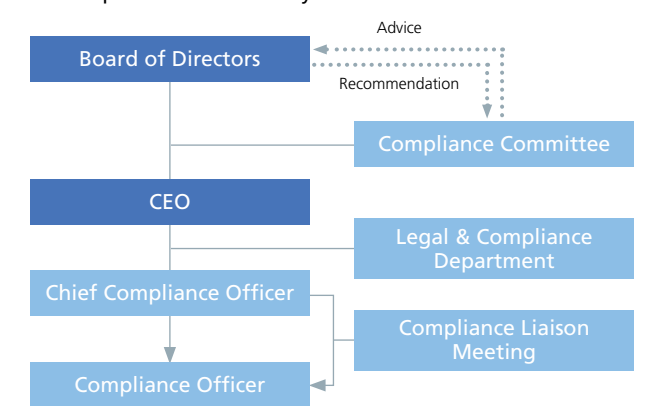
Raising Awareness of the Nabtesco Group Code of Ethics

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.

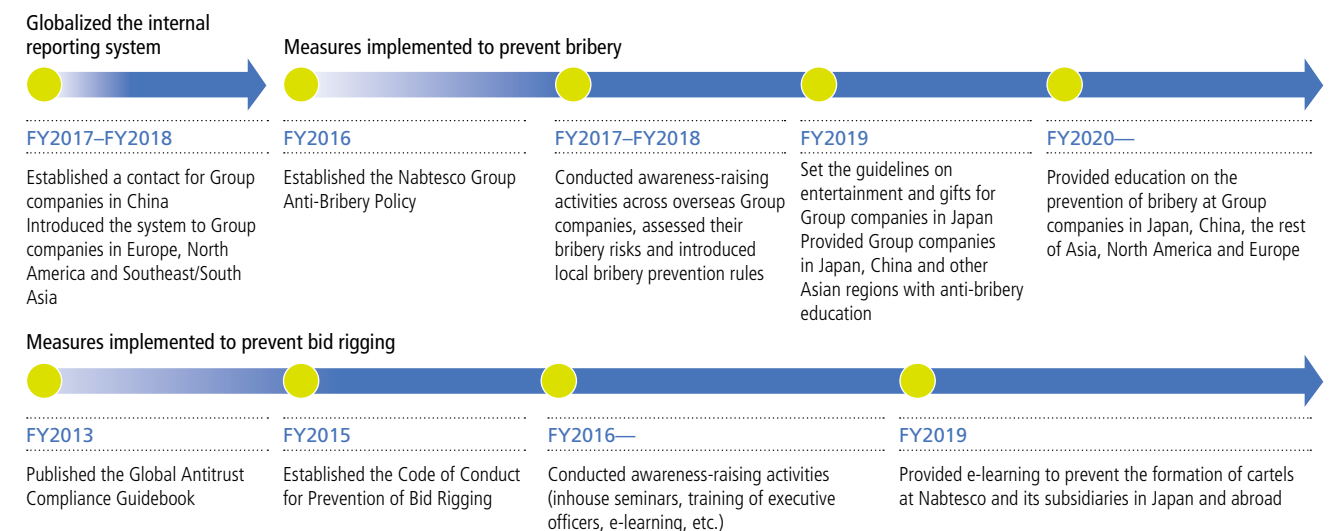
We check the effectiveness of the Code of Ethics every year and revised it in April 2022 in response to the recent revision of related laws and regulations, changes in the global business environment and situation, and the requirements to be met concerning action plans on business and human rights.

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

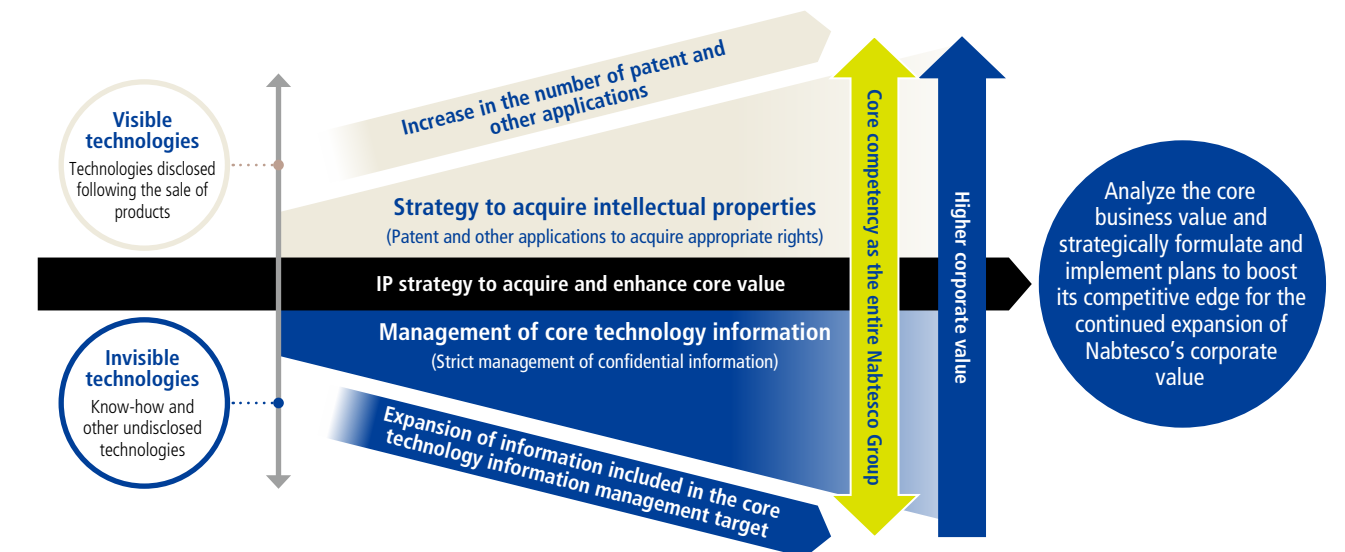
The Nabtesco Group’s competitive advantages, which provide us with core value (intellectual properties and intangible assets), include not only invention but also deep relationships of trust with customers, successful branding in the market, ideas for products and services, design and manufacturing know-how, 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

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.

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.



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.