

Management of Various Categories of Capital

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

Story of enhancing corporate value through the optimization of human capital

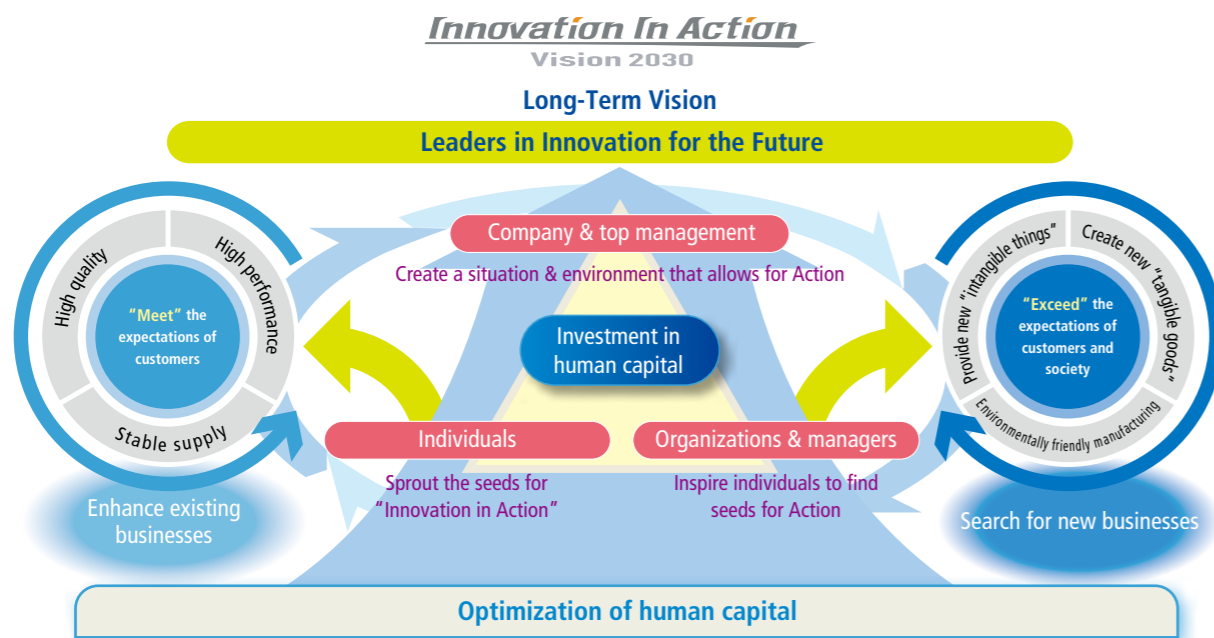
Under the slogan, "Leaders in Innovation," as upheld in its long-term vision, Nabtesco has been striving to increase its corporate value, with a focus on meeting customer needs and exceeding the expectations of both customers and society alike. This effort carries on a long tradition dating back not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

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

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

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

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



Vision for human capital management

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

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



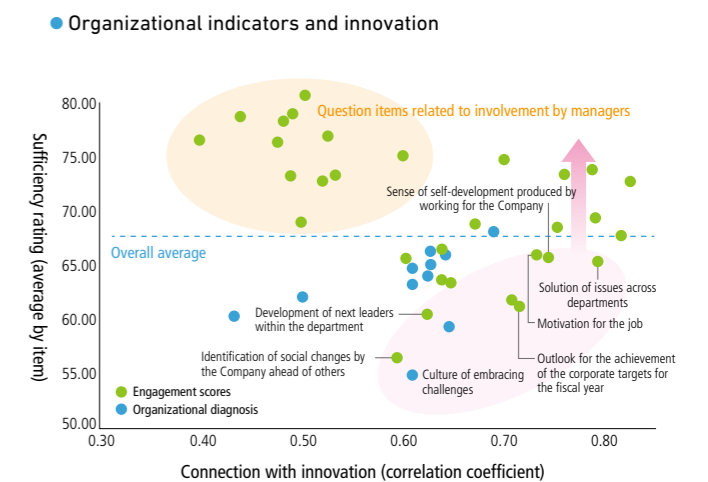
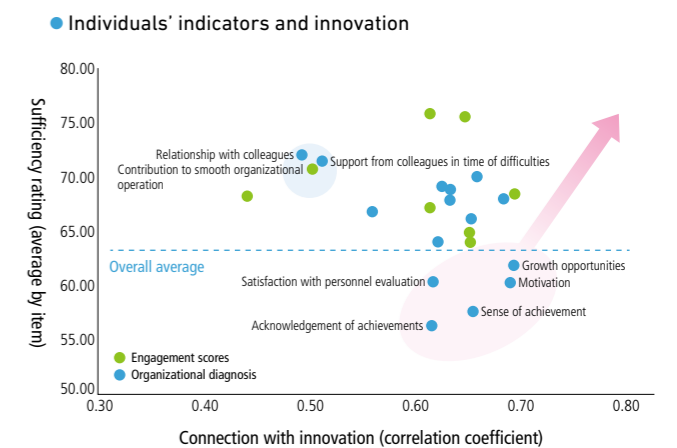
Gaps between reality and vision: Identification of issues

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

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

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

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



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Setting various indicators for the innovation, linkage and engagement indexes

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

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

The linkage index is an indicator designed to enhance

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

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

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

Key performance indicators (KPIs) for human capital

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

Major actions to be taken to increase the index scores

Innovation index

Organizational diagnosis score regarding awareness and assimilation of The Nabtesco Way

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

Increasing employees' awareness of The Nabtesco Way

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

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

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

Linkage index

Transfer of personnel

Further mobility of personnel within the Company

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

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

Engagement index

Cost of training and number of trainees

Attending training seminars for autonomous career development

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

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