

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

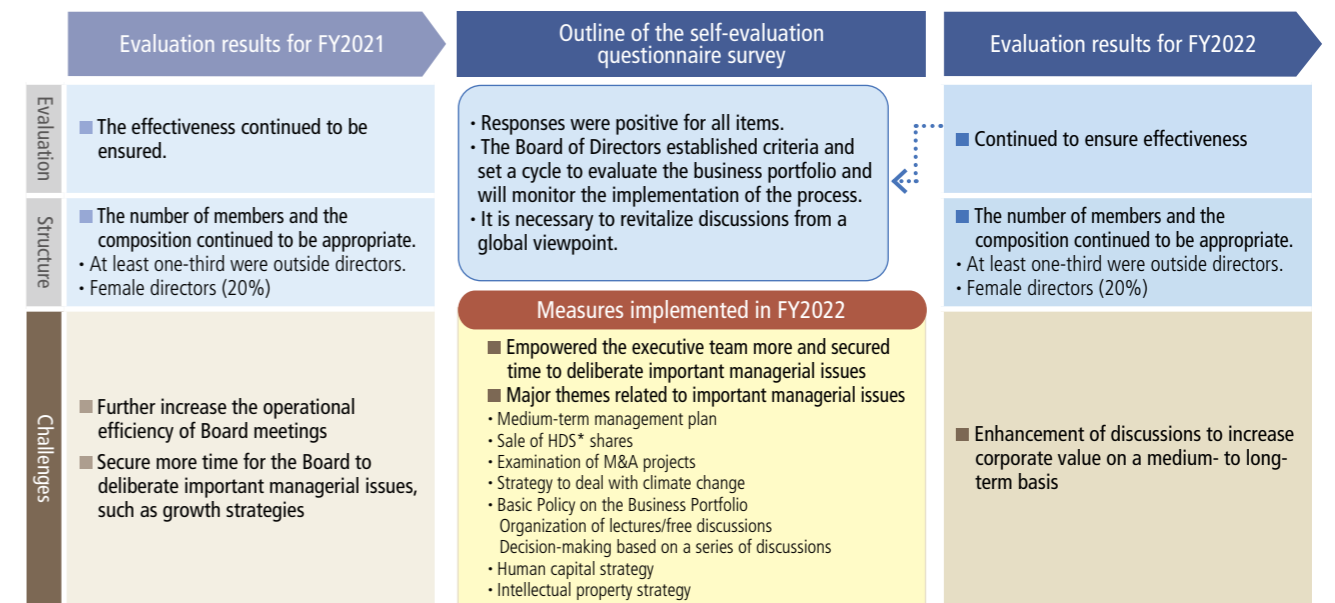
As the roles to be shared by the Board of Directors and the executive team are clarified further, the importance of the Board will increase accordingly. I would like to demonstrate leadership to foster effective discussions for the growth of the Company.



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.

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Iizuka

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

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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.