

Nabtesco Value Report 2023 PDF Operation Guide

In the PDF version of this report, various link functionalities have been implemented to enhance readability for all viewers. For information on how to use jump functions or return to the previously viewed page, please refer to the following.

Use of tab key

Clicking will allow you to navigate to the first page of each chapter.

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- Key Issues
- CEO Message
- Value Creation Story
- Business Strategy
- Measures to Enhance Our Management Foundation
- Data Section

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(Results Briefing for the Fiscal Year Ended December 31, 2023)		
Web	Long-term Vision	https://www.nabtesco.com/en/about/company/vision/

Link to the PDF or website of the relevant media

プロジェクト10

Leaders in Innovation for the Future

始動!

—Answers to Stakeholder Questions—



The Nabtesco Value Report 2023 presents the Nabtesco Group's initiatives for sustainable growth from various perspectives. The title "Project 10 始動!" signifies the launch of a profitability enhancement initiative named Project 10, underscoring our commitment to improving profitability. The title is rendered in traditional Japanese calligraphy by Atsushi Habe, Senior Managing Executive Officer of Nabtesco and overseer of the report.

Nabtesco
Value Report 2023

Integrated Report

FY Ended December 31, 2023

The Nabtesco Group sincerely engages with its stakeholders through dialogue.

The Group proactively works to realize our corporate philosophy “Providing safety, comfort and a sense of security in daily lives as well as any form of transportation with our unique motion control technology.” In 2012, the Group formulated “The Nabtesco Way” and has been putting it into practice while conducting activities to spread it throughout the Group.

In 2023, we revised “The Nabtesco Way” with the intention of ensuring that diverse human resources around the world understand, empathize with, and act even more enthusiastically in light of recent changes in the environment. In the new “The Nabtesco Way,” our Corporate Philosophy has been retained, while Our Promises and Action Guidelines have been revised to reorganize the principles to be passed on to the next generation, and to incorporate a new perspective that embraces challenges. This has been consolidated into the six points of “The Principles We Value.”

The Nabtesco Group aims to deliver greater than expected satisfaction to society by understanding the needs and issues of customers and society from the perspective of “See the people. See the planet.” This is achieved by embracing the spirit of “Be open, fair, and honest.”, and by “enjoying the challenge” while valuing “Stay curious. Explore further.” Additionally, we promote diversity through the concept of “Create together.” and encourage autonomous growth with “Improve ourselves.”

The Nabtesco Way

Corporate Philosophy

The Nabtesco Group, with our unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any form of transportation.

The Principles We Value

See the people. See the planet.
 What will we do for people, society, and our planet? We think deeply. We identify needs and challenges. We deliver results with speed and accuracy. Doing our best, one thing at a time, we exceed the expectations of the world.

Enjoy the challenge.
 Not fearing failure, we daringly challenge. Changing the future begins from will and passion. Proposing breakthrough ideas with a global mindset is essential. All of us are innovation leaders who open up new possibilities.

Improve ourselves. Advance society.
 We are each specialists in our own fields. We won't stop honing our unique skills. We won't stop aiming higher. Our personal growth leads our company to sustainable growth. This, in turn, brings progress to society. Our ambitions are high. There is always a better version of ourselves.

Stay curious. Explore further.
 Staying curious about all things and uncovering the heart of the matter. That is what moves us forward. To truly understand, we must see the places and things firsthand. With flexibility, we embrace the experience and ideas of others. Improving and innovating, we find the best solution.

Create together.
 We celebrate our diversity. We treat each other fairly. We all have a voice here. Crossing boundaries, we amplify each other's strengths. If we come together, the endeavors impossible for one will be achieved. To build something nonexistent together—that is what drives us.

Be open, fair, and honest.
 The trust with our stakeholders is cultivated through our self-awareness and actions. We are transparent. We believe in doing the right thing. We stay true to our values. Open, fair, and honest. These are the ideals every one of us holds to.

Web Nabtesco Way Movie
<https://youtu.be/vpMoRgGCz98>

Editorial Policy and Disclosure System

The Integrated Report, “Nabtesco Value Report,” is compiled with an awareness of integrated thinking, aiming to enable our stakeholders to understand our value creation story while addressing their opinions and questions transparently and sincerely envisioning our position and the potential for future growth.

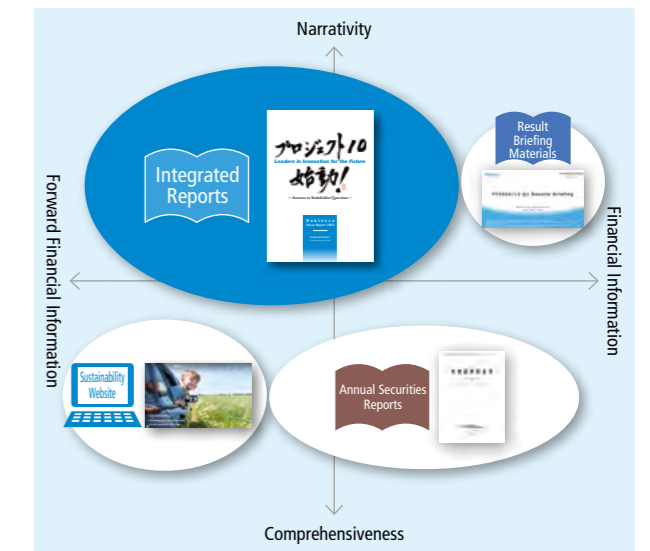
In this Nabtesco Value Report 2023, we addressed questions frequently asked by our stakeholders, ensuring comprehensive answers throughout the report. Specifically, on pages 11 and 12, we provided clear questions for our management along with reference information to facilitate accessibility. In addition, to enhance readability, we organized our integrated information disclosure system as a matrix on the right-hand side, clearly indicating the positioning of each disclosure. This approach minimizes information duplication, improves access to necessary information, and streamlines the report.

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

In its business management, the Nabtesco Group will continue to

prioritize dialogue with stakeholders and the mutual understanding and support it fosters. We hope this report aids in deepening your understanding of Nabtesco.

Integrated Disclosure Matrix of the Nabtesco Group



Web The “Nabtesco Value Report” contains summarized information with an emphasis on readability. Conversely, each section on the website discloses the latest information along with more detailed initiatives and data. We encourage you to refer to both this report and our website for comprehensive information.

Investor Relations
 • Annual Securities Reports
 • Result Briefing Materials
 • Financial Statements
<https://www.nabtesco.com/en/about/ir/>

Sustainability
 • Management Materiality (Identification process, indicators, goals and more)
 • ESG information/ESG data book
<https://www.nabtesco.com/en/about/sustainability/>

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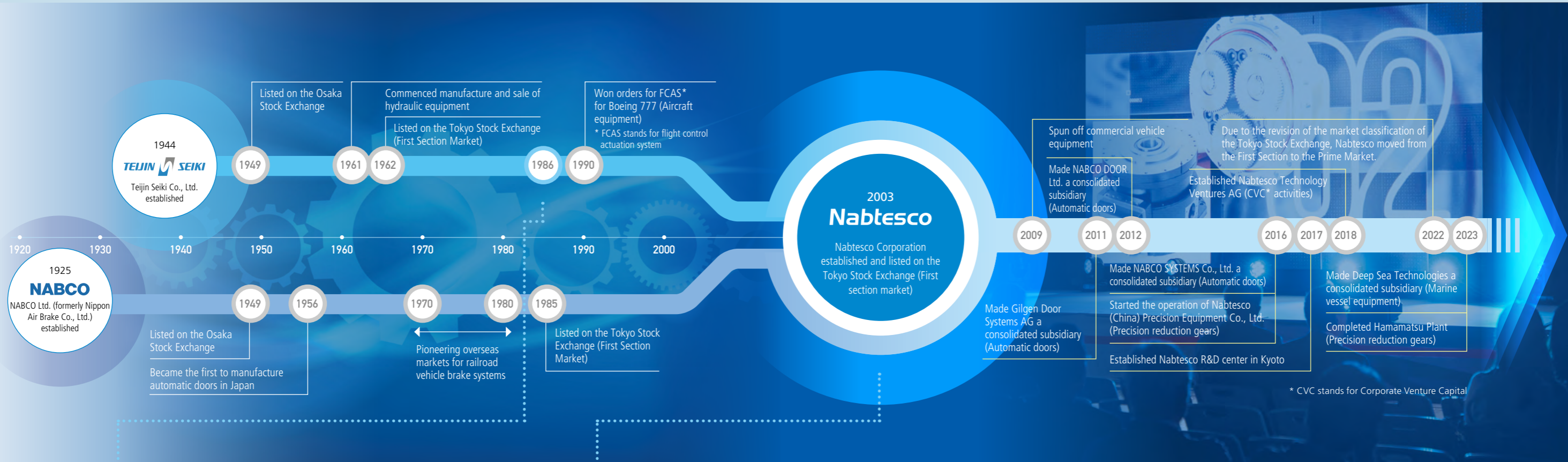
Nabtesco Value Report 2023

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History of Nabtesco

Building upon the business foundations inherited from our two predecessors, Nabtesco has continually refined our unique motion control technology.

Nabtesco Corporation, established in 2003 through the merger of Teijin Seiki Co., Ltd. and NABCO Ltd., celebrated its 20th anniversary in 2023. Since its inception, the Company has consistently met customers' requirements and developed its unique motion control technology by solidifying the business foundations inherited from its two predecessors. We are dedicated to further advancing motion control by integrating our expertise in hardware and component technologies with AI, IoT and other software technologies.



1986

First adoption of precision reduction gears for industrial robots

In the first half of the 1980s, Teijin Seiki's second plant in Gifu (presently Nabtesco's Tarui Plant) primarily manufactured hydraulic traveling units for construction machines. However, as the market for the product reached maturity, the Company sought new opportunities and turned its attention to industrial robots. Despite initial concerns about entering a competitive market, the Company successfully developed the precision reduction gear RV™

by enhancing its technology to produce highly rigid and robust speed reduction systems. Continuing to demonstrate advanced product quality, technology, and production capacity, the Company reshaped the industry landscape. Nabtesco's precision reduction gears have since played a pivotal role in driving the evolution and expansion of the industrial robot market.



Leaflet of RV-Z series

2003

Establishment of Nabtesco Corporation

Teijin Seiki was established to manufacture aircraft components, while NABCO specialized in air brake systems for railroad vehicles. Both companies also produced traveling units for construction machinery. However, during this time, the construction machinery industry, a major client of the hydraulic equipment business, faced a decline in domestic demand due to cuts in public-sector spending. This led to a series of alliances aimed at survival and attracting foreign capital. In

response to these challenges, we recognized the potential to enhance the competitiveness of existing products and create new business opportunities by combining the technological expertise of both companies, particularly in hydraulic control technology. As a result, we decided to pursue management integration.



Established our unique motion control technology

Nabtesco holds significant market share in various niche markets, with our unique motion control technology serving as the cornerstone. Our technology has evolved over time to meet the demands of our customers, encompassing fundamental technologies such as technology for cutting, assembly processing and fluid control. Furthermore, the integration of elemental technologies, including surface and heat treatment, CAE analysis and lamination molding, has further advanced our motion control technology. Additionally, we continuously seek to acquire cutting-edge elemental technologies

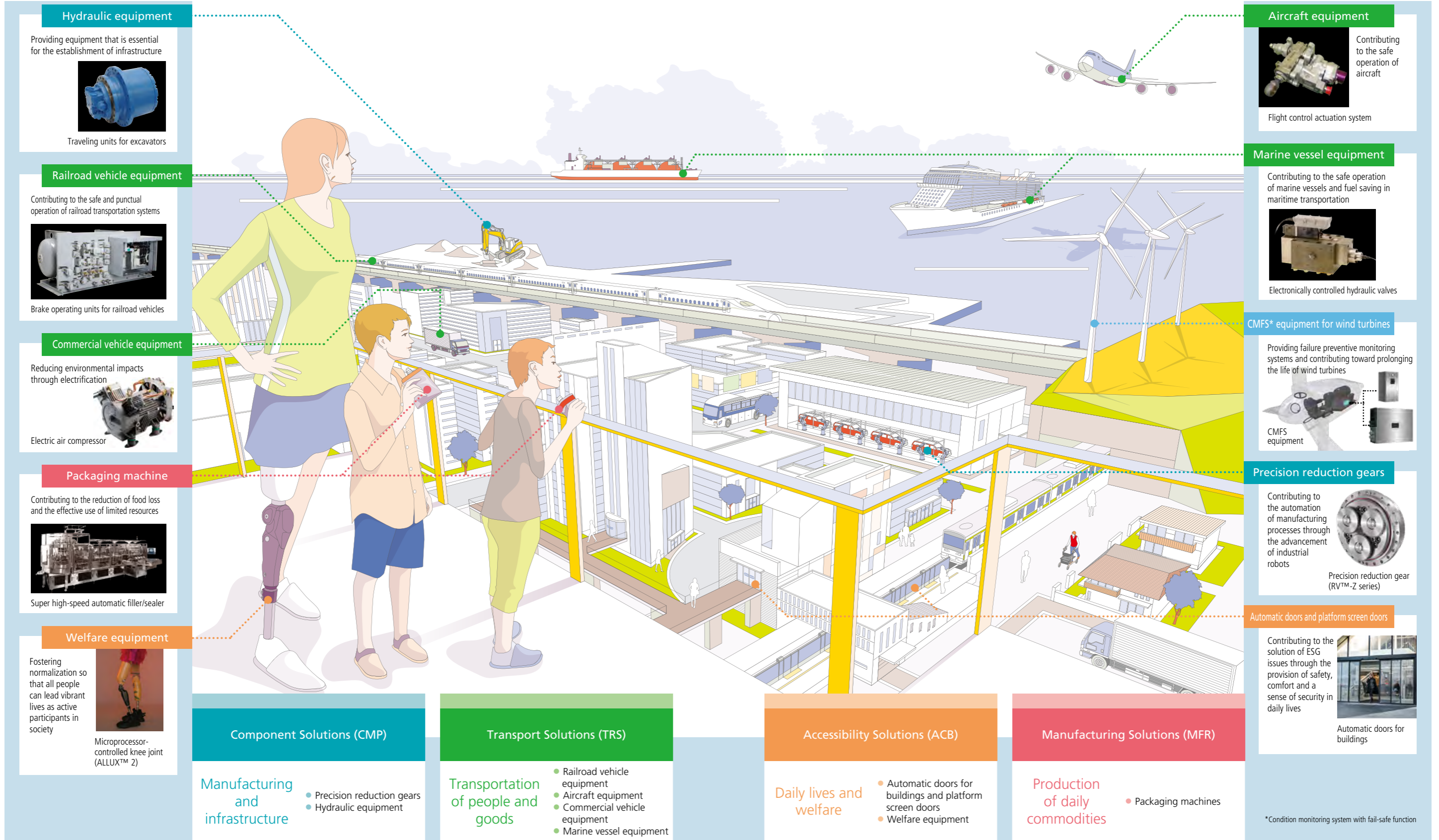
and development methods, such as electronic control, model-based development and digital twins, through open innovation initiatives. These initiatives enable us to stay at the forefront of technological advancements in digitization, IoT and AI. As a result, we leverage these technologies to develop innovative products and services, including preventive maintenance solutions.

We have secured production capacity to accommodate medium- to long-term increases in demand. Our focus is on introducing innovative production technologies to ensure stable and flexible supply of high-quality products, as well as enhancing production efficiency through automation. Product development and the accumulation of production technologies are fundamental to our competitive advantage.

Nabtesco Supporting Society

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

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



Nabtesco at a Glance

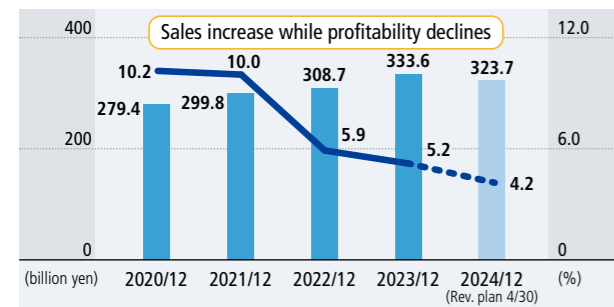
High market share both domestically and overseas forms the basis for Nabtesco's earnings.

Nabtesco has sustained growth since its establishment in 2003, leveraging the advanced technological capabilities inherited from the two companies prior to the merger. This page highlights Nabtesco's current key indicators and the market shares of major products in each business segment.

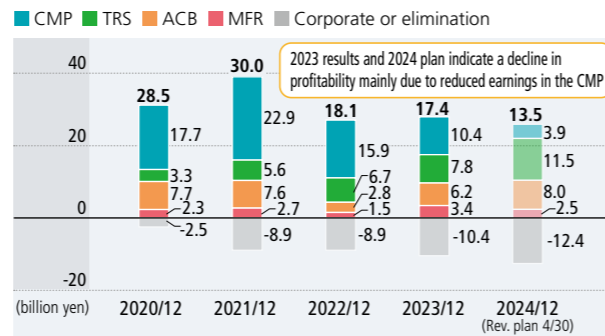
Web ESG data book <https://www.nabtesco.com/en/about/sustainability/s-025/>

Financial capital

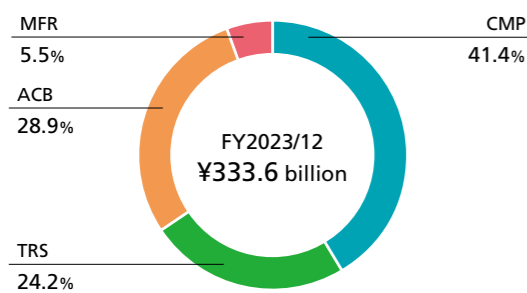
Sales/Operating profit margin



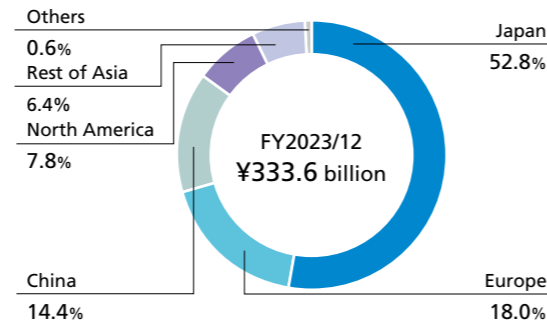
Operating profit (by business segment)



Sales (by business segment)

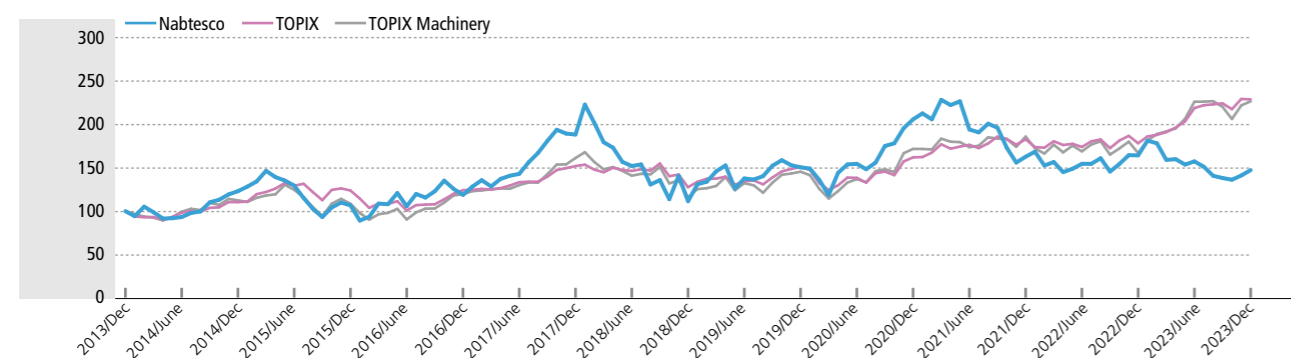


Sales (by geographic segment)



Relationship capital

Total Shareholder Return (TSR) for the past 10 Years



Return on Investment (ROI) as of December 31, 2023

	Past one year	Past three years		Past five years		Past 10 years	
	Annualized return	Cumulative return	Annualized return	Cumulative return	Annualized return	Cumulative return	Annualized return
Nabtesco	-12.1%	-31.1%	-11.7%	36.1%	6.4%	63.8%	5.1%
TOPIX	28.3%	41.1%	12.1%	78.9%	12.3%	127.8%	8.6%
TOPIX Machinery	35.6%	31.8%	9.6%	95.0%	14.3%	125.6%	8.5%

(Note 1) TSR: Represents the total return on investment for shareholders, encompassing both capital gains and dividends.
 (Note 2) The above graphs illustrate ROI as of December 31, 2023, for where investments were made on December 31, 2013. The investment outcomes for Nabtesco shares are calculated based on the stock prices supplemented by dividends (assuming dividends are not reinvested), with the initial investment amount on December 31, 2013, set at 100. Similarly, TOPIX and TOPIX Machinery data are indexed using comparable methodology, including dividends.
 (Note 3) The table above presents the cumulative return and annualized return on investments as of the end of December 2023 (including dividends) for each year from December 2022 to December 2013 (ten years prior).
 (Note 4) Annualized return figures represent the average rate of return over one year, and the annualized return on investments for the period is calculated using the geometric mean.
 (Source) Prepared by the Nabtesco Group based on the Tokyo Stock Exchange's monthly closing stock prices and other data.

Relationship capital

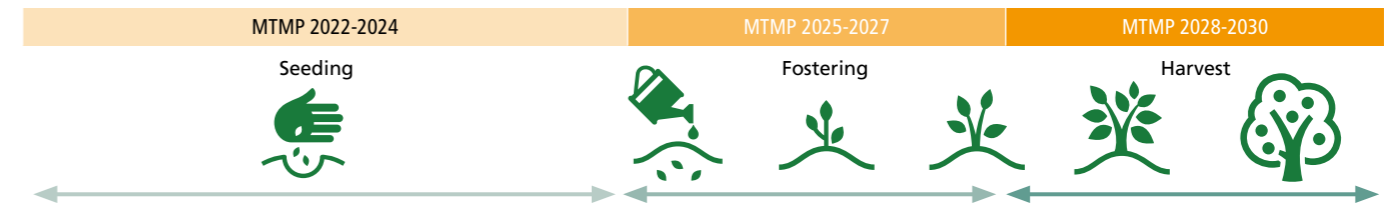
Business segment	Main products	Main products shares	Note: Estimated by Nabtesco
Component Solutions Segment (CMP)	Precision Reduction Gears Joints of medium- to large-sized industrial robots		Approx. 60% global market share
	Hydraulic Equipment Traveling units for hydraulic excavators		Approx. 25% global market share
Transport Solutions Segment (TRS)	Railroad Vehicle Equipment Brake system		Approx. 50% domestic market share
	Door opening system		Approx. 60% domestic market share
	Aircraft Equipment Flight Control Actuation (FCA) System		Approx. 100% market share for domestically produced aircrafts
	Commercial Vehicle Equipment Wedge brake chambers for commercial vehicles		Approx. 75% domestic market share
	Marine Vessel Equipment 2-stroke main engine control systems		Approx. 50% domestic market share (Approx. 40% global market share)
Accessibility Solution Segment (ACB)	Automatic Doors Automatic door		Automatic doors for buildings: Approx. 55% domestic market share
Manufacturing Solutions Segment (MFR)	Packing Machines Packaging machines for retort pouch foods		Approx. 85% domestic market share

Results and Progress of Long-Term Vision and Medium-Term Management Plan

Toward realization of the long-term vision

Building upon the results and issues of the previous medium-term management plan (MTMP), as well as evaluating the progress and outlook of the current MTMP, we are in the process of formulating the next MTMP slated for launch in 2025.

New business creation phase

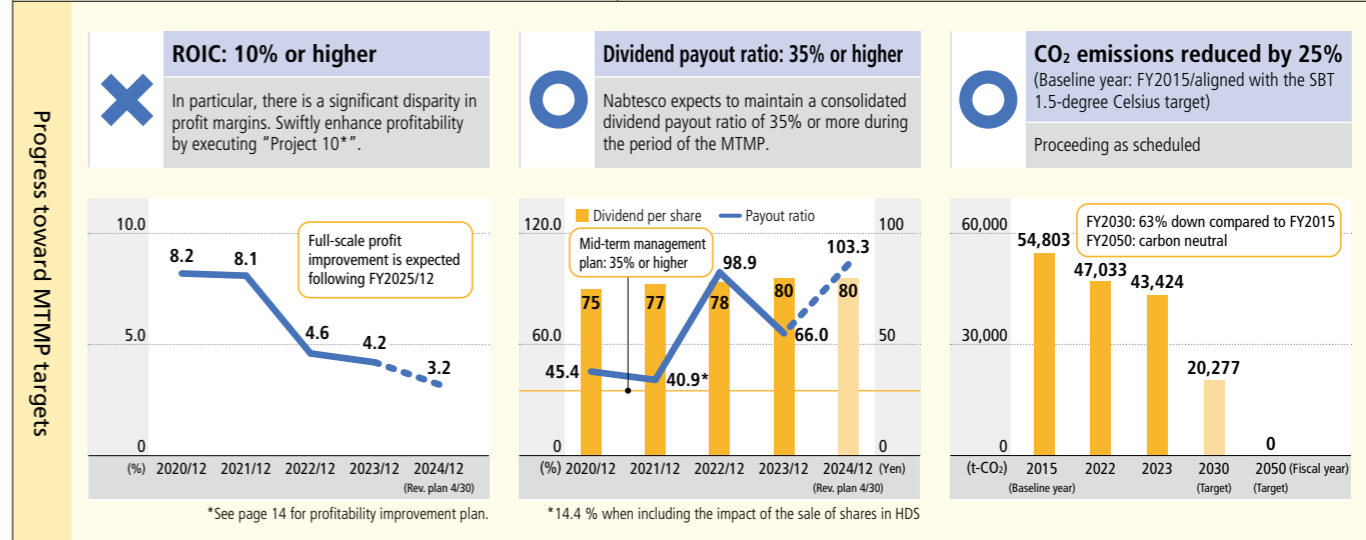


Long-term vision	(From FY2012/3 to FY2020/12) Global Partner with Best Solution—Enjoy the Challenge—		(From FY2021/12 to FY2030/12) Leaders in Innovation for the Future Innovation in Action																																									
Medium-term management plan	(From FY2015/3 to FY2016/12) Think Global! Act Local! For the Second Decade		(From FY2017/12 to FY2021/12) Move forward! Challenge the future! –Create “New Value 2020”–																																									
Positioning and policy	Company-wide strategies <ul style="list-style-type: none"> Endless pursuit of customer satisfaction Further expansion of international businesses Development of new technologies and open innovation Establishment of global production system Improvement of shareholders’ value and corporate value 		Key strategies <ul style="list-style-type: none"> Obtain new markets by accelerating overseas business and developing new domains Create new solutions through transition from components to systems and services Improve corporate value by raising profitability through production reforms and operational reforms as well as by seeking better capital efficiency <small>* The plan was originally slated to end in 2020, but the period was extended by one year due to COVID-19.</small>																																									
Strategy	Market Creation <ul style="list-style-type: none"> Launch of new value-added products Acceleration of overseas expansion Enhancement of MRO* Branding buildup Technology Innovation <ul style="list-style-type: none"> Implementation of technological development Acceleration of global production system Transformation of domestic production bases into mother factories Financial Strategy <ul style="list-style-type: none"> Pursuit of asset efficiency Utilization of financial leverage Improvement of stakeholder return <small>* MRO: Maintenance, Repair and Overhaul (after-sales services)</small>		Market Creation <ul style="list-style-type: none"> Create new markets by accelerating the development of overseas businesses, including through M&A, as well as of new business domains Expand after-sales services (MRO) business through the effective use of ICT and IoT Technology Innovation Technology Innovation <ul style="list-style-type: none"> Expand business domains from components to the provision of system solutions Establish new competitive advantages in products through “manufacturing innovation” including the development of new engineering processes Realize highly efficient production, high environmental capabilities, and a comfortable working environment by introducing smart factory solutions Operational Excellence <ul style="list-style-type: none"> Reinforce operation bases through production reforms, structural reforms, and operation reforms Pursue the improvement of profitability and capital efficiency by adding ROIC to the internal management indicators 																																									
Target→Result	<table border="1"> <thead> <tr> <th>FY2016</th> <th>Target</th> <th>Result</th> <th></th> </tr> </thead> <tbody> <tr> <td>Net sales</td> <td>¥280.0 billion</td> <td>→ ¥244.9 billion</td> <td>×</td> </tr> <tr> <td>Operating profit</td> <td>¥34.0 billion</td> <td>→ ¥26.0 billion</td> <td>×</td> </tr> <tr> <td>Operating profit margin</td> <td>12.0%</td> <td>→ 10.6%</td> <td>×</td> </tr> <tr> <td>ROA</td> <td>7.5%</td> <td>→ 7.6%</td> <td>○</td> </tr> <tr> <td>ROE</td> <td>15.0%</td> <td>→ 13.0%</td> <td>×</td> </tr> </tbody> </table>		FY2016	Target	Result		Net sales	¥280.0 billion	→ ¥244.9 billion	×	Operating profit	¥34.0 billion	→ ¥26.0 billion	×	Operating profit margin	12.0%	→ 10.6%	×	ROA	7.5%	→ 7.6%	○	ROE	15.0%	→ 13.0%	×	<table border="1"> <thead> <tr> <th>FY2021</th> <th>Target</th> <th>Result</th> <th></th> </tr> </thead> <tbody> <tr> <td>(1) ROE</td> <td>15%</td> <td>→ 29.6%</td> <td>○¹</td> </tr> <tr> <td>(2) Consolidated payout ratio</td> <td>35% or over</td> <td>→ 40.9%</td> <td>○²</td> </tr> <tr> <td>(3) Focus on solving ESG issues</td> <td>Identified management materiality, etc.</td> <td>→</td> <td>○</td> </tr> </tbody> </table> <small>¹ Achieved when including stock valuation gains for Harmonic Drive Systems Inc. (HDS) shares ² *14.4% when including the impact of the sale of shares in HDS</small>		FY2021	Target	Result		(1) ROE	15%	→ 29.6%	○ ¹	(2) Consolidated payout ratio	35% or over	→ 40.9%	○ ²	(3) Focus on solving ESG issues	Identified management materiality, etc.	→	○
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Qualitative evaluation	Expansion of high value-added products and services <ul style="list-style-type: none"> Released actuators (optimized by the combined use of precision reduction gear and servomotor technologies) into the market Effective use of external resources through proactive M&A <ul style="list-style-type: none"> M&A to pioneer a new market (to expand the domestic and overseas sales network for the automatic door business) M&A to expand the product lineup (for hydraulic equipment/commercial vehicle equipment) Enhancement of the development promotion system <ul style="list-style-type: none"> Established the NDEC (as a R&D base for open innovation) Increase of MRO sales <ul style="list-style-type: none"> Increased MRO sales across the Company Progress with production reforms at plants <ul style="list-style-type: none"> Restructuring of production bases in China Maintenance of stable dividend payment <ul style="list-style-type: none"> Maintained the payout ratio at 30% or higher during the period (FY2016/12: 35.1%) 		Establishment of a foundation to pioneer new fields <ul style="list-style-type: none"> Obtained the technologies and a base in Europe for model-based development by acquiring OVALO Achievement of innovation in manufacturing <ul style="list-style-type: none"> Increased operational efficiency through an ICT-based production management system Promoted plant automation Reviewed procurement for total optimization Fulfillment of commitments <ul style="list-style-type: none"> Maintained the payout ratio at 35% or higher during the period Focused on solving ESG issues (Reduced CO₂ emissions, carried out LCA,³ conducted 3R⁴ activities, performed DD⁵ for human rights, reduced the average overtime work hours, increased the rate of outside directors, and identified management materiality) <small>³ Product life cycle assessment ⁴ Reduce, Reuse and Recycle ⁵ Due diligence</small>																																									

Vision 2030

Leaders in Innovation for the Future

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



Answers to Stakeholder Questions

This section outlines the issues that Nabtesco needs to promptly address and provides answers to related questions.

To facilitate informed investment decisions regarding Nabtesco, this page summarizes the current issues we are aware of and references sections addressing frequently asked questions from investors. We integrate multiple disclosure contents and adhere to an editorial policy focused on presenting condensed yet cohesive narratives within the Integrated Report. For more comprehensive insights into the Company, please consult the relevant sections within our reports and publications.

Can we truly enhance our earning power?

Issue The operating profit margin has been declining since reaching approximately 10% in FY2015/3. The significant decrease in profitability of CMP, a key driver of earnings growth, suggests a loss of "earning power."

Q What is the reason for the downturn in profitability?

- IR** **P13** Launched Project 10 to regain earning power
- P27** Key points of FY2023 results and FY2024 plan
- P19** Reasons for profitability downturn and proposed actions

Q What strategies are in place to improve profitability, and what are the associated milestones?

- RBM** (Results Briefing for the Fiscal Year Ended December 31, 2023) **P11-18** Project 10 (FY2024/12 Q1 Results Briefing)
- P4-11** Revision of FY2024 Forecast

Is business portfolio management being executed to enhance Return on Invested Capital (ROIC)?

Issue Compared to the ROIC management target of 10% or higher in the current medium-term management plan, the forecast for the final year is 3.2%. The impact of introducing business portfolio management on these results is unclear.

Q What are the specifics of the business portfolio management?

- IR** **P17** ROIC management and business portfolio management
- P29** Designing the ideal business portfolio while considering capital costs
- P30** Approach to capital allocation (figure 1)

Q What strategies are in place to improve ROIC?

- IR** (Nabtesco Value Report 2022) **P94** ROIC Improvement by Building Manufacturing Innovation
- RBM** (Results Briefing for the Fiscal Year Ended December 31, 2023) **P20** Utilization of Business Portfolio Management

What is the management philosophy and what are the goals?

Issue Capturing the behavior and management philosophy of top management is challenging.

Q How do you plan to address conglomerate discount?

- IR** **P23** Value Creation Story
- P9** Results and Progress of Long-Term Vision and Medium-Term Management Plan
- P18** Fulfilling responsibilities as a CEO
- P30** Aiming for a conglomerate premium transformation and a market capitalization of ¥500.0 billion

Q What are the management's goals to be achieved?

- ASR** **P13-16** Management Policies, Management Environment and Issues to be Addressed
- Web** Long-term Vision <https://www.nabtesco.com/en/about/company/vision/>

IR: Integrated Report RBM: Result Briefing Material ASR: Annual Securities Report

What are the business models, strengths, issues, and growth strategies for each business?

Issue As the competitive environment evolves, it is crucial to evaluate our ability to maintain a high market share in each business.

Q What are the strengths, risks, and opportunities of our business, and what are the growth strategies in place?

- IR** **P37** Business Models and SWOT Analysis
- P39** Characteristics of and Actions to Enhance Various Capital
- P41-48** Business Segment Information

Q What are the latest updates on business environments, results, and forecasts by segment?

- ASR** **P5-9** Description of business
- P39-48** Management's Discussion and Analysis of Financial Condition (Results Briefing for the Fiscal Year Ended December 31, 2023)
- RBM** **P7-11** Segment results and FY2024 forecasts

What is the innovation creation strategy, and what are the accomplishments thus far?

Issue To exceed expectations for customers and society, there is ample opportunity to aggressively pursue the expansion of existing business domains and the creation of new businesses.

Q What are your policies for creating new businesses, including areas of focus, initiatives, and their resulting outcomes?

- IR** **P35** Acquire Next-generation Technologies and Create New Businesses
- P15** Path to conglomerate premium transformation
- ASR** **P32-36** Intellectual Property Management Strategies to Lead Sustainable Innovation Creation
- P45** R&D Activities
- Web** Innovation <https://www.nabtesco.com/en/innovation/>

How do you advance sustainability activities?

Issue The Company is upgrading its management practices, identifying and regularly reviewing management materiality, to contribute to addressing complex ESG issues.

Management materiality **Q** How do you manage management materiality? **Q** What is your approach to addressing ESG factors that significantly impact financial matters?

- IR** **P25** Management Materiality
- P49** Approach to ESG Issues
- ASR** **P17-36** Policies and Measures for Sustainability Management
- Web** Approach to Sustainability <https://www.nabtesco.com/en/about/sustainability/s-001/>

Corporate governance **Q** What does the self-assessment of governance effectiveness and compensation governance entail?

- IR** **P22** Effectiveness of governance
- P51** Increase the Effectiveness of Our Management Entities
- P49** Approach to ESG Issues
- ASR** **P62-83** Status of Corporate Governance
- Web** Corporate Governance <https://www.nabtesco.com/en/about/company/policy/governance/>

Human capital **Q** What is the concept, current issues, and achievements in human capital management?

- IR** **P31-34** Enhance Human Capital Management
- P49** Approach to ESG Issues
- ASR** **P10-12** Employee Status
- P28-31** Enhance Human Capital Management
- Web** Enhance Human Capital Management <https://www.nabtesco.com/en/about/sustainability/s-004/>

To Our Stakeholders



Regain earning power at the start of Project 10 and meet stakeholder expectations

Since my appointment as CEO in 2022, Nabtesco has experienced a significant decline in profitability, particularly in our Component Solutions Business (CMP), largely due to external environmental changes. To regain our earning power and sustain profitable growth as we have in the past, we need to assess the root causes of the decline and determine what needs to be done to become an innovation leader and exceed the expectations of our customers and society. I am committed to sharing my strong desire and efforts with you as we work to achieve our long-term vision for 2030.

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

Launched Project 10 to regain earning power

My first two years as CEO have been challenging. We encountered unprecedented changes in the business environment, including the global economic stagnation caused by the spread of COVID-19, slowing growth in China, soaring raw material costs, and the impact of Russia's invasion of Ukraine. These events presented unique hurdles early on in my tenure.

Despite the challenging circumstances, we celebrated our 20th anniversary in October 2023. Since the era of Teijin Seiki and NABCO prior to the merger, Nabtesco has consistently grown, establishing a strong business foundation characterized as a "global niche top" with its unique motion control technology. In FY2004/3, when we were founded, sales amounted to ¥125.0 billion, with an operating profit of ¥8.0 billion. By FY2023/12, sales had increased to ¥333.6 billion, with an operating profit of ¥17.4 billion, marking a steady growth of 2.5 times over the 20-year period. However, the operating profit margin trend^{*1} has been downward, from 10.8% in FY2015/3 to 5.2% in FY2023/12, and further down to 4.2% in the latest plan^{*2}

released in the first quarter of FY2024/12.

Of the three management targets^{*3} outlined in the current medium-term management plan (MTMP), which commenced concurrently with my appointment as CEO, two are expected to be achieved in 2024: a dividend payout ratio of 35% or higher and a focus on addressing Environmental, Social, and Governance (ESG) issues. However, the third target, Return on Invested Capital (ROIC), which is a new addition to the current MTMP, is projected to fall short of the 10% target, with an expected attainment of 3.2% in 2024, the final year of the plan.

The main reason for the sluggish performance stemmed from changes in the business conditions within CMP, particularly the significant decline in demand for precision reduction gears, which had been a key growth driver. Additionally, the sharp decline in demand for robots for EV has led to an accumulation of completed inventory, which is anticipated to be cleared by the second half of FY2024. Moreover, while capital investments were made to accommodate future growth in demand for Precision Reduction Gears, the deterioration in capacity utilization and delays in passing on increased procurement costs

have further impacted the Company. Consequently, we expected to see a decline in profits for three consecutive years through 2024. Despite unexpected changes in the operating environment, I am fully committed to regaining earning power and swiftly restoring business results. We have repeatedly adjusted our earnings forecasts during this period, underscoring my dedication to addressing these challenges head-on.

The current business environment poses significant challenges. However, this year, as we enter the final year of the current MTMP, we are also focusing on formulating the next MTMP, which will mark the second step toward realizing our long-term vision targeting 2030. In parallel with the formulation of the MTMP, we launched Project 10 aimed at solidifying the foundation for our growth strategy, which will be set forth in the upcoming MTMP.

What Project 10 aims for

We launched Project 10 with the objective of restoring the consolidated operating profit margin to 10% by the end of FY2026/12. This target aims to first return to the level achieved in FY2021/12, before the decline in profitability occurred. While we acknowledge that this level of profitability is not ideal, we recognized the urgency of taking action swiftly, given the unexpected decline in profitability within CMP that was not anticipated during the formulation of the current MTMP. Accordingly, we formulated this profit-improvement plan. Specifically, our plans entails improving the company-wide operating profit margin by 6% starting from 2024. To achieve this goal, we

are implementing three key actions.

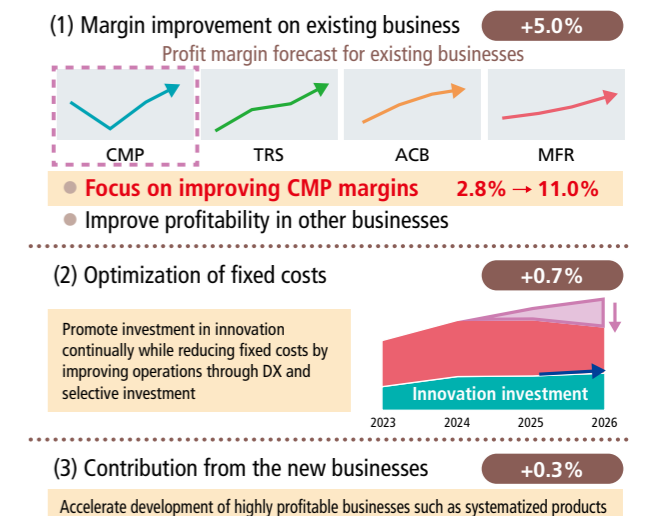
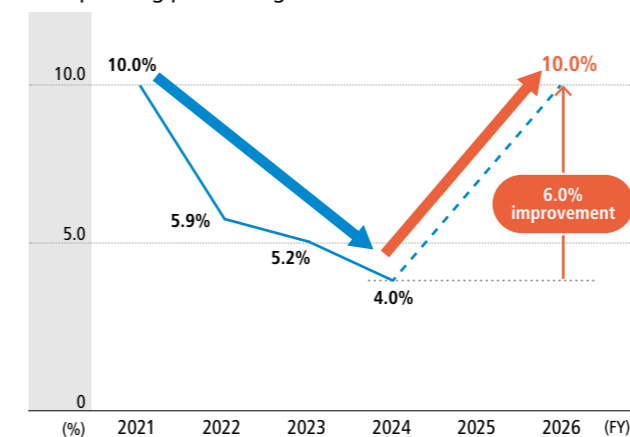
The first action involves enhancing margins in our existing businesses, with a targeted improvement of +5.0% compared to 2024. Raising CMP's stagnant operating margin to 11% in 2026 (+8.2% over 2024) is a top priority.

In terms of the medium-to long-term growth potential of the industrial robot market, which represents the primary application of precision reduction gears, we anticipate a stable demand environment driven by the growing need for automation and labor-saving measures. We foresee renewed growth in the near future, propelled by increased capital investment in the automotive industry, our end market, the expanding penetration of automation in various industries, and the rising adoption of robots in emerging industrialized countries. The anticipated timing of these developments is as follows: Analyzing the order trend of precision reduction gears since 2007^{*4}, demand has exhibited an annual growth rate of approximately 8% until 2022, the peak of the 5-year cycle characterized by periodic ups and downs. Based on this cycle, we predict the next peak to occur in 2027. Consequently, we anticipate that order volumes will bottom out in 2024 and recover by around 20% by 2026, leading to a boost in operating profit through improved capacity utilization. In addition, we are actively engaged in high-level negotiations to address cost increases, ensuring that adjustments are made to align with rising procurement costs. Additionally, we are implementing thorough cost reduction measures. Furthermore, to enhance production efficiency, we are set to commence operations at the state-of-the-art Hamamatsu Plant in August 2024, which is designed to

● Reforming to Improve Consolidated Operating Margin "Project 10" (as of February 21, 2024)

Promoting three measures

● Operating profit margin



*1 Financial Data P65

*2 FY2024/12 Q1 Results Briefing P15 2024/12 Revised plan

<https://www.nabtesco.com/cms/wp-content/uploads/FY202412-Q1-Results-Briefing-Material-.pdf> Web

*3 Results and Progress of Long-Term Vision and Medium-Term Management Plan P9-10

*4 FY2024/12 Q1 Results Briefing, P8 Order Trend in Precision Reduction Gears

<https://www.nabtesco.com/cms/wp-content/uploads/FY202412-Q1-Results-Briefing-Material-.pdf> Web

To Our Stakeholders



achieve an impressive automation rate of 90%.

The second action entails optimizing fixed costs. While we remain committed to investing in innovations essential for future growth, we will streamline ancillary operations by prioritizing digital transformation (DX) initiatives and directing resources toward high-value-added activities. We plan to curb fixed costs by increasing capital expenditures and IT investments. The third action focuses on driving profits through new business initiatives. We aim to expedite the development of highly profitable ventures by monetizing new businesses, including systemized products that we have diligently cultivated thus far. Through these efforts, we aim to improve profitability by 1.0%.

Given that demand for precision reduction gears is beyond our control, there is a risk that our order forecasts may fall short of expectations. However, we are steadfast in our commitment to reducing fixed costs, accelerating the creation of new businesses, and mitigating cost increases through our own efforts. Regarding fixed cost reduction, investors have rightly highlighted concerns about the apparent contradiction between increasing R&D and head office expenses while advocating for cost control. Balancing short-term profitability recovery with medium- to long-term growth investment poses a challenge, but it is a responsibility I take seriously as CEO. I will personally oversee Project 10 and ensure its effective management. We are actively engaging in top-level negotiations, to communicate the rationale behind passing on cost increases to customers, and we are dedicated to regaining our earning power through persistent efforts.

Path to conglomerate premium transformation

Since its establishment in 2003, Nabtesco has diligently met customers' expectations in niche markets, leveraging technological innovation to build relationship and manufacturing capital, thus establishing a solid management foundation. However, as a niche leader, further market share expansion proves challenging, and we are directly impacted by market fluctuations.

Moreover, operating multiple businesses offering diverse products in various business formats, has led to unrealized synergies among divisions and earned us a reputation for conglomerate discounts, undermining our corporate value.

To transform this discounted assessment into a premium, we must articulate a clear vision for our target business and the growth strategies needed to realize it. This involves generating synergies among our business divisions while proactively allocating resources to growth areas through rigorous implementation of ROIC management and business portfolio management. By doing so, we aim to enhance our corporate value and achieve sustainable growth.

Going forward, Nabtesco will aim to pioneer "new motion control." Central to this endeavor are the concepts of "systemization" and "electrification," which we view as pivotal for the evolution of technologies, products, and services. We envision that groundbreaking innovations will emerge through the integration of our existing businesses with promising fields such as "smart robotics," "mobility," and "renewable energy." To achieve this vision, our focus will be on creating synergies between our businesses and establishing a structure that transcends traditional component-based approaches, encompassing both hardware and software solutions. Through these efforts, we aim to revolutionize the motion control landscape and drive sustainable growth in diverse sectors.

In 2023, we established the Innovation Strategy Office to establish a framework for becoming innovation leaders. Within this office, we formed the CVC Promotion Department, Digital Transformation Promotion Department, New Business Promotion Department, and CMFS Business Promotion Department. To foster a culture that promotes innovation, we also launched Light, an intrapreneurship program, and implemented an in-house company innovation system to support new business creation. In May 2024, we opened an innovation office in Massachusetts, the United States, and began activities there. These efforts aim to accelerate the development of systems and the transformation of our organizational culture, thereby encouraging employees to generate ideas while leveraging outstanding external knowledge.

Under the in-house company system we have adopted, each business division can make quick decisions to respond to customer demands, enabling autonomous growth. However, this system has not fostered synergies between business divisions. We believe that introducing a new cross-divisional mechanism to create added value through synergies in our existing businesses will promote the creation of new businesses through innovation, anticipating the potential needs of customers and society.

Seeds for establishment of new motion control

The current MTMP is a seeding phase for the creation of new businesses. In the next MTMP, we aim to cultivate these seeds through "new motion controls" and harvest them in successive periods. The results of our current seed planting efforts include the acquisition of an automated vessel navigation system by Deep Sea Technologies⁵ and the commercialization of the CMFS (Condition Monitoring system with Fail-Safe) business⁶, which helps prevent wind turbine failures and prolongs equipment life.

Deep Sea Technologies, a Greek start-up company acquired in 2023, was initially engaged with us through our CVC (Corporate Venture Capital) investment in 2021. This investment facilitated the provision of sales agents for Deep Sea Technologies' solution services for vessels in Japan, China, and South Korea. Concurrently, we have been jointly developing control algorithms for marine control systems. After conducting due diligence through these interactions, we identified substantial potential for further synergies in advancing the DX of our Marine Vessels Equipment businesses. By integrating Deep Sea Technologies' world-leading AI technology-based optimal route and speed proposal solutions with our marine engine control system, a key component in marine vessel operation, we believe we can offer proposals that exceed customer expectations. These proposals address the marine vessel industry's demands for decarbonization and automated navigation through improved fuel economy.

CMFS exemplifies a successful business model transition from providing hardware, such as yaw drive units for wind turbines (a business we had previously withdrawn from), to a software-focused business aimed at preventing wind turbines failures and extending equipment life. This shift highlights Nabtesco's commitment to innovation. Furthermore, by integrating CMFS with the smart sensors for wind power generators developed by eologix Inc.⁷, in which we have invested through our CVC, we aim to deliver more sophisticated systems. This integration will enable us to monitor the conditions of wind power generators more effectively and enhance power generation efficiency. We have already received numerous inquiries from wind power operators and equipment manufacturers, including those in Europe and the United States.

We expect that the above example will contribute to profitability for Project 10 by transitioning to a phase of expanding sales in the next two years or so.

Creating an organizational culture that encourages employees to take on challenges

Nabtesco has continued to grow by earning the trust and support of excellent customers. However, I feel a strong sense of urgency, as this success experience has created an environment in which novel ideas and personnel with unique abilities are less likely to thrive. Enhancing human capital management⁸ will be crucial in achieving our long-term vision of becoming a "Leaders in innovation." We have set a vision for the "company & top management," "organizations and managers" and "individuals." By optimizing human capital for innovation, we aim to "meet" and "exceed" the expectations of customers and society. This is the goal of Nabtesco's human capital management. Alongside institutional measures, such as personnel system reforms, we are steadily implementing initiatives to increase employee engagement and foster a culture that supports innovation.

In 2023, we revised "The Nabtesco Way" to mark the 20th anniversary of our founding. Initially formulated in 2012 alongside our corporate philosophy, "The Nabtesco Way" outlines our action guidelines and has been instrumental in unifying the values of Teijin Seiki and NABCO. Over the past decade, however, changes both inside and outside the company prompted the need for an update to inspire our Group employees to be proactive. In the revised version, we embraced the concept that "each individual is an innovator" and introduced a new perspective of a company that embraces challenges. As part of this revision, we consolidated "The Principles We Value" into six items, ensuring they resonate with our current environment and future aspirations.

I would like to share some thoughts on the importance of taking on challenges and the organizational culture that supports them, stemming from an experience that can be considered my starting point. In 1984, when I joined then-NABCO, I aspired to build a unique production management system utilizing the production engineering I had learned at university.

The former Kobe Plant was destroyed by the Great Hanshin-Awaji Earthquake of 1995, leading to the construction of a new Kobe Plant. I personally proposed the development of a new production management system and was appointed as the project leader. This was an incredibly challenging project amidst the chaos caused by the earthquake, but it taught me two important lessons. Firstly, I realized that behind the "excitement" of innovation comes "thrill," making the process both painful and joyful. In my early thirties at the time, I felt immense pressure not to fail due to the responsibility I was given, but I was also driven by a strong desire and passion to succeed. Initially,

^{*5} Nabtesco acquired Deep Sea Technologies, AI optimization company for maritime solutions

<https://www.nabtesco.com/cms/wp-content/uploads/pdf/a0cd2b81837c7260597d2a69a9d1aa01.pdf>



^{*6} Deliver Solutions for Social Challenges Through Business



^{*7} Technological fusion of eologix and Nabtesco



^{*8} The Optimization of Human Capital

<https://www.nabtesco.com/en/about/sustainability/s-004/s-005/>



To Our Stakeholders

nobody listened to my ideas, and I felt the limitations of what one person could achieve. However, through heated discussions with my project colleagues, we deepened our mutual trust and ultimately demonstrated the power of teamwork. Without this collective effort, I don't think we could have succeeded. The second realization is that the combined strength of friends and followers creates immense power.

This experience gave me the opportunity to achieve a sense of accomplishment together with my colleagues by earnestly tackling the project in my own way at the time. I hope that the current employees of the Nabtesco Group will also experience this kind of joy. While it's often suggested that a culture allowing for failure is necessary for innovation, I believe that "securing psychological safety" is essential for organizational management. I feel that Nabtesco already possesses this, but there aren't many opportunities to seriously take on challenges despite the thrills. It's with this belief in mind that we established the intrapreneurship program, Light, and the in-house company innovation system. However, I also recognize that my vision as CEO is to cultivate an organizational culture that not only encourages employees to learn the true satisfaction of taking on challenges but also fosters this experience. I see this as a key mission, crucial for pioneering our future.

The most important theme of management materiality

In 2021, Nabtesco expanded the scope of materiality beyond its traditional CSR areas and elevated it to a top management priority in alignment with its long-term vision. This broader approach was termed management materiality⁹. Management materiality consists of the three key pillars: "measures to improve our financial performance," "measures to enhance our management foundation" and "specific measures to achieve the long-term vision." By advancing initiatives from both financial and non-financial perspectives, we aim to achieve both economic value and social value over the long term.

In 2023, we established a new Management Materiality Committee with the aim of gradually phasing out the CSR Committee. This new committee annually reviews management materiality and obtains approval from the Board of Directors, thereby ensuring the effectiveness of governance.

For sustainable growth, a company must continually enhance and evolve across three critical areas: financial capital, human capital, and addressing environmental and societal concerns through ESG initiatives. However, the primary focus at present is on "measures to improve our

financial performance." This includes not only internal adoption of ROIC management but also increasing the effectiveness of business portfolio management, which remains a key priority.

ROIC management and business portfolio management

ROIC was initially introduced as an internal control indicator during the previous MTMP (2017-2021) and has since served as a performance-linked compensation indicator for both business divisions and executives. Under the current MTMP, we have elevated it to the status of a management target and are actively promoting comprehensive ROIC management. The development of the ROIC Tree¹⁰ framework is being integrated into company-wide improvement initiatives, extending even to our production sites. We are implementing internal efforts to enhance asset efficiency by utilizing calculation methods optimized for the Nabtesco approach. The overarching management goal of the current MTMP is to underscore capital efficiency, particularly as a company operating across multiple business sectors.

In addition, since 2023, we have been using ROIC for business portfolio management. Through the subdivision of all businesses into distinct business units and the mapping of ROIC and sales growth rates into four quadrants, we create a visual representation of the status of each business unit. This visualization allows us to assess the potential of each business unit based on factors such as industrial attractiveness, in-house strengths, and ESG risks. Subsequently, we engage in in-depth discussions at the Board of Directors level regarding the strategic direction of our business portfolio.

Despite initially being categorized in the "restructuring" quadrant due to the impact of the COVID-19 pandemic, Aircraft Equipment has shown signs of recovery, particularly in both civil aircraft and defense sectors. Through diligent remedial efforts amid challenging business conditions, we have successfully shifted its position to a growing business. In addition, OVALO, which had previously faced stagnation in the automotive sector, has been reassessed as a growth business. We aim to transform its business model by entering the small reduction gear market for European cobots, a growing segment. Furthermore, TS Precision Co., Ltd., which was a Group company, underwent discussions regarding whether we were the optimal owner and subsequently transferred the business.

Accordingly, we will devise action plans grounded in both financial assessments and business feasibility evaluations. Our objective is to build an optimal business

portfolio by actively allocating investments and promptly implementing necessary actions, such as reductions or withdrawals, as warranted.

Fulfilling responsibilities as a CEO

Reviewing the total shareholders return¹¹ over the past 10 years since the conclusion of FY2023/12, our stocks have performed significantly below the market average over the same period. With a cumulative return of around 64%, we have experienced a negative return on investment in the most recent year.

As CEO, it is my paramount responsibility to enhance our stagnant ROIC and facilitate the transformation to conglomerate premiums. To achieve this objective, my foremost commitment will be toward the implementation of Project 10 and I am prepared to make bold decisions as necessary to drive our company towards success.

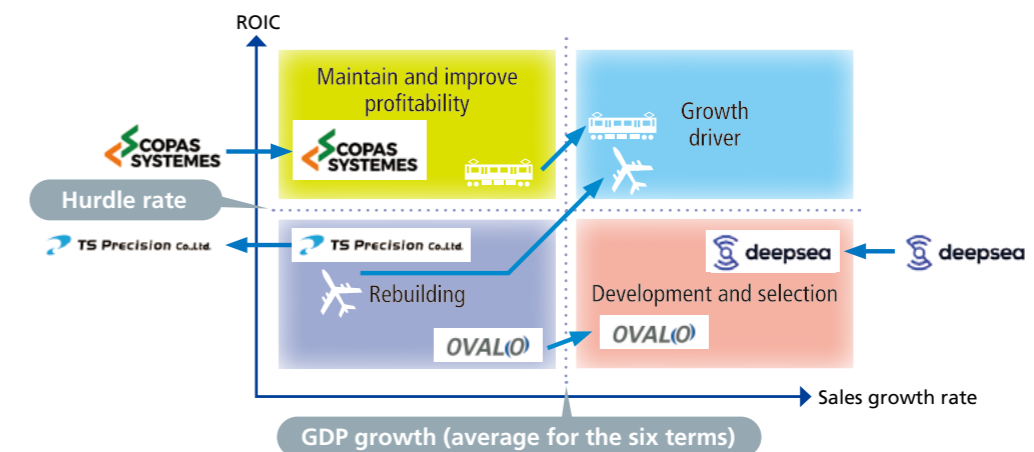
Regain earning power (profitability) extends beyond the interests of shareholders and investors; it must also



prioritize employee well-being, supplier collaboration, and the sustainability of the Company and society at large. In our commitment to meeting the expectations of all stakeholders, we will conduct our business with integrity and dedication. We sincerely appreciate the continued support and understanding of Nabtesco.

● Utilization of business portfolio management

Promote expansion of "Development and selection" business and improvement of investment efficiency in all businesses through portfolio management



Changes in portfolio and reasons	Previous categories	New categories
AE*: Recovery in business environment and results of improvement activities	Rebuilding	Growth driver
OVALO: Review business model and reduce fixed costs		Development and selection
TS Precision Co., Ltd.: Sale of business		Owner change
RVE*: Changes in business environment and strategically shift targeting markets	Maintain and improve profitability	Growth driver
Copas: Acquired sales network of Automatic Door in France	From the outside	Maintain and improve profitability
Deep Sea Technologies: Acquired marine vessel automated navigation system in Greece		Development and selection

*AE: Aircraft Equipment business
*RVE: Railroad Vehicle Equipment business

⁹ Management Materiality **P25**

¹⁰ Integrated Report (Nabtesco Value Report 2022), P94 ROIC Improvement by Building Manufacturing Innovation
https://www.nabtesco.com/cms/wp-content/uploads/value_report_2022_en.pdf **Web**

¹¹ Nabtesco at a Glance **P7**

CEO Dialogue

Nabtesco Group growth strategy and effectiveness of governance



Naoki Hidaka
Outside Director,
Nabtesco Corporation

Kazumasa Kimura
Representative Director,
President & Chief Executive Officer (CEO),
Nabtesco Corporation

Daiji Ozawa, CFA
Managing Director & Chief Investment
Officer
Invesco Asset Management (Japan) Limited

Seiichiro Shirahata
Outside Director,
Nabtesco Corporation

Nabtesco promotes constructive dialogue with shareholders and investors to ensure management practices align with the perspective of capital markets. CEO Kimura, alongside independent outside directors Hidaka and Shirahata, engaged with Daiji Ozawa, CIO of Invesco Asset Management, to discuss the Company's growth strategy and the effectiveness of its governance.



Ozawa

To overcome global competition, it is necessary to develop a system in which appropriate leaders are chosen and a competitive compensation system is established. It is also important to strengthen the functions of various committees led by outside directors.

Reasons for profitability downturn and proposed actions

Ozawa: As an investor, I am very concerned about the discussions at the Board of Directors' meetings given the slump in business performance over the past few years. Since 2021, the share price has halved, and the price-to-book-value ratio (PBR) has remained around 1. What do you think are the structural factors behind this?

Kimura: The Chinese market has changed dramatically over the past few years. Previously, the expansion of the

Chinese market drove our performance. However, the growth of the Chinese market has now reached a major turning point, forcing us to revise our growth strategy. The Board of Directors is actively discussing revisions to the business portfolio and strategies in response to these changes.

Ozawa: Looking at the recent performance of capital goods-related companies, it is evident that China's demand slowdown plays a significant role. The surge in automation, coupled with the demand for capital expenditures related to electric vehicles (EVs) in China, has created numerous business opportunities for Japanese companies. However, the outcomes have been mixed; some companies have thrived, while others have struggled. The deterioration in performance among component suppliers is particularly noticeable. One reason for this may be that the competitiveness of their components is not being fully realized and is not translating into the ability to pass on price increases.

Kimura: In order to protect the supply chain and ensure a stable supply to customers, we accepted price increases for parts and materials. However, we were unable to raise product prices quickly, which is a major area of reflection. Due to the terms of the contracts, it was difficult to negotiate prices during the period, and the competitive environment further complicated negotiations, causing delays in passing on costs. Without creating a cycle where prices are fairly reflected, we cannot protect our foundation for growth. Therefore, we are now promptly passing on price increases. Top-level negotiations are fostering customer understanding.

Ozawa: Investors are also interested in how funds are used for growth investments. What discussions took place at the Board of Directors' meetings leading up to the decision to make a large-scale investment in the Hamamatsu Plant?

Kimura: Since 2017, sales have been sluggish, prompting the need for a new avenue of growth. The Board of Directors has discussed investments for new growth using proceeds from the sale of Harmonic Drive Systems stock and cash generated from business operations, aligning with the formulation of our long-term vision for 2021. At that juncture, the Tsu Plant, the primary facility of precision reduction gears, was nearing its capacity limits,

Kimura

With the aim of seizing business opportunities in the field of Smart Motion Control, we aspire to drive market growth by leveraging the Group's technologies.



necessitating the construction of a new Hamamatsu Plant. Additionally, we earmarked funds for the renovation of the Tarui Plant in Hydraulic Equipment, which had begun to deteriorate, alongside investments in M&A and R&D.

Hidaka: When I assumed the role of an outside director, the decision to invest in the Hamamatsu Plant had already been made. However, during that period, demand for precision reduction gears was very strong, prompting an urgent expansion of our capacity to meet customer demand. Leveraging our technological and product development capabilities, it is imperative that we enhance our competitiveness by providing system products and high-value-added solutions. I firmly believe that this is the correct decision in the long term as it aligns with our objectives. Concurrently, we have introduced "Project 10" to outline a clear roadmap for addressing deviations from the targets set in the medium-term management plan in relation to our current performance. During monthly Board of Directors' meetings, we deliberate on the progress of these initiatives, addressing any pertinent issues rigorously.

Shirahata: During the inaugural meeting of the Board of Directors following my appointment, the agenda included a follow-up discussion on the investment project for the Hamamatsu Plant. I had my reservations regarding the approval of the proposal without a comprehensive understanding of its historical context. Large-scale investment projects entail recurring expenditures annually once initiated. Reflecting on past experiences, particularly the lessons gleaned from OVALO's acquisition decision, I underscored the importance of scrutinizing whether Nabtesco shares similar risk profiles. I candidly addressed the need to learn from past failures and engage in introspective dialogue, even if it might be uncomfortable. Given that crises often arise amidst peak profitability, I

CEO Dialogue

firmly believe that it is incumbent upon outside directors to consistently offer fresh perspectives on company affairs.

Kimura: I have learned two crucial lessons from the acquisition of OVALO. Firstly, the importance of rigorously assessing the valuation of acquisition prices. Secondly, the efficacy of Post-Merger Integration (PMI). To address these, we have outlined clear criteria for M&A decision-making and delineated the topics that necessitate discussion by the Board of Directors during the acquisition process. One of our strategies involves investing in Corporate Venture Capital (CVC) and subsequently pursuing M&A endeavors after evaluating valuation validity and the potential for synergies with our existing businesses over time. Initially, we allocate a modest sum to CVC and deploy personnel to

**Hidaka**

Outside directors pose numerous inquiries regarding business portfolio management, globalization strategies, and approaches to digital transformation (DX). I actively engage in these discussions, particularly emphasizing the examination of risks associated with non-implementation rather than those already implemented.

assess the prospective business's viability and alignment with our objectives. We also meticulously address PMI over a six-month period post-acquisition, adhering to a detailed plan submitted monthly to the acquiring entity, ensuring continuity throughout the year.

Business portfolio management

Ozawa: I would like to inquire about business portfolio management. How do you decide on allocating growth funds among the eight business divisions?

Kimura: In 2022, the Board of Directors spent a year formulating a business portfolio policy aimed at enhancing corporate value through the optimal allocation of management resources and portfolio restructuring. The Company divides its businesses into 36 business units and

assesses them financially and operationally, with the Board of Directors using these evaluations to guide resource allocation decisions.

Hidaka: We have a system in place to monitor funds invested in business units with growth potential and profitability among our 36 units, driven by executive proposals. Given the diverse product applications and customer bases within our portfolio, we prioritize analyzing market growth potential and business characteristics to allocate cash effectively, leveraging our foundation in motion control technology across all businesses.

Shirahata: For instance, as we envision sales reaching ¥600 billion, a key challenge lies in determining the expansion potential of our core Component Solutions business and strategizing the establishment of a secondary core business. While we are driving innovation through investments in CVC and human capital for the secondary core, we acknowledge potential insufficiencies in these efforts alone.

Ozawa: Under the current medium-term management plan (MTMP), ROIC is used as an indicator of capital efficiency. While ROIC effectively manages capital productivity, there is a risk of meeting targets by minimizing invested capital, potentially hindering future growth initiatives. How is this challenge being addressed?

Kimura: We began researching ROIC around 2011, with an early announcement in 2015 about its company-wide implementation, emphasizing capital efficiency in our management approach. During the implementation process, extensive discussions took place within the Company, with significant concerns raised by various business divisions regarding potential constraints on investment. Transitioning our management indicators from ROE to ROIC in the current MTMP aims to align internal emphasis with disclosed indicators, promoting internal efforts to enhance asset efficiency externally. While short-term investment approvals are based on ROIC and other financial indicators, strategic investments in growth ventures, such as the Hamamatsu Plant expansion and Deep Sea Technologies acquisition, are evaluated based on their potential for recovery despite temporary declines in ROIC, prioritizing top-line growth.

Ozawa: The long-term vision entails becoming leaders in

innovation, but is this innovation seeking to explore new growth axes, or is it aimed at deepening cultivation of existing businesses?

Kimura: We have adopted a motto of meeting and exceeding expectations for both society and customers, with a focus on surpassing expectations in the future. To achieve this, proactive initiatives are essential, aimed at continually exceeding expectations through innovation. Our goal is to seize business opportunities in the field of Smart Motion Control, integrating electrification, automation, and systematization within components. Crucially, this entails delivering products and services that incorporate autonomous elements such as sensing and condition monitoring. As automated AI operations become commonplace in sectors that include vessels, railroads, and commercial vehicles, we aim to drive market growth by leveraging the Group's technologies in this evolving landscape.

Effectiveness of governance

Ozawa: To achieve "Smart Motion Control," the key lies in identifying the missing parts and how to complement and integrate those technologies and human resources effectively. I understand the use of CVC as a pivotal component of this strategy. In terms of governance effectiveness, I am interested in seeking feedback from outside directors. Specifically, I am curious if the Board has pursued any discussions that would prompt a reevaluation from the executive side. Furthermore, I am keen to understand how outside directors are incorporated into the decision-making process for significant management strategies.

Hidaka: I believe that the Board of Directors should not simply act as a rubber stamp for the decisions of the Executive Committee, and this sentiment is widely acknowledged in our Board of Directors' meetings. Even in companies with an Audit & Supervisory Board, there are opportunities to enhance the effectiveness of monitoring. In practice, outside directors frequently inquire about business portfolio management, globalization strategies, and approaches to DX. Personally, I actively engage in discussions regarding potential risks that have not yet

been materialized, rather than focusing solely on risks that have already manifested.

Shirahata: I have firsthand experience with transiting to companies with an Audit & Supervisory Board and those employing a nominating committee system. I believe that the presence of a legally independent committee contributes to a heightened sense of accountability within the Board of Directors. However, I also recognize that the efficacy of either system can vary depending on the skills and concerns of its members. In conducting monitoring, it is important that we earnestly address our aspirations. Before anything else, we must assess how the executive plans align with Nabtesco's Purpose and long-term vision. If there is a perceived risk of hindering

Shirahata

When evaluating executive plans, the Company first considers their consistency with its Purpose and long-term vision, and then, without hesitation, inquires with the executive side about perceived risks that could potentially impede future growth.

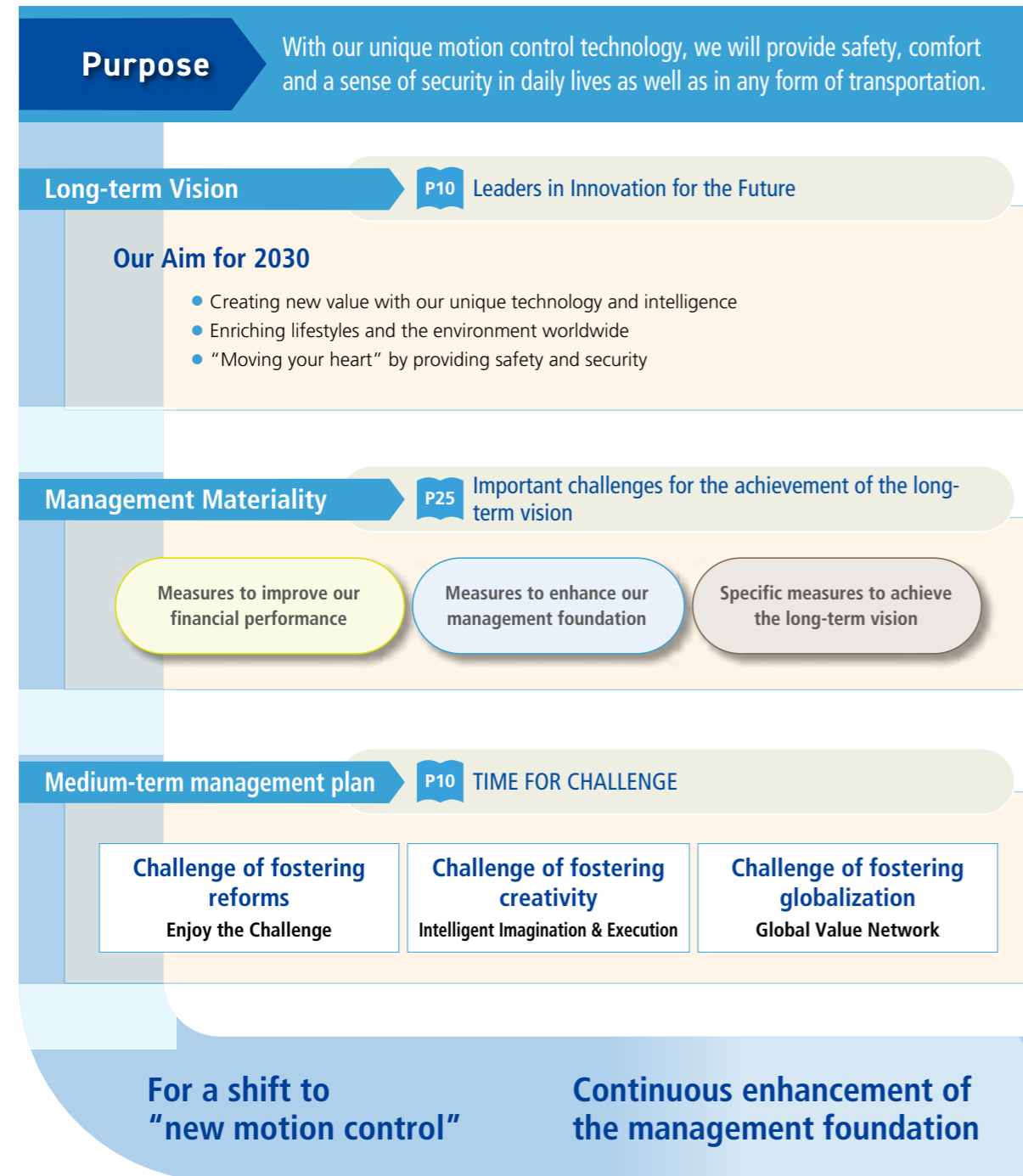


future growth, we should not hesitate to raise concerns with the executive side. Given the challenging phase we are currently navigating, it is paramount to engage in thorough discussions regarding risk-taking during Board of Directors' meetings.

Ozawa: When it comes to investors' assessment of governance, I believe the first step is to ensure a majority of outside directors. Furthermore, to effectively overcome global competition, it is necessary to establish a system for continuous selection of competent leaders and implement a competitive compensation system. Enhancing the functions of various committees led by outside directors is also crucial in this regard. I am hopeful the Company will sincerely heed messages conveyed through stock prices and remain proactive in discussing strategies to enhance corporate value.

Value Creation Story

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



Outlook for the External Environment

[Risks]

- Impact on business caused by short-term demand changes
- Loss of competitiveness due to delayed implementation of IoT, DX and electrification promotion measures
- Increase in cost due to the need to deal with climate change
- Increase in procurement cost due to inflation and other factors
- Intensification of competition for the acquisition of human resources

[Opportunities]

- Expansion of business that can contribute to solving social issues
- Demand for electrification and systematization
- Demand increase for products and services with high environmental performance
- Creation of innovation through the optimization of human capital

Web FY2023/12 Annual Securities Report, P37 Business and Other Risks
<https://www.nabtesco.com/cms/wp-content/uploads/Annual-Securities-Report-FY2023-.pdf>

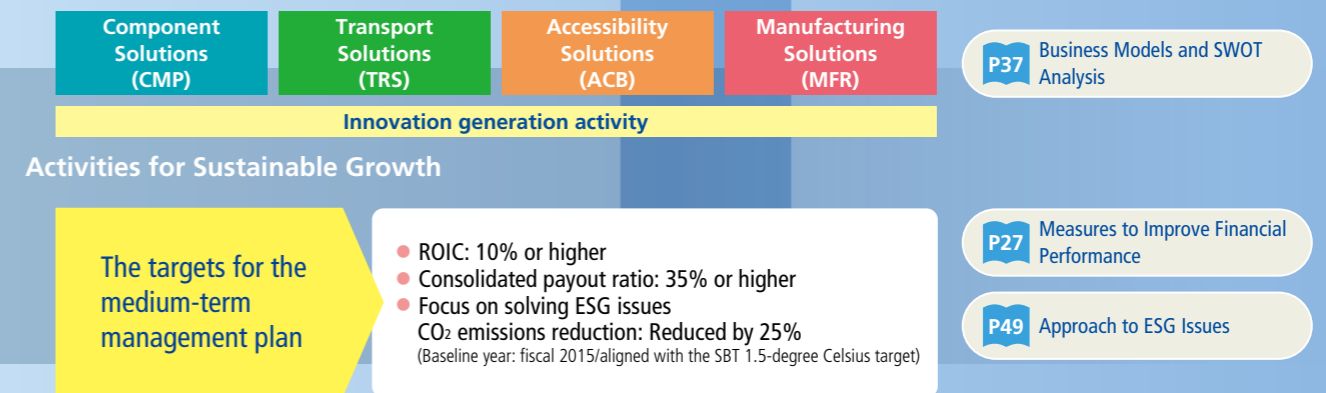
Created Value: Establishment of new motion control

P35 Acquire Next-generation Technologies and Create New Businesses

	Value for the Nabtesco Group	Impact on external stakeholders
Relationship capital	<ul style="list-style-type: none"> • Customer bases founded on top-class market shares • Trust in the management team and high-scoring ESG evaluation • Responsible supply chain management • Improvement of recognition through community investment 	<ul style="list-style-type: none"> • Deliver solutions for social challenges through business • Enhancement of partnership with stakeholders • Increasing the resilience of the supply chain • Contribution to the solution of social challenges in the environment, education, and welfare fields
Financial capital	<ul style="list-style-type: none"> • Robust balance sheet that realizes growth investments 	<ul style="list-style-type: none"> • Capital efficiency and stable return of profit that meet shareholders' expectations
Manufacturing capital	<ul style="list-style-type: none"> • Promotion of smart manufacturing process 	<ul style="list-style-type: none"> • Provision of safety, comfort, and a sense of security, and contribution to climate change mitigation and biodiversity
Intellectual capital	<ul style="list-style-type: none"> • Acquisition of technology for smart motion control • Generation and enhancement of core value for sustainable growth 	<ul style="list-style-type: none"> • Open innovation through co-creation
Organizational capital	<ul style="list-style-type: none"> • Highly ethical corporate culture based on a global compliance system 	<ul style="list-style-type: none"> • Management transparency based on the autonomous improvement of its functions by the Board of Directors
Human capital	<ul style="list-style-type: none"> • Optimization of human capital to become "Leaders in Innovation" 	<ul style="list-style-type: none"> • Respect for diversity and various expertise in the workplace

Value Creation Process

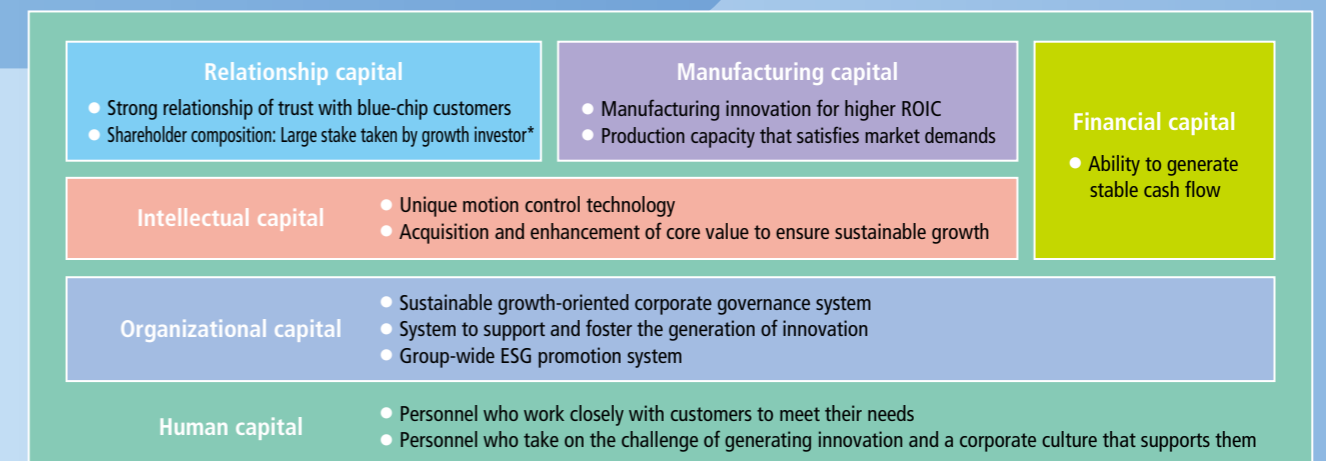
OUTPUT



INPUT

Managerial Resources that Support Value Creation

P39 Characteristics of and Actions to Enhance Various Capital

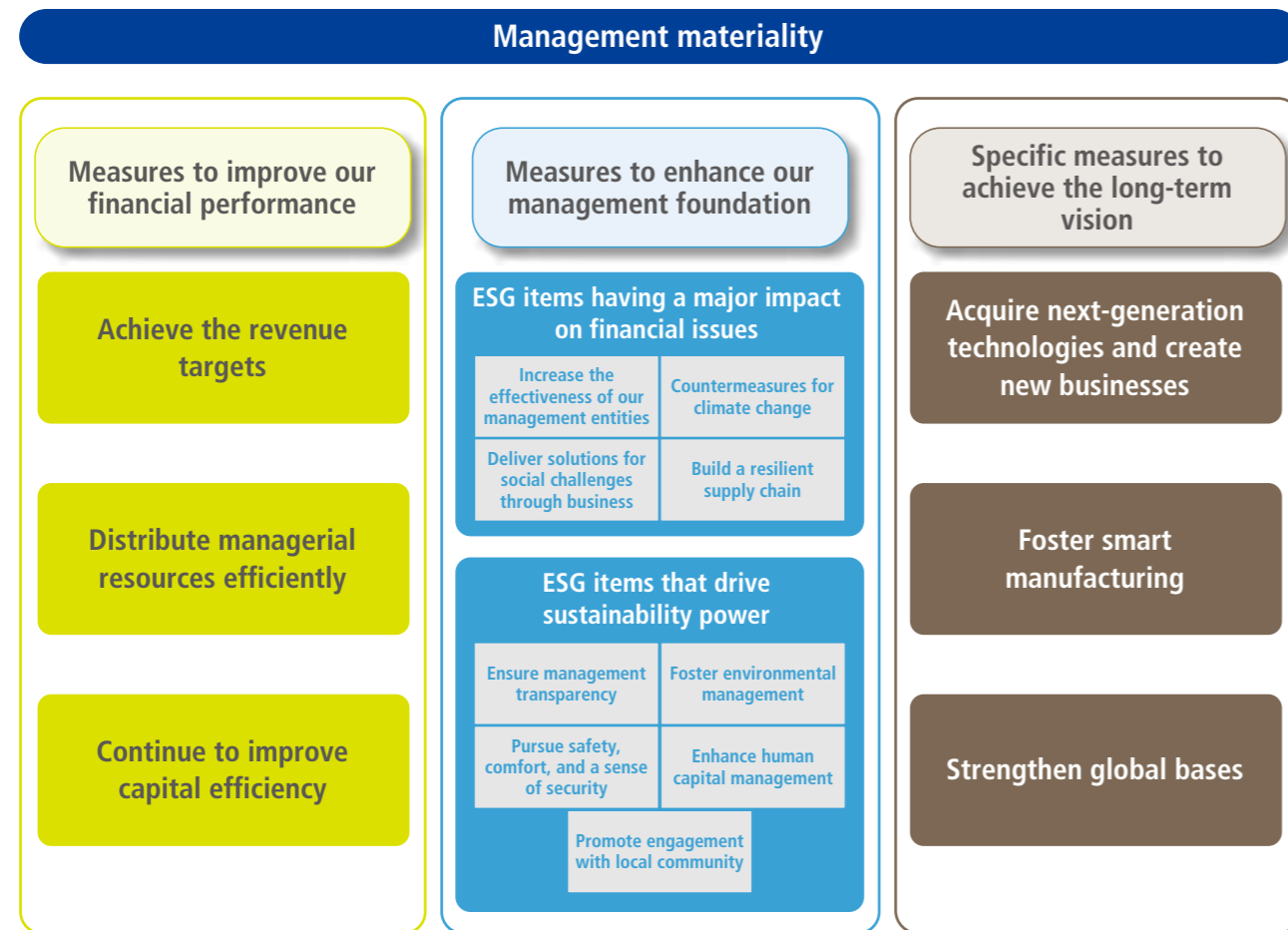


* Growth investors: Investors who make investments with a focus on the growth potential of companies

Management Materiality

The Nabtesco Group has identified material management issues as a top management priority and strengthened its governance.

The Nabtesco Group has identified “the material management issues to be addressed for the achievement of its long-term vision”. Our management materiality comprises three pillars. By fostering financial and non-financial measures, we aim to create economic, environmental, and social value from a long-term perspective. We will review these issues in response to social changes and shifts in management awareness, taking action to further strengthen our management base and continually provide value to our stakeholders while maintaining our own profitable growth.



Items reviewed

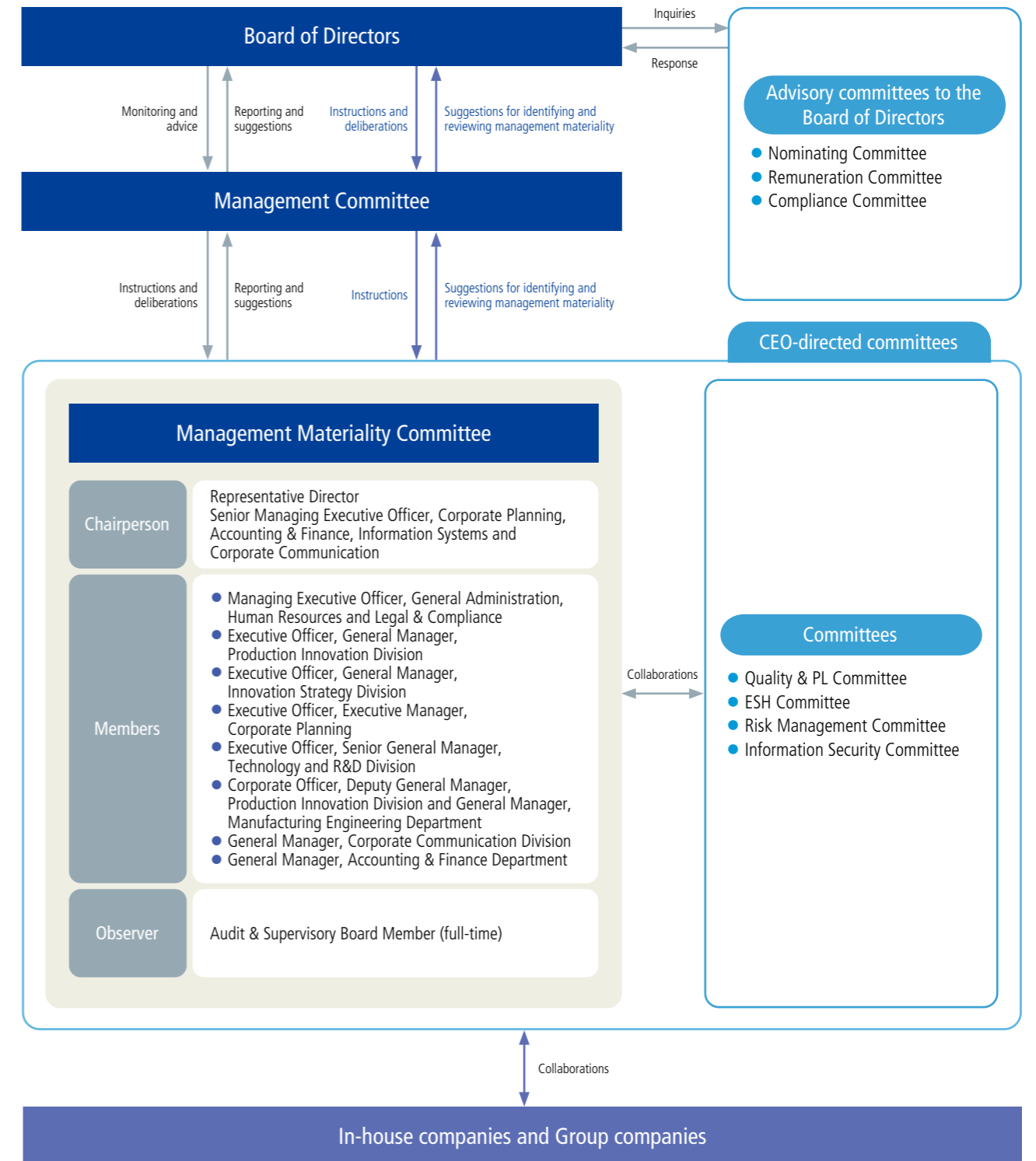
The Nabtesco Group deems it important to “dynamically” adjust the focus of its management materiality in response to changes in the business and management environment. In 2022, to redefine human capital as a primary source of value creation and implement integrated measures based on this new definition, we revised the human capital-related item to “Enhance human capital management” and reviewed the actions to be taken for each related item. In 2023, the Management Materiality Committee reviewed progress and set action plans. The review concluded that no changes to management materiality were necessary. This decision was approved after deliberation at the Management Committee and Board of Directors’ meeting.

Please refer to the following for the process of identifying management materiality and the main initiatives (indicators and targets).

- P27** Measures to Improve Financial Performance
- P49** Approach to ESG Issues
- P35** Acquire Next-generation Technologies and Create New Businesses

Web Value creation story and management materiality <https://www.nabtesco.com/en/about/sustainability/s-001/s-002/>

To enhance our sustainability governance, the Group dissolved the previous CSR Committee in 2023 to establish the CEO-directed Management Materiality Committee in its place. The Committee oversees the progress and management of our management materiality, collaborating with other CEO-directed committees, setting targets and KPIs for management materiality items, and regularly reviewing them. The activities are deliberated and determined by the Management Committee and reported to the Board of Directors.



Measures to Improve Financial Performance

We aim to achieve conglomerate premium transformation by rebuilding our highly profitable and high-growth structure.

Nabtesco



Under challenging circumstances in FY2024/12, our profits are expected to decline for three consecutive financial periods. To address this, we have initiated a profit-improvement program called “Project 10” to restore our earning potential. By building an optimal business portfolio and fostering the creation of new businesses through innovation, we aim to maximize corporate value and capture conglomerate premiums.

Atsushi Habe

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

Basic policies for financial and capital management

The current medium-term management plan (MTMP) for 2022-2024 is positioned as the three years of “seeding” aimed at realizing our long-term vision. As the person responsible for planning and accounting, I believe that formulating and executing financial strategies to usher in the era of “new motion control” through innovation is my primary responsibility.

From a short-term perspective, balancing growth investments with capital efficiency is challenging. However, one of the key issues for realizing our long-term vision (management materiality) is improving our financial performance. This factor is a crucial consideration in our financial and capital policies. Accordingly, under the MTMP, we aim to achieve an Return on Invested Capital (ROIC) of 10% or higher by enhancing profitability and capital efficiency. Concurrently, as part of our efforts to increase corporate value, we have secured a strategic investment budget for growth, which includes capital investment of ¥88.0 billion, growth investment of ¥65.0 billion, and R&D expenses of ¥40.0 billion.

Key points of FY2023 results and FY2024 plan

In FY2023/12 (according to IFRS standards), consolidated net sales increased by 8.1% from the previous fiscal year to ¥333.6 billion. Meanwhile, operating income decreased by 4.0% to ¥17.4 billion (operating profit margin: 5.2%). This decline was primarily attributed to decreased capacity utilization resulting from reduced demand for precision reduction gears for industrial robots, heightened procurement costs (including purchased material costs), and a delay in passing on these costs to product prices, despite the positive impact of increased sales primarily in the Accessibility Solutions Business (ACB) and Transport Solutions Business (TRS). Profit for the year attributable to owners of the parent surged by 53.8% year-on-year to ¥14.6 billion, partly due to the recording of a gain on the valuation of securities. ROIC stood at 4.2% (down from 4.6% in FY2022/12) owing to a decline in operating profit, while our payout ratio reached 66.0% (with a dividend per share of ¥80) as we maintained our initial target, ensuring a stable dividend amount.

The forecast for FY2024/12 was revised at the end of the first quarter, announced on April 30. We anticipate a 3.0% year-on-year decrease in sales to ¥323.7 billion and a 22.3% year-on-year decrease in operating profit to ¥13.5 billion (operating profit margin: 4.2%). In the first

half of the fiscal year, we expect sales in the Component Solutions Business (CMP) to continue their downward trend, declining by 7.1% year-on-year to ¥151.5 billion. This decline is primarily based on the assumption of continued sluggish demand for precision reduction gears due to inventory adjustments. Meanwhile, for the second half of the fiscal year, net sales are forecast to increase by 0.9% year on year to ¥172.2 billion due to progress in eliminating distribution inventories of industrial robots and other factors. The operating profit forecast for the first half is expected to decline by 42.5% year on year to ¥5.0 billion (operating profit margin of 3.3%). Although the forecast for the second half also shows a decline of 2.1% year on year to ¥8.5 billion (4.9%), we anticipate a bottoming out at 70% compared to the first half. This is due to factors such as the impact of higher sales based on demand recovery in precision reduction gears and the positive impact of price revisions. The full-year forecast ROIC is expected to remain sluggish at 3.2%, with a planned dividend per share of ¥80, and a projected dividend payout ratio of 103.3%.

In the first quarter of FY2024/12, we have upwardly revised our initial plan to reflect the effects of exchange rate fluctuations and other factors. However, the outlook for the market environment remains unchanged from the time of formulating the initial plan.

Progress and achievements of the current MTMP: Steady implementation of growth strategies

Under the current MTMP, we have implemented aggressive capital investment based on growth-oriented expectations. However, this has led to a combination of sharp deterioration in the external environment, resulting in difficulties in achieving our target ROIC due to the heavy burden of fixed costs. Even amidst these challenging conditions, we remain committed to future growth investments aimed at increasing demand for precision reduction gears and fostering innovation. We are planning a cumulative three-year capital investment of ¥76.0 billion (compared to ¥41.0 billion in the previous cumulative three-year period from 2019 to 2021), including the FY2024 Plan, and R&D expenses of ¥35.9 billion (compared to ¥28.5 billion). Although this falls below our initial plan, we are steadfast in sowing seeds for future growth.

We are confident in the progress we have made regarding our growth strategy for fostering innovation.

Specifically, we have collaborated with startups through Corporate Venture Capital (CVC), co-creating new businesses. Additionally, we have established an organizational structure dedicated to realizing innovation and launched Light, an intrapreneurship program. Regarding CVC, we conduct due diligence to assess whether investments will strengthen existing businesses and facilitate the creation of new ventures. As of December 31, 2023, we had invested approximately ¥3.2 billion in 10 companies, within our ¥10 billion investment limit. Our investments covered a total of 14 companies, and we have already recovered our initial investment in four of these companies.

In terms of the organizational structure aimed at fostering innovation, we established the Innovation Strategy Office, comprising approximately 30 specialist teams. We also enhanced functions geared towards the commercialization of innovation, such as monitoring CVC investee companies, developing a framework for the commercialization of Light projects, and advancing DX initiatives. Concerning the Light program, employees have the opportunity to cultivate entrepreneurship by voluntarily brainstorming ideas and executing business designs. This initiative also serves as a valuable means of identifying talent. In its inaugural year, which was last year, 21 ideas were proposed. One of these ideas has been earmarked for commercialization, while two others are still under consideration. Furthermore, in May 2024, we inaugurated an Innovation Office in Boston, Massachusetts, USA, to delve into cutting-edge technical information and business models. Through these endeavors, we are steadily executing our growth strategies.

Profitability Improvement Plan “Project 10” and concept for the next MTMP

In preparation for formulating the next MTMP commencing in 2025, we have initiated discussions on “strengthening profitability in existing businesses” and “strategic measures for growth.” Our objective for the upcoming MTMP is to present a highly feasible growth narrative, constructing an optimal portfolio that reflects Nabtesco’s unique identity and fostering innovation, while concurrently managing ROIC with a keen awareness of capital costs. To achieve this goal, it is imperative to enhance the profitability of our established business segments, which constitute the numerator of both Return on Equity (ROE)

Measures to Improve Financial Performance

and ROIC. Consequently, we have launched “Project 10,” a profitability improvement initiative reporting directly to the CEO, slated for completion by 2026. Through this project, we aim to bolster the numerator of our ROIC by enhancing the profitability of our business divisions under corporate leadership, reviewing head office expenses, and implementing cost reduction measures where necessary. Additionally, I am spearheading efforts in planning and accounting to reduce the denominator. By committing to enhancing asset efficiency and constructing an optimal portfolio, I anticipate steering Nabtesco towards a growth phase characterized by sustained profitability throughout the forthcoming MTMP and beyond.

Designing the ideal business portfolio while considering capital costs

At the Board of Directors’ meeting held at the end of 2022, we formulated the “Basic Policy on the Business Portfolio” to realize optimal business portfolio management. We classify the four segments into 36 business units and conduct a “quantitative financial assessment” and a “business potential evaluation” for each business unit annually. Additionally, we have established a hurdle rate based on the average GDP growth rate for the six fiscal years and the internal target ROIC, visualizing the positioning within our business portfolio. This hurdle rate is determined by our assessment of the sales growth rate and ROIC.

For financial evaluations, we monitor whether each unit generates returns in excess of the cost of capital by calculating the six-period average Economic Value Added (EVA), defined as NOPAT (earnings before interest and taxes) minus the cost of capital, for each business unit. EVA was negative for 13 units in 2022 and 15 units in 2023, prompting discussions on measures to address this issue.

Over the long term, we prioritize evaluating the attractiveness of industries and markets, assessing profitability potential, and considering the business’s contribution to Environmental, Social, and Governance (ESG) factors. We recognize the importance of delineating the organic contributions of individual units to advance the motion controls that the Nabtesco Group aspires to achieve.

Disclosure of cash allocation under consideration for inclusion in the next MTMP

Under the current MTMP, the Company’s net gain on the sale of shares of Harmonic Drive Systems Co., Ltd. (HDS) after taxes amounts to ¥60.0 billion. Additionally, the cumulative total of operating cash flows from 2022 to 2024 and R&D investments totals ¥68.4 billion. Excluding the impact of the sale of shares of HDS, the sum of cash and deposits at the end of 2021 amounts to ¥35.0 billion. These sources of cash allocations total ¥163.4 billion.

Looking at the allocation of the aforementioned resources, as depicted in Figure 1, capital investment (¥76.0 billion), primarily for capacity expansion at the Tsu Plant and the construction of the new Hamamatsu Plant in precision reduction gears, accounted for approximately 47%. M&A investment (¥13.3 billion), including seeding in new businesses, accounted for approximately 8%, while development investment (¥35.9 billion), encompassing research aimed at new motion control, accounted for approximately 22%. The Hamamatsu Plant is set to start operating in August 2024 as an advanced automation facility, streamlining the production of mass-produced items. The existing Tsu Plant intends to reorganize into production facilities focused on custom products. By aiming for an automation rate of 90% at the Hamamatsu Plant, we will pursue manufacturing that is resilient to demand fluctuations while anticipating a future decline in the labor force.

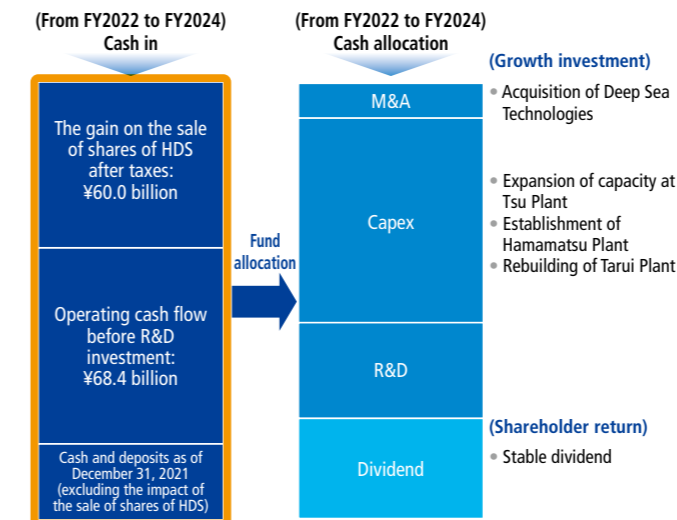
Our target for shareholder returns is a consolidated dividend payout ratio of 35% or higher. However, we anticipate exceeding this target, with a consolidated payout ratio of 86% for the three-year cumulative period, including the FY2024 Plan. In 2021, the Company repurchased up to ¥20.0 billion of its common stock (equivalent to 4.4 million shares, or 3.54% of total outstanding shares) to return the gain from the sale of shares of HDS to the capital market. While we have not established a policy for share repurchases, we will continue to flexibly consider the balance between cash on hand and growth investments.

Over the past two years, total equity attributable to owners of the parent increased by ¥20.6 billion to ¥260.5 billion. This growth was primarily driven by an increase in net income and translation adjustments resulting from the depreciation of the yen. As illustrated in Figure 2, we consider maintaining cash equivalent to two to three months’ expenses as the optimal level on our balance sheet. We are mindful of maintaining a credit rating of

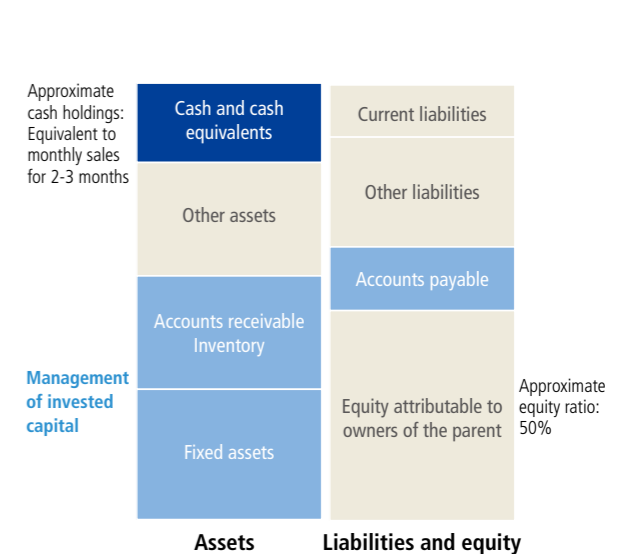
A and aim for an equity ratio of approximately 50%. In the upcoming MTMP, we will also consider providing quantitative disclosure of projected cash allocations. Additionally, we will thoroughly communicate our approach to investing in enhancing corporate value to our stakeholders.



● Figure 1: Approach to cash allocation



● Figure 2: Balance sheet management



Aiming for a conglomerate premium transformation and a market capitalization of ¥500.0 billion

We are addressing the recent decline in business performance and stock price with a sense of urgency and seriousness. In the upcoming MTMP, we will articulate our vision for the future, outlining our optimal business portfolio and the strategies we will implement to achieve our objectives, along with our anticipated time frame. As part of this effort, we are fully committed to Project 10, a short-term initiative aimed at enhancing profitability.

In the past, our Price-to-Book Ratio (PBR) typically ranged from around 2.0 to 3.0. During this period, our ROE was relatively high, ranging from 12.0% to 16.0%. Additionally, our Price-to-Earnings Ratio (PER) was valued at 15 to 30, reflecting our profitability and growth

prospects. This resulted in achieving conglomerate premiums. However, since the onset of the COVID-19 crisis, our PBR has remained at a little over 1, primarily due to the decline in both ROE and ROIC against the backdrop of deteriorating profitability.

Going forward, our objective is not only to recover earning power but also to acquire conglomerate premiums by establishing a high earnings and high growth structure. This will be achieved by focusing on three key pillars: “high market share,” “high innovation creativity (realizing growth potential through the integration of hardware and systems),” and “strengthening of high-profit MRO*.” By executing a concerted action plan to complete Project 10, we aim to achieve a market capitalization of approximately ¥500.0 billion, with a PBR of 2 and an ROE of 10%, coupled with a PER of 20.

*MRO: Maintenance, Repair, and Overhaul (after-sales service)

Enhance Human Capital Management

Measures to improve organizational performance



In 2022, Nabtesco initiated human capital management efforts with the objective of optimizing human resources to fulfill its long-term vision of becoming “Leaders in Innovation.” We have defined ideal visions for “company and top management,” “organization and managers,” and “individuals,” and are actively promoting the development of autonomous human resources driving innovation and enhancing management capabilities. We discussed the current progress, challenges, and future initiatives with the Executive Officer and General Manager of the Human Resources Department.

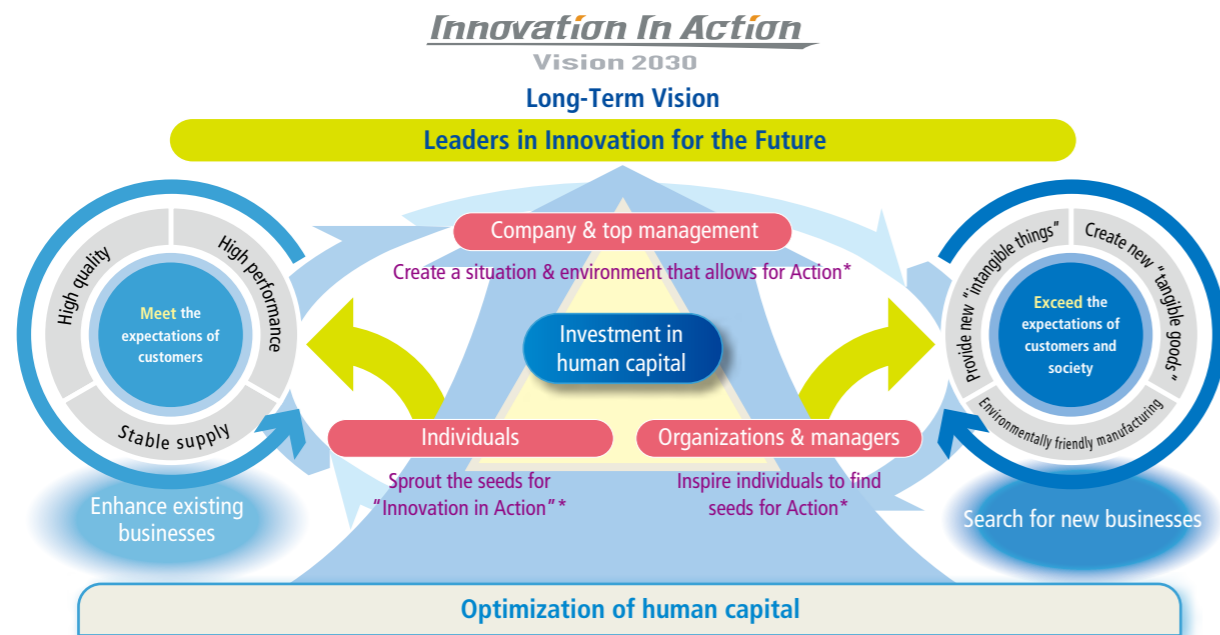
Masaru Sasaki
Executive Officer
General Manager, Human Resources
Department, Innovation Strategy Division,
and President, Nabtesco Link Co., Ltd.

Web The Optimization of Human Capital
<https://www.nabtesco.com/en/about/sustainability/s-004/s-005/>

Q Please share an overview of the human capital management story of Nabtesco.

The cornerstone of Nabtesco’s human capital management strategy is innovation. In addition to addressing accumulated customer needs pre-merger, we prioritize meeting and exceeding customer and societal expectations,

optimizing human capital as the foundation of our value creation process. Illustrated in the chart, we outline our vision for “company and top management,” “organization and managers,” and “individuals.” We have established key performance indicators (KPIs) for human capital, under the hypothesis that bridging the gap with current practices will revitalize innovation



*Visions for each level of the “company and top management,” “organization and managers” and “individuals.”

Q What is the background behind setting the original KPIs for human capital?

Nabtesco has established three KPIs for human capital: the “Innovation Index”, “Linkage Index” and “Engagement Index.” These serve as outcome-based metrics to gauge the advancement of innovation initiatives across various levels, including “company and top management,” “organization and managers,” and “individual.” We closely monitor the trajectory of these indices alongside factor-based indicators aimed at enhancing each metric.

These KPIs were established based on the aforementioned assumptions to provide a tangible measure of the effectiveness of personnel measures, which had previously been challenging to quantify. By consistently collecting data and iterating through try-and-learn cycles, we aim to verify the causal relationships and their correlation with financial information in the future.

While there were no significant changes in the KPIs for human capital in FY2023, as detailed later on page 33, the individual components comprising these indicators offered insights for future initiatives, particularly regarding issues related to organizational culture. Transitioning from a familiar organizational culture requires time, but fostering a frontline-driven approach is crucial for accelerating momentum in human capital management and consistently implementing proactive measures. We are committed to making persistent efforts to enhance organizational performance, prioritizing the enhancement of driving forces through shared awareness rather than imposing measures.

Q What aspects do you emphasize when developing measures to enhance organizational performance?

Improving organizational performance necessitates enhancing both individual capabilities and cultivating an organizational culture. Consistent trends are identified as issues through the analysis of organizational and individual indicators, as detailed later on page 33. To address these issues, we prioritize establishing a foundation for individual capabilities that will facilitate autonomous career development by enhancing “growth opportunities” and “motivation.”

On the other hand, we acknowledge the critical importance of “empathy with the mission and vision” and “understanding of policies and strategies” in fostering organizational culture and behavior. At the “company and top management” level, we recognize the significance of providing a platform for instilling our philosophy

and strategies. Within “organization and managers,” we emphasize the implementation of organizational management practices that foster alignment between top-down and bottom-up approaches. To achieve this, we are implementing a comprehensive array of measures from both tangible and intangible perspectives. Above all, we anticipate the “one-on-one” meetings between supervisors and subordinates, initiated last year, will serve as a catalyst for transforming our organizational culture by bridging the gap between management and individuals. We are particularly focused on this aspect.

Q In what direction will you proceed to enhance human capital management?

As mentioned earlier, both enhancing individual capabilities and nurturing an organizational culture are paramount. As a prerequisite for improving individual abilities, we have integrated job-type elements into our management personnel system, thereby clarifying the roles and responsibilities of each individual. Next year, we intend to extend this concept to the human resources system for general employees. Additionally, the use of People Analytics, such as quantifying and visualizing abilities and aptitudes, is essential for enhancing individual capabilities. Through the analysis of data from tools such as 360-degree evaluation and aptitude assessments, we aim to transition from the traditional HR management approach reliant on intuition and anecdotal evidence to a data-driven, objective, and supportive one. Moving forward, we will continue to enhance our human capital by fostering an organizational culture while concurrently implementing these systems.

In cultivating an organizational culture, if personnel policies are perceived as coercive or obligatory, it can lead to resistance from employees. Recently, we have observed a growing number of cases where organizational leaders, such as the presidents of internal companies, voluntarily engage in direct dialogue with young and mid-level employees regarding initiatives such as the “Light” intrapreneurship program and engagement scores. These proactive initiatives by organizational leaders are instrumental in fostering understanding and acceptance of change among managers, creating a virtuous cycle where proactive practices are reinforced. In our management personnel system, we have integrated the roles of human resource development and organizational strength enhancement as essential components for common evaluation criteria for managers. As the Human Resources Department, we are committed to actively promoting human capital investment to support such initiatives.

Enhance Human Capital Management

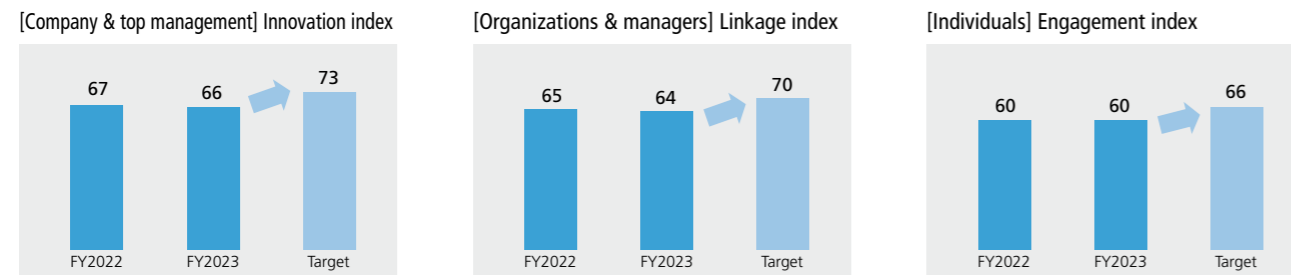
Progress of KPIs for human capital

At Nabtesco, we have implemented organizational diagnostics consisting of questions tailored to foster "innovation," in line with our long-term vision. The aggregated score for these questions constitutes the "Innovation Index." In addition, we have established the "Linkage Index," reflecting the organizational status, and the "Engagement Index," reflecting individual status. These indices serve as outcome-based measures, synthesizing scores from both organizational diagnostics and Engagement Surveys (ES). We closely monitor trends in these indices alongside factor-based indicators aimed at enhancing individual metrics.

In FY2023, KPIs for human capital remained unchanged for one index and declined for two indices compared to the previous year. Upon reviewing the scores of individual items from organizational diagnostics and ES, it is evident

that there was a decline in scores related to "empathy with mission and vision" and "understanding of policies and strategies" for organizational indicators, as well as "clarification of mission and targets" for individual indicators. In addition, scores for questions pertaining to "philosophy and strategies" have decreased. As we formulate the next MTMP, scheduled for announcement in 2024, discussions are ongoing to enhance the resolution of our long-term vision and embody the direction we are striving for. Through these initiatives, we aim to further elucidate our "philosophy and strategy. Furthermore, with the goal of aligning the various levels of "company and top management," "organization and managers" and "individuals" to elicit autonomous and voluntary actions, we will prioritize implementing communication measures to embed the "philosophy and strategy" within individuals.

● Key performance indicators (KPIs) for human capital



(Note) The figures for FY2022 have been retrospectively adjusted due to the utilization of divisional averages to align data from both organizational diagnostics and engagement surveys. Concurrently, the target KPIs for human capital have also been retroactively revised to reflect the third quartile figure for FY2022.

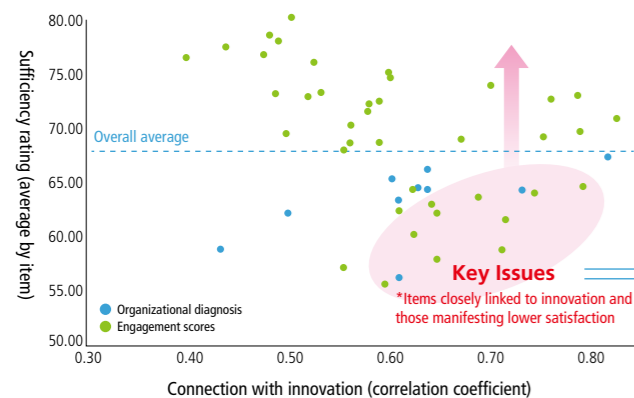
Changes in key issues

Nabtesco prioritizes addressing areas closely tied to innovation that exhibit low satisfaction levels in both organizational and individual indicators. Consequently, the Company is actively advancing initiatives aimed at improving satisfaction in these specific areas.

In the organizational indicators for 2023, there was an increase in the score for "culture of embracing challenges."

This can be attributed to initiatives such as "Light," an intrapreneurship program where employees propose commercialization ideas, and the commemorative event held for the 20th anniversary of our founding, which reviewed our history and DNA. However, there was a significant decline in the indicator for "anticipation of global change by corporations." We attribute this to the

● Individuals' indicators / Organizational indicators and innovation (Image of FY2023 result)



Organizational indicators

Question items	FY2022	FY2023	Gap
Culture of embracing challenges	55.1	56.2	↑ 1.1
Anticipation of global change by corporations	56.7	55.6	↓ -1.1
Development of next leaders within the department	60.7	60.3	↔ -0.4
Outlook for the achievement of corporate targets for the fiscal year	61.4	61.6	↔ 0.2
Solution of issues across departments	65.5	64.6	↔ -0.9

Individuals' indicators

Question items	FY2022	FY2023	Gap
Acknowledgement of achievements	56.3	56.8	↔ 0.5
Sense of achievement	57.7	57.4	↔ -0.3
Motivation	60.3	59.0	↓ -1.3
Satisfaction with personnel evaluation	60.3	59.7	↔ -0.6
Growth opportunities	62.0	60.6	↓ -1.4

ongoing open innovation initiatives, such as the utilization of CVC, where individuals may not yet perceive tangible results. Starting this fiscal year, we have resumed face-to-face results briefings for employees with the CEO, but we recognize the importance of creating and enhancing various opportunities for interactive dialogue between "company and top management" and "individuals."

In terms of personal indicators, there has been an increase in "acknowledgement of results," which we

attribute to enhanced communication frequency and trust-based relationships with supervisors, facilitated by the institutionalization of one-on-one meetings. However, scores for "growth opportunities" and "motivation" have declined compared to the previous fiscal year. We acknowledge that creating and developing environments, venues, and support systems that empower "organizations and managers" to recognize individual potential and foster innovation are critical challenges for the future.

Major actions to be taken to increase the index scores

Introduction of one-on-one meetings to transform organizational culture

In August 2023, we initiated a pilot program for one-on-one meetings in the Corporate Division and the Accessibility Innovations Company, ahead of other divisions. The company-wide rollout was completed by April 2024. Throughout 2023, the implementation rate of one-on-one meetings remained at approximately 70% each month, with

over 96% of surveyed subordinates responding positively to the initiative during the same period. We observed a slight improvement in organizational indicators related to engagement with supervisors, as well as in individual indicators such as "Acknowledgement of achievements." Moving forward, we plan to introduce new methods to establish one-on-one meetings and enhance the quality of dialogue.

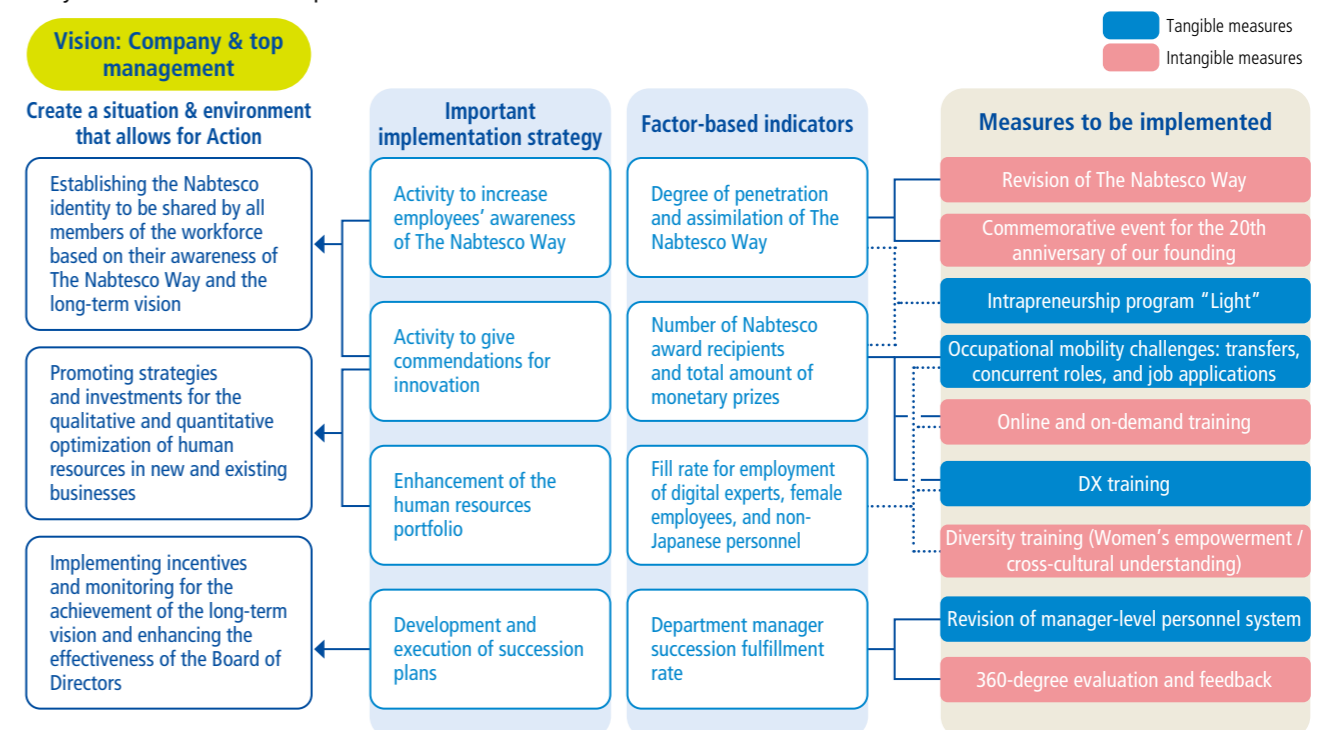
Priority measures for improving the innovation index

Factor-based indicators have been established to enhance KPIs for human capital, with individual measures to achieve each indicator being promoted by the Human Resources Department and relevant divisions. For instance, within the Innovation Index, the "department manager succession fulfillment rate" has been designated as a factor-based metric for "development and execution of succession plans," a critical execution strategy. In January 2024, a new management personnel system was introduced to achieve this indicator. Upon its implementation, job descriptions

(JDs) were formulated for all managerial positions, outlining the human resource requirements necessary for assuming these roles. Going forward, we will diligently manage positions from a business perspective and expedite efforts to fulfill succession plans based on JDs. Furthermore, for the 360-degree evaluations conducted for department managers and above, we are fostering behavioral changes by visualizing management styles through the feedback of evaluation results.

By implementing various measures aimed at enhancing factor-based indicators, we aim to achieve sustainable improvements in organizational performance.

● Systematic measures to improve the Innovation Index



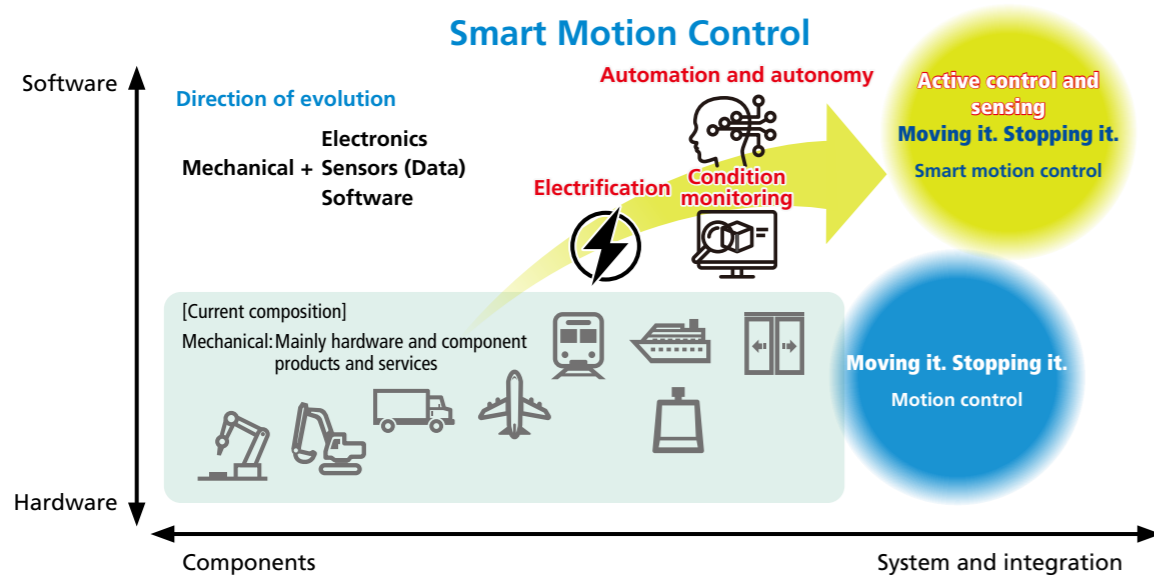
Acquire Next-generation Technologies and Create New Businesses

Promoting the establishment of "New Motion Control"

Nabtesco is proactively pursuing initiatives aimed at establishing "New Motion Control," a future direction for our business model. By synergizing our strengths in hardware and component-centered products and services with AI, IoT, and other software technologies, we aim to accelerate the development of high-precision control equipment, drive units, and other devices to address social issues.

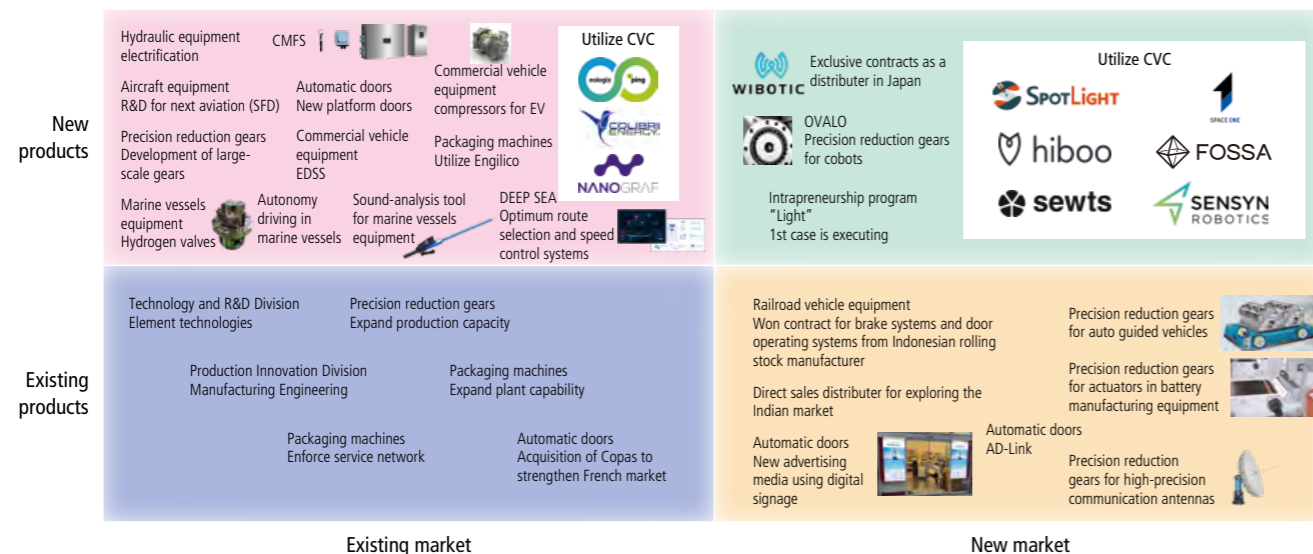
Direction of product and service evolution

The focal points for the evolution of products and services are "automation and autonomy" and "electrification." By integrating mechanical technologies that underpin hardware and components with electric sensors and software technologies, we aim to pioneer a smart motion control technology that incorporates "active control and sensing" alongside traditional "moving and stopping" capabilities.



Approach to target markets

Nabtesco is dedicated to advancing existing products and increasing added value across two pivotal axes: new markets and products. Our focus revolves around developing markets poised for future growth, such as "smart robotics," "mobility," and "renewable energy."



Utilize CVC*

Structure and process of CVC investment activities

Nabtesco utilizes corporate venture capital (CVC) to swiftly identify technologies and product areas essential for deepening existing businesses and cultivating new products and ventures, with a view to long-term growth.

Nabtesco Technology Ventures AG (NTV), headquartered in Switzerland, has forged a strategic partnership with Emerald Technology Ventures for CVC operations, leveraging their expertise to seek co-creation partners.

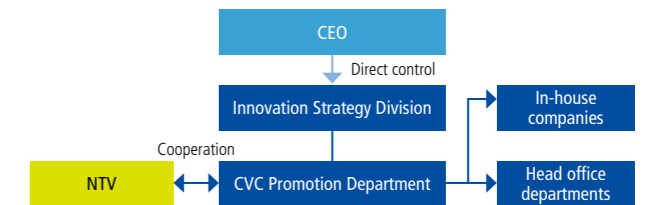
In line with this initiative, we established the CVC Promotion Department to expedite and amplify our CVC efforts. The department strategically seeks co-creation partners, drawing upon the technological and intellectual assets within the Group. Moreover, it oversees CVC-funded projects to accelerate the creation of new businesses.

Investment focus areas and portfolio

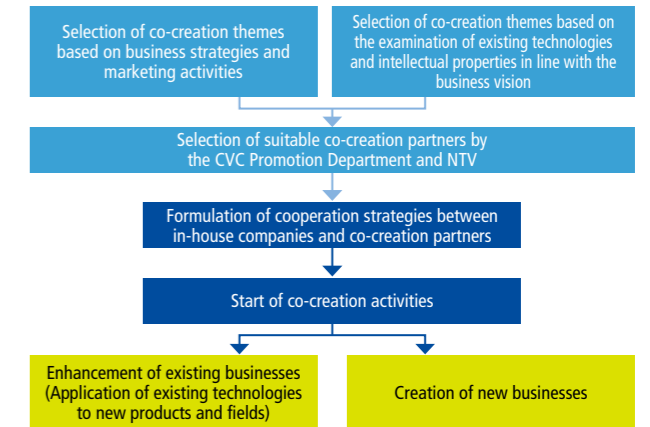
In our CVC investments, in addition to strengthening our existing businesses to lead the charge in new motion control, we are also investing in areas that address social issues such as labor shortages and global warming.

As of the end of 2023, the Company had invested in 10 companies within the €75 million (approximately ¥10 billion) CVC investment fund limit established in 2018. Including investment projects where financial returns have already been realized, our total investment across 14 companies amounts to approximately ¥3.2 billion.

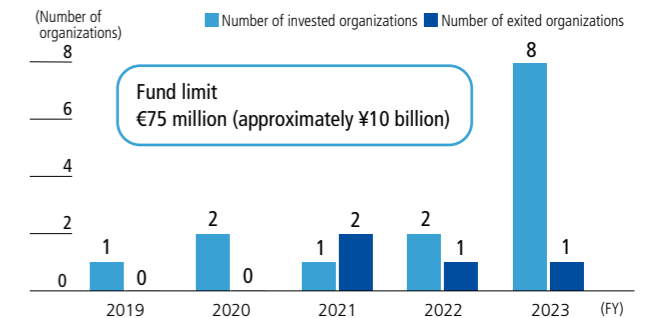
Organizational structure for CVC



CVC utilization process



Investment results



Investment focus areas and portfolio


















Business Models and SWOT Analysis

We are committed to providing high value-added products and services distinguished by our unique motion control technology.

We are building a solid competitive edge by using our accumulated technologies to evolve products, services, and supply systems that meet customer needs.

Our Business <https://www.nabtesco.com/en/products/>

Business segment	Features of business model	Customers	End users	Business	Strength	Opportunity	Weakness	Threat				
Component Solutions (CMP)	<ul style="list-style-type: none"> Our industrial equipment business, centered on mass-produced parts manufacturing, has a significant impact on profitability due to fluctuations in production and sales volumes caused by shifts in demand. Synergies can be expected within the segment, including material procurement through joint purchasing and improved production efficiency. Given the durability of our products, surpassing the service life of industrial robots, construction machinery, etc., there is limited demand for maintenance and replacement. 	 <p>Industrial robot manufacturers Machine tool manufacturers Construction machinery manufacturers, etc.</p>	 <p>Automobile industry Civil engineering and construction industry</p>	<p>Precision reduction gears</p> 	<ul style="list-style-type: none"> Close relationships with cutting-edge technology customers Highly efficient automated production line Products that meet high levels of rigidity, precision, and durability Capability to develop technologies to meet customers' needs A wide range of products for FA applications 	<ul style="list-style-type: none"> Growth in demand from industrial robot manufacturers and from general industry due to the needs for labor saving and automation Utilization of precision reduction gears technologies in response to electrification needs in every industry 	<ul style="list-style-type: none"> High level of dependence on demand for industrial robots High level of dependence on auto sector 	<ul style="list-style-type: none"> Slowdown of capital expenditure in auto industry 				
				<p>Hydraulic equipment</p> 					<ul style="list-style-type: none"> A wide range of products from small to large offerings Production in regions where demand exists A track record of conducting business with all major mother machine manufacturers. 	<ul style="list-style-type: none"> Expanded use of ICT and promotion of electrification by the construction machinery industry Demand for infrastructure driven by the boost in economic stimulus packages Construction demand increasing in emerging countries Cultivation of new customers in Europe and the US. 	<ul style="list-style-type: none"> High level of dependence on hydraulic shovels usage Limited lineup of systemized products 	<ul style="list-style-type: none"> Decrease in demand for construction machinery Rise of local competitors in China and the shift to internal production by construction machinery manufacturers
Transport Solutions (TRS)	<ul style="list-style-type: none"> Since all businesses are developing after-sales services (MRO), stable earnings can be expected from the demand for maintenance, repair, and replacement even during economic fluctuations. Synergies can be expected from the sharing of MRO bases and know-how. 	 <p>Transportation equipment manufacturer</p>	 <p>Airlines Railway companies Ship owners, etc.</p>	<p>Railroad vehicle equipment</p> 	<ul style="list-style-type: none"> Close relationships with customers through continued customization Business foundation based on joint ventures with local companies in China Three production footprints for "local consumption" in Japan, China, and Europe 	<ul style="list-style-type: none"> Railroad demand increasing in Southeast Asian market Entry into the European market through compliance with European standards Increase in the number of new railway projects in emerging markets 	<ul style="list-style-type: none"> Ability to expand into diversified overseas markets 	<ul style="list-style-type: none"> Drastic changes in the supply chain with increasing uncertainty Intensified competition with local manufacturers in China 				
				<p>Aircraft equipment</p> 					<ul style="list-style-type: none"> Know-how and technologies accumulated over 40 years for major aircraft manufacturers in the U.S. and Ministry of Defense in Japan Close relationships with major customers and support systems Highly environmentally friendly and efficient production system 	<ul style="list-style-type: none"> Recovery of passenger demand Increase in demand due to the growing budget for national defense 	<ul style="list-style-type: none"> Completion of demonstration of large-capacity electrification technology but lack of actual mass production experience 	<ul style="list-style-type: none"> Decrease in demand due to the restrictions on people's movement owing to the pandemic
				<p>Commercial vehicle equipment</p> 					<ul style="list-style-type: none"> Know-how and technologies accumulated over 80 years for air brake systems Global production system achieving high quality and low cost All equipment designed and made in-house by specialists dedicated to various manufacturing processes 	<ul style="list-style-type: none"> Expansion of market opportunities driven by the electrification trend Increasing demand for advanced safety technologies for great changes, as represented by CASE* <p>* CASE: Connected, Autonomous, Shared/Service, Electric</p>	<ul style="list-style-type: none"> Lack of competitiveness regarding electrified or systemized products 	<ul style="list-style-type: none"> Competition in the market with leading European manufacturers New competitors emerging in developing countries
				<p>Marine vessel equipment</p> 					<ul style="list-style-type: none"> Trust from customers cultivated through marine engine remote control system Software technology for auto navigation and fuel efficiency improvement Three production footprints in Japan, China, and South Korea 	<ul style="list-style-type: none"> Continued favorable demand for new shipbuilding and marine transportation Development of products for new types of fuel for decarbonization, such as hydrogen and ammonia Responding to labor-saving through the use of IoT and DX 	<ul style="list-style-type: none"> Large impact from fluctuations in world economy Lack of accumulation of electrification technology 	<ul style="list-style-type: none"> New shipbuilding and MRO demand slowdown due to the recession in marine transportation Decrease in operation of marine vessels due to a shortage of sailors
Accessibility Solutions (ACB)	<ul style="list-style-type: none"> Expand sales and service networks through M&A and other means, and pursue profitability improvement by integrating production and sales, deepening the value chain across manufacturing, sales, construction, maintenance, and service. Given the high ratio of the after-sales service (MRO) business, stable earnings can be expected from the demand for maintenance, repair, and replacement even during economic fluctuations. 	 <p>General contractors, building owners, railway companies etc.</p>	 <p>Office buildings, commercial buildings, hospitals, condominiums, stations</p>	<p>Automatic doors and platform doors</p> 	<ul style="list-style-type: none"> Sales network that covers the world's four major automatic door markets in Japan, Europe, the U.S. and China A wide range of high-quality automatic doors Meticulous sales, installation and service networks in the major markets 	<ul style="list-style-type: none"> Stable growth of the automatic door market mainly in developed countries Increase in demand for contactless products associated with measures against infectious diseases Increase in the number of home doors installed in Japan under the barrier-free rate system for railway stations 	<ul style="list-style-type: none"> Limited lineup of peripheral building materials for door products compared with competitors in overseas markets 	<ul style="list-style-type: none"> Long-term tendency for domestic market demand for automatic doors to shrink due to maturity Chronic shortage of human resources in the construction industry 				
Manufacturing Solutions (MFR)	<ul style="list-style-type: none"> Due to the provision of after-sales service (MRO), stable earnings can be expected due to the demand for maintenance, repair, and replacement even during economic fluctuations. Strive to differentiate ourselves by promptly grasping customer needs through the provision of end products and responding to customization requests. 	 <p>Food companies, chemical companies, pet food companies, etc.</p>		<p>Packaging machines</p> 	<ul style="list-style-type: none"> Ability to develop technologies for high-speed, space-saving, and highly airtight packaging Know-how to pack wet contents such as retort foods Ability to customize packaging machines Sales network that has delivered more than 2,000 units in more than 40 countries worldwide Establishment of a production and services system globally 	<ul style="list-style-type: none"> Expanded needs for small-lot and lightweight packaging Expanded needs for automation and labor saving at food processing factories and others Demand for pouch food packaging expanding due to the increase in individuals eating alone and growing public awareness about food safety Increase in demand for environment-friendly packaging materials 	<ul style="list-style-type: none"> Lack of global recognition 	<ul style="list-style-type: none"> Change in market share due to the release of low-cost products by emerging manufacturers 				

Characteristics of and Actions to Enhance Various Capital

We combine and enhance our unique capital to improve our competitive edge.

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

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

R&D		
Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Relationship capital	<ul style="list-style-type: none"> Relationships of trust with blue-chip customers, which helps in identifying their needs in real time 	<ul style="list-style-type: none"> Promotion of innovation through collaboration with both domestic and foreign universities and research institutes
Financial capital	<ul style="list-style-type: none"> Balance sheet that supports proactive R&D investment 	<ul style="list-style-type: none"> Acquisition of latest technologies through CVC and others Proactive R&D investment to generate innovation (Budget for 2022 to 2024: ¥40 billion)
Intellectual capital	<ul style="list-style-type: none"> Unique motion control technology Cutting, polishing & processing, assembly, and inspection technologies Fluid control and opening/closing control technologies CAE analysis technology Intellectual property management to secure the competitiveness of "current core value" 	<ul style="list-style-type: none"> Model-based development, and use of metal additive manufacturing and other technologies Advancement and acceleration of development activities through the use of digital twin technology Governance over intellectual property to acquire "future core value"
Organizational capital	<ul style="list-style-type: none"> In-house company support system provided by the Technology and R&D Division Certification system for environment-friendly/energy-saving products 	<ul style="list-style-type: none"> Promoting the development of products that meet technological innovations such as the electrification and systematization of main machines Enhancement of product development system to contribute to the solution of social issues
Human capital	<ul style="list-style-type: none"> Human resources equipped with sufficient mechanical skills Robust training system to develop personnel with advanced skills Innovation system that encourages employees to embrace challenges 	<ul style="list-style-type: none"> Acquisition and development of human resources for soft/power electronics and DX Development of an innovation-oriented corporate culture through the revitalization of the innovation system

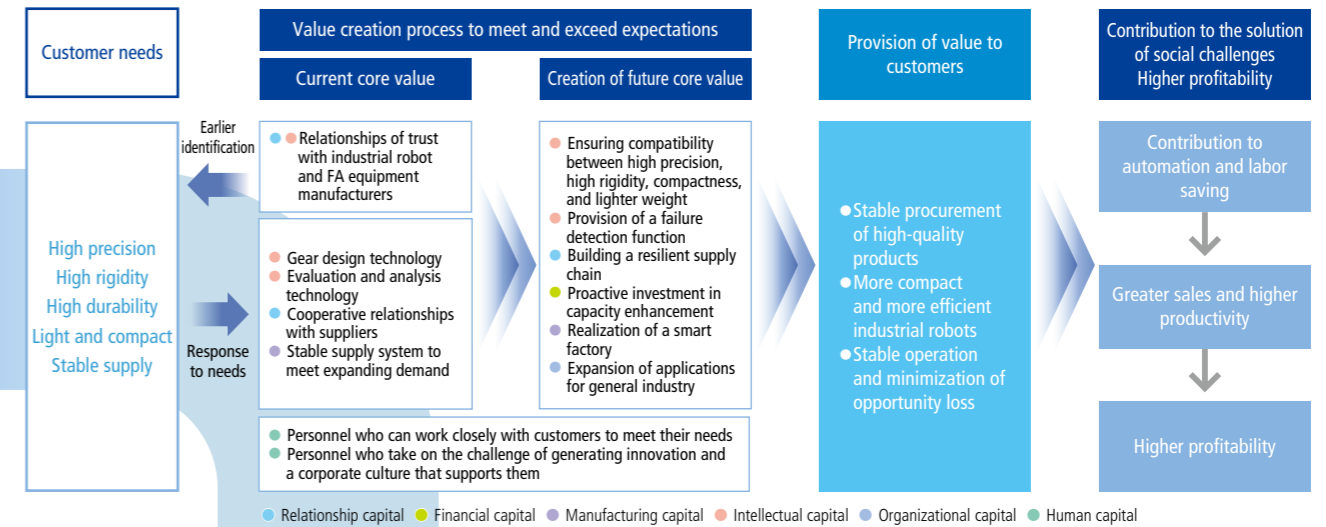
After-sales service/MRO		
Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Intellectual capital	<ul style="list-style-type: none"> Sensing technology and expertise for the effective use of IoT technologies Ability to develop OEM products so as to promote after-sales services 	<ul style="list-style-type: none"> Creation of new customer value through the effective use of sensing, AI, and IoT technologies
Organizational capital	<ul style="list-style-type: none"> Network to provide MRO services in an attentive manner 	<ul style="list-style-type: none"> Promotion of DX to expand opportunities for and increase the efficiency of MRO services

Production and production management		
Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Relationship capital	<ul style="list-style-type: none"> Close relationship with production equipment manufacturers 	<ul style="list-style-type: none"> Maintenance and enhancement of relationships with production equipment manufacturers
Financial capital	<ul style="list-style-type: none"> Balance sheet that supports proactive capital investment 	<ul style="list-style-type: none"> Proactive capital investment (Budget for 2022 to 2024: ¥88 billion)
Manufacturing capital	<ul style="list-style-type: none"> Ability to supply products to meet demand System to mass-produce high-precision products Steady energy conservation & creation activities System to flexibly produce a variety of products in small lots 	<ul style="list-style-type: none"> Manufacturing innovation for higher ROIC Reduction of the inventory turnover period Innovative production management enabled through DX Creation of an environment-friendly smart factory
Intellectual capital	<ul style="list-style-type: none"> High-precision processing & assembly and surface processing know-how Advanced automation, combined processing and other innovative production know-how 	<ul style="list-style-type: none"> Promotion of advanced automation Development of unique production technologies
Organizational capital	<ul style="list-style-type: none"> Production management system to support QCDS performance 	<ul style="list-style-type: none"> Even higher QCDS performance
Human capital	<ul style="list-style-type: none"> Experienced workers for high-precision assembly and processing Quality-oriented culture nurtured since before the integration of the two companies to create Nabtesco Unique human resources education, such as Quality University courses 	<ul style="list-style-type: none"> Maintenance of the skills of experienced engineers and incorporation of such skills into automated processes Continuous achievement of product safety-related targets Full achievement of product safety education plans Full achievement of product safety inspection implementation plans

Web Intellectual Property Strategy
<https://www.nabtesco.com/en/innovation/ip/>

Web Strategies to Acquire and Enhance Core Competence in Consideration of Market Features
<https://youtu.be/bWxXANxteYo>

● Causal path for value creation by precision reduction gears



By leveraging the diverse categories of capital available to us across the value chain, we have established a formidable market presence in our precision reduction gear business, a key driver of our corporate growth. With our sales team adept at understanding and addressing customer needs, we have cultivated a robust customer base in the industrial robots and FA equipment sectors. Additionally, we are actively addressing societal challenges by developing next-generation products, drawing on our extensive experience in product development. We have also invested in expanding our production capacity to meet growing demand while refining our mass production technology to ensure consistent delivery of high-precision products. This holistic approach to capital utilization forms a sustainable growth cycle, enhancing our competitive edge.

Sales		
Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Relationship capital	<ul style="list-style-type: none"> Relationships of trust with customers built through long-term retention of high market shares 	<ul style="list-style-type: none"> Maintenance and enhancement of the Nabtesco brand
Organizational capital	<ul style="list-style-type: none"> Inter-business synergies based on the mutual use of overseas bases System for regional headquarters to support in-house companies' overseas business expansion 	<ul style="list-style-type: none"> Establishment of trust with promising new customers Sharing of information about customers' needs across the Group through the notification system to support the creation of intellectual property
Human capital	<ul style="list-style-type: none"> Personnel who can work closely with customers with sincerity to meet their needs Open, fair, and honest corporate culture 	<ul style="list-style-type: none"> Acquisition of the ability to make proposals that "exceed the expectations of customers"

Procurement		
Major categories of capital	Characteristics of capital that help "meet expectations"	Actions and direction to "exceed expectations"
Relationship capital	<ul style="list-style-type: none"> Supply chain to support stable supply Advanced, sustainability-oriented procurement BCP system built across the supply chain 	<ul style="list-style-type: none"> Solution of ESG issues across the supply chain Greater understanding and recognition of the CSR-oriented procurement policy among suppliers Provision of BCP-related support to make the supply chain more resilient
Organizational capital	<ul style="list-style-type: none"> Procurement network optimized across in-house companies Efficient logistics network optimized for procurement based on information sharing 	<ul style="list-style-type: none"> Greater synergies for procurement across the Group
Human capital	<ul style="list-style-type: none"> "BCP buyer" system Enhancement of employees' procurement ability based on the Certified Procurement Professional certification system (CPP-B grade) 	<ul style="list-style-type: none"> Enhancement of supply chain resilience through the development of more "BCP buyers"

Component Solutions (CMP)

Precision Reduction Gear Business

Hydraulic Equipment Business

Contributing to automation, labor-saving practices, and infrastructure development in the field of manufacturing and infrastructure.

Precision Reduction Gear Business

Precision Equipment Company

In 1986, Nabtesco developed precision reduction gears by applying technology developed in its hydraulic equipment business. By innovating precision reduction gears to address vibration and fragility issues for industrial robot manufacturers, we have successfully gained a high market share despite being latecomers to this market.

Competitive advantages

Outline and features of products

- "Precision Reduction Gears RV™" products are lightweight and compact, yet offer high durability and high positioning accuracy.
- Their compact design contributes to the reduction of size and weight in robots.
- They enhance the controllability of robots through our proprietary mechanism, which minimizes vibrations and enhances behavioral precision.

Production

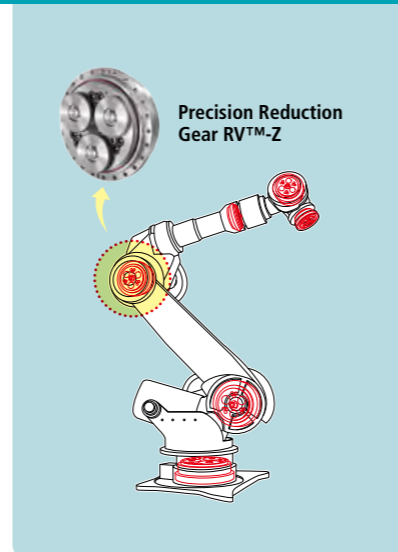
- Precision reduction gears are customized to meet the specific needs of customers.
- A resilient production system has been established, capable of handling demand fluctuations through the newly constructed Hamamatsu Plant, enabling highly efficient automated production.

Business environment

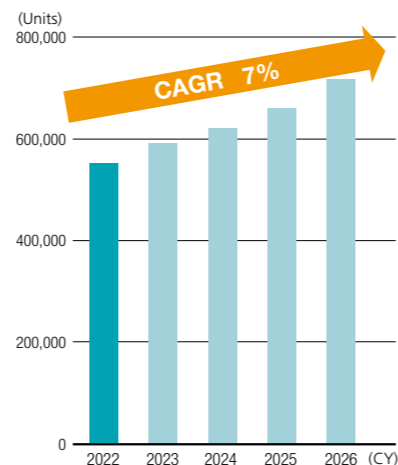
According to the International Federation of Robotics (IFR), while the short-term outlook may be influenced by the global economic slowdown, the medium- to long-term demand for industrial robots is projected to increase significantly due to the growing emphasis on automation and labor-saving practices in production facilities across various industries, including the automobile sector. Consequently, we anticipate the market to expand at an annual compound average growth rate (CAGR) of approximately 10% to 15%.

Growth strategy

The Hamamatsu Plant, completed in 2023, aims to establish a production capacity capable of consistently and efficiently supplying high-quality products through a highly automated production line targeting a 90% automation rate. This strategic investment enables us to effectively meet the increasing demand for precision reduction gears driven by the imperative for automation and labor-saving solutions, while also enhancing productivity and profitability. Additionally, we will concentrate on expanding our product range for both general industries and factory automation (FA) sectors, addressing labor shortages prevalent in manufacturing and catering to the needs of industrial robotics. Moreover, we are committed to developing new applications, serving as essential components in the electrification of diverse equipment.



Worldwide annual shipment of industrial robots (Forecast)



Note: Above IFR data includes the number of small- and medium-large and large-sized robots.
Source: International Federation of Robotics (IFR) 2023



By offering our precision reduction gears, we aim to drive automation in manufacturing processes and alleviate labor shortages resulting from the impending aging society. Furthermore, we remain committed to delivering products that not only enhance the stability of our customers' product quality but also facilitate the automation of their logistical operations.

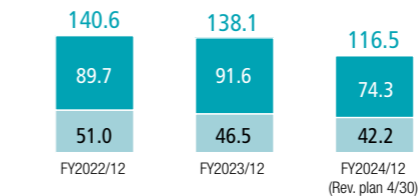
President, Precision Equipment Company
Toshiya Fujiwara

SDGs related to our business



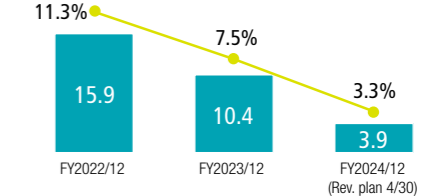
Net sales (¥ Billion)

Precision reduction gear | Hydraulic equipment



Operating income (¥ Billion)

CMP | Operating income margin



Hydraulic Equipment Business

Power Control Company

The Hydraulic Equipment Business represents the shared core of both companies before the merger. With a legacy dating back to 1930, we have cultivated the expertise to produce high-quality, high-value-added products. In addition to expanding our product range to address customer demands, we are committed to enhancing the systematic approach to our offerings and investing in research on electric control technologies to drive innovation.

Competitive advantages

Outline and features of products

- Our traveling units for crawlers boast advanced energy-saving performance and compact design while maintaining high efficiency and generating significant power. Built to withstand harsh environments, they are renowned for their durability and reliability.
- Our product range encompasses a wide variety of components, including traveling units, swing units, control valves, pumps, and other essential units tailored for construction machinery of different sizes, ranging from small to large-scale equipment.

Production

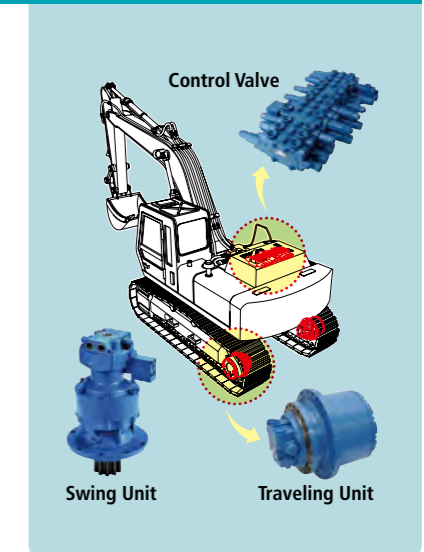
- We strategically produce our products in regions with high demand, continually enhancing Quality, Cost, Delivery, and Service (QCDS) standards.
- The Tarui Plant serves as the mother plant for our hydraulic equipment production, boasting a suite of cutting-edge machining technologies. It realizes the automation of processing, assembly, and logistics operations, along with implementing logistics reforms.

Business environment

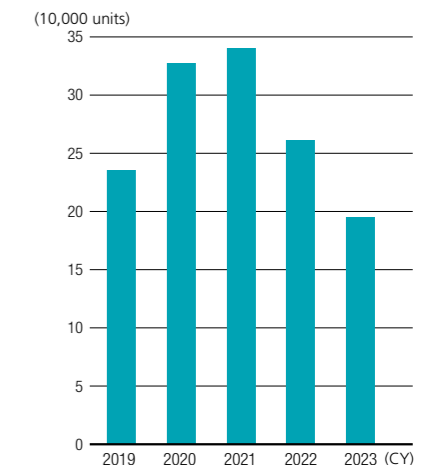
The Chinese market continued to experience stagnation, primarily influenced by the sluggish real estate sector. Intensified competition arose from the emergence of local hydraulic equipment manufacturers and the trend of construction machinery manufacturers transitioning to in-house production. Similarly, the Southeast Asian market witnessed a decline in construction machinery operation due to reduced mining demand, stemming from the Chinese economic slowdown. However, looking ahead, we anticipate progress in Information and Communication Technology (ICT) and the electrification of construction machinery. This movement toward automation and decarbonization is expected to drive added value creation in the medium to long term.

Growth strategy

In anticipation of the maturation of the Chinese market and in response to declining demand and evolving competition, we aim to establish a production scale aligned with market needs. Concurrently, we will introduce cost-effective products tailored to the usage trends of construction machinery in China, ensuring sustained profitability. Moreover, in the United States and European markets, we will focus on nurturing local customer relationships through newly established sales offices while further solidifying ties with Japanese clients. To enhance production efficiency, our Tarui Plant, our primary facility, will implement an automated production line, boosting productivity by 1.5 times compared to previous levels and fortifying our production system against demand fluctuations. Looking toward the medium to long term, we will develop products in preparation for the electrification of construction machinery.



Annual volume of excavators in China



Source: China Construction Machinery Association



We remain dedicated to supplying highly efficient equipment for construction machinery, supporting infrastructure development, and fostering societal and industrial innovation. This commitment is underscored by our efforts to strengthen our lineup of system products and advance research and development initiatives aimed at enhancing ICT and electrification within the construction machinery sector.

President, Power Control Company
Kiyoshi Ando

Transport Solutions (TRS)

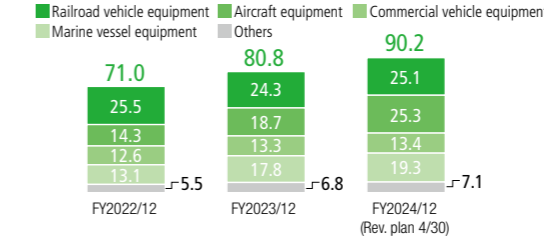
Railroad Vehicle Equipment Business | Aircraft Equipment Business | Commercial Vehicle Equipment Business | Marine Vessel Equipment Business

In the field of “transportation of people and goods,” we contribute to the improvement of safety, security, and comfort through the control technology we have developed over the years.

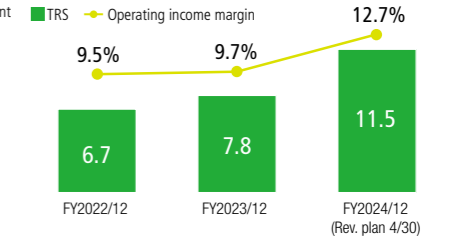
SDGs related to our business



Net sales (¥ Billion)



Operating income (¥ Billion)



Railroad Vehicle Equipment Business | **Railroad Products Company**

Since receiving our first order for air brake equipment from the former Japanese Ministry of Railways in 1925, we have provided products that meet the high reliability and durability requirements for railroad vehicle equipment. Through this, we have contributed to railroad transportation both within and outside Japan.

Competitive advantages

Outline and features of products

- Brake control systems, door operators, and other products that are used in railroad vehicles both in Japan and abroad
- Products that contribute to the weight reduction and higher energy efficiency of railroad vehicles, in addition to increasing their safety
- Ability to develop highly reliable and durable products to meet the needs of our customers

Production

- Promoting optimal development, procurement, production, and sales activities through our production base in Japan, China, and Europe

Services

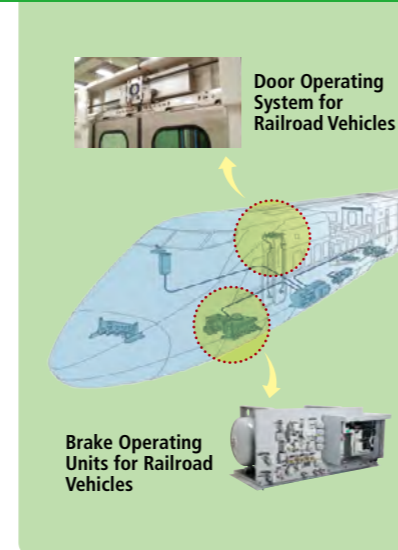
- Providing customer value by meeting various demands, including the stable supply of repair parts and take-back maintenance

Business environment

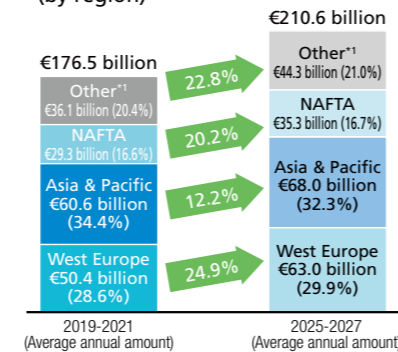
In the Japanese market, railway companies have experienced reduced investment in new vehicles due to a decline in passengers following the COVID-19 pandemic in recent years. However, investment has been improving due to a recovery in ridership and other factors, and it is predicted that demand for railways as social infrastructure will remain stable in the medium to long term. In overseas markets, there is a growing need to utilize railways to reduce carbon emissions in order to improve urban transport and address environmental pollution issues. Demand is expected to increase, particularly in Asia.

Growth strategy

In the Japanese market, in response to the recovery of railway companies' investment in new vehicles, we will develop products tailored to customer needs and propose next-generation standard vehicles. Our MRO division is working to develop remote monitoring systems that replace daily inspections and prevent failures through prior prediction, thereby reducing maintenance-related workloads. In overseas markets, we aim to acquire new projects by utilizing developed products that comply with European standards, which are recognized globally. In Asia, we will strengthen customer development by leveraging our position to secure orders for national railcar projects in Indonesia.



Market size of railroad industry (by region)



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

Aircraft Equipment Business | **Aerospace Company**

Having launched our aircraft equipment business during wartime, we have developed extensive technologies and know-how to expand our product lineup. We provide highly reliable aircraft components and attentive after-sales service to major aircraft manufacturers and airlines globally and domestically, thereby contributing to the safe operation of aircraft.

Competitive advantages

Outline and features of products

- Flight control actuation systems, our core product, receive electric signals from the cockpit, tilting the aircraft up, down, left, and right, and also activate the brake system through hydraulic control
- Long-standing ability to develop aircraft technologies in both the defense and civil sectors

Production

- A highly environmentally friendly and efficient production system that allows us to excel in QCDS at the Gifu Plant, our mother plant for aircraft equipment

Services

- Production and MRO bases near the sites of our major customers ensuring sufficient support whenever they need it

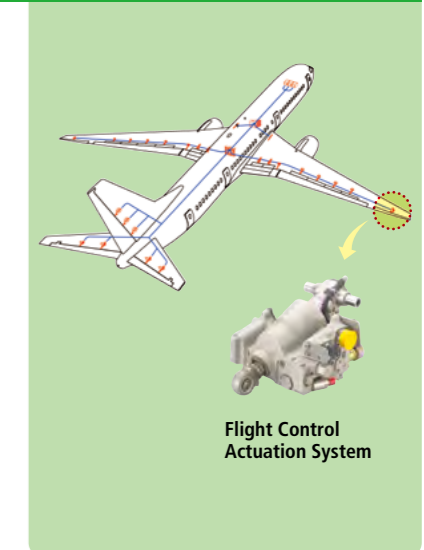
Business environment

In the commercial aircraft sector, passenger demand has started to rise following the easing of travel restrictions amid the improving COVID-19 situation. By February 2024, Revenue Passenger Kilometers (RPK) also surpassed 2019 levels, marking a renewed period of growth with increasing demand.

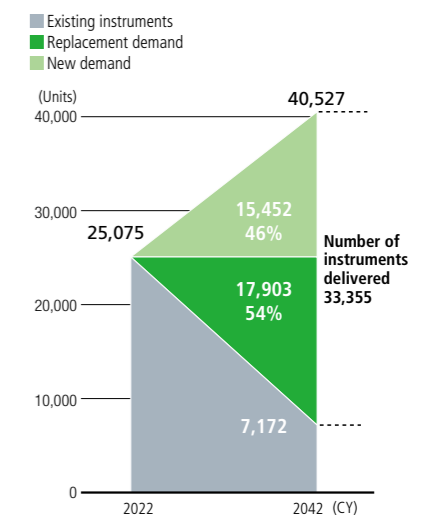
Similarly, in the defense sector, the demand for defense equipment is rebounding alongside the rise in defense budgets, and it is anticipated to remain robust over the medium to long term.

Growth strategy

The global airline market is expected to see an annual growth in passenger demand of approximately 4% over the next 20 years. In our current operations, we will enhance productivity, continuously improve QCDS through supply chain restructuring, and expand MRO capabilities to meet increasing air transportation demand and customer expectations. Additionally, we recognize rising environmental consciousness and the expansion of air mobility as new business opportunities. We aim to foster further growth by developing products and enhancing collaboration with customers to achieve a sustainable society.



Forecast for jetliner demand



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



Thanks to stakeholders' support, we have been providing essential safety components for railcars for 100 years since our founding. For the next 100 years, we will continue to support safe, secure, and comfortable railway transportation, forming the foundation for the development of the railway industry.

President, Railroad Products Company
Michihito Suzuki



We will contribute to aircraft safety by providing highly reliable aircraft equipment to the Ministry of Defense, where demand is expected to increase along with the long-term growth market in the civilian aviation sector, while expanding production and reducing environmental impact.

President, Aerospace Company
Norimasa Takagi

Transport Solutions (TRS)

- Railroad Vehicle Equipment Business
- Aircraft Equipment Business
- Commercial Vehicle Equipment Business
- Marine Vessel Equipment Business

SDGs related to our business



Commercial Vehicle Equipment Business

Nabtesco Automotive Corporation

We started manufacturing air brake products for commercial vehicles in Japan for the first time and have achieved a significant market share in domestically produced large commercial vehicles. Moving forward, we will continue to deliver value that meets evolving needs by developing new products that cater to electrification trends.

Competitive advantages

Outline and features of products

- Our air brake products that enhance fuel efficiency and reduce environmental impact
- Air dryers featuring advanced technology for separating oil in compressed air, enhancing the safety and reliability of the air supply system
- EDSS (emergency driving stop system), which can be retrofitted for buses, automatically stops the vehicle in emergencies, contributing to improved safety for passengers and drivers
- Contribution to achieving a decarbonized society through the provision of electric compressors for EV buses, aligning with the increasing trend of EV usage in both passenger and commercial vehicles

Production

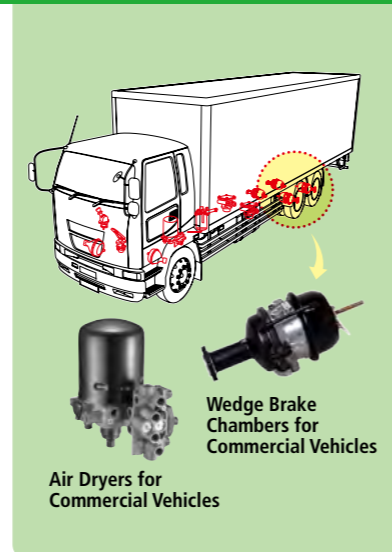
- All equipment is designed and made in-house by specialists engaged in various manufacturing processes to ensure quick response to customer requirements for small-lot production across a wide range of products
- Enhanced cost competitiveness while meeting local quality standards under our global production system

Business environment

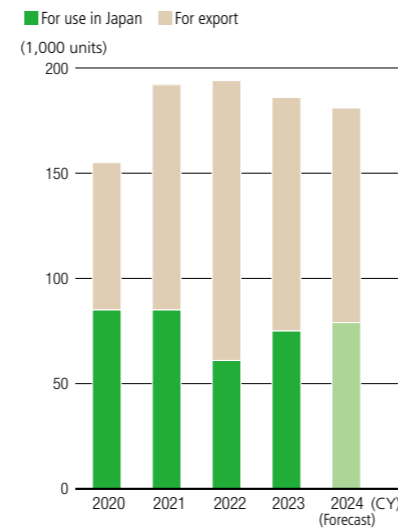
In the short term, customer production is recovering due to the resolution of chip shortages. Domestic demand remains steady, while demand from Southeast Asia has temporarily paused. There is a growing opportunity in the commercial vehicle industry to propose products that address the requirements for improving fuel efficiency and electrification, aligning with the societal shift towards decarbonization.

Growth strategy

We will expand our product lineup to meet diverse customer needs, focusing on product development for electrification in the automotive and commercial vehicle industries. Specifically, we aim to increase brand recognition in the Chinese market, which has a high penetration of EVs. Additionally, we strive for growth through improvements in automation, productivity, and QCDS performance.



Production of large trucks and buses



Marine Vessel Equipment Business

Marine Control Systems Company

In 1963, we became the first company in Japan to develop a pneumatic remote control system for marine vessel engines. Since then, we have continued to innovate, introducing micro control types in the 1980s. Our commitment to developing products that meet customer needs ensures safe and stable maritime transportation. With a global sales network, we have earned the trust of customers worldwide.

Competitive advantages

Outline and features of products

- New marine vessel engine remote control systems featuring advanced, high-security networking functionality and a liquid crystal touch panel, offering excellent operability and scalability
- Electronically controlled hydraulic valves that enhance fuel efficiency, operational efficiency, and reduce NOx emissions, ensuring compliance with environmental regulations
- Optimal navigation route selection and status monitoring solutions provided by Deep Sea, our consolidated subsidiary, reducing the workload on sailors and marine operating companies

Production

- Local production facilities in Japan, China, and South Korea, key shipbuilding nations, that ensure localized production and improved QCDS performance

Services

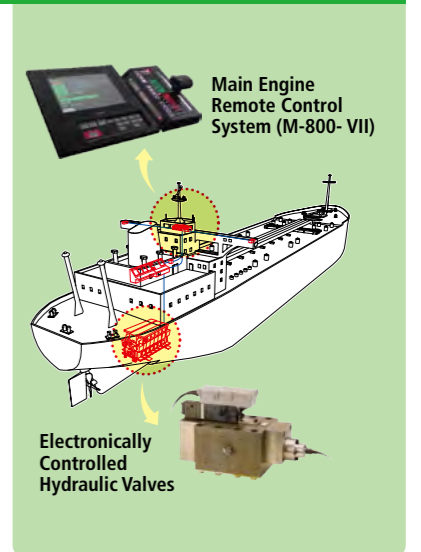
- MRO service bases globally, including our own facilities in Japan, China, South Korea, Singapore, the Netherlands, and India, supported by a distribution network to ensure readiness for 24/7, year-round MRO service provision

Business environment

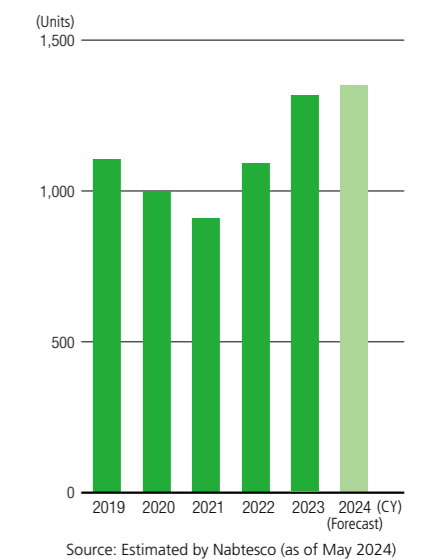
The demand for new ships and MRO remains robust, driven by the strong performance of the shipbuilding and shipping markets. In response to decarbonization efforts in the shipping industry, there is an increasing emphasis on reducing GHG emissions and automating navigation to address crew shortages. This necessitates the use of automated navigation and condition monitoring technologies that leverage environmentally compliant products and digital transformation (DX).

Growth strategy

We will strategically address the growing demand for new vessels and MRO opportunities, focusing on labor shortages and environmental regulations. To enhance efficiency, we will pursue autonomous driving solutions for marine vessels. Additionally, we aim to increase sales of optimal route selection and condition monitoring solutions developed by Deep Sea, and advance integrated control systems that integrate AI technology with ship speed control. In alignment with environmental standards, we will prioritize the development of products compliant with new fuels, including hydrogen gas valves.



Global production of 2-stroke diesel engines for marine vessels



To contribute to the decarbonization of society, we will enhance our products to improve vehicle fuel efficiency and develop electrified products, thereby addressing societal challenges.

President, Nabtesco Automotive Corporation
Ataru Inoue



We are enhancing our technological capabilities to support smart ship initiatives and decarbonization efforts, providing reliable and environmentally friendly equipment for marine vessels. This initiative aims to contribute to safe and stable marine transportation by reducing manpower requirements and environmental impact.

President, Marine Control Systems Company
Yukihiko Mizutani

Accessibility Solutions (ACB)

Automatic Door Business

The Accessibility Solutions Segment contributes to higher safety and greater comfort in public spaces and to the creation of a barrier-free society in the domain of “daily lives and welfare.”

SDGs related to our business



Automatic Door Business

Accessibility Innovations Company

Since developing an automatic door ahead of other companies in Japan in 1956, we have expanded our product range to include barrier-free doors, platform doors, and more. We have established our position as a top-level automatic door manufacturer, serving customers in the world's major markets.

Competitive advantages

Outline and features of products

- Developed high-performance and highly energy-efficient automatic doors for buildings by adopting state-of-the-art sensors and advanced door control technologies
- A broad lineup of platform doors, including full height-type doors and movable doors

Production

- A system to supply our products in the following four major automatic door markets: Japan, Europe, North America and China (Europe: Gilgen Door Systems AG; North America: NABCO Entrances, Inc.; China: NABCO Auto Door (Beijing) Co., Ltd.)

Services

- A network of more than 100 service bases in Japan ensures customer needs are met at all times, including needs for our products, installation work and MRO services

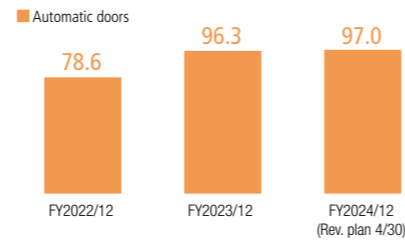
Business environment

Demand for automatic doors for buildings is expected to remain firm globally due to increased domestic urban redevelopment, stable demand in Europe and the United States, and further progress in infrastructure development in Southeast Asia. The installation of platform doors in the domestic market has progressed since peaking in 2025 with the increase in safety for station users and the rise in barrier-free needs. Demand for installation is expected to increase in countries around the world.

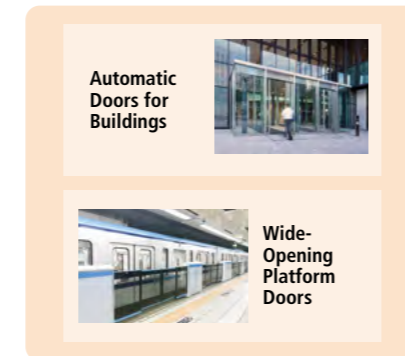
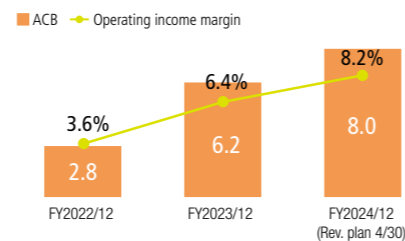
Growth strategy

In the domestic market for doors for buildings, we will steadily capture new projects through urban redevelopment and other initiatives, achieving stable growth including MRO. In overseas markets, we will improve profitability at an early stage by enhancing the operational efficiency of our European subsidiaries. Additionally, we will drive further growth by expanding our MRO services through condition monitoring using big data and IoT, centered on automatic door products. We will also establish an advertising business combined with digital signage and other ventures as new business opportunities.

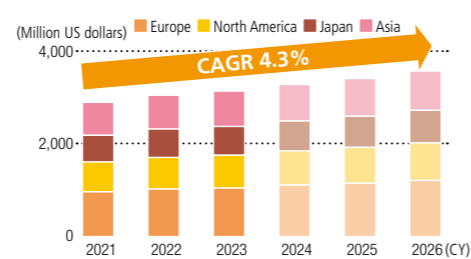
Net sales (¥ Billion)



Operating income (¥ Billion)



Automatic door markets (Estimate)



Source: IHS

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

President, Accessibility Innovations Company
Seiji Takahashi



Manufacturing Solutions (MFR)

Packaging Machine Business

The packaging machine business contributes to food safety and labor saving at production facilities for food and for daily necessities.

SDGs related to our business



Packaging Machine Business

PACRAFT Co., Ltd.

We developed the first packaging machines for retort curry pouches in Japan in 1970, and now we supply automatic fillers and sealers for packaging not only food but also detergents, pet food, and various other products. In particular, for automatic fillers and sealers for retort food, we boast a large market share in Japan.

Competitive advantages

Outline and features of products

- Design and provision of custom-made packaging machines to meet diverse customer requirements, as well as demand for “total line systems”
- Accumulated know-how for packaging wet contents that are difficult to fill, particularly retort foods
- Strengths in measuring performance, space-saving and high-speed packaging, and airtight sealing, which is essential for food safety

Production

- A global production capability (in Japan, China, and the United States) to meet future increase in demand for packaging machines
- Increased production efficiency through plant expansion and production optimization in Japan

Services

- Local subsidiaries in China, the United States, and Germany answer various customer requirements and after-sale service demands.
- Official distributors in major overseas cities have delivered over 2,000 units in more than 40 countries worldwide.

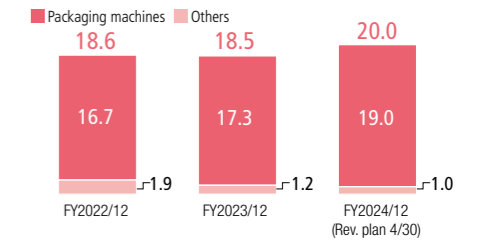
Business environment

We are restoring our supply system to meet demand following the recent resolution of challenges in procuring electronic components, which had been a bottleneck. The future demand for food pouch packaging is anticipated to grow in the medium to long term. This is driven by the increasing need for small-lot, lightweight packaging to minimize food waste, as well as the rising demand for automation and labor-saving solutions in manufacturing plants, driven by heightened awareness of food safety and labor shortages.

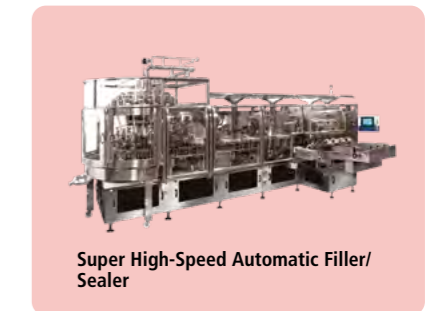
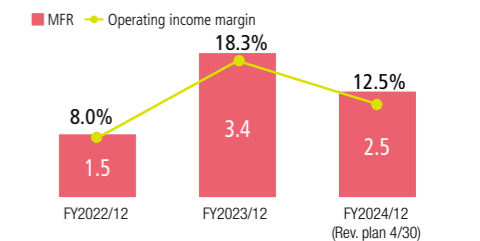
Growth strategy

To meet the growing demand for packaging machines and respond to increasingly diverse and sophisticated customer needs, we will enhance our value proposition by developing a comprehensive line system that integrates pre- and post-packaging inspections. Additionally, we will focus on adopting new environmentally friendly packaging materials. We aim to boost profitability by expanding our presence in Southeast Asia and other international markets, thereby increasing our overseas sales ratio. Furthermore, we plan to optimize MRO efficiency through remote maintenance.

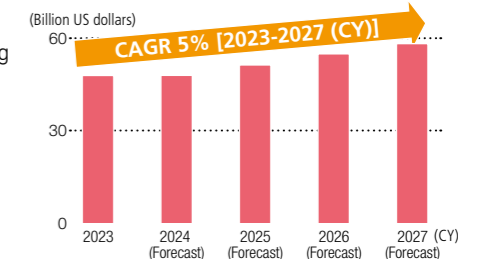
Net sales (¥ Billion)



Operating income (¥ Billion)



Global pouch packaging machinery market



Source: PMMI = The Association for Packaging and Processing Technologies

We contribute to reducing food waste and minimizing plastic usage by promoting the packaging of food in smaller bags and offering refill packaging options. Our efforts are aimed at meeting the growing demand for eco-friendly packaging materials, supporting environmentally conscious lifestyles.

President, PACRAFT Co., Ltd.
Akiyoshi Kitamura



Approach to ESG Issues

The Nabtesco Group has been steadily executing a PDCA cycle 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						
General Category	ESG Category	Major Initiatives	Desirable Direction/ Major Actions	Targets for FY2023 (Extracts)	Achievements in FY2023 (Extracts)	Important targets for FY2024
ESG items having a major impact on financial issues	Environment (E)	Countermeasures for Climate Change	<ul style="list-style-type: none"> Achieve medium- to long-term CO₂ emissions reduction targets 	<ul style="list-style-type: none"> Foster information disclosure in line with the TCFD Reduce CO₂ emissions by 18.9% relative to 2015 in line with MTMP target Build a system to procure renewable energy (CO₂-free electricity) at bases outside Japan 	<ul style="list-style-type: none"> Fostered information disclosure in line with the TCFD (disclosed financial impact) Reduced CO₂ emissions by 20.8% relative to 2015 in line with MTMP target Acquired environmental value certification at overseas bases 	<ul style="list-style-type: none"> Reduce CO₂ emissions by 25% relative to 2015 in line with the MTMP target Launch environment-friendly leading-edge plants (Hamamatsu and Tarui Plants)
	Society (S)	Deliver Solutions for Social Challenges Through Business	<ul style="list-style-type: none"> Promote environment- and safety-conscious design and development Create new businesses and products that address social challenges 	<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"> Established the Innovation Strategy Division Selected intrapreneurship ideas and launched venture units Acquired Deep Sea Technologies Agreed to collaborate with The Boeing Company on decarbonization 	<ul style="list-style-type: none"> Foster the use of the intrapreneurship program (Phase II) and the in-house company innovation system Promote intrapreneurship activities within venture units Create new businesses and products that address social challenges
	Governance (G)	Build a Resilient Supply Chain	<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"> Promote sustainability audits Foster sustainability awareness-raising activities Support the acquisition of resilience certification 	<ul style="list-style-type: none"> Conducted sustainability audits for a cumulative total of 84 companies to identify ESG risks faced by suppliers, propose remedial measures, and promote corrective actions Supported 44 companies in acquiring resilience certification 	<ul style="list-style-type: none"> Promote sustainability audits Foster sustainability awareness-raising activities Support the acquisition of resilience certification
		Increase the Effectiveness of Our Management Entities	<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"> Enhance the management efficiency of the Board of Directors Foster deliberation on important issues (global strategies, human resource strategies, sustainability governance, and others) 	<ul style="list-style-type: none"> Promoted the empowerment of the executive team and fostered deliberation on important issues (global strategies, business portfolio, human resource strategies, climate change-related strategies, and others) Reorganized committees directly under the CEO's control, establishing the Management Materiality Committee and Information Security Committee 	<ul style="list-style-type: none"> Enhance the management efficiency of the Board of Directors Foster deliberation on important issues (global strategies and others)

Web ESG items that drive sustainability power
<https://www.nabtesco.com/en/about/sustainability/s-001/s-002/>

External assessments regarding ESG

The Nabtesco Group's approach to ESG issues has garnered global recognition, exemplified by its inclusion in indices such as the Dow Jones Sustainability World Indices, FTSE4Good, STOXX Global ESG Leaders Indices, and S&P/JPX CARBON EFFICIENT INDEX. In addition, we have obtained top evaluations for environmental measures from CDP.

Member of
Dow Jones Sustainability Indices

Powered by the S&P Global CSA



2022 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX



Web Inclusion in major stock indices and Recognition
<https://www.nabtesco.com/en/about/sustainability/s-024/>

Changes in main KPIs

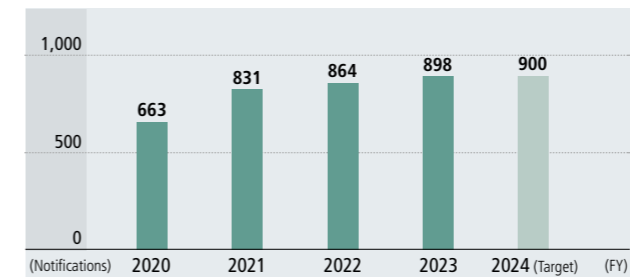
● Combating climate change

Indicator		FY2020	FY2021	FY2022	FY2023	Unit	
CO ₂ emission	CO ₂ emission (Scope 1+2)	52,565	45,082	47,033	43,424	t-CO ₂	
	Scope 1	4,491	4,061	3,893	4,929	t-CO ₂	
	Scope 2	48,073	41,021	43,140	38,495	t-CO ₂	
	Basic unit sales	0.188	0.150	0.152	0.130	t-CO ₂ /Million yen	
	Scope 3	819,726	957,099	934,968	1,074,907	t-CO ₂	
	Percentage of categories in Scope 3	1. Purchased goods and services	76.95	78.73	82.77	79.68	%
		2. Capital goods	3.73	1.59	3.83	2.88	%
4. Upstream transportation and distribution		15.51	16.64	10.29	14.41	%	
11. Use of sold products		2.64	1.94	1.84	1.58	%	
Others		1.17	1.10	1.27	1.45	%	
Energy consumption	Renewable energy / Non-renewable energy	127,764	110,064	113,573	108,517	MWh	
	Renewable energy	7,039	38,876	39,911	44,354	MWh	

*Please refer to the link that follows for the scope of environmental and other data: <https://www.nabtesco.com/en/about/sustainability/s-025/>

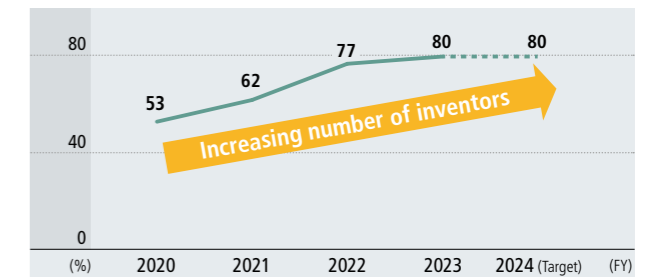
Deliver Solutions for Social Challenges Through Business

● Number of notifications for intellectual property creation^{*1}



*1 The number of intellectual property creation notifications related to inventions, designs, and know-how (including those not filed as patents or designs).

● Increase in the percentage of inventors leading innovation^{*2}



*2 Ratio of the number of inventors (persons who submitted intellectual property filings) to the number of development and production engineers

Build a Resilient Supply Chain

● Addressing ESG issues in the supply chain

● CSR-oriented procurement

Indicator	Scope	FY2020	FY2021	FY2022	FY2023	Unit
Number of respondents to the SAQ	Japan/China	Approx. 1,000	1,144	1,137	1,182	Companies
Number of supplier visits	Japan/China	10	22	25	27	
Cumulative number of suppliers supported in acquiring resilience certification	Japan	7	20	30	44	
Cumulative number of suppliers acquiring resilience certification	Japan	7	17	24	31	

Increase the Effectiveness of Our Management Entities

● Governance data

Indicator		FY2020	FY2021	FY2022	FY2023	Unit
Number of Directors	Inside Directors	Male	6	6	5	5
		Female	0	0	0	0
		Subtotal	6	6	5	5
	Independent Outside Directors	Male	2	2	3	3
		Female	2	2	2	2
Subtotal		4	4	5	5	
Total	10	10	10	10	Persons	
Ratio of Independent Outside Directors		40	40	50	50	%
Ratio of Female Directors		20	20	20	20	%
Number of Nominating Committee members	Inside Executive Officers	1	1	1	1	Persons
	Independent Outside Executive Officers	4	4	4	4	
	Total	5	5	5	5	
Number of Remuneration Committee members	Inside Executive Officers	1	1	1	1	Persons
	Independent Outside Executive Officers	4	4	4	4	
	Total	5	5	5	5	

● Remuneration for Directors and Audit & Supervisory Board Members

Composition		FY2020	FY2021	FY2022	FY2023	Unit
Remuneration of Directors (excl. Outside Directors)	Basic Compensation (Fixed Compensation + Performance-linked Compensation)	210	211	220	168	Million yen
	Performance-linked Stock Compensation (BBT)	72	102	104	102	
	Total	283	313	324	270	
Remuneration of Audit & Supervisory Board Members (excl. Independent Members)	Remuneration of Audit & Supervisory Board Members (excl. Independent Members)	54	54	54	54	
	Performance-linked Stock Compensation (BBT)	—	—	—	—	
	Total	54	54	54	54	
Remuneration of Outside Directors and Audit & Supervisory Board Members (Independent)	Basic Compensation (Fixed Compensation)	61	63	71	73	
	Performance-linked Stock Compensation (BBT)	—	—	—	—	
	Total	61	63	71	73	

Web FY2023/12 Annual Securities Report
<https://www.nabtesco.com/cms/wp-content/uploads/Annual-Securities-Report-FY2023-.pdf>

Increase the Effectiveness of Our Management Entities

Strengthen Corporate Governance

Measures for Enhancing Corporate Governance

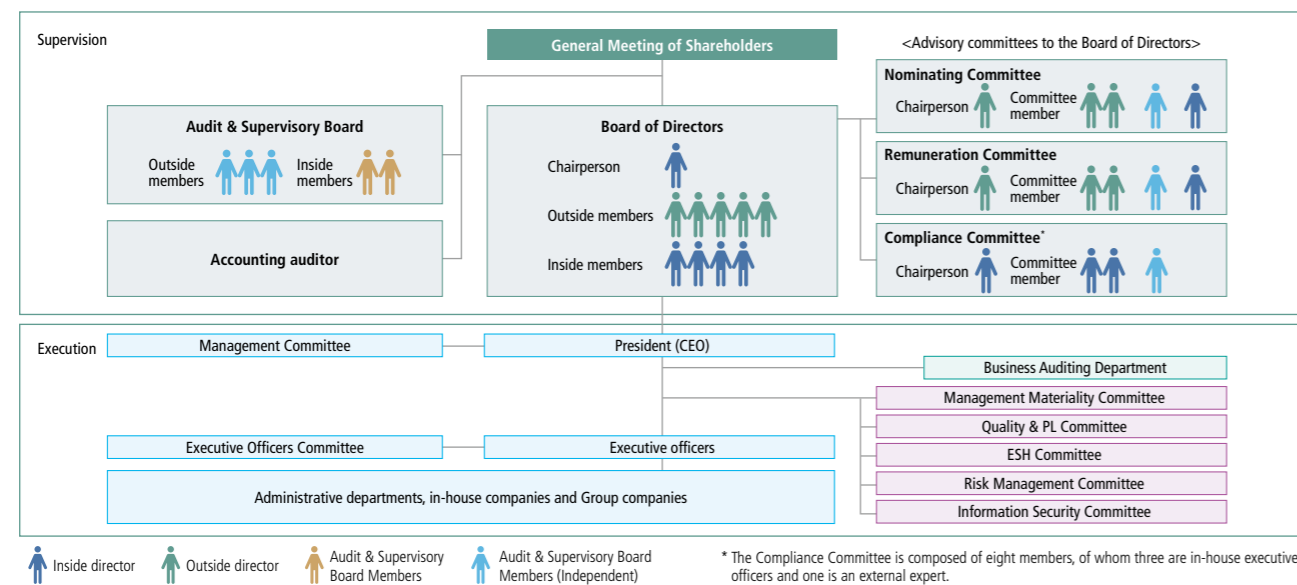
Nabtesco is committed to enhancing its corporate governance based on the Corporate Governance Basic Policy, which indicates the Company's basic approach to, framework of, and measures for corporate governance. Through the implementation of The Nabtesco Way, we are committed to increasing our corporate value over the medium to long term and earning even greater trust from stakeholders.

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 body. Currently, five out of 10 directors, or 50% of the total, are independent outside directors. To advise the Board of Directors, we also have the Nominating and Remuneration Committees, with the majority of members being independent outside directors. Since March 2024, the chairpersons of these committees have also been independent outside directors.

[Corporate Governance](https://www.nabtesco.com/en/about/company/policy/governance/)
<https://www.nabtesco.com/en/about/company/policy/governance/>

Corporate Governance System (As of March 26, 2024)



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 FY2023, 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 to evaluate the effectiveness of the Board of Directors through discussions among Board members.

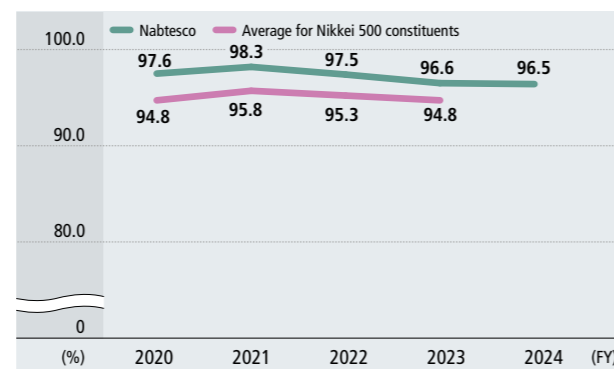
Based on the results, directors believe that the number of members and the structure of the Board were appropriate, and that open, natural, and constructive discussions took place in FY2023, as in the previous fiscal year. In FY2022, we increased the number of independent outside directors by one, reaching a proportion of 50% of the total. This ensures discussions from a wider range of viewpoints. Considering these factors, the effectiveness of the Board is deemed well-established.

In FY2023, the Board of Directors allocated more time relative to the previous fiscal year to discuss the business portfolio, business and global strategies, and other important management issues aimed at realizing the Long-term Vision. Additionally, the Board engaged in more

in-depth discussions on these issues, in addition to the current issues faced by the Board.

We will continue to pursue more effective deliberations by the Board to increase our corporate value over the medium to long term.

Affirmative vote rate for director appointments



Nabtesco considers the affirmative vote rate for selected directors at the general meeting of shareholders as an indicator of confidence in management. This rate has consistently exceeded 96% for the past five years, surpassing the average for listed companies in Japan. In the general meeting of shareholders held in March 2024, the rate for Nabtesco was 96.5%.

(Note) Nabtesco calculates its affirmative vote rate of selected directors by averaging the rates recorded for each of the selected directors at the general meeting of shareholders for the fiscal period. As for the affirmative vote rates of selected directors among Nikkei 500 constituents, the average rate is calculated for companies that submitted temporary reports on their general meetings of shareholders held in June by early July.

Measures to enhance the effectiveness of the Board of Directors

	Evaluation results for FY2022	Outline of the self-evaluation questionnaire survey	Evaluation results for FY2023
Evaluation	<ul style="list-style-type: none"> The effectiveness continued to be ensured. 	<ul style="list-style-type: none"> Increased discussions of medium-to long-term management and growth strategy Necessary to have a deeper discussion on global strategies based on geopolitical risks. 	<ul style="list-style-type: none"> The effectiveness continued to be ensured.
Structure	<ul style="list-style-type: none"> The number of members and the composition continued to be appropriate. 50% were independent outside directors Female directors (20%) 		<ul style="list-style-type: none"> The number of members and the composition continued to be appropriate. 50% were independent outside directors Female directors (20%)
Challenges	<ul style="list-style-type: none"> Enhancement of discussions to increase corporate value on a medium- to long-term basis 	Measures implemented in FY2023 <ul style="list-style-type: none"> Enhancement of opportunities for discussions on management and growth strategies <ul style="list-style-type: none"> Free discussion for outside directors only Held lectures aimed at penetrating ROIC management Major themes related to management strategy <ul style="list-style-type: none"> Medium-term management plan Examination of M&A projects Business portfolio Global strategies Human capital strategy and intellectual property strategy Strategy to deal with climate change 	<ul style="list-style-type: none"> Enhancement of opportunities for discussions on management and growth strategies Enhancement of opportunities for directors to gather information (briefings in advance on important matters, Board meetings held at plants)

Compensation System for Directors

Nabtesco's approach to indicators for performance linked compensation

The basic indicators for performance-linked compensation paid to directors (excluding outside directors) are Return on Invested Capital (ROIC) and profit (attributable to owners of the parent), which reflect the collective efforts of all employees and are key indicators linked to the improvement of Return on Equity (ROE).

This approach encourages all directors to consider capital costs and the payout ratio, promoting management practices that prioritize the sustainable growth of the Group. Furthermore, directors overseeing business units have additional performance functions aimed

at incentivizing medium- to long-term performance improvement. These include R&D indicators to encourage the creation of intellectual property and environmental indicators showing reductions in CO₂ emissions, in addition to management indicators such as the degree of ROIC improvement.

Moreover, net sales and operating income are adopted as indicators to measure the degree of achievement of the medium-term management plan. These metrics reflect the collective business activities of all directors and employees, aiming to align all business activities in one direction. However, if there are impacts from events not caused by the Company's management decisions, the above indicators may be subject to adjustment.

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.

Actual performance of principal indicators related to performance-linked compensation (FY2023)

ROIC	Net sales	Operating income	Profit
4.6%	¥308,691 million	¥18,097 million	¥9,464 million

As for performance-linked compensation for FY2023, we calculated the amount based on the actual results for FY2022.

Treatment/Reduction of Cross-Shareholdings

Nabtesco adheres to a policy of disposing of cross-holdings of shares that have lost their significance as of the end of the most recent fiscal year. In line with this basic policy, the Board of Directors conducts annual examinations based on certain criteria about the purpose, benefits, and capital cost-based risk of cross-shareholdings to determine whether to continue holding each stock and on the number

of shares to retain.

At the Board meeting held on February 29, 2024, the directors confirmed the appropriateness of maintaining cross-holdings of shares issued by 10 companies (as of the end of FY2023). This decision followed an examination of the significance and economic rationality for each stock. The Company remains committed to reducing the balance of cross-holdings of shares.

[FY2023/12 Annual Securities Report, P79 Compensation of Directors and Audit & Supervisory Board Members](https://www.nabtesco.com/cms/wp-content/uploads/Annual-Securities-Report-FY2023-.pdf)

[P50 Trend in Related Major KPIs Remuneration for Directors and Audit & Supervisory Board Members](#)

[FY2023/12 Annual Securities Report, P82 Status of shareholding](https://www.nabtesco.com/cms/wp-content/uploads/Annual-Securities-Report-FY2023-.pdf)

Countermeasures for Climate Change

Mitigation of Climate Change

Disclosure Based TCFD Recommendations

The Nabtesco Group expresses its support for the recommendations made by the Task Force on Climate related Financial Disclosures (TCFD). Accordingly, we are committed to disclosing relevant information in line with the TCFD recommendations, including our progress on climate change-related measures.

◆ Governance

Nabtesco Corporation's Board of Directors determines and oversees our strategies, basic policies and the execution of important operations by sharing information through reports on key issues. Regarding climate change, a director responsible for environment & safety reports on progress toward CO₂ emission reduction targets and the status of major environmental facility investments.

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

As a facilitating body under the direct control of the CEO that is involved in ESH (Environment, Safety, and Health) management, Nabtesco has established the ESH Committee with jurisdiction over the entire Nabtesco Group. The CEO appoints the chairperson and members of the ESH Committee from among our officers, including members of the Board of Directors. The chairperson 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 verification, the chairperson also conducts site visits and leads the organization of company-wide energy conservation meetings and the implementation of ESH audits. The 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.

◆ Strategy (Risks and opportunities)

We analyze the potential impact of climate change on our business activities based on multiple scenarios developed by external parties. When audits by the ESH Committee reveal that climate-related issues (both risks and opportunities) significantly affect our business, they are reflected in our business strategies through the CEO's determination.

The Nabtesco Group identifies "Countermeasures for climate change" as one of the management materiality

issues which is the important challenges for the achievement of our long-term vision. The Management Materiality Committee collaborates with the ESH committee and other relevant committees to regularly evaluate these issues. Activities are discussed and decided upon by the Management Committee and reported to the Board of Directors.

In the future, we anticipate various risks depending on market or customer demands, including: an increase in carbon prices, higher operating costs due to the purchase of electricity from renewable sources, elevated capital expenditures for the introduction of power generation equipment utilizing renewable resources, and rising R&D costs for energy-saving product development. Additionally, we foresee physical risks such as business interruption due to damaged infrastructure or unstable electric power supply caused by wind or water disaster.

However, we also foresee new business opportunities arising from the enactment of new laws and regulations, including energy-efficiency labeling mandates. Furthermore, growing public awareness of climate change is expected to lead to a trend toward extending the lifespan of products aimed at reducing CO₂ emissions, thereby expanding opportunities for our MRO* business.

Going forward, Nabtesco Corporation will intensify efforts to identify environmental risks and opportunities and implement measures to address these, including the promotion of energy conservation activities.

◆ Initiatives for transition to a carbon-free society

The Nabtesco Group has set medium-and long-term targets (SBT: Science Based Targets) for reducing CO₂ emissions, based on scientific evidence, in order to realize a carbon-free society. To achieve these targets, we have established measures to reduce CO₂ emissions through energy conservation, energy creation and renewable energy procurement in the short, medium and long terms, while formulating a plan to gradually reduce CO₂ emissions.

Under the Medium-Term Management Plan (2022-2024), we have allocated approximately ¥26 billion for environmental investments. Furthermore, under this plan, we are promoting energy conservation and creation through environmental facilities, aiming to achieve zero CO₂ emissions (carbon-free) by 2050.

Beyond reducing CO₂ emissions in our own operations, we have implemented various systems and initiatives throughout our value chain. Globally, we promote energy conservation activities and install highly efficient facilities at each production site. We also utilize the latest environmental technologies for constructing and renovating factory buildings. Furthermore, we engage in various energy-creating activities, including solar power generation, and procure renewable energy (through certificate purchases) to monitor progress.

Moreover, we have introduced a Certification System for Energy-Saving Products to encourage the development

*MRO: Maintenance, Repair and Overhaul (after-sale services)

● 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	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	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	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	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 	
	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) 		
	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) 	<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 	
	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)

of decarbonization products and services. We also established an Energy Conservation Activity Award System to incentivize decarbonization efforts during production. Additionally, we support our suppliers in setting voluntary targets for reducing CO₂ emissions.

◆ Risk management

The 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. It then discusses

measures to address those that would have a significant impact on the activities. For risks, regardless of their financial impact, measures are formulated first to deal with risks with a high possibility of materialization, and the 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.

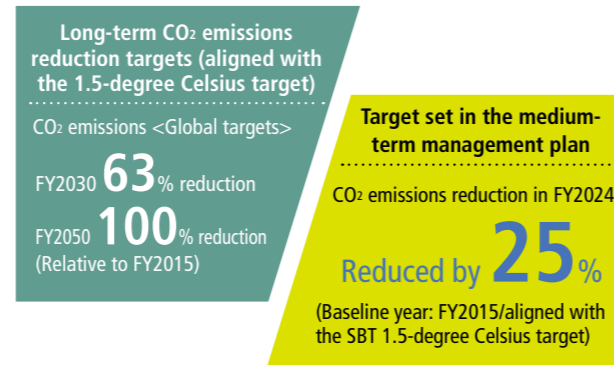
 **Combating Climate Change**
<https://www.nabtesco.com/en/about/sustainability/s-016/>

◆ Indicators and targets

The Nabtesco Group has established long-term greenhouse gas emissions targets, aiming 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 21% as of the end of FY2023 and have thus been making steady progress to attain the targets.

In addition, our efforts extend beyond the Group to include our suppliers. Since a significant portion of greenhouse gas emissions in our supply chain comes from purchased goods and services (category 1 of Scope 3 emissions), it is essential for our suppliers to actively reduce their emissions. To address this, we began a survey of our main suppliers (top suppliers constituting 70% of our annual procurement) to assess whether they have set voluntary targets for greenhouse gas reduction. According

to the results of the FY2023 survey, 77% of our main suppliers have established such targets and have begun to take initiatives to achieve them. We are committed to supporting all our main suppliers in setting voluntary reduction targets by 2025.



P50 Trend in Related Major KPIs Countermeasures for Climate Change

Web Scope of Environmental and Other Data <https://www.nabtesco.com/en/about/sustainability/s-025/>

Foster Environmental Management

Mitigation of Environmental Impact through Products and Services

Product Life Cycle Assessment (LCA)

Our products, which are used in a range of fields, impact the environment throughout their life cycle. We quantify this environmental impact at each stage of their life cycle to implement necessary measures to mitigate it. The LCA results are extensively used in product design.

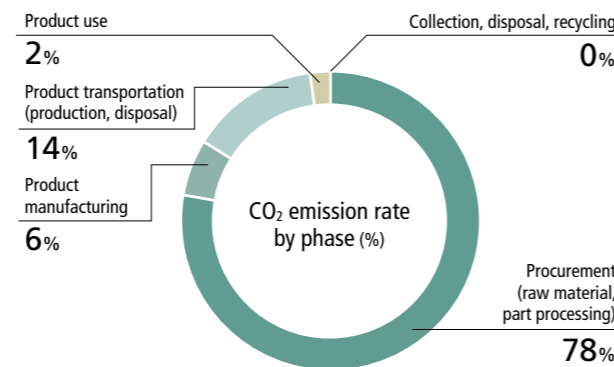
LCA Results

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 the materials used. In the automatic door business, we strive to reduce the power consumption and opening/closing frequency of our products, which tend to generate significant CO₂ emissions in their use stage.

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 contribute to mitigating global warming while increasing the environmental awareness of our employees.

● CO₂ emission rate by phase (FY2023)



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

Web Mitigation of Environmental Impact Caused by Products and Services <https://www.nabtesco.com/en/about/sustainability/s-016/#products>

Web Certification System for Energy-Saving Products <https://www.nabtesco.com/en/about/sustainability/s-016/>

Conservation of Water Resources and Biodiversity

Conservation of Water Resources

The Nabtesco Group does not require a large amount of water or water of a certain quality for our business operations. However, we recognize the importance of managing water resources for environmental conservation. Therefore, we 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.

Water usage and discharge amounts at each base are measured every month, and the Group data are collected through the environmental information management tool. For bases where the monthly water usage fluctuates greatly, we conduct surveys to identify the factors contributing to the increased water usage and implement measures to reduce it as necessary.

Water Use and Water Discharge Management

The Nabtesco Group uses groundwater mainly to cool test stands and melt snow in the snowy regions of Yamagata and Gifu. We discharge the used groundwater into rivers, adhering to the strict water quality control criteria set by the Group. In FY2023, we had no cases of non-compliance with environmental laws and regulations. We will continue to enhance our management of water use and wastewater.

The total volume of water used by the Nabtesco Group in FY2023 amounted to 614,000m³, marking a significant decrease from the previous fiscal year. Due to heavy rain falls caused by recent climate change, the risk of rainwater flooding our plants has increased. The Nabtesco Group uses both oil-based and water-soluble cutting fluids in our operations, and we recognize the risk that hazardous substances from these cutting fluids could be discharged into rivers if rainwater floods our manufacturing facilities. To prevent this risk, we have invested in capital expenditures to install oil-water separation tanks and oil recovery equipment.

In FY2023, we spent ¥34.63 million to enhance the rainwater discharge function and make our facilities more water-resistant.

● Targets for water use and FY2023 results

Item	Targets	FY2023 results	Status
Global water use (Per unit of sales)	Year-on-year reduction of water use to: 2.24 m ³ / ¥1 million	1.84 m ³ / ¥1 million	Achieved

Web Conservation of Water Resources <https://www.nabtesco.com/en/about/sustainability/s-017/>

Biodiversity Conservation

The Nabtesco Group evaluated the impact of its business activities on biodiversity using the SBTN Sectoral Materiality Tool¹. As the first step, we screened to identify the materiality of the impact on biodiversity in the sectors related to our businesses. We defined the pressure categories with a score of "Medium" or higher as "material pressure categories," we found that all our Group's businesses needed to be assessed in more detail. Subsequently, we used the WWF Biodiversity Risk Filter² to assess the impact based on the location of each base. This assessment indicated that two of our bases had a large impact on forests concerning the use of construction materials. However, major materials used at these bases are stainless steel and others, suggesting the actual impact is not substantial. We are committed to biodiversity conservation and will continue to improve our impact assessment methods. Additionally, we assess impacts throughout the supply chain. Our evaluations determined that the risk of impacts on biodiversity at major suppliers is low. However, we identified a moderate level of risk at some of our major customer delivery destinations, such as China. We will continue to refine our impact assessment methods and regularly assess biodiversity risks.

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.

Web Biodiversity Conservation <https://www.nabtesco.com/en/about/sustainability/s-017/#Biodiversity>

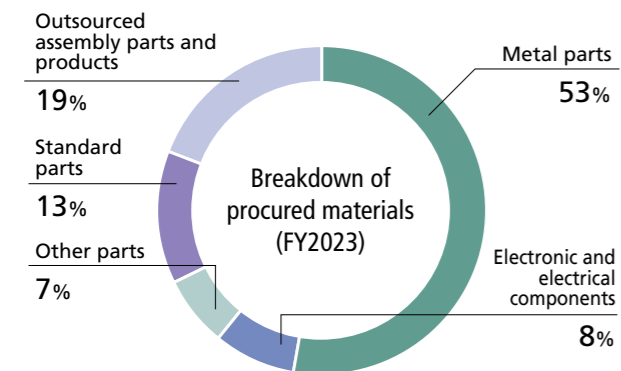
Build a Resilient Supply Chain

Nabtesco Group's Procurement Activities

Fundamental Approach to Sustainability in Supply Chain

The Nabtesco Group conducts business with approximately 1,600 suppliers, encompassing various types such as metal parts, electronic and electrical components, outsourced machining, assembly, and processing. Our relationships with suppliers significantly influence the Nabtesco Group's cost structure and performance across quality, cost, delivery and service (QCDS). To achieve medium- to long-term growth, we prioritize building a resilient supply chain. In alignment with the Act against Delay in Payment of Subcontract Proceeds, we engage closely with our suppliers, conducting business transactions that are fair, transparent, and structured appropriately in terms of cost. Additionally, we recognize the societal expectations regarding the social and environmental impacts of supply chain activities. Consequently, the Nabtesco Group is committed to fulfilling its social responsibilities throughout the supply chain, with a focus 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 address ESG issues within its supply chain. Recognizing the increasingly complex and diverse nature of supply chain risks, we revised the Nabtesco Group CSR-Oriented Procurement Policy in 2020, following approval from the Management Committee. The revision signified our commitment to strengthening our supply chain management practices. As part of the update, we integrated our procurement guidelines with the Policy to enhance suppliers' understanding of our commitment to CSR-oriented procurement. We remain committed to implementing a Plan-Do-Check-Act (PDCA) cycle based on the Policy, which is available in Japanese, English, Chinese, and Thai. Furthermore, we will continue to enhance communication with our suppliers to promote CSR-oriented procurement practices.

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, focusing on sustainability factors such as QCDS and technological development.

In order to promote CSR-oriented procurement, it is essential to possess expertise and knowledge in environment- and human rights-related issues, areas typically outside the scope of traditional procurement departments. Therefore, the Procurement Planning Department of the Production Innovation Division, in collaboration with head office departments, plays a central role in promoting CSR-oriented procurement. This entails supporting initiatives conducted by both in-house and Group companies. The Procurement Planning Department convenes the Group Procurement Meeting, attended by the procurement departments of each in-house and Group company, to deliberate and establish relevant policies and measures. Furthermore, it provides 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 conducted the SAQ survey annually of our primary suppliers both within and outside Japan, including key suppliers, to ensure CSR-oriented procurement. The Nabtesco Group identifies key suppliers crucial for its business continuity based on various factors such as transaction volume, QCDS performance, technological development capability, and financial stability.

In FY2023, we surveyed 1,182 primary suppliers (compared to 1,137 in the previous survey) and received responses from 85% of them (77% in the previous survey). The response rate for our 100 major suppliers, who account for about 70% of our procurement in terms

Results of the SAQ conducted on primary suppliers in FY2023 (Average among all suppliers)



of transaction amount, was 100% (95% in the previous survey). We analyzed and evaluated the questionnaire results for each supplier, providing relevant feedback as necessary. In addition, we utilized the results to identify, monitor, and address ESG risks. In FY2023, we received no reports of serious non-compliance with labor and environment laws or regulations from any stakeholders within our supply chain. We remain committed to enhancing the SAQ, including refining the questions and response method, as part of our ongoing improvement efforts.

Interviews, Audits and Briefing Sessions Targeting Suppliers

In 2023, we conducted online audits and interviews with 27 major suppliers. Following the revision of our CSR-Oriented Procurement Policy, we expanded the audit items to include labor issues, health management, and due diligence (DD) for human rights and the environment. Moreover, in 2022, we set a target for the number of suppliers' interviews as a medium-term KPI, showing our commitment to boosting communication with suppliers. We will continue to prioritize interviews, particularly with major suppliers whose ESG-related performance appears to be low based on SAQ results. Through these interviews, we will conduct audits to help suppliers identify ESG-related risks, propose improvement measures, and implement corrective actions as needed.

Furthermore, we have been holding collective briefing sessions for suppliers since the latter half of FY2014 to enhance their awareness of CSR issues.

Nabtesco Group Statement on Responsible Sourcing of Minerals

For responsible mineral sourcing, the Nabtesco Group has affirmed its commitment to collaborate with suppliers to prevent the use of conflict minerals*. These minerals,

Web Build a Robust Supply Chain
<https://www.nabtesco.com/en/about/sustainability/s-013/>

sourced from regions such as the Democratic Republic of the Congo (DRC) and neighboring areas, are often linked to human rights abuses and conflicts.

In 2020, we incorporated a section on "Responsible procurement of minerals" into the Nabtesco Group's CSR Oriented Procurement Policy and requested suppliers to adhere to it by submitting a letter of consent.

Additionally, in FY2023, we surveyed our top 100 suppliers, representing about 70% of our procurement in terms of transaction amount, to ensure mineral procurement safety, using an industry-standard survey format.

Moving forward, we plan to expand the scope of our surveys and implement safety checks throughout our supply chain. If any use of conflict minerals is detected, we will address the issue with the respective supplier and take immediate action 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 perpetuate conflicts in the Democratic Republic of the Congo (DRC) and neighboring countries. In the United States, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010, companies using these minerals are required to report such usage to the Securities and Exchange Commission (SEC).

Partnership with Suppliers

The Nabtesco Group is proactively helping suppliers in enhancing their productivity and addressing their ESG-related issues. We provide guidance to suppliers on quality management improvements for the products they manufacture and deliver to us. Moreover, we support them in implementing regular "5S" activities for plant management, and utilize the value engineering (VE) method to perform functional analyses of their products and operations to increase their productivity. In addition, we regularly provide suppliers with training to address ESG-related issues, thereby enhancing our capability to deal with such concerns 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 Business Continuity Plan (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 aid them in formulating their plans and acquiring practical BCP skills. We also provide important suppliers with individual support. Moreover, we have established a unique position called "BCP buyer" within our procurement team and have already trained 23 individuals in this role. Through these efforts, we are enhancing BCP implementation across our supply chain to mitigate procurement risks for the Nabtesco Group.

Our BCP support activities have garnered recognition from the Ministry of Economy, Trade and Industry,

the Small and Medium Enterprise Agency, and local governments, and have been showcased as model examples. We have thus also contributed to raising public awareness about BCP.

* While BCP traditionally stands for "Business Continuity Plan," for Nabtesco, BCP represents "Business Continuity Power." We are dedicated to strengthening the BCP of our organizations and bolstering our ability to respond effectively to crises.

Support for the Acquisition of Resilience Certification*

We are actively assisting suppliers in acquiring Resilience Certification for the development of their BCP systems, aiming to help 30 suppliers achieve certification by 2023. As of today, 31 suppliers have successfully acquired it.

* Resilience Certification is awarded under a national government certification system according to the basic law on national resilience. It is granted to enterprises that demonstrate a consistent improvement in their capacity to swiftly resume operations following crises such as disasters.

CMFS contributes to preventing wind turbine failures and prolonging equipment life



Osamu Nohara
Corporate Officer, General Manager, CMFS Business Promotion Department, Technology and R&D Division

Yohei Moriuchi
CMFS Business Promotion Department, Technology and R&D Division

Hirofumi Komori
Manager, CMFS Business Promotion Department, Technology and R&D Division

Kenta Goto
CMFS Business Promotion Department, Technology and R&D Division

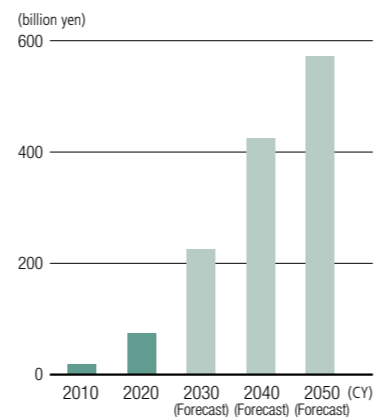
Izumi Ando
CMFS Business Promotion Department, Technology and R&D Division

*The departments listed above were accurate at the time of the interviews in 2023. At present, the CMFS Business Promotion Department belongs to the Innovation Strategy Division.

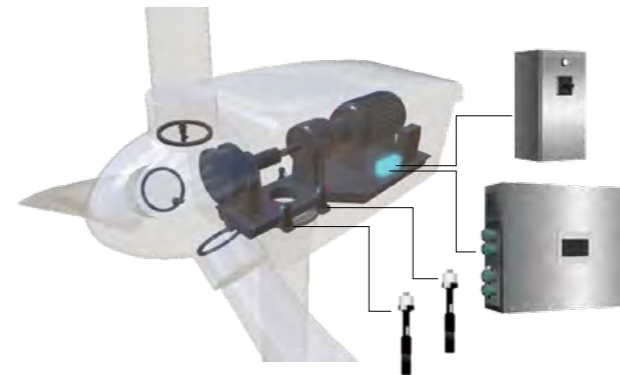
As climate change issues worsen, there are increasing expectations for wind power generation as a means of combating global warming. The global onshore and offshore wind marketplace is expected to grow to 1,900 GW by 2030, more than double the 800GW capacity in 2021.

Wind power generation is becoming increasingly popular as a renewable energy source. However, wind turbines face significant risks of failure due to harsh environmental conditions, such as strong winds and turbulence. Nabtesco's CMFS (Condition Monitoring system with Fail-Safe) equipment for wind turbines is a trailblazing product that detects loads with its sensors to help prevent failures, thus extending the service life of wind turbines. The CMFS business is innovative and marks a milestone in the company's data business sector as its first project. We interviewed the five core project members, who continued to champion the adoption of wind power generation despite having to withdraw from the hardware market for yaw drive units.

● Wind turbines market



CMFS and diagnostic services include external load detection sensors, a controller, and a power supply device.

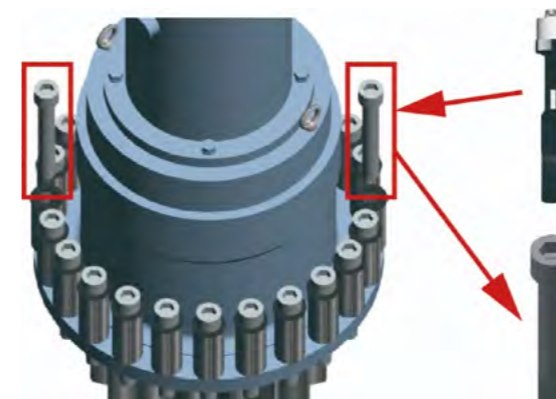


challenges in development, requiring a high reduction ratio decelerator, unlike those used in construction machinery, and operating within a completely different environment. Despite these obstacles, we successfully commercialized the unit and entered the market. Subsequently, we achieved annual sales growth of 20%, continually updating the unit, and by 2009, the business had expanded sufficiently to warrant a dedicated production line for wind turbine equipment.

Komori: Already entrenched in the European market, we faced the challenge of meeting customers' standards. In addition, price competition gradually intensified as Chinese manufacturers entered the market, and as such, we undertook a profitability review that ultimately led to our withdrawal from the market in 2017.

Nohara: Actually, during this period, a yaw drive unit we delivered to a client incurred accidental damage due to a failure to integrate with other components and harsh environmental conditions. This incident highlighted that specializing in a specific part alone would not suffice to prevent failures or contribute to the advancement of wind turbines as a whole.

Taking a birds-eye view of the wind power market revealed the primary demands of customers. Following our withdrawal from the business, we became keenly aware of the need to rethink our approach to product development, marking the inception of CMFS development.



Two bolt strain sensors were mounted on each drive unit to detect in real time when the bolts are being subjected to external loads.

Web CMFS equipment for wind turbine
https://www.condition-monitor.nabtesco.com/en/?doing_wp_cron=1717594277.1056129932403564453125



Komori
Our deep knowledge and experience gained over 10 years in drive unit design led to a change in ideas.

Knowledge and experience enable thinking outside the box

Komori: It all began when we investigated the failure. Wind turbine nacelles must rotate in response to changes in wind direction, with the yaw drive unit controlling this rotation. The locations where wind turbines are installed face heavy loads from unpredictable, harsh environmental conditions. Upon closer examination of the failed generator, we discovered that not all yaw drive units experienced an equal external load; only a few parts were heavily loaded. By minimizing braking force before wind turbine experiences a heavy load, the yaw drive unit should be able to prevent failures by distributing the load more evenly.

Ando: We focused on the bolts connecting the yaw drive unit to the wind turbine to monitor loads. We attached sensors capable of detecting bolt distortions and measuring the load on the drive unit in real-time, preventing failures by instantly releasing the electromagnetic brake if the load exceeds a predetermined value. Before withdrawing from the market, our focus had been on manufacturing the drive unit. However, we shifted our perspective and realized that the value extended beyond the unit to include the bolts used for attachment.

Goto: Until we could achieve the desired verification results and reach a conclusion, we often encountered difficulties.



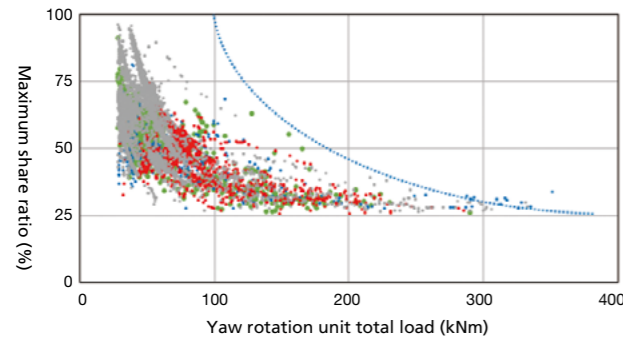
Goto
We also faced the unprecedented challenge of accessing wind turbines in harsh environments and climbing 70 to 80 meters to install the units.

Success often begins with failures

Nohara: Our wind power generation business dates back to around 2001. At that time, the Hydraulic Equipment Business was seeking to diversify its offerings beyond construction machinery, leading us to venture into the wind power generation market, where we could leverage our design and production technologies. This led us to develop a "yaw drive unit," responsible for controlling the direction of the wind turbine nacelle. This unit posed significant



Nohara
What would be the optimal outcome to achieve? What do customers prioritize the most? These questions marked the starting point after our withdrawal from the business.



They can also provide alerts in case of abnormalities and offer diagnostic services to predict the remaining service life.

Challenges for the data business

Komori: It was the first time Nabtesco had ventured into data business, a new area for us, in addition to product production. One of the major outcomes of this product launch is the new business model, in which we sell not only the tangible product mentioned earlier, the bolt strain sensor, but also the information obtained from the sensor.

Nohara: We faced the bitter experience of merely battling cost reductions, despite our success in designing a superior product that leveraged our advanced technological capabilities. This fueled a strong desire to create products that synergize efforts from both design and production sides. The added value of the data business utilizing the sensor represents the culmination of these efforts.

Komori: We successfully launched the new business by assuming a central role fostering collaboration among the procurement and manufacturing departments, as well as our clients and suppliers. This ability is a unique aspect of Nabtesco's corporate culture.

Goto: We were able to achieve a higher level of launch with the Technical and R&D Division providing comprehensive support in advanced areas of manufacturing, such as analysis and simulation. Having a system in place for



Testing on real wind turbines was conducted in the Central Hokkaido area, with the team entering the turbines and ascending 70 to 80 meters to install the testing units

immediate follow-up on challenging issues provided reassurance during the process.

Envisioning the future of CMFS

Moriuchi: As the CMFS equipment business launches, I am keen on further integrating electronics know-how into the company and engaging a wide range of people.



Moriuchi

I believe we were able to accelerate the project, in part, due to the close communication among members.

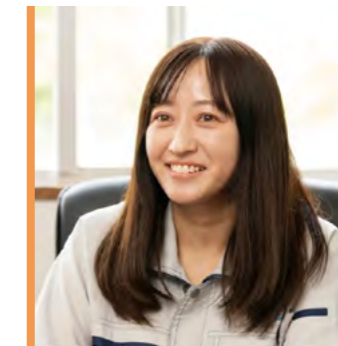
Goto: The daily test results serve as my primary motivation. I am eager to participate in the design of a variety of models and expand the business into other departments by building on these achievements.

Komori: Going forward, Nabtesco is poised to innovate more than ever before. As a pioneer, I would like to share the success story of CMFS within our company. Additionally, drawing from my experience, I am eager to explore new business ventures beyond CMFS. Nabtesco has an intrapreneurship program called "Light" aimed at promoting idea commercialization. I am seriously interested in participating in a business creation project through this program, where I can generate innovative ideas from scratch.

Nohara: It's widely acknowledged that other countries have installed wind turbines at a rate 100 times higher than Japan. Therefore, our goal should be to expand our operations overseas, especially in the European market. Our experiences in the European market, prior to our withdrawal, can guide our current endeavors. Innovation is a process that evolves over time; it is not an overnight occurrence. The most direct route to innovation is through the gradual accumulation of experiences.

The CMFS project embodies this principle. It revolves around understanding the needs and aspirations of our customers who utilize our products. In essence, the key to innovation hinges on the depth of vision development. For the CMFS business, this vision entails capturing a larger market share in wind power generation while minimizing environmental impact and maximizing operational efficiency. By increasing operational efficiency, we can reduce the unit cost of power generation, thereby

enhancing the quality of life for individuals. This is the core objective of this project. As developers, it is crucial for us to recognize the evolving landscape and adapt accordingly. Only by acknowledging and embracing change can we deem an innovation truly successful.



Ando

As a sales representative, I am currently strategizing ways to enhance our promotional tools.



Accelerating product development through CVC investment

Technological fusion of eologix and Nabtesco

Nabtesco will integrate its CMFS technology with eologix, a company in which we invested through Corporate Venture Capital (CVC) in 2022, leveraging their outstanding status monitoring technology. This collaboration aims to develop an advanced status monitoring system and enhance improve power generation efficiency.

eologix, a dynamic tech company established in Austria in 2014, specializes in developing innovative sensors for wind turbines. Their smart sensors detect icing on wind turbine rotor blades, enhancing power generation efficiency. Renowned for their reliability and technological prowess, these sensors have already been adopted in over 700 wind turbines across Europe.

Nabtesco plans to integrate its CMFS technology with eologix's outstanding status monitoring technology to develop an advanced status monitoring system and improve power generation efficiency, leading to groundbreaking new products and services. These innovations are expected to reduce maintenance costs and boost revenue from electricity sales.











Nabtesco will accelerate the development of new products and invest in human resources in the wind turbine sector to enhance global sales efforts, particularly targeting the European and U.S. markets.








© eologix sensor technology gmbh

Management Team

Board of Directors (as of March 26, 2024)

 Kazumasa Kimura (Aug. 17, 1961) Representative Director President Chief Executive Officer	 Atsushi Habe (Nov. 27, 1959) Representative Director Senior Managing Executive Officer Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication	 Toshiya Fujiwara (Mar. 3, 1960) Director Managing Executive Officer Component Solutions Segment, Precision Equipment Company, and in charge of Production Innovation	 Seiji Takahashi (Feb. 12, 1966) Director Managing Executive Officer, President, Accessibility Innovations Company
 Kiyoshi Ando (Jan. 10, 1964) Director Executive Officer, President, Power Control Company	 Mari Iizuka (Mar. 29, 1959) Outside Director	 Naoko Mizukoshi (Sep. 23, 1967) Outside Director	 Naoki Hidaka (May 16, 1953) Outside Director
 Toshiya Takahata (Nov. 19, 1963) Outside Director	 Seiichiro Shirahata (Mar. 3, 1961) Outside Director		

Audit & Supervisory Board Members (as of March 26, 2024)

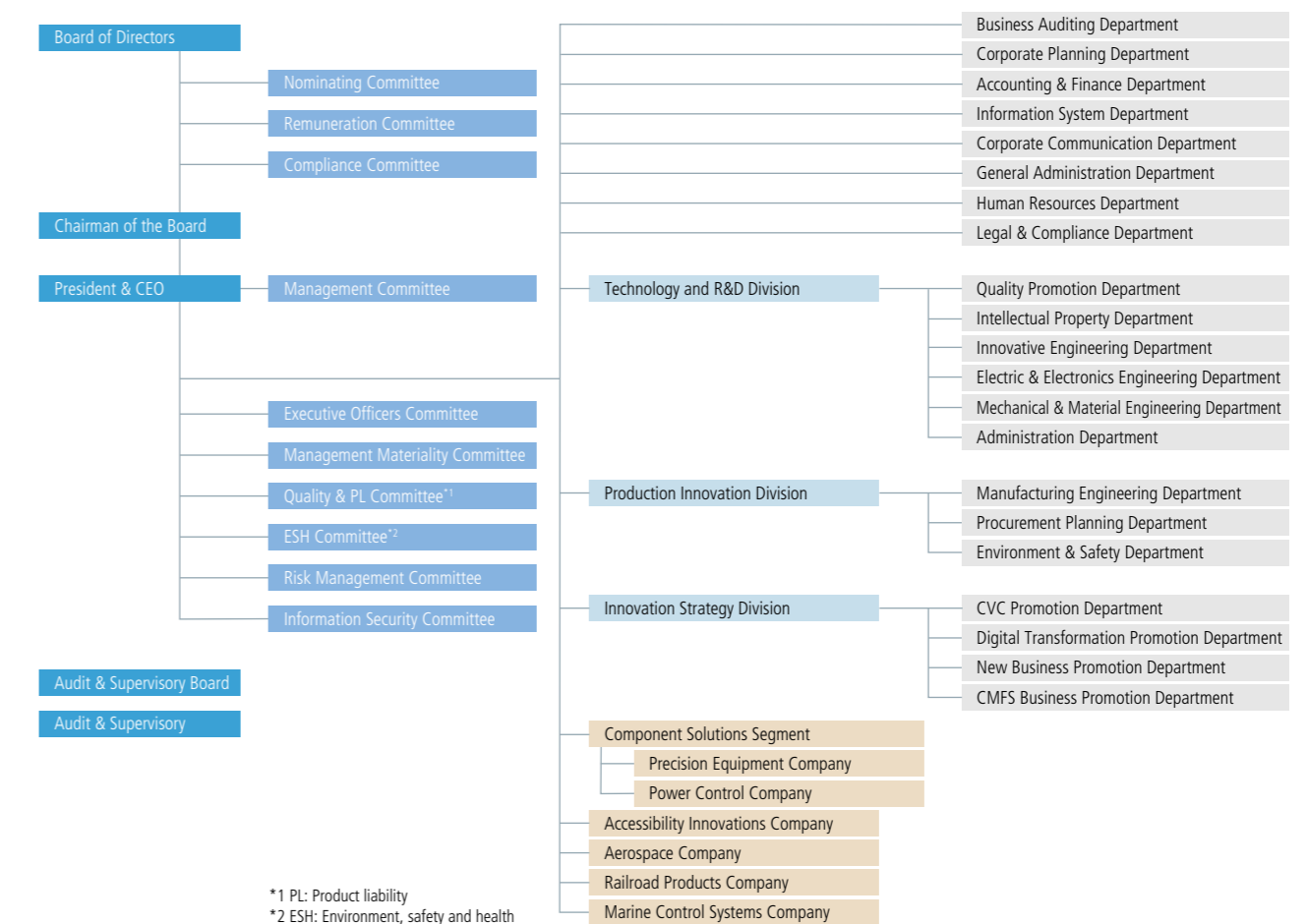
 Koji Nakano (Jan. 2, 1962) Audit & Supervisory Board Member	 Yasuhito Nakagawa (May 10, 1963) Audit & Supervisory Board Member	 Tetsuro Hirai (Dec. 19, 1955) Audit & Supervisory Board Member (Independent)	 Masatoshi Hitomi (Nov. 9, 1957) Audit & Supervisory Board Member (Independent)
 Yasuhiro Tanabe (Nov. 7, 1960) Audit & Supervisory Board Member (Independent)	<p>Web Brief history and reasons for appointment of Board of Directors and Audit & Supervisory Board Members https://www.nabtesco.com/en/about/company/management/</p> <p>Web Skill matrix of Board of Directors and Audit & Supervisory Board Members https://www.nabtesco.com/en/about/company/management/#SkillMatrix</p>		

As of March 26, 2024, the average term of office of Board members, including both Board of Directors and Audit & Supervisory Board Members, is approximately 3.0 years.

Executive Officers (as of March 26, 2024)

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

Management Structure (as of January 1, 2024)



*1 PL: Product liability
 *2 ESH: Environment, safety and health

Financial Data

(¥ Million)

Major Financial Indicators	2014/3	2015/3	2015/12 ^{*2}	2016/12 ^{*3}	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12	2023/12
Net sales	202,292	219,657	187,000	244,968	282,422	294,626	289,808	279,358	299,802	308,691	333,631
Cost of sales	148,321	158,693	136,576	175,508	201,982	215,043	212,105	206,166	217,759	232,007	250,970
Selling, general and administrative expenses	33,877	37,347	35,129	44,294	51,285	53,184	51,998	50,655	52,520	59,620	66,861
Operating profit	20,092	23,615	15,294	25,982	29,468	21,889	25,320	28,533	30,017	18,097	17,376
Profit before tax	23,522	27,026	15,358	26,779	34,907	29,962	27,979	33,718	101,966	15,763	25,629
Income taxes expense	8,140	9,254	5,731	7,843	8,338	6,997	8,028	10,206	34,073	4,376	9,199
Non-controlling interests ^{*1}	404	25	(1,432)	330	1,423	1,935	2,020	3,008	3,075	1,923	1,876
Net income attributable to owners of the parent	14,978	17,746	11,059	18,606	25,146	21,029	17,931	20,505	64,818	9,464	14,554
At year-end											
Current assets	134,159	139,321	128,575	143,792	165,695	179,124	179,154	183,110	288,900	295,524	220,847
Property, plant and equipment	55,225	56,877	55,916	63,155	70,700	80,573	87,083	89,522	89,020	96,082	107,527
Total assets	233,984	245,992	233,381	256,973	301,557	328,568	344,558	351,723	481,718	459,293	422,065
Current liabilities	73,161	64,830	73,000	74,876	96,934	112,558	109,614	113,662	191,315	172,577	119,491
Interest-bearing debt	26,204	16,659	15,333	16,949	27,720	45,310	43,936	39,866	17,587	20,309	21,572
Equity	139,471	158,664	148,924	155,904	177,002	189,255	199,133	211,641	254,995	263,228	275,894
Equity attributable to owners of the parent	131,043	149,862	142,068	147,929	167,537	178,702	187,398	198,031	239,910	248,696	260,470
Cash flows											
Cash flows from operating activities	27,597	19,949	8,746	27,730	23,071	24,165	38,433	34,203	36,340	7,717	11,177
Cash flows from investing activities	(8,064)	(7,880)	(4,886)	(14,989)	(20,186)	(21,823)	(20,086)	(10,710)	67,147	13,231	(46,295)
Cash flows from financing activities	(8,175)	(15,888)	(19,090)	(4,808)	(950)	8,396	(13,365)	(17,497)	(57,960)	(13,456)	(13,482)
Per share of common stock (¥)											
Basic earnings per share	117.95	140.24	88.85	150.64	203.85	169.65	144.50	165.18	534.67	78.87	121.25
Equity attributable to owners of the parent per share	1,035.68	1,184.17	1,150.41	1,193.79	1,355.72	1,438.64	1,508.53	1,594.10	1,999.10	2,071.87	2,169.52
Cash dividends per share	38.00	44.00	44.00	50.00	72.00	73.00	73.00	75.00	77.00	78.00	80.00
Major management indicators (%)											
Operating profit margin	9.9	10.8	8.2	10.6	10.4	7.4	8.7	10.2	10.0	5.9	5.2
Return on assets (ROA)	6.9	7.4	4.6	7.6	9.0	6.7	5.3	5.9	15.6	2.0	3.3
Return on equity (ROE)	12.2	12.6	7.6	13.0	15.9	12.1	9.8	10.6	29.6	3.9	5.7
Payout ratio	32.2	31.4	49.5	35.1	35.3	43.0	50.5	45.4	14.4	98.9	66.0
Equity ratio	56.0	60.9	60.9	57.6	55.6	54.4	54.4	56.3	49.8	54.1	61.7

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

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

*3 Adopted IFRS from FY2017/12. Figures for FY2016/12 have been restated in IFRS terms.

Disclosure Policy

Boundary of the report

Nabtesco Corporation and its consolidated subsidiaries
This report covers activities conducted by Nabtesco Corporation and its consolidated subsidiaries. However, please note that a portion of the nonfinancial data pertains exclusively to Nabtesco Corporation.

Period covered

January 1, 2023 to December 31, 2023
In recognition of the importance of providing up-to-date information, certain activities conducted after this period are also included in this report.

Date of publication

June 2024 (Published annually)

Performance data

The Nabtesco Group has applied the International Financial Reporting Standards (IFRS) to its accounting since FY2017. To facilitate comparison with FY2017 results, FY2016 results have also been recalculated in accordance with IFRS.

Note regarding forecasts

Forecasts provided in this report regarding numerical figures and future measures are based on currently available information, as well as judgments and assumptions deemed reasonable by Nabtesco. Actual results may significantly differ from these forecasts due to various critical factors, including economic conditions in the Company's major markets in and outside Japan, and fluctuations in the foreign exchange market.

Guidelines referenced

- International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC)*

- Sustainability Accounting Standards Board (SASB)* Standards
- WICI Intangible Reporting Framework published by the World Intellectual Capital/Assets Initiative (WICI)
- GRI Standards by the Global Reporting Initiative (GRI)
- The Guidelines on Disclosure and Governance of Strategies for Investment and Utilization of Intellectual Property and Intangible Assets (Ver. 2.0)
- Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation, Ministry of Economy, Trade and Industry of Japan



*Currently known as International Sustainability Standards Board (ISSB)

Participation in external initiatives and external evaluation

The Nabtesco Group announced its support for the following initiatives. Additionally, our long-term greenhouse gas emissions reduction targets have been officially approved by the SBT Initiative, aligning with its 1.5 degrees Celsius scenario.



[Web Support Initiatives](https://www.nabtesco.com/en/about/sustainability/s-024/)
<https://www.nabtesco.com/en/about/sustainability/s-024/>

Third-Party Assurance

To enhance the credibility of non-financial disclosures, the Nabtesco Group has obtained assurances from LRQA Limited, an independent third-party organization, for the performance indicators related to the environment and society listed below. These indicators are disclosed in this report and on our website.

Independent assurance on environmental and social data for CY2023

- Energy consumption (including the breakdown of energy type)
- GHG emissions data (Scope 1, Scope 2 [Market-based and Location-Based], Scope 3)
- Water consumption and water discharge
- Waste generated and landfilled, and hazardous waste generated
- Chemical substances controlled under the PRTR scheme and VOC emissions
- Percentage of the Company's main suppliers with GHG emission reduction targets
- Occupational accident rate
- Occupational disease rate

Independent assurance on GHG emissions and electricity consumption for CY2023

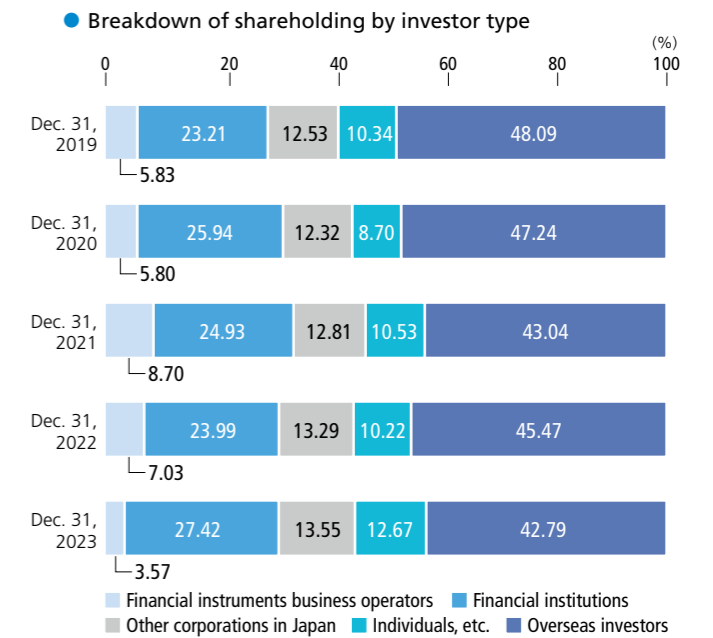
- Verifying conformance with the Company's reporting methodologies for the selected dataset
- Evaluating the accuracy and reliability of data for the selected indicators listed below:
 - Scope 1 GHG emissions and Scope 2 GHG emissions (Location-based and Market-based)
- Scope 3 GHG emissions attributed to categories 1, 2, 3, 4, 5, 6, 7, 11, and 12

[Web Independent Assurance on Environmental and Social Data for CY2023 and Independent Assurance on GHG Emissions and Electricity Consumption for CY2023](https://www.nabtesco.com/en/about/ir/library/integrated-reports/)
<https://www.nabtesco.com/en/about/ir/library/integrated-reports/>

Corporate Profile

Corporate Profile (as of December 31, 2023)

Company Name	Nabtesco Corporation
Security Code	6268
SEDOL Code	6687571
Established	September 29, 2003
Address	7-9, Hirakawa-cho 2-chome, Chiyoda-ku, Tokyo 102-0093, Japan
TEL	+81-3-5213-1133
FAX	+81-3-5213-1171
Capital	¥10.0 Billion
Number of Issued Shares	121,064,099
Minimum Trading Unit	100 All of our issued shares are common stock with a minimum trading unit of 100 shares.
Employees	Non-consolidated 2,448 Consolidated 8,158
Consolidated Subsidiaries in Japan	13 (excl. 3 equity method affiliates)
Consolidated Subsidiaries outside Japan	53 (excl. 5 equity method affiliates)



[Web FY2023/12 Annual Securities Report, P49 Status of Shares](https://www.nabtesco.com/cms/wp-content/uploads/Annual-Securities-Report-FY2023-.pdf)
<https://www.nabtesco.com/cms/wp-content/uploads/Annual-Securities-Report-FY2023-.pdf>

Validity Statement



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

About the Publication of Nabtesco Value Report 2023 for FY2023/12

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

In producing this year's report, we organized our information disclosure system by clarifying the division of roles between the Annual Securities Report and the Sustainability Website, etc. This integrated approach minimizes information duplication, improves access to necessary information and streamlines the report.

In addition, in this year's report, we answered inquiries from investors and other stakeholders regarding Nabtesco with candid responses. In the CEO message and other messages, we also outline our growth strategy and initiatives aimed at enhancing profitability in light of recent performance challenges. We hope this clarifies our commitment to enhancing corporate value.

As the Executive Officer overseeing the creation of this report, I hereby affirm that we followed a rigorous process to ensure the accuracy of the information included in the Nabtesco Value Report 2023. I extend my gratitude to all stakeholders who have reviewed the report and to those within and outside the company who cooperated with us in its publication. Moving forward, we remain committed to enhancing the report's content through meaningful dialogue with our stakeholders.