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 tensure.

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.

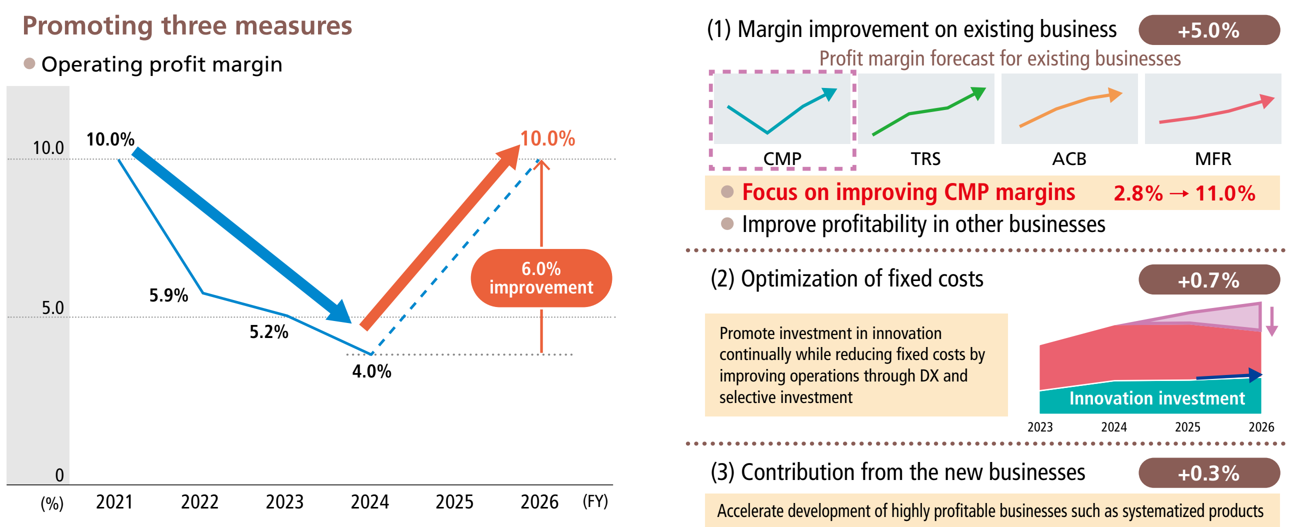
What Project 10 aims for

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)



*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.

*5
Nabtesco acquired Deep Sea Technologies, AI optimization company for maritime solutions
https://www.nabtesco.com/cms/wp-content/uploads/pdf/a0cd2b81837c7260597d2a69a9d1aa01.pdf Web

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 Technologies[*5] and the commercialization of the CMFS (Condition Monitoring system with Fail-Safe) business[*6], 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 management[*8] 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,

*6
Deliver Solutions for Social Challenges Through Business P59

*7
Technological fusion of eologix and Nabtesco P62

*8
The Optimization of Human Capital
https://www.nabtesco.com/en/about/sustainability/s-004/s-005/ Web
Enhance Human Capital Management P31

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 materiality[*9]. 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 Tree[*10] 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

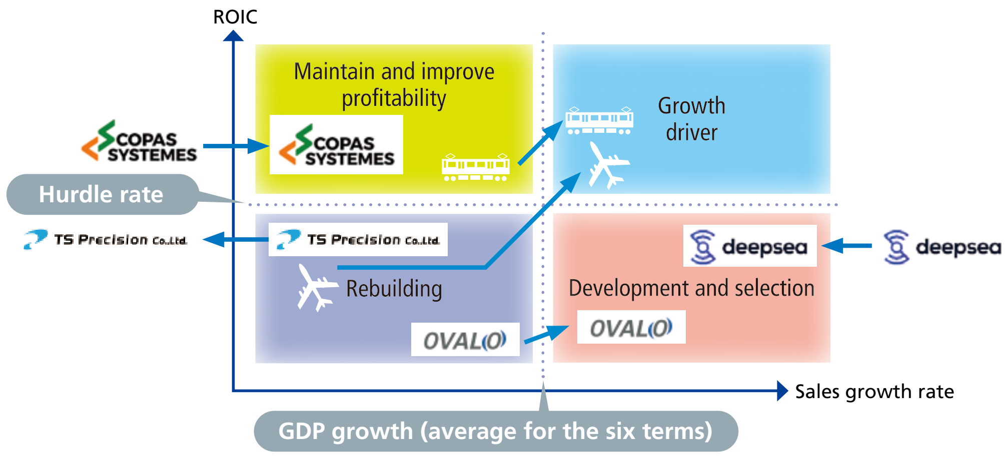
Reviewing the total shareholders return[*11] over the past 10 years since the conclusion of FY2023/12, our stocks have performed significantly below the market average over the same period. With a cumulative return of around 64%, we have experienced a negative return on investment in the most recent 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

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 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 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.

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.

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 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.

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.

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.