

The corporate governance status of the Nabtesco Group is as indicated below.

**I. [Basic views on corporate governance, capital structure, corporate attributes and other basic information](#)**

**1. Basic views**

Based on its corporate philosophy, which states, “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,” and through the implementation of “The Nabtesco Way,” the Nabtesco Group endeavors to enhance its corporate governance with the aim of realizing the Group’s sustainable growth, enhancing its medium- to long-term corporate value and earning the greater trust of its stakeholders.

Nabtesco has also established the Nabtesco Corporate Governance Basic Policy (hereafter, “Basic Policy”), which is posted on our corporate website.

The Nabtesco Way: <http://www.nabtesco.com/company/greeting.html>

Nabtesco Corporate Governance Basic Policy:  
<http://www.nabtesco.com/policy/governance.html>

[\[Reasons for non-compliance with the principles of the Corporate Governance Code\]](#)

Nabtesco executes all principles of the Corporate Governance Code.

[\[Disclosure based on the principles of the Corporate Governance Code\]](#) Updated

[Principle 1-4] Basic policy on strategic shareholdings and exercising of voting rights concerning strategic shareholdings

Please refer to Article 4 (Basic Policy on Strategic Shareholdings and Exercising of Voting Rights Concerning Strategic Shareholdings) of the Basic Policy.

[Principle 1-7] Related party transactions

Please refer to Article 5 (Related Party Transactions) of the Basic Policy.

[Principle 3-1(i)] Business principles, business strategies and business plans

Nabtesco has set out its Action Guidelines as a common set of principles applying to all employees in the performance of their duties and decision-making. The Action Guidelines, along with our Corporate Philosophy and Our Promises, are collectively referred to as The Nabtesco Way, which is disclosed on our website and via other tools.

Nabtesco has also formulated and disclosed a Long-term Vision that integrates the ideal image of our goals for FY2020, as well as a Medium-term Management Plan.

Please refer to our webpages below for details.

The Nabtesco Way: <http://www.nabtesco.com/company/greeting.html>

Long-term Vision: <http://www.nabtesco.com/policy/vision.html>

Medium-term Management Plan: [http://www.nabtesco.com/policy/mid\\_term\\_plan.html](http://www.nabtesco.com/policy/mid_term_plan.html)

[Principle 3-1(ii)] Basic views and guidelines on corporate governance

Please refer to the Basic Policy.

[Principle 3-1(iii)] Policies in determining the remuneration, etc. of management personnel

Please refer to Article 24 (Remuneration, etc. of Management Personnel) of the Basic Policy.

[Principle 3-1(iv)] Policies and procedures in the appointment and nomination of directors, corporate auditors, etc.

Please refer to Article 23 (Nomination of Directors, Corporate Auditors, etc.) of the Basic Policy.

[Principle 3-1(v)] Explanation with respect to the appointment and nomination of directors and corporate auditor.

The reasons for appointing particular candidates to the position of outside director, and the career summaries, positions and assignments of other directors and corporate auditors, are disclosed in the notice of convocation of annual general meeting of shareholders and other materials. Please refer to our webpage below for details.

[http://www.nabtesco.com/stock/shareholders\\_meeting.html](http://www.nabtesco.com/stock/shareholders_meeting.html)

[Supplementary Principle 4-1-1] Delegation to management

Please refer to Article 15 (Delegation to Management) of the Basic Policy.

[Principle 4-9] Independent outside directors

Please refer to Article 18 (Independent Outside Directors) of the Basic Policy.

[Supplementary Principle 4-11-1] Composition of the Board of Directors

Please refer to Article 16 (Composition of the Board of Directors) of the Basic Policy.

[Supplementary Principle 4-11-2] Significant positions concurrently held by outside directors and outside corporate auditors

Significant positions concurrently held by outside directors and outside corporate auditors are disclosed every year in the notice of convocation of annual general meeting of shareholders and other materials. Please refer to our webpage below for details.

[http://www.nabtesco.com/stock/shareholders\\_meeting\\_html](http://www.nabtesco.com/stock/shareholders_meeting_html)

[Supplementary Principle 4-11-3] Assessment of effectiveness of the Board of Directors

Nabtesco conducts analysis and assessment of the effectiveness of the Board of Directors every year based on the self-assessment, etc. of each director with the aim of enhancing the functionality of the Board. In FY2016, self-assessment was conducted by directors and corporate auditors by way of anonymous questionnaires, and the results were analyzed and evaluated at the Board of Directors meeting. According to the results, the directors positively believe that measures have been fostered to establish a system to enhance the Board's supervision function based on the establishment of the Compliance Committee as the Board's consultative body in FY2016 and to nurture a culture of open and constructive discussion and opinion exchange. The effectiveness of the Board is, therefore, considered to be well secured. On the other hand, respondents to the survey offered constructive comments regarding various issues such as: the need for further improvements to ensure in-depth discussions on medium- to long-term growth strategies, an area pointed out as requiring improvement in FY2015; the need to enhance the operational environment for the Board; and the need to build an environment to encourage proactive participation by outside directors and outside corporate auditors. Nabtesco will further enhance its corporate governance system to increase its corporate value through better corporate management. Based on the aforementioned evaluation results, we will further enhance the functionality of the Board on a continual basis.

[Supplementary Principle 4-14-2] Self-improvement and training for directors and corporate auditors

Please refer to Article 27 (Self-improvement and Training for Directors and Corporate Auditors) of the Basic Policy.

[Principle 5-1] Constructive dialogue

Please refer to Article 29 (Constructive Dialogue) of the Basic Policy.

## 2. Capital structure

Foreign shareholding ratio                      No less than 30%

[Status of major shareholders] Updated

Name/company name	Number of shares owned	Ratio (%)
Japan Trustee Services Bank, Ltd.	16,380,000	13.09
BNP PARIBAS SEC SERVICES LUXEMBOURG / JASDEC / ABERDEEN GLOBAL CLIENT ASSETS	6,116,600	4.89
Central Japan Railway Company	5,171,000	4.13
The Master Trust Bank of Japan, Ltd.	4,939,300	3.95
FANUC CORPORATION	3,760,000	3.00
Harmonic Drive Systems Inc.	3,265,000	2.61
THE CHASE MANHATTAN BANK 385036	2,395,200	1.91
THE BANK OF NEW YORK 133972	2,306,256	1.84
STATE STREET BANK WEST CLIENT - TREATY 505234	1,636,264	1.31
RBC IST 15 PCT LENDING ACCOUNT – CLIENT ACCOUNT	1,574,470	1.26

Controlling shareholder (except for parent company) —

Parent company    None

Supplementary explanation      Updated

The status of shareholders is as of December 31, 2016. Large shareholding reports as below have been filed but we cannot fully obtain information on the number of shares owned by beneficiary owners as of December 31, 2016. The above status of major shareholders is therefore based on descriptions on the shareholder registry.

The large shareholding reports filed are as follows:

Owner of stock: Aberdeen Asset Management PLC and one other company

Date on which reporting was mandated: January 31, 2017

Submission date: February 7, 2017

Number of shares held: 12,360,636

Ratio of shares held: 9.88%

Owner of stock: Aberdeen Asset Management PLC and one other company

Date on which reporting was mandated: August 5, 2016

Submission date: August 15, 2016

Number of shares held: 12,420,236

Ratio of shares held: 9.93%

Owner of stock: Aberdeen Asset Management PLC and one other company

Date on which reporting was mandated: May 9, 2016

Submission date: May 16, 2016

Number of shares held: 13,693,736

Ratio of shares held: 10.94%

### **3. Corporate attributes**

Listed stock market and market section	Tokyo Stock Exchange First Section
Fiscal year-end	December
Business category	Machinery
Number of employees (consolidated) as of the end of the previous fiscal year	1,000 or more
Sales (consolidated) as of the end of the previous fiscal year	100 billion yen or more, and less than 1 trillion yen
Number of consolidated subsidiaries as of the end of the previous fiscal year	50 or more, and less than 100

### **4. Guidelines for measures to protect minority shareholders in conducting transactions, etc. with controlling shareholders**

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### **5. Other special circumstances that may have a material impact on corporate governance**

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## II. Business management organization and other corporate governance systems with regard to decision-making, execution of business and oversight in management

### 1. Organizational composition and operations, etc.

Organization form                      Company with “Kansayaku” (corporate auditors)

[Directors]

Maximum number of directors stipulated in the Articles of Incorporation                      10

Term of office for directors stipulated in the Articles of Incorporation                      1 year

Chairperson of the Board **Updated**                      Chairperson (excluding cases where the chairperson concurrently serves as president)

Number of directors                      10

Selection status of outside directors                      Selected

Number of outside directors                      3

Number of independent directors among outside directors                      3

Outside directors' relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Yutaka Fujiwara	From another company											
Norio Uchida	From another company											
Naoko Yamazaki	Other											

\* Categories of relationship with the Company

\* “○” when the director presently falls, or has recently fallen, within the category; “△” when the director fell within the category in the past

\* “●” When a close relative of the director presently falls, or has recently fallen, within the category; “▲” when a close relative of the director fell within the category in the past

- a. A person who executes business of the Company or its subsidiary
- b. A person who executes business or a non-executive director of a parent company of the Company
- c. A person who executes business of a brother company of the Company
- d. A person whose main business partner is the Company or a person who executes business of the same
- e. A main business partner of the Company or a person who executes business of the same
- f. A consultant, accountant or legal expert who receives a large amount of cash or other properties from the Company, in addition to executive remuneration

- g. A major shareholder of the Company (if the said major shareholder is a corporation, a person who executes business of the said corporation)
- h. A person who executes business of a business partner of the Company (that does not correspond to d, e, or f; applies only to the person in question)
- i. A person who executes business of an entity with which the Company has a cross-directorship arrangement (applies only to the person in question)
- j. A person who executes business of an entity that receives a donation from the Company (applies only to the person in question)
- k. Others

Outside directors' relationships with the Company (2) Updated

Name	Independent director	Supplementary explanation for applicable items	Reasons for appointment
Yutaka Fujiwara	○	<p>Mr. Fujiwara satisfies the conditions defined by the Company in the Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors. The Company has already designated him as an independent director under the provisions set forth by the Tokyo Stock Exchange. (Please refer to “Matters related to Independent Directors and Other Directors” for details of the Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.)</p> <p>(Significant positions concurrently held) President &amp; CEO, Cross-Border Bridge Corporation</p>	<p>Mr. Fujiwara has worked overseas for a number of years and has a wide range of experiences and extensive knowledge and insight on global business. He also has expertise in advanced corporate strategies and financial affairs, having been in charge of the financial affairs and investor relations sectors of a listed company. The Company, having high regard for his experience and insight, deems that he is capable of providing supervision and advice utilizing his knowledge.</p>
Norio Uchida	○	<p>Mr. Uchida satisfies the conditions defined by the Company in the Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors. The Company has already designated him as an independent director under the provisions set forth by the Tokyo Stock Exchange. (Please refer to “Matters related to Independent Directors and Other Directors” for details of the Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.)</p> <p>(Significant positions</p>	<p>Mr. Uchida has served as Representative Director of Topcon Corporation and has broad experience and extensive knowledge and insight as a corporate executive. The Company, having high regard for his experience and insight, deems that he is capable of providing supervision and advice on technical development and overall global business.</p>

		concurrently held) External Director, ULVAC, Inc.	
Naoko Yamazaki	○	Ms. Yamazaki satisfies the conditions defined by the Company in the “Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.” The Company has already designated her as an independent director under the provisions set forth by the Tokyo Stock Exchange. (Please refer to “Matters related to Independent Directors and Other Directors” for details of the Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.)  (Significant positions concurrently held) Member of the Space Policy Committee, Cabinet Office of Japan	Ms. Yamazaki has broad insight as an engineer regarding the latest aerospace engineering and the field of manned space machinery systems including robotic arms. Additionally, she has served as an astronaut, has experience in conducting crisis management in the harsh, resource-limited environment of spacecraft, etc., and has accumulated broad skills in risk management. The Company, having high regard for her experience and insight, deems that she is capable of providing supervision and advice based on decisions made from an objective and fair viewpoint.

Voluntary establishment of committees corresponding to nomination committee or remuneration committee

Established

Status of voluntary establishment of committees, their member composition and attributes of their chairpersons **Updated**

	Name of committee	Total number of members	Full-time members	Number of internal directors	Number of outside directors	Number of outside experts	Number of others	Chairperson
Committee corresponding to nomination committee	Nomination Committee	5	0	2	2	0	1	Internal director
Committee corresponding to remuneration committee	Remuneration Committee	3	0	1	1	0	1	Internal director

Supplementary explanation **Updated**

Nomination Committee

The Company established the Nomination Committee as a consultative body of the Board of Directors to deliberate the nomination of candidates for directors, corporate auditors and the CEO, as well as the CEO succession plan, and report the results to the Board of Directors. The committee is composed of five members, the majority of whom are independent outside directors.

Remuneration Committee

The Company established the Remuneration Committee as a consultative body of the Board of Directors to deliberate the remuneration of the management team and report the results to the Board of Directors. The committee is composed of three members, the majority of whom are independent



outside directors.

[Corporate auditors]

Establishment of the Board of Corporate Auditors      Established

Maximum number of corporate auditors stipulated in the Articles of Incorporation      5

Number of corporate auditors      5

Cooperation among corporate auditors, accounting auditors and internal audit departments

Corporate auditors, including outside auditors, exchange information with the Business Auditing Department and hold the Board of Group Corporate Auditors meetings. Furthermore, they organize briefing sessions on auditing plans and results jointly with accounting auditors and foster mutual cooperation on occasions such as on-site inspections of inventories at factories. Moreover, the members have meetings to exchange information twice a year, with an eye to enhancing cooperation between the internal control, accounting and finance, and compliance and risk management departments for better internal control.

In addition, members of internal auditing and internal control teams exchange views and information with accounting auditors on the status and operation of internal control over financial reporting.

Appointment of outside corporate auditors      Appointed

Number of outside corporate auditors      3

Number of outside corporate auditors who are designated as independent directors      3

Outside corporate auditors' relationships with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Hisao Katayama	From another company											
Zenzo Sasaki	Attorney											
Takemi Nagasaka	From another company											

\* Categories of relationship with the Company

\* “○” when the corporate auditor presently falls, or has recently fallen, within the category; “△” when the corporate auditor fell within the category in the past

\* “●” when a close relative of the corporate auditor presently falls, or has recently fallen, within the category; “▲” when a close relative of the corporate auditor fell within the category in the past

a. A person who executes business of the Company or its subsidiary

b. A non-executive director or accounting advisor of the Company or its subsidiary

- c. A person who executes business or a non-executive director of a parent company of the Company
- d. A corporate auditor of a parent company of the Company
- e. A person who executes business of a brother company of the Company
- f. A person whose main business partner is the Company or a person who executes business of the same
- g. A main business partner of the Company or a person who executes business of the same
- h. A consultant, accountant or legal expert who receives a large amount of cash or other properties from the Company, in addition to executive remuneration
- i. A major shareholder of the Company (if the said major shareholder is a corporation, a person who executes business of the said corporation)
- j. A person who executes business of a business partner of the Company (that does not correspond to f, g, or h; applies only to the person in question)
- k. A person who executes business of an entity with which the Company has a cross-directorship arrangement (applies only to the person in question)
- l. A person who executes business of an entity that receives a donation from the Company (applies only to the person in question)
- m. Others

Outside corporate auditors' relationships with the Company (2) Updated

Name	Independent director	Supplementary explanation for applicable items	Reasons for appointment
Hisao Katayama	○	<p>Mr. Katayama satisfies the conditions defined by the Company in the “Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.” The Company has already designated him as an independent director under the provisions set forth by the Tokyo Stock Exchange. (Please refer to “Matters related to Independent Directors and Other Directors” for details of the “Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.”)</p> <p>(Significant positions concurrently held)            Outside Director of YUSHIRO CHEMICAL INDUSTRY CO., LTD.</p>	<p>Mr. Katayama has long served as president of ART METAL MFG. CO., LTD., and has broad experience and extensive knowledge and insight as a corporate executive, based on which he is capable of making fair decisions and maintaining objectiveness and neutrality toward management.</p>
Zenzo Sasaki	○	<p>Mr. Sasaki satisfies the conditions defined by the Company in the “Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.” The Company has already designated him as an independent director under the provisions set forth by the Tokyo Stock</p>	<p>Mr. Sasaki has many years of service as a public prosecutor, with a high level of legal knowledge, along with extensive insights and abilities regarding organizational management overall, based on which he is capable of making fair decisions and maintaining objectiveness and neutrality toward management.</p>

		Exchange. (Please refer to “Matters related to Independent Directors and Other Directors” for details of the “Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.”)  (Significant positions concurrently held) Attorney at Harumi-kyowa Law Offices	
Takemi Nagasaka	○	Mr. Nagasaka satisfies the conditions defined by the Company in the “Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.” The Company has already designated him as an independent director under the provisions set forth by the Tokyo Stock Exchange. (Please refer to “Matters related to Independent Directors and Other Directors” for details of the “Criteria for the Impartiality of Outside Directors and Outside Corporate Auditors.”)  (Significant positions concurrently held) Audit & Supervisory Board Member of DAIO Paper Corporation Audit & Supervisory Board Member of Solize Corporation	Mr. Nagasaka has specialized knowledge regarding accounting and finance and experience in management, based on which he is capable of making fair decisions and maintaining objectiveness and neutrality toward management.

[Matters relating to independent directors] Updated

Number of independent directors Updated 6

Other matters relating to independent directors

**The Company considers an outside director/corporate auditor to be independent if all of the following requirements are met, in addition to the requirements for independent directors as defined by the Tokyo Stock Exchange.**

1) The outside director/corporate auditor is not a current major shareholder (\*) of the Company or a person who executes its business;

\* Person who directly or indirectly holds more than 5% of all voting rights or a person who is listed

among the top 10 shareholders in the most recent shareholder registry;

2) The outside director/corporate auditor is not a person who executes business of a major lender (\*) of the Group;

\* A financial institution group (person who belongs to the consolidated group to which the Group's direct lender belongs) from which the Group borrows funds and the Group's total amount of borrowing from such financial institution group exceeds 2% of the Group's consolidated total assets as of the end of the previous fiscal year;

3) The outside director/corporate auditor is not a major business partner (yearly transaction amount exceeds 1% of consolidated net sales) or a person who executes its business;

4) The outside director/corporate auditor is not a person for whom the Group is a major business partner (yearly transaction amount exceeds 1% of the counterparty's consolidated net sales) or a person who executes its business;

5) The outside director/corporate auditor is not a consultant, accounting professional or legal professional who receives a large amount of money (more than ¥6 million yearly) other than the remuneration for directorship/auditorship from the Group (including cases where organizations such as corporations and associations to which such outside director/corporate auditor belongs receive the remuneration);

6) The outside director/corporate auditor is not a spouse or a relative within the second degree of consanguinity of a person who executes business of the Group;

7) The outside director/corporate auditor has not fallen under requirements 1) through 5) for the past three years.

[Incentives]

Implementation status of policies concerning incentives for directors Updated

Introduction of performance-based remuneration

Supplementary explanation for applicable items Updated

- (1) Remuneration, etc. of directors comprises “monthly compensation,” which is made up of fixed compensation and short-term performance-linked compensation, and “stock compensation,” which is offered in consideration of medium- to long-term performance. However, the compensation standard and its configuration are reviewed as necessary and as appropriate according to changes in the business environment.
- (2) The major performance indicators for the performance-linked compensation include ROE, net sales, operating income, net income, R&D indicator and environmental indicator.
- (3) For the purpose of establishing remuneration that will further motivate corporate management cognizant of the business performance and share price from a medium- to long-term perspective, the Company has introduced a stock compensation plan in the form of a Board Benefit Trust

(BBT). The plan is a system in which Nabtesco shares are acquired through a trust using money contributed by the Company as funds, and every year points (hereinafter, “share grant points”) shall be awarded to directors, etc. based on their positions and business performances in accordance with the Regulations for Provision of Shares to Officers formulated by the Company, and Nabtesco shares and the cash conversion equivalent of Nabtesco shares shall be subject to grant or provision through the Trust at prescribed times in accordance with the number of share grant points. (Resolved at the 14th Annual General Meeting of Shareholders held on March 28, 2017.)

- (4) With the introduction of a stock compensation plan in the form of a Board Benefit Trust (BBT), the Company abolished the existing long-term performance-linked stock compensation-type stock option (resolved at the 6th Annual General Meeting of Shareholders held on June 24, 2009) and the medium-term performance-linked stock compensation-type stock option (resolved at the 11th Annual General Meeting of Shareholders held on June 24, 2014).

Recipients of stock options [Updated](#)

Supplementary explanation for applicable items [Updated](#)

[\[Matters relating to remuneration for directors\]](#)

Disclosure (of individual remuneration of each director)	Individual remuneration is not disclosed.
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Supplementary explanation for applicable items

The number of directors eligible for remuneration for directors and the total remuneration amount are disclosed in Nabtesco’s financial reports and business reports, which are available for public viewing on our website.

Policy on determination of remuneration amounts or calculation methods <a href="#">Updated</a>	Established
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Disclosure of policy on determination of remuneration amounts or calculation methods

The remuneration provided to directors of the Company is determined at the Board of Directors meeting after its upper limit is approved at the annual general meeting of shareholders and the Remuneration Committee deliberates on the amount and reports the results to the Board of Directors. In fiscal 2016, the total annual remuneration amount was 293 million yen for 14 directors (including three directors who retired during fiscal 2016), including 23 million yen for three outside directors. Of the total amount of 293 million yen, monthly and other compensations accounted for 221 million

yen (of which 23 million yen was for three outside directors) and stock compensation-type stock options accounted for 71 million yen.

[Supporting system for outside directors (outside corporate auditors)] Updated

Outside directors and outside corporate auditors are provided with uninterrupted access to management information via the management information online database, as well as notifications of Board of Directors meetings and the agenda to be discussed. Notifications of Board of Directors meetings are also sent separately via Internet mail.

## **2. Matters concerning functions of business execution, auditing, oversight, nomination and remuneration decisions (overview of current corporate governance system) Updated**

### Board of Directors

Composed of 10 directors including three outside directors, the Board of Directors formulates the Group's basic policies and strategies, makes decisions about the execution of important business matters and supervises the way business is carried out. Meetings are held at least once a month in principle. During fiscal 2016, 18 meetings were held.

### Corporate Officers Committee

A body devoted to the execution of business pursuant to the policies and strategies of the Board of Directors under the supervision of the Board. Composed of 28 members including representatives of four major Group companies, the body holds regular meetings. During fiscal 2016, 13 meetings were held.

### Board of Corporate Auditors

Composed of five members including three outside corporate auditors, the Board of Corporate Auditors maintains the Board of Group Corporate Auditors, the members of which include corporate auditors of Group companies, as a way of strengthening audit functions of the Group. During fiscal 2016, 13 Board of Corporate Auditors meetings and two Board of Group Corporate Auditors meetings were held.

### Management Committee

In line with the policies decided by the Board of Directors, the Management Committee serves as the body that discusses important matters relating to execution of the Group's business and reports on results and the execution of business. It is composed of full-time directors and executive officers, and holds meetings once a month in principle. During fiscal 2016, 20 meetings were held.

### Business Auditing Department

With the aim of contributing to sound management control and in an attempt to improve the

effective operation and quality of Group management activities, the Business Auditing Department (composed of seven members) was established to strengthen internal business auditing. It continued to conduct internal business audits of headquarter divisions, in-house companies and consolidated subsidiaries this fiscal year.

#### Nomination Committee

The Company established the Nomination Committee as a consultative body of the Board of Directors to deliberate the nomination of candidates for directors, corporate auditors and the CEO, as well as the CEO succession plan, to ensure their optimization. The committee is composed of five members including three outside directors.

#### Remuneration Committee

Nabtesco has established the Remuneration Committee as a consultative body of the Board of Directors to deliberate the outline and implementation of directors and executive officers' employment terms including remuneration to ensure their optimization. The committee is composed of three members including two outside directors.

### **3. Reasons for adopting the current corporate governance system** Updated

- The Company's Board of Directors is composed of 10 members including three independent outside directors, and their term of office is set as one year by the Articles of Incorporation in order to clarify the management responsibility of directors. The Remuneration Committee composed of three members including two independent outside directors has been established as a consultative body of the Board of Directors to deliberate the remuneration of the management team and report the results to the Board of Directors. Furthermore, the Nomination Committee composed of two directors and three independent outside directors has been established as a consultative body of the Board of Directors to deliberate the nomination of candidates for directors, corporate auditors and the CEO, as well as the CEO succession plan, and report the results to the Board of Directors.

- The Company's Board of Corporate Auditors is composed of five members including three outside corporate auditors, and maintains the Board of Group Corporate Auditors, the members of which include corporate auditors of Group companies, as a way of strengthening audit functions of the Group.

By improving and reinforcing the corporate governance systems mentioned above, we will maintain expeditiousness and flexibility in business execution, strengthen our overall corporate governance, and clarify where responsibility lies, thus realizing efficient and transparent business management, which is considered helpful in enhancing the corporate value of the Nabtesco Group.

### III. Implementation of measures for shareholders and other stakeholders

#### 1. Measures to vitalize general meetings of shareholders and to ensure the smooth exercising of voting rights Updated

	Supplementary explanations
Early notification of annual general meeting of shareholders	The notification of the general meeting of shareholders held in 2017 was sent out three weeks before the meeting.
Scheduling annual general meetings of shareholders to avoid the peak day	Our annual general meetings of shareholders are scheduled on days other than the peak day. The month in which the annual general meeting of shareholders is held has been changed from June to March in accordance with the change in our accounting closing date in fiscal 2015. This year, the meeting was held on March 28, 2017.
Allowing exercise of voting rights by electronic and magnetic means	A system for exercising voting rights by electronic and magnetic means has been adopted since 2006.
Participation in electronic voting platform and other initiatives to improve the environment for institutional investors to exercise their voting rights	We have participated in an electronic voting platform since 2007.
Providing convocation notice (summary) in English	The reference document attached to the notice of convocation has been posted on our website in English since 2012. Additionally, we have also posted on our website some parts of our business reports and consolidated financial statements in English since 2016.
Other	Since 2013, we have posted our notice of convocation on our website before sending it to shareholders. In 2017, it was posted about one month before the annual general meeting of shareholders.

#### 2. IR activities Updated

	Supplementary explanations	Explanation by the representative in person
Preparation and publication of a disclosure policy	The basic policy on IR information disclosure is posted on Nabtesco's website.	
Regular investor briefings for individual investors	Briefing sessions are held at branches of securities firms nationwide.	No
Regular investor briefings for	Briefing sessions are held	Yes



analysts and institutional investors	twice a year after announcing the six-month and full-year results.	
Regular investor briefings for overseas investors	In fiscal 2016, we visited investors and held meetings in Europe, the US, Singapore, Hong Kong and China.	Yes
Posting IR materials on website	Financial reports, annual reports, securities reports, news releases, CSR reports and integrated reports, among others, are posted on Nabtesco's website.	
Establishment of department (manager) in charge of IR	The General Administration Department is in charge of IR, with one IR manager and three other staff members.	

### 3. Measures for respecting the position of stakeholders Updated

#### Supplementary explanations

Stipulation of internal rules for respecting the position of stakeholders	We have established The Nabtesco Way, which is composed of the Corporate Philosophy and Our Promises as well as the Action Guidelines, as a common set of principles applying to all employees in the performance of their duties and decision-making, and the Nabtesco Group Code of Ethics.
Implementation of environmental protection and CSR activities	As the priority focus of its CSR activities, the Group is planning to implement measures for the environment and the fulfillment of CSR across its supply chain. The Group includes "consideration for the global environment" among its top priority management challenges and has formulated the Environmental Philosophy and the Environmental Action Plan as specific Group-wide action guidelines. Under these guidelines, we proactively work toward reducing the environmental impact of our business activities and improving the environment by setting quantitative targets whenever possible. In terms of supply chain management, we established the Nabtesco Group CSR-Oriented Procurement Policy in April 2014 with the aim of addressing global human rights issues, such as child labor, forced labor and the issue of conflict minerals. In the same month, we announced our support for and signed the United Nations Global Compact in our further efforts to foster CSR-oriented

management.

Specific activities related to CSR are summarized in our CSR Reports issued annually since 2011 and our Integrated Reports issued since 2014.

In August 2016, the CSR Committee was established directly under the CEO to oversee the Group's entire CSR activities and, in December 2016, the CSR Basic Policy was established with the aim of promoting CSR-oriented management in a more systematic manner.

Formulation of policies on the provision of information to stakeholders

The Internal Information Management Standards and the Guidelines on Information Disclosure for Public Relations and IR have been established.

#### **IV. Matters related to the internal control system**

##### **1. Basic views on the internal control system and progress of system development**

Updated

The Group's basic policies for construction of internal control systems are set forth as follows.

The chief executive officer (CEO) shall be the top executive responsible for the promotion of internal control. The Board of Directors shall examine the maintenance of internal control systems on a continual basis in line with changes in the business environment and social needs, revisions to laws and regulations, risk diversification and other factors, and shall conduct a review yearly and whenever else necessary.

1. The System ensuring that directors and employees execute their duties in compliance with laws and the Articles of Incorporation
  - (1) Directors and employees shall comply with The Nabtesco Way and the Nabtesco Group Code of Ethics as the cornerstones of proper and fair business activities, and shall behave in accordance with social norms/ethics as members of society, and shall endeavor to establish and maintain a sound corporate culture.
  - (2) (The Board of) Directors shall make proper decisions on important management matters stipulated in laws and regulations, the Articles of Incorporation, the Regulations of the Board of Directors, and Group regulations for responsibility and authority.
  - (3) Directors shall perform their respectively assigned duties in accordance with proper decisions by the Board of Directors, and shall report on the performance of their duties to the Board of Directors. Should a director have any doubts as to whether the execution of operations by himself/herself or other directors is in compliance with the law and the Articles of Incorporation, the director shall report these doubts to the Board of Directors and (the Board of) Corporate Auditors.

- (4) Directors and employees shall ensure the rationality and legality of their decisions by actively hearing the expert opinions of Expert Staff Members of the Head Office and/or outside the Company during decision-making and performance of duties.
  - (5) The Board of Directors shall make use of the multifaceted and impartial advice provided by outside directors and outside corporate auditors to make appropriate decisions.
  - (6) In order to promote the compliance of the Group, the Compliance Committee shall be set up as a consultative body of the Board of Directors. The committee shall deliberate important matters, etc. concerning compliance and report to the Board of Directors.
  - (7) To assist the CEO in promoting compliance, organizations responsible for promoting compliance shall be set up to review compliance systems in accordance with social conditions, revision of laws, etc., and to provide compliance education to directors and employees.
  - (8) Directors and employees shall be obliged to report any misconduct within the Group, and a corporate ethics hotline shall be created and operated as one of the methods to achieve this.
  - (9) To ensure the fairness of financial reports, an internal control system concerning financial reports and a system to evaluate its efficacy shall be developed and operated.
2. The System for storing and managing information on the execution of duties by directors
    - (1) Directors shall properly prepare and store/manage the following information (in written form or on electromagnetic record; the same applies hereinafter) on the performance of their duties in keeping with their respective duties and in accordance with laws and company regulations.
      - (i) Minutes of general shareholders meetings and related documentation
      - (ii) Minutes of Board of Directors meetings and related documentation
      - (iii) Records of the proceedings at other important meetings of directors (e.g., Management Committee meetings) and related documentation
      - (iv) Notices of decisions made by directors and appended documentation
      - (v) Other important documentation related to directors' performance of their duties
    - (2) The parties responsible for the preparation and storage/management of the information set forth in (1) above shall be the chairmen of the respective meetings or a separately assigned director or decision-maker, or the director responsible for performing the duties in question.
    - (3) Efforts shall be made to establish and continually strengthen/improve adequate security for electromagnetic records to combat the risks of unauthorized disclosure posed by the increasing sophistication of information technology.
  3. The System of regulations on managing the risk of loss, etc.
    - (1) The system shall be developed so that a scheme shall be put in place to ensure that profits and losses, asset efficiency, quality issues, accidents and other matters concerning the execution of operations are reported to the Board of Directors in a suitable and timely fashion, and to ensure that directors and employees aware of matters that could have a seriously adverse impact on

Nabtesco and its Group shall report these promptly and precisely to (the Board of) Directors, and efforts shall be made to discover risks early so as to minimize losses.

- (2) The Risk Management Committee and other cross-group organizations shall be formed and regulations shall be developed to manage risks and prevent losses with regard to the following.
    - (i) Opportunity loss risk arising from changes in the business environment or industry structure, or from delays in pursuing new technologies or new market entry, etc.
    - (ii) Business management risk arising from improper decisions or operational measures, gross negligence or misconduct by directors or employees
    - (iii) Country risk and risk of unrecoverable charges/procurement difficulties arising from credit extended to sales agents and suppliers
    - (iv) Financial risk arising from changes in financial assets held, fluctuations in interest/exchange rates, etc.
    - (v) IT risk arising from shutdown/malfunction of mission-critical systems, information leakage, etc.
    - (vi) Litigation risk arising from flaws in agreements, infringements of intellectual property rights, etc.
    - (vii) ESH (Environment, Safety & Health) risk
    - (viii) PL (Product Liability) and other quality-based risk
    - (ix) Risks related to large-scale disasters
    - (x) Other risks deemed extremely serious by the Board of Directors
  - (3) The suitability and legality of decision-making shall be ensured and risks managed through compliance with, and thoroughgoing implementation of, Group regulations for responsibility and authority.
  - (4) Reporting requirements in the event of accidents, disasters or critical quality problems and other events that may have a serious adverse effect on the Group's business performance, financial condition and credibility shall be set forth within company regulations, and steps taken to ensure that information is promptly and suitably conveyed and contingency measures implemented during emergencies in accordance with these regulations.
  - (5) Expert Members of the Head Office, particularly in the Business Auditing Department, shall conduct cross-organizational audits of operational risk management, and shall offer necessary and appropriate advice with regard to operational improvements.
4. The System ensuring that directors perform their duties efficiently
- (1) The necessary organizations shall be formed to ensure that directors execute operations efficiently, and the respective responsibilities of these organizations shall be stipulated. Responsibility for operations shall be divided among directors in accordance with Board of Directors' resolutions, and directors shall execute operations in keeping with these divisions of

responsibility.

- (2) An executive officer system and a company system shall be adopted in view of the nature and characteristics of Nabtesco's business.
    - (i) Executive officers shall perform the duties delegated by the Board of Directors and shall report on the same.
    - (ii) A company shall be established as a strategic business unit. Each company shall execute operations in accordance with the Group regulations for responsibility and authority and report on the same.
  - (3) Efforts shall be made to ensure the suitability and efficiency of decision-making by the Board of Directors with regard to the execution of operations to be submitted for consideration to the Board of Directors by having the Management Committee conduct preliminary examinations to clarify the points of issue before passing the matter on to the Board of Directors.
5. The System ensuring the suitability of operations by the Company and the Group
- (1) All principles and guidelines for internal control shall be applied to the whole Nabtesco Group, and efforts made to disseminate and standardize these throughout the Group as a whole.
  - (2) Management regulations of Nabtesco's Group companies shall be established to stipulate management classifications and management items for subsidiaries, and a Group-wide structure for responsibility and authority set up, taking into account the scale and importance (impact on the Group) of subsidiaries as well as their autonomy. Furthermore, the system shall be developed so that subsidiaries shall report their important matters with regard to the execution of operations to the Company.
  - (3) Efforts shall be made to improve the suitability and efficiency of business operations at subsidiaries as well as to make qualitative improvements to financial reports by adopting a fully consolidated basis and appropriately reflecting the performance of all subsidiaries into the consolidated performance of the Company and by conducting performance assessment of the management of companies on a consolidated basis.
  - (4) Efforts shall be made to dispatch its personnel as directors and auditors to subsidiaries from the Company to ensure more suitable decision-making and execution of operations and to homogenize and improve audits of subsidiaries through the Board of Group Auditors.
  - (5) Internal audits of subsidiaries shall be executed by our Business Auditing Department. Advice regarding improvements shall be provided as necessary and appropriate as part of these audits.
  - (6) Efforts shall be made to thoroughly communicate the Nabtesco Group Code of Ethics to subsidiaries and to develop and strengthen compliance systems at subsidiaries by means of compliance education and information sharing.
6. Items on employees to assist corporate auditors ("support personnel"), when corporate auditors request assignment of employees to assist corporate auditors

- (1) Should the (Board of) Corporate Auditors request that support personnel be assigned, the appropriate personnel shall be promptly secured after preliminary discussions with the (Board of) Corporate Auditors.
  - (2) To ensure the independence of support personnel from directors, reassignments and evaluations of these support personnel shall be made only after prior consultation with the (Board of) Corporate Auditors.
  - (3) Support personnel shall be subject to the instructions and orders of the (Board of) Corporate Auditors in engaging in such support tasks.
7. The System enabling directors and employees to report to corporate auditors; other systems for reporting to corporate auditors
- (1) Directors aware of matters that could have a seriously adverse impact on the Company and its Group shall immediately report these to the (Board of) Corporate Auditors.
  - (2) Directors and employees shall respond promptly and appropriately to requests by the corporate auditors for reports on the Company's business or for cooperation in investigating the status of the Company's operations and assets.
  - (3) With the aim of enhancing cooperation between corporate auditors and departments associated with internal control, consultations and exchange of information and views concerning issues relating to internal control (including reports from directors and employees of subsidiaries to the relevant departments) shall be carried out through the Audit Council, etc. Furthermore, the Board of Group Auditors shall conduct consultations and exchange information and views with corporate auditors and the auditors of subsidiaries with regard to audits.
  - (4) A system shall be developed to ensure that the person who reported the relevant matter to corporate auditors will not be treated unfavorably.
8. The System to ensure that audits by corporate auditors are carried out effectively
- (1) A certain amount of the budget shall be set yearly for paying expenses, etc., with respect to the execution of duties of the corporate auditors. In the event that corporate auditors request from the Company advance payment of costs associated with the execution of their duties, the Company shall account for such expenses, etc., immediately according to laws and regulations, regardless of whether or not the expenses requested are within the budget.
  - (2) Corporate auditors shall be permitted to attend Management Committee meetings and all other important meetings and to view all management information to enable corporate auditors to implement audits and check the decision-making process on the important matters in the execution of operations, based on information available to directors.
  - (3) Corporate auditors shall be permitted to hold regular meetings to exchange views with the CEO and the Representative Director.
  - (4) Corporate auditors shall be permitted to request reports from executive officers and other key

employees on the execution of duties.

- (5) Corporate auditors shall be permitted to exchange views with accounting auditors and the Accounting & Finance Department regularly and to confirm the suitability of financial reports.
- (6) A system shall be ensured to improve the tasks of corporate auditors, and that facilitates regular reports on audit status to the internal auditing department and other relevant departments, and promotes consultation and exchange of information and opinions between such departments on audit matters.

## 2. **Basic views on elimination of anti-social forces and implementation status** Updated

The Nabtesco Group Code of Ethics stipulates that “We will avoid any relationship with anti-social forces, and will firmly and resolutely oppose and refuse any improper demands made by anti-social forces.”

The Company designates a staff member responsible for matters related to anti-social forces within the General Administration Department, which serves as the supervisory organization. The department centrally manages information about anti-social forces, distributes the Manual on Handling Anti-social Forces to all staff members of the department, and regularly provides them with external training. Furthermore, the latest information on anti-social forces as well as advice is obtained based on strengthened collaborative relationships with the police and other bodies tackling anti-social forces.

## V. **Others**

### 1. **Adoption of anti-takeover measures**

Adoption of anti-takeover measures                      None

Supplementary explanation for applicable items

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### 2. **Other matters concerning corporate governance system, etc.** Updated

The Company’s internal structure for timely information disclosure is as follows.

#### 1. Department responsible for timely information disclosure

The Company has set forth the Internal Information Management Standards with the aim of appropriately managing internal information, and centrally manages information by designating the general manager of the Corporate Planning Division and the Corporate Planning Department as the person and the organization responsible for information management, respectively. The Company conducts prompt disclosure of information by designating the manager of the General Administration Department and the General Administration Department as the person and the organization responsible for information disclosure, respectively.

#### 2. Internal structure for timely information disclosure

Important corporate information is consolidated by the Corporate Planning Department, which is responsible for information management. We have in place the Management Committee, which is tasked with deliberating important issues relating to the execution of business operations. Composed of full-time directors, executive officers who execute the business operations they are respectively responsible for, and full-time corporate auditors, the committee deliberates important matters concerning overall management, reports to the Board of Directors information that requires timely disclosure, and promptly discloses such information after obtaining approval.

Information on the occurrence of material facts is reported to the president and CEO by the general manager of the General Administration & Human Resources Division, who is responsible for information management, through predetermined communication routes and procedures, before its timely disclosure.

### 3. Method for disclosing corporate information

Nabtesco releases information via TDnet established by the Tokyo Stock Exchange (TSE). Materials are distributed to the TSE's press club as necessary and, at the same time, posted on our website.



