

Nabtesco will realize “All Stakeholders’ Dreams” by maintaining profitable growth.

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Editorial Policy

The Nabtesco Group believes it is important to build trust through dialogue with stakeholders in order to secure transparency for management and achieve sustainable growth.

Nabtesco newly set its new long-term vision for 2030 as well as identifying the “Management materiality” (material management issues) that it needs to address to achieve the vision.

In this 2020 integrated report, we provided explanations about Nabtesco’s value creation story in chronological order, first from past to present, and then from present to future, with a view to helping readers deepen their understanding of the process.

Going forward we will advance our integrated report by continuing to have dialogues with our stakeholders.

In preparing this report, we referred to the International Integrated Reporting Framework and various other guidelines on sustainability to ensure the objectivity and transparency of the report.

From Past to Present

- Our Growth History and Review of the Long-term Vision
- Value Creation Process of the Nabtesco Group and Its Explanations

From Present to Future

- Nabtesco’s new Long-term Vision and Our Aim for 2030
- Nabtesco’s Management Materiality
- CEO Dialogue: Ambition to Becoming “Leaders in Innovation”



In this report, explanations are provided in the “Glossary” on pages 115 to 116 with regard to terms related to Nabtesco’s business, financial and non-financial issues and to technologies.

The Nabtesco Way is a collective term that means our Corporate Philosophy, Our Promises and Action Guidelines. We aim to realize “All Stakeholders’ Dreams” through the implementation of The Nabtesco Way by the management and individual employees.

The Nabtesco Way

Corporate Philosophy

Reason for corporate existence and value:

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.

Our Promises

What we value in implementing the Corporate Philosophy:

1. Value close communications with our customers worldwide
2. Value each individual’s spirit of challenge and innovation
3. Continue to expand our business and profit
4. Continue to reinforce our sense of ethics and highly transparent business activities
5. Value the environment and promote harmony with local communities and cultures



Action Guidelines

Specific actions and attitudes to be taken to fulfill Our Promises:

[Action Guidelines for All Group Members]

As a common set of principles applying to all employees in the performance of their duties and decision-making, these guidelines clearly indicate the appropriate directions of individual actions and decisions and clarify important corporate values and unique strengths.

- Build Trust: Work diligently (*kotsukotsu*) and expeditiously
- Provide Value: Think ahead from customers’ perspectives
- Take on Challenges: Enhance our skills
- Develop Human Resources: Employees are essential assets
- Foster Teamwork: Discuss fully (*tokoton*) among all members
- Realize Our Dreams: Pursue higher reliability and quality
- Make Daily Improvement: Step forward for future growth
- Ensure Transparency: Be open, fair and honest
- Hold a High Work Ethic: Make an individual conscientious effort
- Be Considerate of the Global Environment: Do not waste (*mottainai*)
- Keep in Harmony with Local Communities and Cultures: Engage in local activities

[Action Guidelines for Top Management]

Based on these guidelines, top executives will manage the Nabtesco Group by focusing on the four important points to ensure its sustainable growth as a global corporate group.

- Communicate the Present Situation and Future Vision of the Company (Organization) to Employees
- Encourage Active Discussions and Align All Members to a Common Direction
- Ensure Succession
- Manage in a Manner That Increases the Nabtesco Brand and Corporate Value

P96 Activity to Increase Employees’ Awareness of The Nabtesco Way

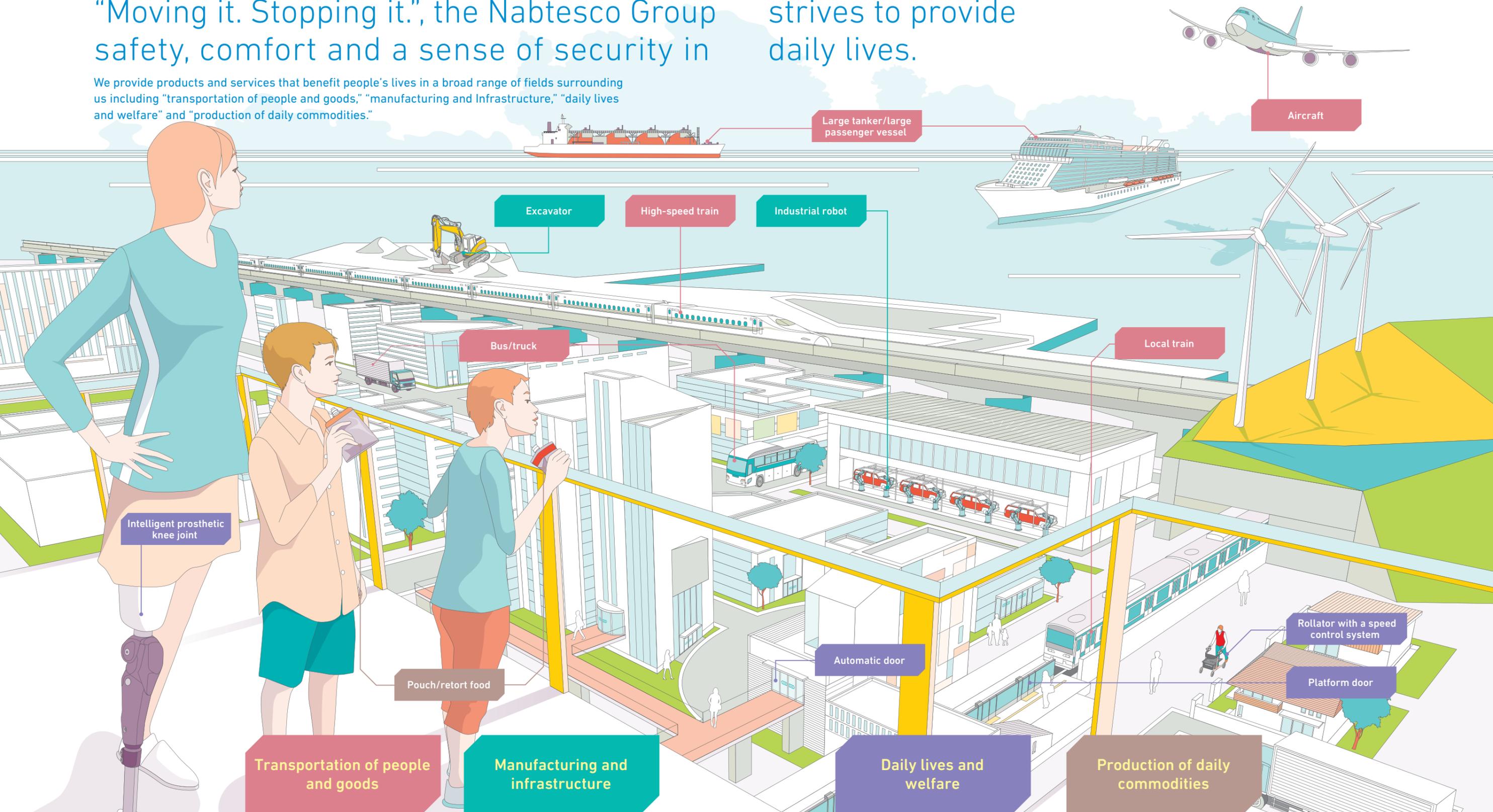
Action Declaration

By implementing these promises, we will realize “All Stakeholder’s Dreams.”

With its motion control technology based “Moving it. Stopping it.”, the Nabtesco Group safety, comfort and a sense of security in

on the key concept of strives to provide daily lives.

We provide products and services that benefit people’s lives in a broad range of fields surrounding us including “transportation of people and goods,” “manufacturing and Infrastructure,” “daily lives and welfare” and “production of daily commodities.”



- Improve the safety and comfort of railroad vehicles, aircraft and commercial vehicles
- Foster the use of clean energy and safety navigation for marine vessels

- Contribute to the establishment of industrial infrastructure in emerging economies
- Support automated, high-precision processing and conveyance at factories
- Promote labor- and energy-saving at manufacturing sites

- Improve the safety and comfort of public spaces
- Provide support for the elderly and people with disabilities
- Contribute to the creation of a barrier-free society

- Ensure the safety of food and daily consumables
- Reduce the use of packing materials for food and daily consumables
- Contribute to product research and development

Message from the CEO



Taking the first step to become “Leaders in Innovation for the Future”

Katsuhiko Teramoto

Representative Director,
President and CEO

Increasing profit in FY2020 under the COVID-19 crisis situation

First of all, I would like to extend my deepest condolences to the people who lost their lives due to COVID-19 and their bereaved families. I would also like to express my sympathy to people who have been infected, as well as my heartfelt gratitude to all the medical professionals and others who are keeping our society going during this crisis.

COVID-19 has totally changed our lives, spreading across the world and back again. In almost all of the fields in which we do business, we were affected by the pandemic in various ways, including falling demand due to stagnant economic activities and operational impediments caused by restrictions on movement.

Last year, personally taking the lead in my capacity as CEO, the Nabtesco Group established our headquarters to combat COVID-19, giving first priority to the safety and health of all our stakeholders, including our customers and employees. Under the headquarters, and even before

the Japanese government declared the first state of emergency, we had started to implement all possible measures to prevent infection, including adopting shift-work systems, promoting remote work and telecommuting, prohibiting non-urgent business travel and postponing large internal meetings.

With the fight against COVID-19 seeming to have no end in sight, we are determined to make a concerted effort across the company to overcome this crisis. Being steadfastly committed to contributing to all our stakeholders in line with The Nabtesco Way, we will work to conduct business activities smoothly, while also preventing the spread of infection.

As for FY2020, net sales came to ¥279.4 billion, down year on year due to the spread of COVID-19, but exceeding ¥277.0 billion, the numerical target set in the sales plan revision as of July 31, 2020. Operating income increased to ¥28.5 billion, up year on year as a result of cost savings, operational reforms and productivity improvements, and also due to a gain of ¥4.9 billion on the sale of

non-business property. Even excluding gains from special factors, operating income in our businesses remained at the same level as recorded in the previous fiscal year.

By business segment, in the Component Solutions segment, net sales remained at the same level as in the previous fiscal year for precision reduction gears, thanks to the recovery of equipment investment in China and North America automobile industries in the fourth quarter. For hydraulic equipment, net sales increased year on year, driven by ongoing brisk demand in the Chinese market and an emerging recovery of Western markets. As a result, operating income increased in the segment.

In the Transport Solutions segment, demand dropped in all businesses, including demand for aircraft equipment and commercial vehicle equipment, which was caused by global restrictions on movement due to COVID-19. As a result, net sales decreased in all of the four major businesses. For OVALO GmbH in Germany, one of our consolidated subsidiaries, we posted an impairment loss of ¥3.4 billion for fixed assets in the fourth quarter as a result of revising its updated business plan in response to declining production volumes among European automakers.

In the Accessibility Solutions segment, both net sales and operating income decreased year on year, as the demand propelled by the redevelopment projects for the Olympic and Paralympic Games

had run its course in Japan and demand stagnated both in Japan and overseas due to the impact of COVID-19.

In the Manufacturing Solutions segment, both net sales and operating income decreased year on year, due to a decrease in the amount of orders received owing to sluggish demand from the food service industry.

Outlook for FY2021

Favorable business in the Component Solutions segment

For the outlook for FY2021, we forecast net sales of ¥286.0 billion (up 2.4% year on year) and operating income of ¥29.0 billion (up 1.6%).

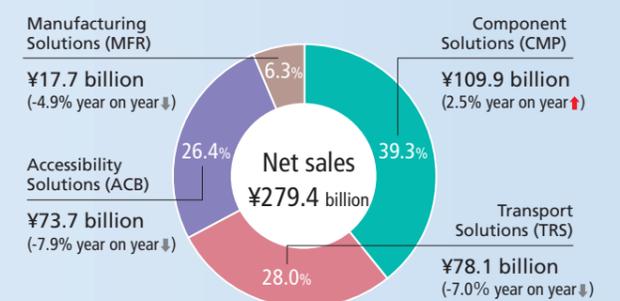
In the Component Solutions segment, demand for industrial robots, in which precision reduction gears are used, is expected to expand in the automobile industry. Also, for hydraulic equipment, demand is anticipated to continue to be brisk in China and recover in the Western and Southeast Asian markets. Accordingly, both net sales and operating income are projected increase in the segment. As for precision reduction gears, we are considering making investments to enhance the production capacity of the Tsu Plant (Mie Prefecture) depending upon the volume of orders received.

In the Transport Solutions segment, we forecast a decrease in net sales for railroad vehicle equipment and aircraft equipment in view of the

	FY2019	FY2020	FY2021 (Initial plan)
Net sales	¥289.8 billion	¥279.4 billion	¥286.0 billion
Operating income	¥25.3 billion	¥28.5 billion	¥29.0 billion
Net income attributable to owners of the parent	¥17.9 billion	¥20.5 billion	¥112.2 billion*
Dividends per share	¥73	¥75	¥77
ROE	9.8%	10.6%	46.9%*

* Including the gain on valuation of shares following the dissolution of the cooperative relationship with Harmonic Drive Systems, Inc.

● Sales by business segment (FY2020)



Message from the CEO

ongoing impact of COVID-19. However, operating income is projected to remain at the same level year on year, excluding the impact of the impairment loss posted by OVALO.

In the Accessibility Solutions segment, both net sales and operating income are expected to decrease due to a temporary decrease in domestic demand for platform doors.

In the Manufacturing Solutions segment, both net sales and operating income are expected to increase, driven by the recovery of demand for packaging machines in and outside Japan.

On January 29, 2021, Nabtesco and Harmonic Drive Systems, Inc. (hereinafter, "HDS") reached an agreement to dissolve the cooperative relationship that had been in force between the two companies since 2005. We decided to do this because the continuation of the relationship did not seem likely to generate additional synergy effects and also because we could not expect a high return on investment relative to the amount of funds that we would need to deploy to exercise the share options issued by HDS, which we had purchased when HDS worked to raise its capital in 2018. Based on the dissolution agreement, we decided to exercise the right to request HDS to buy back the options and to exclude HDS from our equity-method affiliates. Accordingly, for FY2021, we forecast a ¥125.1 billion gain on valuation of shares (according to the closing stock price of HDS as of January 29, 2021).

Building the foundation for the formulation of a new medium-term management plan

The current medium-term management plan was initially made as a four-year plan culminating in FY2020. However, the spread of COVID-19 made it difficult for us to complete the plan by the deadline and we therefore extended the period by one year. In 2021, we are thus continuing to work on achieving the targets set in the plan, while building the foundation for the formulation of a new medium-term management plan.

One of our commitments made in the current medium-term management plan is "Focus on solving ESG issues." Specifically, we are committed to further enhancing our ESG measures through our business activities. In the Environment (E) category,

we have been fostering initiatives to "Disclose more non-financial information" as well as to "Combat climate change" and "Reduce environmental impact." In the Society (S) category, in order to promote work style and system reforms, we are focusing on the following: "Further revitalize the organization," "Enhance human resource development" and "Enhance CSR-oriented procurement." In the Governance (G) category, we have been aiming to "Ensure management transparency" and "Globalize risk management and compliance" and have already made substantial achievements. In FY2020, we achieved our CO₂ emissions reduction target, revised our CSR-Oriented Procurement Policy and increased the ratio of outside directors.

Moreover, our ESG measures have been highly regarded by international rating organizations. In FY2020, we were granted the highest rating by CDP in the following three categories: "Climate Change," "Water Security" and "Supplier Engagement Leader Board." We have also been included in multiple ESG-oriented stock indexes, specifically, the Dow Jones Sustainability Indices (DJSI) World Index for five straight years and the MSCI ESG Leaders Indexes and FTSE4Good on a continual basis. In Japan, we were included in the MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Index (WIN), FTSE Blossom Japan Index, S&P/JPX Carbon Efficient and all other ESG indexes selected by the Government Pension Investment Fund (GPIF).

By using the funds gained through the dissolution of the cooperative relationship with HDS as mentioned above, we will enhance our financial foundation in the face of the COVID-19 crisis and secure capital to make investments for our medium-to long-term growth. Proceeds after taxes from the sale of HDS shares will be about ¥100.0 billion given the assumption of price per share of ¥8,000. Among the proceeds, we will allocate ¥50.0 billion to invest in our plants that are supporting our corporate growth, R&D activities and M&A/CVC projects that could boost our growth. Also, we will allocate ¥20.0 billion for the acquisition and cancellation of treasury shares as part of our ongoing efforts to return profits to shareholders and ¥30.0 billion to enhance our financial foundation, including using the funds for the redemption of corporate bonds in

preparation against future uncertainties caused by COVID-19.

Nabtesco's future vision

We unveiled our new long-term vision in February 2021.

In the vision, we uphold the slogan "Leaders in Innovation for the Future." Based on the "Identity of Nabtesco," which we have established, we will foster our businesses with a focus on technology, globalization and social contribution, thereby delivering new value to the market and leading innovation hand in hand with our customers and one step ahead of others.

In the long-term vision set in 2005 soon after the founding of Nabtesco, the company aimed to develop into a "Global Company." In the second long-term vision set in 2012, we upheld the slogan "Global Partner with Best Solutions" to become a reliable partner that can help customers solve their problems. These visions have become deeply entrenched in Nabtesco's corporate DNA, and the new long-term vision will lead us to further evolve as a true innovation leader that can continue to contribute to society.

As stated in The Nabtesco Way, Nabtesco aims to be a company that provides safety, comfort and a sense of security in daily lives as well as any form

of transportation with its unique motion control technology, and this is indeed the purpose of our business activities. In the future targeted in the new long-term vision, we want to be an entity that is "indispensable in keeping society on the move" and to provide products that are "indispensable in keeping the world on the move." To this end, we need to resolutely pursue innovation.

As a precondition for a company to continuously take on the challenge of creating value, I firmly believe that it needs to achieve profitable growth. I also think it is my mission as CEO to provide all of our stakeholders, including our customers, employees, business partners and investors, with the value that we have created and distribute the profits gained through creating that value to them. The long-term vision is a compass that will guide us along the right path as we move toward the future, and we have specified our "Management materiality" (material management issues) that we should address to achieve the vision. I will lead the formulation of a new medium-term management plan as a tool to implement the long-term vision and deal with the material issues in an integrated manner as Nabtesco's value creation story.

I ask for your continued support for the Nabtesco Group.

Nabtesco's value creation mechanism



Growth History

Accumulating managerial resources business foundations laid by our two

Nabtesco Corporation was formed in 2003 through the merger of Teijin Seiki Co., Ltd. and NABCO Ltd. In the time since then, Nabtesco has developed the technology base and businesses inherited from the two companies, while

for growth by building upon the predecessors

enhancing the management foundation and expanding its overseas bases. As a result, the Nabtesco Group now has multiple forms of capital, which is one of the sources of its competitiveness.

Disciplined portfolio management for growth

● Technology base: Unique motion control technology

Technologies developed by the two companies

Teijin Seiki	NABCO
● Cutting technology	● Fluid control technology
● Assembly technology	● Pneumatic control technology

Technologies developed/enhanced after the integration

Leading-edge element technologies	Advanced development methods	Innovative production technologies
● Surface treatment and heat treatment technologies	● CAE analysis technique, AM technology and model base development	● Advanced automation and smart production management

Companies that joined the Group through M&A

Automatic doors	Railroad vehicle equipment	Hydraulic equipment	(Head office) Technology and R&D Division	Investments in startups (examples)
● Gilgen Door Systems AG (Switzerland) ● NABCO DOOR Ltd. ● NABCO SYSTEMS Co., Ltd.	● OCLAP S.R.L. (Italy)	● Hyst Corporation	● OVALO GmbH, adcos GmbH (Germany)	● Electrification technology ● Power electronics technology ● Battery technology

Businesses discontinued/restructured after the integration

Discontinued businesses	Restructuring
● IT-related product business ● Automobile and motorcycle component business ● Textile machine maintenance business ● Vacuum equipment business etc.	● Divestiture of commercial vehicle equipment business (Nabtesco Automotive Co., Ltd. established) ● Restructuring of production bases in the hydraulic equipment business in China ● New Energy Business Development Division was abolished

Current portfolio (main businesses)

Component Solutions (CMP)	Transport Solutions (TRS)	Accessibility Solutions (ACB)	Manufacturing Solutions (MFR)
● Precision reduction gears ● Hydraulic equipment	● Railroad vehicle equipment ● Aircraft equipment	● Commercial vehicle equipment ● Marine vessel equipment	● Automatic doors ● Packaging machines

1944



Teijin Seiki Co., Ltd. was established.

1925



NABCO Ltd. (formerly Nippon Air Brake Co., Ltd.) was established.

2003

Nabtesco

Nabtesco Corporation was established and listed on the Tokyo Stock Exchange (First section market).

Teijin Seiki and NABCO were absorbed and merged into Nabtesco Corporation, which shifted to an operating holding company.

The Lehman Brothers collapse triggered a slowdown in the global economy.

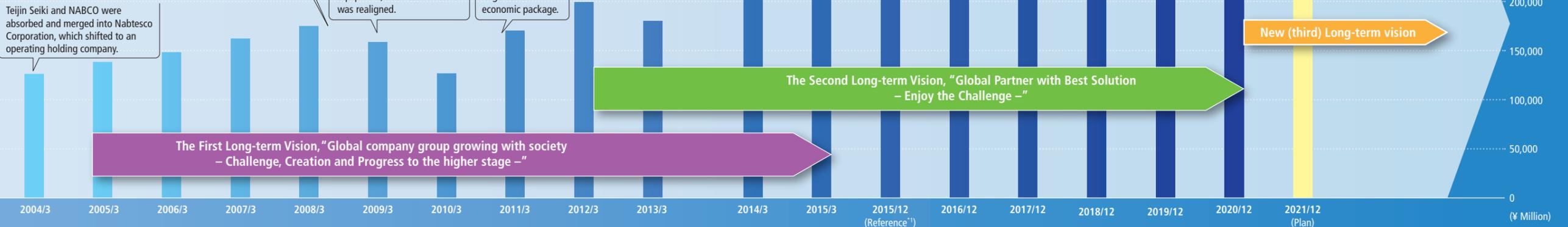
Withdrawn from an unprofitable business in commercial vehicle equipment; Business structure was realigned.

The world economy started to recover due to China's large-scale economic package.

Changed the accounting closing month from March to December to adopt the same accounting period as overseas consolidated subsidiaries.

Started to apply voluntarily the International Financial Reporting Standards.

Spread of COVID-19



Trends in Net Sales

Period of the Medium-term Management Plan

Reinforcement of the management base

- Introduced the in-house company system and the corporate officer system
- Established the Nabtesco Group Code of Corporate Ethics and the Nabtesco Group Code of Conduct
- Establishment of the Group Environment, Safety & Health (ESH) Committee
- Formulated the Corporate Philosophy and the first Long-term Vision
- Established the Quality & PL (Product Liability) Committee
- Formulated The Nabtesco Way
- Announced participation in and signed the UN Global Compact
- Formulated the Nabtesco Group CSR-Oriented Procurement Policy
- Compliance Committee, CSR Committee and Risk Management Committee were established
- CSR Basic Policy was formulated
- Nabtesco Group Code of Ethics was established
- Establishment of the Nabtesco R&D Center
- Establishment of Business Transformation Department
- Formulation of the Nabtesco Group Human Rights Policy
- Formulation of the Nabtesco Group Community Investment Policy
- Establishment of a CVC fund
- Abolished the advisor system

¹Due to the change in the accounting closing date, the figures have been estimated for the 12-month period to make a comparison.

Review of the Second Long-term Vision

Achievements and New Challenges

Nabtesco set its first long-term vision in 2005, soon after its founding, with the aim of achieving growth in the global market. The company set its second long-term vision in 2012 with a stronger commitment to such growth. Upholding the slogan "Global Partner with Best Solutions" in the second vision, we have been working to become a global partner that our customers can rely on. Also, we have increased our global presence

through M&A and proactively expanded our business to Europe and Asia. Establishing regional bases for "local production for local consumption," we have earned trust from local customers as a partner that can help them solve their specific problems. For the formulation of the third long-term vision, we reviewed the results of the second vision and identified what was achieved and what remains to be done, which we introduce below.

Aspirations described in the second long-term vision

Global Partner with Best Solutions

- Continue to provide society with new innovative solutions (products, services and business models)
- Pursue excellence through continuous technological innovation, thereby enhancing rapport and trust with customers
- Value open communication and creative thinking regardless of language and cultural differences
- Encourage each employee to proactively take on challenges with the slogan "Enjoy the Challenge."

Business environment

- Rapid expansion of emerging markets
- Acceleration of global competition
- Intensification of competition in R&D

Business challenges

- Enhancement of marketing ability
- Enhancement of R&D ability
- Enhancement of the product-service system
- Enhancement of the system to continue delivering added value
- Enhancement of the production system

Priorities under the second long-term vision

 <p>Proactive expansion of the business domain</p> <ul style="list-style-type: none"> • For 2020, aiming to post net sales of ¥25.0 billion in the new business field 	 <p>Pursuit of synergies and higher efficiency on a global scale</p> <ul style="list-style-type: none"> • Establishment of a marketing base to be shared between business departments • Establishment of regional headquarters 	 <p>Accelerating penetration of emerging markets</p> <ul style="list-style-type: none"> • Expansion of production bases in emerging markets • Growth of overseas net sales 	 <p>Growth of the MRO business</p> <ul style="list-style-type: none"> • Establishment of an MRO base to be shared between business departments • Increase net sales in the MRO business and its sales ratio
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*MRO: Maintenance Repair Overhaul

Proactive expansion of the business domain

Unachieved

Failure to create new businesses

Actions taken during the period

- Took on the challenge of creating new businesses, such as the solar tracking equipment business, but was unable to expand any of them, partially due to market changes.
- Promoted co-creation with startups through the launch of corporate venture capital (CVC) activities.

Pursuit of synergies and higher efficiency on a global scale

Almost achieved

Established regional headquarters as planned

Actions taken during the period

- Marketing base to be shared between business departments: Established Nabtesco India Private Ltd.
- Regional headquarters: Established them in China and in Europe
- Pursuit of synergies between business departments and their higher efficiency: Established the Production Innovation Division and the Procurement Planning Department

Accelerating penetration of emerging markets

Unachieved

Unable to expand sales in emerging markets as expected

Actions taken during the period

- Expansion of production bases in emerging markets: Established production bases for the precision reduction gear, marine vessel equipment and commercial vehicle equipment businesses

Growth of the MRO business

Achieved

Favorable growth of net sales in the MRO business and of its sales ratio

Actions taken during the period

- Establishment of an MRO base to be shared between business segments: Established an MRO base in Thailand to start MRO services first in the railroad vehicle equipment business and then in other businesses

Overall rating of the progress with the second long-term vision

Achievement

- Contributed to customers solving their problems as their Global Partner with Best Solutions.

Challenges

- Limited growth of overseas net sales
- Less create a new business

Based on the achievement and challenges identified through the review of the second long-term vision, the committee on the long-term vision finally formulated the new long-term vision after a series of discussions held over a period of about 10 months.

New Long-term Vision from 2021 to 2030

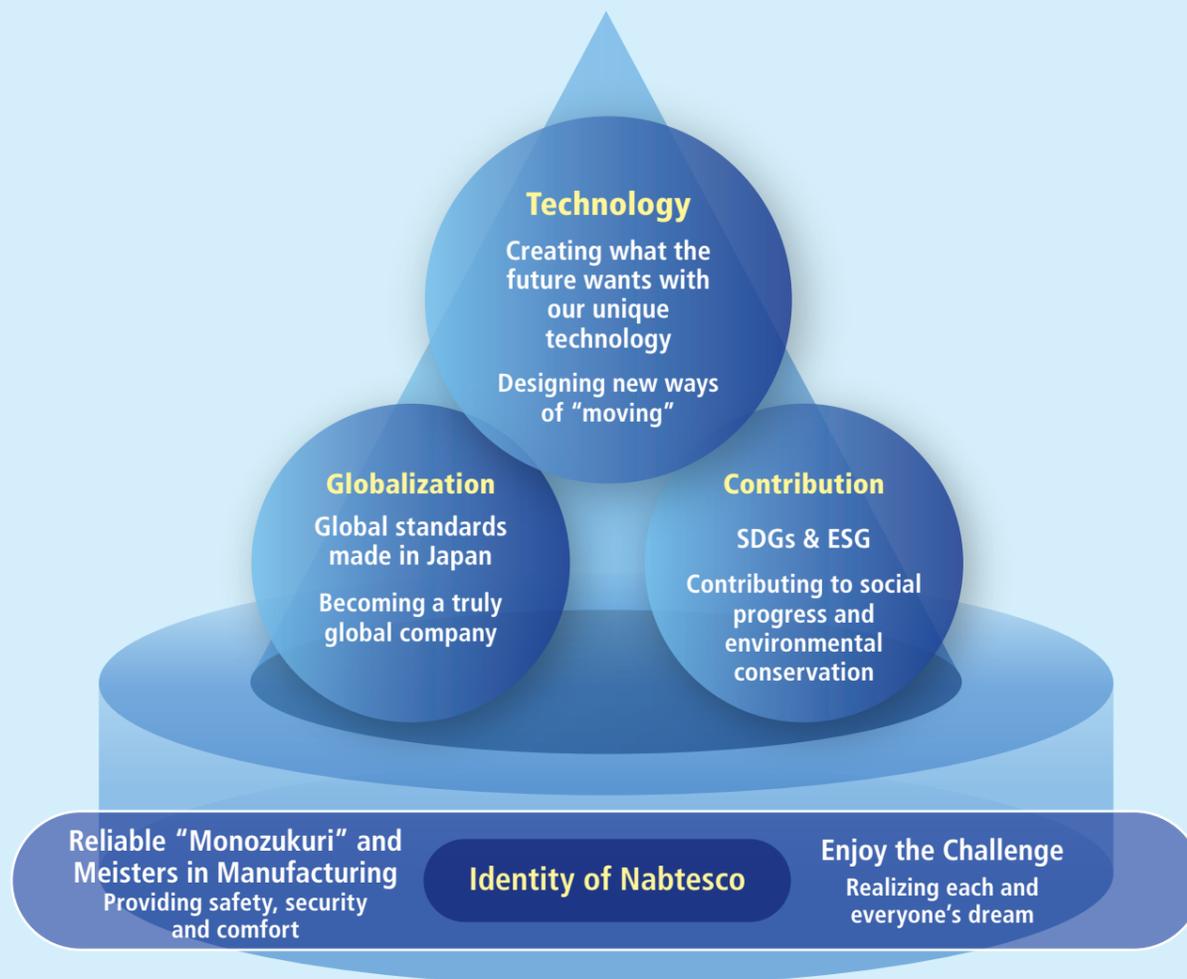
Leaders in Innovation for the Future

In 2021, we set our new long-term vision, "Leaders in Innovation for the Future." Based on this vision, we will create new value in the market by making proposals that anticipate our customers' needs and respond to them in a precise and meticulous manner. In doing so, we aim to acquire the trust of our customers and make Nabtesco a leading innovative proposal solution company which can compete with global competitors around the world.

Innovation In Action Vision 2030

2030 Vision

Leaders in Innovation for the Future



Our Aim for 2030

Creating new value with our unique technology and intelligence

Enriching lifestyles and the environment worldwide

"Moving your heart" by providing safety and security

What we will enhance more

Technology

Combine mechanical and digital technologies in an innovative manner to design a new way of "moving."
Create new value which was never seen in the world as a leader in the industry by making use of Nabtesco's technologies.

Globalization

Always be a top runner with overwhelming proposal capabilities and technological prowess among global competitors and create a global standard. We act swiftly to provide new value demanded around the world.

Contribution

Each and every employee of Nabtesco will be expected to be strongly committed to social contribution. Guided by the SDGs and an ESG concept at all times, we will spontaneously make contributions to the development of society and protection of the environment through our work styles, technologies, products and services.

What we will continue to value toward the future

Reliable "Monozukuri" and Meisters in Manufacturing

The capacity that Nabtesco has built up to meet the trust of customers provides us with a basis for value creation. We will continuously work to hone this capacity.

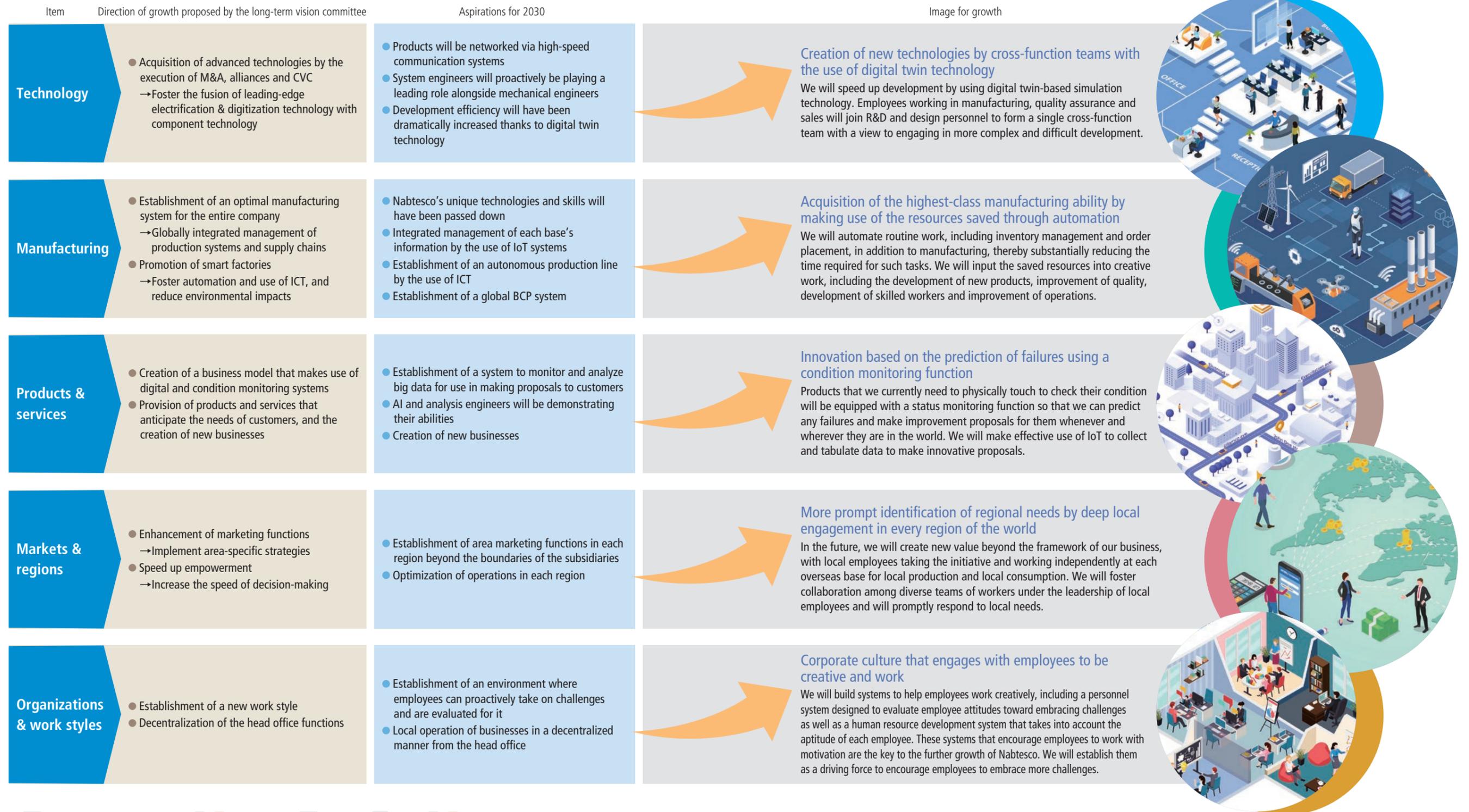
Enjoy the Challenge

We will continue to enjoy embracing challenges together as an expression of our corporate culture, which has driven Nabtesco's growth to the present. Each of us has dreams, and we will persist in taking on challenges to make those dreams come true.

Our Aim for 2030

Growth image for the achievement of the vision

The new long-term vision was formulated under the leadership of the long-term vision committee composed of young members of the administrative and business departments. In the following, we outline Our Aim for 2030 in regard to five aspects: technology, manufacturing, products & services, markets & regions, and organizations & work styles.



Innovation In Action

Vision 2030

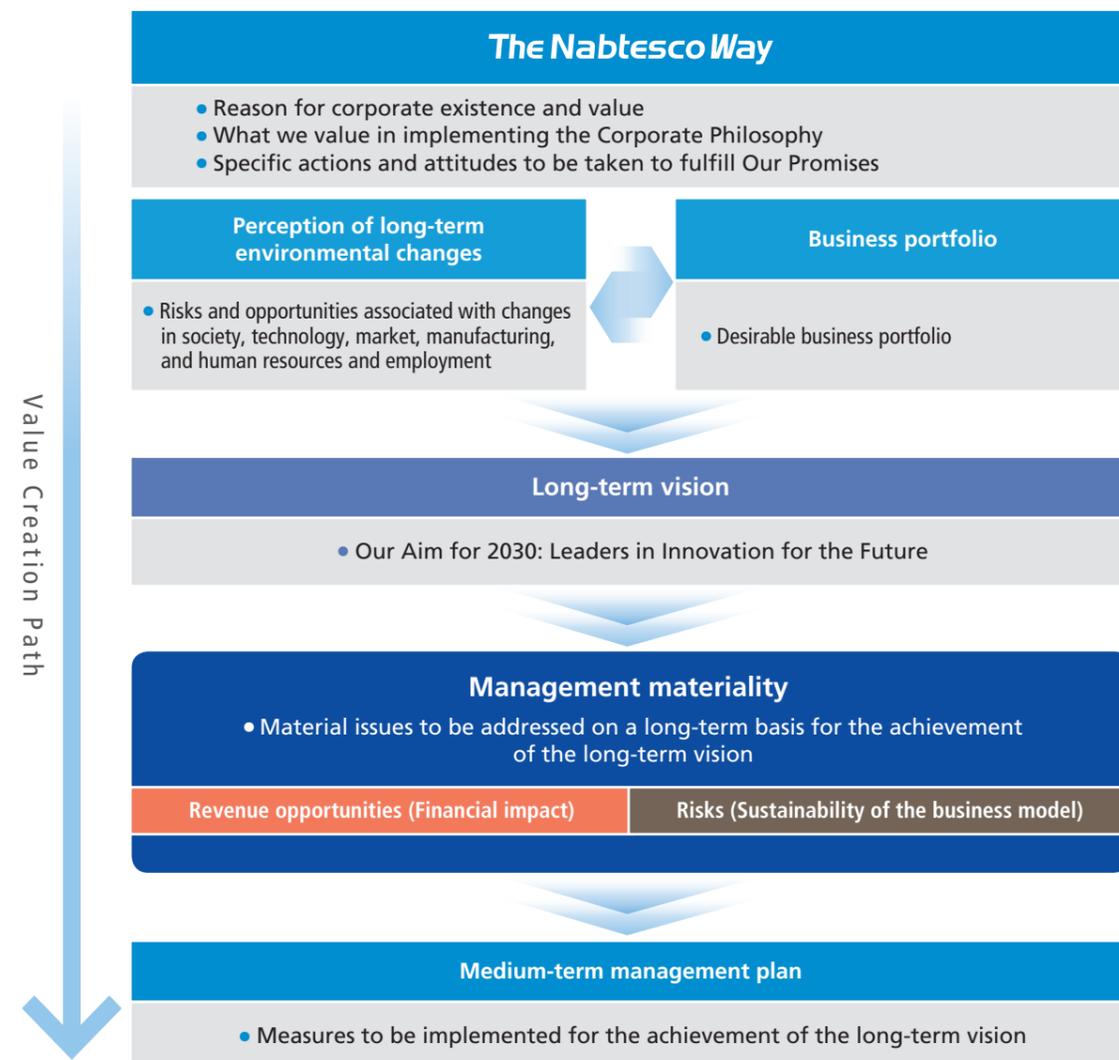
Management Materiality

We have newly set our management of the long-term vision.

The Nabtesco Group reviewed former CSR materiality (material CSR issues) and has newly specified its "Management materiality." We will address these material issues, including both financial and non-financial ones, on a medium- to long-term basis toward the achievement of the long-term vision, while achieving our short-term revenue targets on a continual basis.

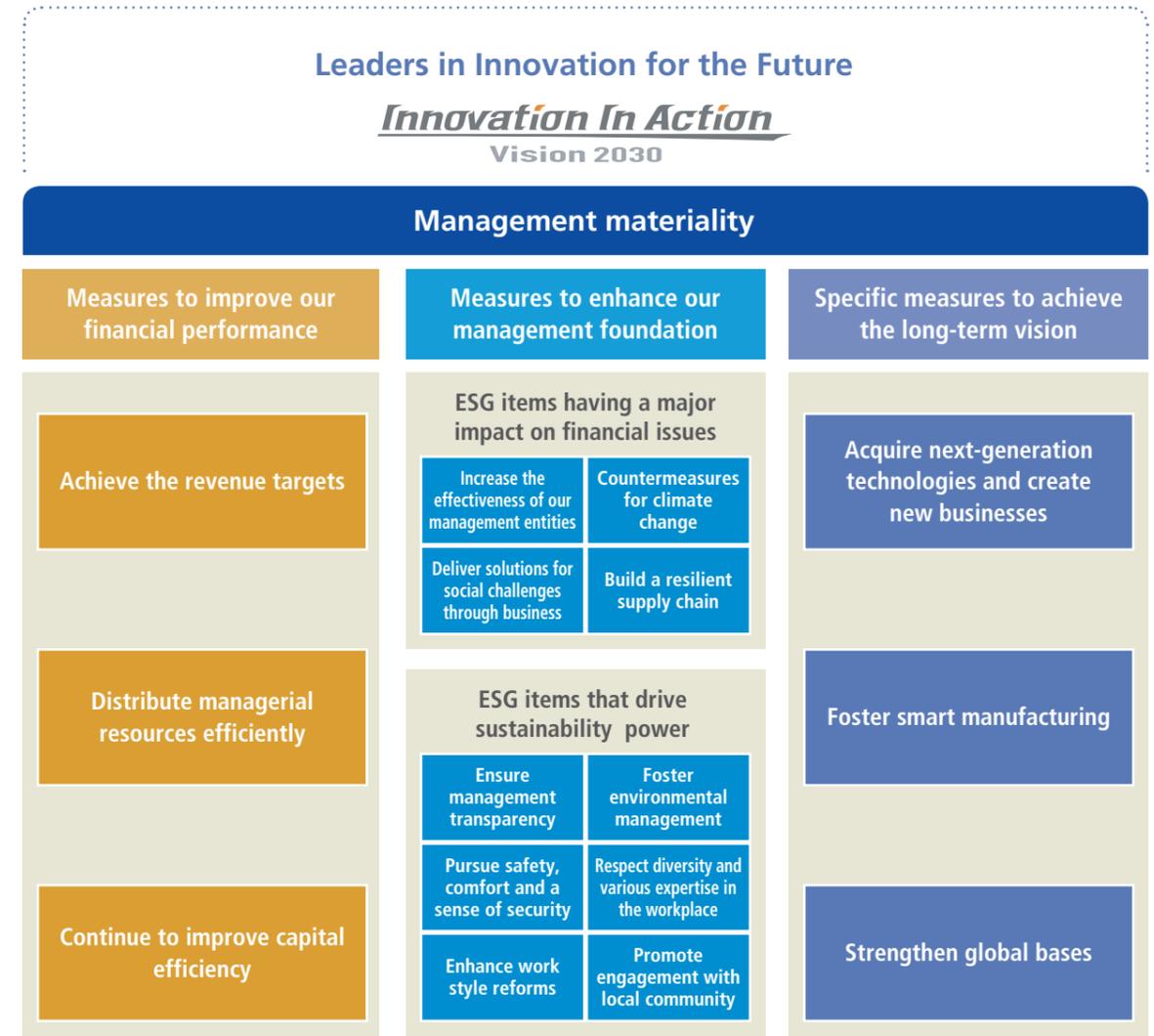
Positioning of Management Materiality

For the Nabtesco Group, management materiality means the material issues to be addressed for the achievement of the long-term vision. Going forward, we will provide our stakeholders with value in a consistent manner based on the following: The Nabtesco Way, which provides the bases for our corporate value and is composed of the Corporate Philosophy, Our Promises, Action Guidelines and Action Declaration; the long-term vision, which represents our aspirations for the future of 10 years from now; management materiality that we should address for the achievement of the vision; and the next medium-term management plan that describes the specific measures to be implemented for the vision.



materiality for the achievement

Structure of Our Management Materiality



Our management materiality is comprised of three pillars. By fostering financial and non-financial measures, we will create both economic and social value from a long-term perspective, thereby providing our stakeholders with value on a continual basis, while maintaining our own profitable growth.

For "Measures to improve our financial performance," we will work to consistently achieve our short-term revenue targets, ensure the efficient distribution of our managerial resources, and increase our capital efficiency for the promotion of ROIC-oriented management. For "Measures to enhance our management foundation," we have designated items that will greatly affect us financially as "ESG items having a major impact on financial issues." We will implement measures intensively for these ESG items, considering how they are connected with our financial outcomes. We have also identified "ESG items that drive sustainability power" as elements that will provide the foundation for us to continue creating value. We will implement measures for these items to reduce risks posed to our business continuity.

Moreover, by implementing "Specific measures to achieve the long-term vision," we will pursue innovation through our unique value creation process to enhance our competitiveness and thereby promote our long-term growth. We will also reduce our capital costs by implementing "Measures to improve our financial performance" and "Measures to enhance our management foundation."

The items included in our management materiality will change over time. According to changes in our business and economic environments, the issues that we need to address will also change, which in turn might necessitate dynamic changes in our management materiality. Based on this recognition, the Nabtesco Group will regularly review its management materiality founded on the concept of "dynamic materiality" for the flexible implementation of related measures.

Management Materiality

Management Materiality Identification Process

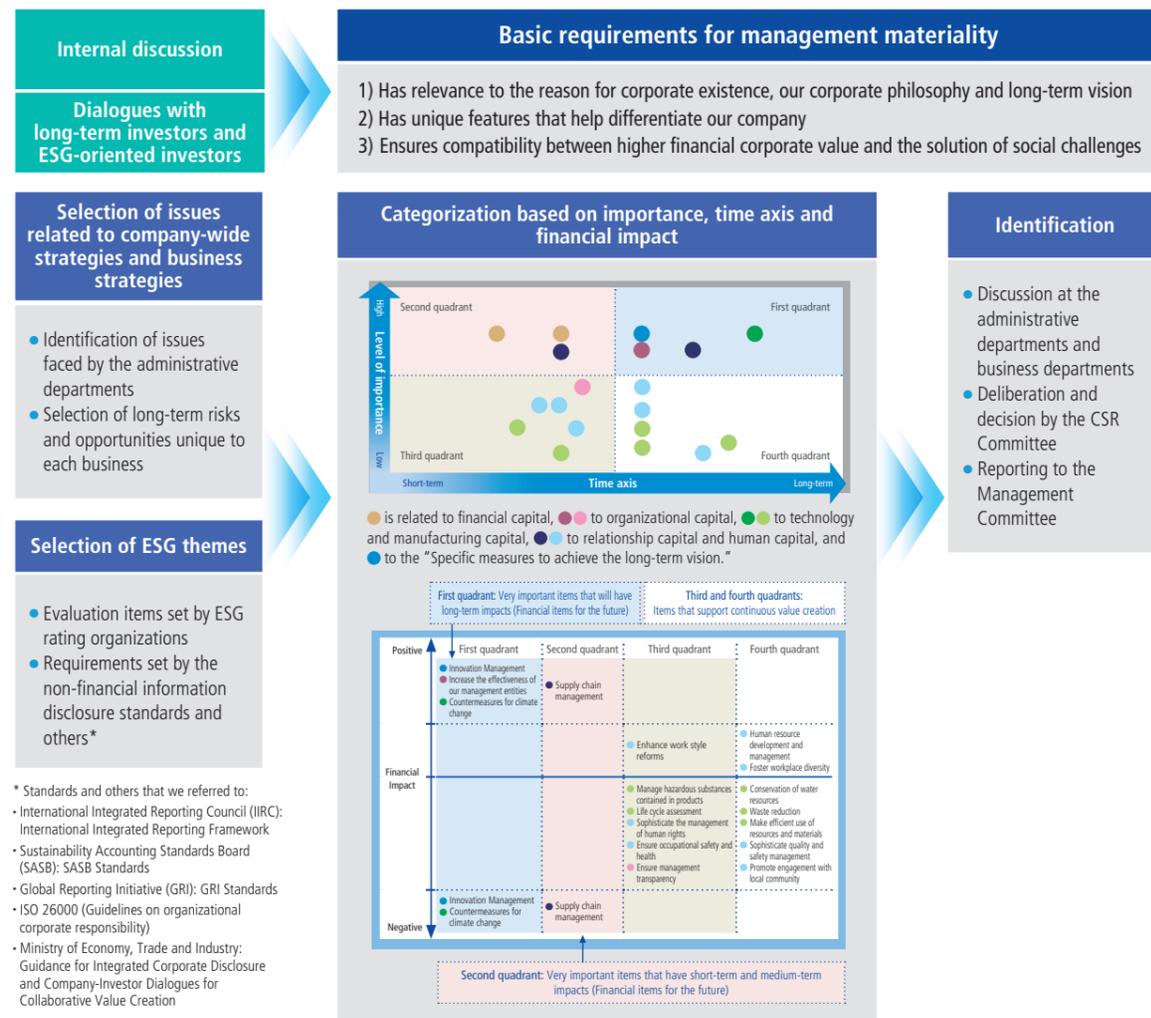
The Nabtesco Group intensively discussed how to identify its material management issues within the Group and also had dialogues about its management materiality with multiple long-term investors and ESG-oriented investors. Based on the results, we worked to identify our material management issues by attributing importance to the following three points:

- 1) Has relevance to the reason for corporate existence, our corporate philosophy and long-term vision
- 2) Has unique features that help differentiate our company
- 3) Ensure compatibility between higher financial corporate value and the solution of social challenges

These three points also provided the basis for our definition of management materiality, which is "material issues to be addressed from a long-term viewpoint for the achievement of the long-term vision." We set our former CSR materiality with a focus on ESG issues, but for our management materiality, we focused on a wider range of issues for the improvement of our corporate value and toward the achievement of Our Aim for 2030.

In order to identify our material management issues, we worked to uncover and list the short-, medium- and long-term issues faced by our administrative departments, which are tasked with promoting company-wide strategies, by using a specific analysis framework and in consideration of the future outlook of the external environment and the

● Identification process



managerial resources that support our value creation, both of which we examined in the process of formulating the long-term vision. We have also selected as ESG items those that are closely related to our business in reference to the evaluation items adopted by the ESG rating organizations and based on the framework and standards set for the disclosure of non-financial information. We then categorized the listed items according to their importance, time axis and financial impact. Furthermore, we conducted analyses regarding the important items related to the long-term opportunities and risks posed to each of our businesses from the aspects of the sustainability of the business model and ESG. Finally, we reorganized all the key items into our management materiality.

In the process, members of the long-term vision committee, who are selected from the administrative departments and business departments, discussed the topics again and again, and the material management issues were finally decided following deliberation by the CSR Committee and reporting to the Management Committee.

Major Actions and Related SDGs

We will mainly take the following actions to deal with the material management issues. For the ESG items among the issues, we detail their positive and negative impacts on our corporate activities and the specific measures and targets set for the items on page 65 under the heading "Approach to ESG Issues." We will make specific plans for the measures to be implemented for the issues and set the relevant KPIs in the process of formulating our next medium-term management plan, aiming to contribute to the achievement of the SDGs by taking these actions.

● Direction of actions to be taken for management materiality

	Issues	Actions	SDGs items	
Measures to improve our financial performance	Achieve the revenue targets	Grow sales and increase profitability		
	Distribute managerial resources efficiently	Foster selection and concentration for the efficient use of resources		
	Continue to improve capital efficiency	Promote ROIC-oriented management		
Measures to enhance our management foundation	ESG items having a major impact on financial issues	G Increase the effectiveness of our management entities	Build a management system based on versatile expertise and knowledge	
		E Countermeasures for climate change	Achieve the medium- and long-term CO ₂ reduction targets	3 GOOD HEALTH AND WELL-BEING, 4 QUALITY EDUCATION
		S Deliver solutions for social challenges through business	Foster environment-friendly and safety-oriented design and development	5 GENDER EQUALITY, 6 CLEAN WATER AND SANITATION
	ESG items that drive sustainability power	G Ensure management transparency	Strengthen corporate governance Promote risk management and compliance behavior Ensure proactive dialogue with stakeholders	7 AFFORDABLE AND CLEAN ENERGY, 8 DECENT WORK AND ECONOMIC GROWTH
		E Foster environmental management	Use materials efficiently and reduce waste	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 10 REDUCED INEQUALITIES
		S Pursue safety, comfort and a sense of security	Sophisticate quality and safety management	11 SUSTAINABLE CITIES AND COMMUNITIES, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Specific measures to achieve the long-term vision	S Respect diversity and various expertise in the workplace	Enhance work style reforms	Increase productivity by promoting flexible work styles Foster health-oriented management	13 CLIMATE ACTION, 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
		Promote engagement with local community	Promote community investment	17 PARTNERSHIPS FOR THE GOALS
		Strengthen global bases	Empower regional headquarters outside Japan	
Specific measures to achieve the long-term vision	Acquire next-generation technologies and create new businesses	Enhance human resource base for next-generation technologies Acquire new technologies through deployment of CVC		
	Foster smart manufacturing	Build a foundation for next-generation manufacturing and foster further automation		
	Strengthen global bases	Empower regional headquarters outside Japan		

CEO Dialogue

Ambition to becoming
“Leaders in Innovation”

Nabtesco has formulated its new long-term vision for 2030. In this vision, we uphold the slogan “Leaders in Innovation for the Future” based on the identity of Nabtesco established over a period of years. Inviting two analysts from institutional investors, we held a dialogue meeting on themes such as top management’s commitment to the long-term vision, the newly identified “Management materiality” and expectations for the next medium-term management plan.

* To prevent the spread of COVID-19, the dialogue meeting was held online (on March 15, 2021).

Participants:

· Katsuhiro Teramoto	Representative Director, President, Chief Executive Officer, Nabtesco Corporation
· Norio Uchida	Outside Director, Nabtesco Corporation
· Katsuya Kikuchi	Responsible Investment Department Manager, Tokio Marine Asset Management Co., Ltd.
· Tsubasa Sasaki	Analyst, Mitsubishi UFJ Morgan Stanley Securities



(Teramoto) “We would like to advance our technologies to make our components ‘indispensable in keeping the world on the move.’”

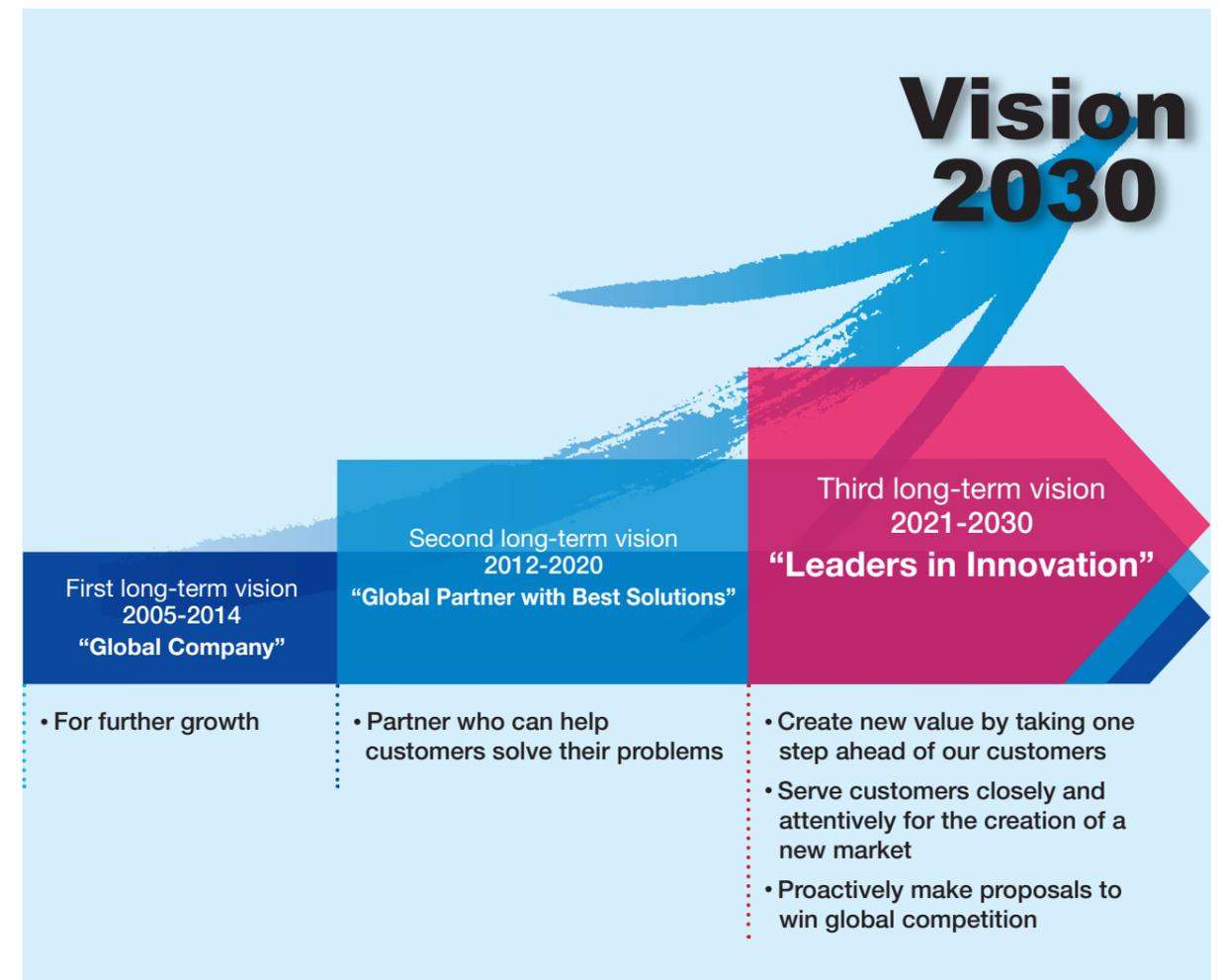
New vision for the coming age set at the
initiative of young employees

Teramoto Nearly 20 years have passed since the birth of Nabtesco. During those years, prior to setting the new vision, we had set two long-term visions, making the latest the third long-term vision for the company. Nabtesco aimed to become a “Global Company” in the first vision and to be a “Global Partner with Best Solutions” that could provide customers with reliable support in the second vision, set in 2012. Now, in our third vision, we uphold the slogan “Leaders in Innovation” with the aim of creating new value and meeting the future needs of the world in a tangible manner. We will identify our customers’ potential needs as well as issues that they themselves are yet to identify and will propose solutions by making use of our advanced technologies. The new vision was formulated

mainly by young employees in their 30s and 40s who are Nabtesco’s next generation of leaders.

Uchida I have been engaging in the management of Nabtesco as an outside director since 2015. Over the course of those years, Nabtesco has continued to achieve growth, which I think can be attributed to efforts made by employees that are aligned in the same direction and in line with the targets set in the long-term visions. By capitalizing on its motion control technology, craftsmanship for manufacturing and customer-oriented mindset, and also by promoting “selection and concentration,” the company has built up a balanced business portfolio that comprises businesses for which employees can make full use of their abilities. Nabtesco has thus made progress by making effective use of its identity as a manufacturer who can “Enjoy the Challenge” with craftsmanship.

Teramoto The new long-term vision is designed to support the company in achieving further growth based on the two earlier long-term visions, and we will continue to aim to be a “Global Company” and “Global Partner with Best Solutions” as stated in the previous visions. Also, we will take another step forward to identify customers’ unidentified needs and meet such needs in an unprecedented manner by utilizing our craftsmanship, thereby becoming “Leaders in Innovation.” We will pursue this new vision for the next 10 years and in 2022 will launch a new medium-term management plan in line with the vision.

Committed to be an entity “indispensable in
keeping the world on the move”

Kikuchi First, let me express my opinions about the long-term vision, including some comments about the background. As for “global,” which is used as a keyword, I remember Mr. Teramoto said, “Our overseas sales still account for only 50% of the total.” I think this comment implies that you plan to further expand the company’s share of the global market. As for “Global Partner with Best Solutions,” Nabtesco does indeed have a large share and is highly competitive in each of its business segments and I think the vision has already been materialized.

Against this backdrop, I would like to ask a specific question about “Leaders in Innovation,” which you uphold in the new vision. Mr. Teramoto, you referred to Nabtesco’s ability to make proposals when talking about your ideas about the vision, and I want to ask you about your current rating of the ability and to what level you plan to improve it.

Teramoto In our past business activities, we were frequently asked by our customers to provide them with the components they needed to make new products, such as a new robot. We have thus been proposing

the optimal components to meet the needs of these customers. But from now on we would like to propose the creation of a new and useful robot itself and other new products. Our business portfolio provides us with tremendous opportunities, and we need to learn more about our markets, listen to our customers and make even better use of our motion control technology to help customers grasp their needs. To this end, we are attributing importance to M&A and are fostering Corporate Venture Capital (CVC) activities.

In the process of setting the vision, we held a series of discussions on the purpose of our company and were strongly inspired by an idea that was expressed as our

(Uchida) “The long-term vision will be Nabtesco’s ‘Bible’ for the next 10 years. The Board of Directors should consistently fulfill the role of ‘C’ in the PDCA cycle.”





(Kikuchi) "For your next medium-term management plan, I think it is of utmost importance to design a balance sheet that is ideal to you and disclose it in the plan."

commitment to making our company "indispensable in keeping the world on the move." We would like to advance our technologies to make our components "indispensable in keeping the world on the move," for which we will foster innovation.

Kikuchi Mr. Teramoto, you have conveyed your message very clearly.

When you want to foster innovation, it is essential to think appropriately about returns. From the viewpoint of shareholders, financial returns are of course important, but you also need to think about strategic returns. Even if you cannot return to shareholders financially on a short-term basis, you can increase returns to them strategically on a medium- to long-term basis through synergy and impact generation. You need to take such an approach to make innovation happen.

I have another question about the term "Leader." Can you give us a specific explanation about the "Leader" that you aim to be?

Teramoto We have clearly defined our business domains, and for example, we will not expand our business to include the biological field. For us, ideal "Leaders in Innovation" are not those who are in front of everyone else, but rather those who can lead innovation in their own business domains.

As I have already mentioned, the new vision was formulated at the initiative of young employees. In anticipation of the market 10 years from now, they proposed ideas that the management team was unable to come up with.

Changing the fundamentals

Sasaki Analysts including ourselves tend to focus on numbers, including operating income and ROE, but we are told to evaluate companies by using the analogy of a tree.

Net sales and profit can be likened to fruit, and in order to be able to harvest fruit from a tree, we need to monitor the conditions of its trunk and branches, including the corporate structure, technological capabilities, productivity, sales ability and trust from customers, as important non-financial information.

In addition, the roots of the tree, which support the trunk, are the corporate DNA and culture.

Listening to you, it sounds like you are working to change Nabtesco at a fundamental level, or at a root

level, upholding the visions "Global Partner with Best Solutions" and "Leaders in Innovation."

What challenges and issues have led you, as a business leader, to change the company from the roots up?

Teramoto If you keep the roots of a tree healthy, the tree will have a strong trunk and bear lots of fruit. In order to keep the roots healthy, you need fertile soil, which I believe is what The Nabtesco Way is. It shows our corporate philosophy.

The long-term vision is the roots of our tree, which will lead us to take specific actions for a rich harvest in line with the corporate philosophy.

Although employees' awareness of The Nabtesco Way has been gradually expanded across the Group, I do not think it is enough. How can all employees work with excitement and great motivation? What can we do for our future? We have been advancing our long-term vision, regarding it as the foundation that will guide all employees in the same direction and toward clearer targets.

Sasaki Also, in investment circles, the importance of corporate culture is returning to the spotlight. For example, a book on corporate culture written by a famous American venture capitalist became a best seller. This book focuses on aspects that have not received a lot of discussion, such as how to create a great corporate culture and what it takes to create corporate value.

What the author means by "corporate culture" is the behavioral style of employees and how they conduct themselves. In other words, the unconscious behaviors of employees indicate the extent to which the company has instilled its corporate culture. Mr. Teramoto, could you share your ideas about the need to further advance the code of conduct?

Teramoto The Nabtesco Way was created in the middle of the 2010s with all employees participating in the creation process. We had a lot of discussions about what kind of company we wanted Nabtesco to be. Now we spontaneously think about whether or not our behaviors are aligned with The Nabtesco Way. However, there are still differences in the level of understanding. In order to help individual employees to share the same understanding, we need to have repeated dialogues.

At the beginning of the 2000s, two companies were merged to create Nabtesco. In the integration process, the two companies were faced with the difficult task of integrating different corporate cultures nurtured under the control of different parent companies. Moreover, Nabtesco's workforce is composed of employees from those two companies as well as employees newly hired by the integrated company, including mid-career hires. The company is thus composed of three different types of employees. Indeed, I myself joined the company in the middle of my career. The Nabtesco Way was formulated to foster the integration process among these employees.

Finally, through the process, I think we have become

a unified team. Now, we can make a plan to step up to a higher level, and the new long-term vision will help us implement specific measures to this end. I regard it as the role of the management team to lead employees in this direction.

Uchida It means that we value a corporate culture that encourages innovation. The commitment of individuals, the work environment and support provided by the company, as well as a sense of crisis that urges change, all help to create a corporate culture that fosters innovation. In such a corporate culture, employees will transform themselves into "Nabtesco people."

Also, for globalization in this context, we need to employ people who can understand The Nabtesco Way as the next challenge that we should meet.

Kikuchi As Mr. Uchida has said, it is important to nurture the corporate culture based on The Way. On the other hand, in order to foster innovation, it is important to ensure diversity. Mr. Teramoto said, "The company is thus composed of three different types of employees," which greatly helps ensure diversity.

Sasaki I agree with Mr. Kikuchi. The two companies were merged into one company, which also employed new people and built up an excellent corporate culture. It is an enlightening story.

Room to make a breakthrough through innovation

Sasaki Nabtesco boasts the No. 1 market share for a range of products, including precision reduction gears, automatic doors and packaging machines. However, being No. 1 could entail the risk of being unable to achieve growth above the market average. The new long-term vision seems to imply the need to foster innovation to exceed the market average in terms of returns. Please share your thoughts about this.

Teramoto We have a large share of the precision reduction gear market; however, our customer composition in this market is not well balanced. We sell precision reduction gears mainly to robot manufacturers and have not yet pioneered other customer groups. We need to find new customers based on our precision reduction gear technology. For example, in the automobile industry, electrification and automation will further progress and there might be new needs for precision reduction gears in the industry.

In addition, innovation includes not only technological innovation but also the innovation of sales channels and manufacturing technologies. In the precision reduction gear business, our major markets are still limited to Japan and Europe, but if we can expand the market to include other regions while maintaining the same market share, we will of course be able to increase our sales in line with an increase in the number of customers.

Also, for automatic doors, our market share is 50%

(Sasaki) "The new long-term vision seems to imply the need to foster innovation to exceed the market average in terms of returns."



or more in Japan but slightly more than 20% in the world. In the future, the functions that buildings are expected to fulfill will change, and we will find new markets for our products by highlighting their added value, such as being "contactless." It is also important to identify local needs in the United States, India and other regions.

We will not stop growing at this point. We will maintain our market share and work to expand our business, even if little by little, to further increase our share.

Sasaki If you have more room to make a breakthrough through innovation for manufacturing methods, the development of applications and for the expansion of sales channels, you will have more room for growth. You obviously aim to be an innovation leader in line with this idea.

Teramoto Yes, indeed. We will make a concerted effort to foster technology, globalization and social contribution as the three pillars that will allow us to become an innovation leader.

Increase sensitivity to changing issues

Teramoto Nabtesco has been identifying and disclosing its "CSR materiality" (material CSR issues), but from this year we will disclose "Management materiality" as an updated version of our materiality announcement.

Kikuchi Last year, the concept of "dynamic materiality" became widely known. It means that materiality is not fixed but variable, and it can change gradually or rapidly. Also, the concept points out the importance of discussing materiality for the following three different types of variable issues: financial issues, issues that have an impact on financial issues and non-financial issues that are socially important.

I think that this concept and Nabtesco's approach to "Management materiality" are relatively similar. I have heard the keyword "global" uttered repeatedly in this meeting. Indeed, it is essential for the company to grow into a truly global company, and this way of thinking would also be easy for foreign investors to accept.

Teramoto As you have said, the management issues that we face as a corporate citizen are in fact variable, and some of them might change rapidly and others gradually.

As the issues that we should address to implement



the long-term vision, we have listed both financial and non-financial issues. However, these issues will change according to changes in our business environment, and we therefore need to review them each time we formulate a new medium-term management plan. To this end, we must increase the sensitivity of our "antennas" to identify problems. It is also important to present our management issues to our stakeholders in an appropriate manner and hold repeated dialogues with them. This is a fundamental requirement to be met for the management of the company.

Kikuchi I agree that it is a fundamental management requirement. Let me add one thing. Nabtesco has a portfolio of diverse businesses, and its material management issues will change faster for individual businesses than for the fundamental core of the company. I think the company can take advantage of this fact.

Teramoto Yes, indeed. Presently we have set our material management issues mainly targeting the entire company but do need to set these also for each of our businesses, which itself is indeed a material management issue for us.

Uchida The long-term vision will be Nabtesco's 'Bible' for the next 10 years. In order to achieve the vision, the company will create a roadmap based on the "Management materiality" and then break it down into more detailed plans. The Board of Directors should consistently fulfill the role of "C" in the PDCA cycle.

Sasaki Regarding materiality, I have one thing to say, which is about the disclosure of climate change-related information. You have been implementing measures to introduce renewable energy and urge suppliers to work with you in this regard. I recommend that, in line with the TCFD recommendations, you promote the disclosure of information about the related risks and opportunities as well as the relevant numerical targets set for your business activities.

For Scope 3 greenhouse gas emissions, you need to attribute importance to reducing emissions from your products in their use stage in addition to reducing emissions in the manufacturing stage. For example, if users of your precision reduction gears need to foster automation to further reduce their emissions, it will

provide you with new business opportunities. I think you need to appeal to your customers in this respect as well.

Teramoto This is something I would like to discuss internally in reference to your opinions. We tend to pay more attention to emissions from our own plants. As for the Science Based Targets (SBT) initiative, we are building a process to set our targets based on the 1.5 degrees Celsius target and not on the 2 degrees Celsius target, for the attainment of which we have already set our own target and received SBT approval.

Enhancement of the Board of Directors' effectiveness

Uchida I used to manage a company myself and have served as an outside director for other companies. Based on such experience, I think Nabtesco's Board of Directors is at a very high level in terms of effectiveness, specifically for transparency, information quality and the decision-making process. Also, the Board has made substantial improvements regarding the ratios of outside directors and female directors.

Toward the future, although improvements still need to be made in relation to human resources including non-Japanese and IT-related personnel, the company is already at a satisfactory level. We have proactive discussions at Board of Directors meetings and give prompt feedback to those engaging in business execution, which probably keeps them quite busy (laughs).

It is, however, difficult to show these facts intelligibly to investors.

Kikuchi Straightforward opinions of outside directors, as expressed by Mr. Uchida, are indeed important to us. It is necessary for such frank opinions to be heard through reports, including the integrated reports, meetings with outside directors and various other channels, in addition to the disclosure of numerical data, whereas, due to the review of the Governance Code, numbers now tend to be the target of discussions.

In the manufacturing industry, where the ratio of female employees has traditionally been low, the numbers of female managers and outside directors tend to be small. However, nothing will change if you just leave it as it is. What do you think about this?

Teramoto It is true that nothing will change if we leave it as it is, and it is now time for us to take actions. However, what is important is to make more use of the ideas and findings that are unique to women in our business management rather than simply increasing the ratio of female employees and managers.

Sasaki Let me make two recommendations from the viewpoint of corporate governance. When evaluating companies, as analysts we always check their return on invested capital (ROIC) and weighted average cost of capital (WACC) to estimate the economic value added to the companies, which will be reflected in their stock

prices. Nabtesco's ROIC has been maintained in the double digits, and if we can check the numerical data also for each business segment, we will be able to analyze its governance situation more clearly.

We also pay a lot of attention to progress with the plans that the management team has announced publicly, and, as Mr. Uchida said, Nabtesco has been making steady progress in this regard, which is quite appreciated.

However, I would like to see you show more details for each business. For example, for the past two years, uncertainties regarding OVALO's business have been causing an increase in your capital cost. I would like you to make prior explanations to the extent possible in consideration of your confidentiality obligations, thereby avoiding surprising us with a sudden drop in your business performance.

Teramoto As for OVALO, we are committed to providing as much explanation as possible before anything happens. If something happens before we explain it, please understand that we were unable to predict it because it was caused by external factors. I would also like to answer these kind of questions as much as possible through dialogue meetings and briefing sessions.

Regarding ROIC and WACC by business, let us conduct examinations toward the future.

As for our current issues for "Management materiality," we are making detailed plans about the achievement of profit targets, efficient distribution of managerial resources and continuous improvement of our capital efficiency. We plan to provide specific details in our next medium-term management plan.

Expectations for the next medium-term management plan

Sasaki In the stock market, our discussions about Nabtesco tend to be focused on precision reduction gears. However, over the next 10 years, we can expect the stable growth of the automatic door business, and also you have achieved a very high growth rate in the packaging machine business. In addition, you have expanded the MRO services, and COVID-19 has not had much effect on the performance of the businesses. I think you can highlight these two businesses more in your business portfolio.

Kikuchi For your next medium-term management plan, I think it is of utmost importance to design a balance sheet that is ideal to you and disclose it in the plan, because the balance sheet will eventually show the results of the measures that the company has taken to achieve its medium-term management plan and long-term vision. The gain on the sale of HDS shares will undoubtedly help improve your balance sheet, and I would like you to show the direction that you will head in and your message about R&D, CVC, M&A and others

through the balance sheet.

Uchida In order to foster innovation, it is necessary to make investments proactively. The enhancement of its global bases and human resources is a key to boosting Nabtesco's marketing and R&D abilities. In particular, it is important to educate and invest in human resources and to make 10-year plans for that purpose.

In B to B to C (Business to Business to Consumer) business, you can take a shortcut to secure excellent talent by establishing bases beyond national borders in countries suitable for B to C [B and C]. For example, in the hydraulic equipment business you can establish a base in the United States, and in the railroad vehicle equipment business you can expand your bases in Europe. In the packaging machine business, you also need to enhance marketing staff at your overseas bases to accelerate global sales activities. Further, in order to enhance your R&D abilities, you need to speed up investments in overseas M&A and CVC projects.

I am really inspired by the new long-term vision, which incorporates the ideas of the next generation of leaders. I expect that the roadmap will be broken down into detailed plans and the Board of Directors and executives will steadily follow up on the plans to achieve a bountiful harvest of fruit.

Teramoto As Mr. Sasaki previously pointed out, I also have great expectations for our automatic door and packaging machine businesses. We might need to devise more measures to highlight them externally.

As for Mr. Kikuchi's comment about the balance sheet, I take it very seriously. We have long been managing the company based on profit and loss statements, and at Board of Directors meetings we have been discussing the introduction of ROIC and how to change our mindset to focus more on the balance sheet. However, we have not yet created a balance sheet as we want it to be, as indicated by the balance sheet published at the end of 2020. This is something I would like to discuss in the process of formulating our next medium-term management plan. We will make a concerted effort across the company to achieve the new vision, for which I would ask for your continued support.



Value Creation Process

Our unique "Moving it. Stopping it." technology propels innovation

Purpose & Mission

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

Outlook for the External Environment

[Society]

- Proactive Action for the achievement of the SDGs
- Increased sense of crisis around climate change

[Market]

- Japan and developed countries: Maturation and cyclical trend
- Emerging markets: Increase in population and further industrialization

[Technology]

- Progress of ICT and acceleration of development speed
- Energy transition to deal with climate change
- Expansion of electrified and systematized products

[Manufacturing]

- Issues related to business succession for suppliers (in Japan)
- Demand for carbon-free manufacturing

[Human resources and employment]

- Decrease in working population, diversity of human resources and the introduction of meritocracy
- Spread of remote working and entrenchment of flexible work styles

[Risks]

- Impact on business caused by short-term demand changes
- Loss of competitiveness due to a delay in ICT and electrification action
- Increase in cost due to the need to deal with climate change
- Difficulty faced in procurement due to the discontinuance of business by a supplier
- Intensification of competition for the acquisition of human resources

[Opportunities]

- Expansion of business that can contribute to the SDGs
- Demand for electrification and systematization
- Demand increase for products and services with high environmental performance
- Increase in employees' satisfaction thanks to flexible work styles

Our Aim for 2030

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

Management Materiality

Measures to improve our financial performance

Measures to enhance our management foundation

Specific measures to achieve the long-term vision

Management Strategy

Medium-term Management Plan (FY2017/12 – 2021/12)

Market Creation

Obtain new markets by accelerating overseas business and developing new domains.

Technology Innovation

Create new solutions through transition from components to systems and services.

Operational Excellence

Raise profitability and reinforce operational basis. Revitalize the organization and promote effective use of human resources.

Business Model

Managerial Resources That Support Value Creation

INPUT

Organizational capital

- Speedy business execution based on the in-house company system
- A range of committees that provide a system to implement measures for ESG issues across the Group
- Corporate governance system with a focus on the sustainable increase of corporate value

Technology and manufacturing capital

- Motion control technology that meets development requests from customers
- Local production and local consumption system to fulfill responsibility to realize stable supply
- System to create and enhance intellectual property

Human capital

- Management team members who demonstrate diverse expertise to increase corporate value
- Diverse workforce made up of people who value quality as well as collaborative creation, competition and sharing

Financial capital

- Capability to generate stable cash flow

Relationship capital

- Major customers
 - Industrial robot manufacturers and construction machinery manufacturers
 - Manufacturers and companies engaged in railroad, marine and air transportation businesses
 - Major construction companies and others engaged in the construction business
 - Food manufacturers etc.

- Characteristics of our shareholders
 - High rate of non-Japanese shareholders
 - Large ownership by growth investors
- Relationships with a range of suppliers
- Favorable relationships with local communities

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

propels innovation

Long-term Vision

VISION

Leaders in Innovation for the Future

Created Value

OUTCOME

	Value for the Nabtesco Group	Value for external stakeholders
Relationship capital	<ul style="list-style-type: none"> Relations of trust with customers Relations of trust with shareholders Relations of trust with suppliers Relations of trust with local communities 	<ul style="list-style-type: none"> Customer bases founded on top-class market shares Trust in the management team and high-scoring ESG evaluation Responsible supply chain management Improvement of recognition through community investment
Financial capital	<ul style="list-style-type: none"> Robust balance sheet that supports steady growth investments Equity ratio of 55% or more for the past five years 	<ul style="list-style-type: none"> QCDS performance that meets the requirements of customers Enhancement of partnership with stakeholders Enhancement of the value chain for mutual growth and for the expansion of trade opportunities Contribution to the solution of social challenges in the environment, education and welfare fields
Technology and manufacturing capital	<ul style="list-style-type: none"> Creation of new products and a highly competitive production system 	<ul style="list-style-type: none"> Capital efficiency and stable return of profit that meet shareholders' expectations ROE for FY2020/12: 10.6% Payout ratio for FY2020/12: 45.4%
Human capital	<ul style="list-style-type: none"> Securing of human resources who implement The Nabtesco Way Development of Globally Competitive Human Capital 	<ul style="list-style-type: none"> Provision of safety, comfort and a sense of security and contribution to climate change mitigation Respect for diversity and expertise in the workplace
Organizational capital	<ul style="list-style-type: none"> Highly ethical corporate culture based on a global compliance system Disaster-resilient organization with constantly enhanced Business Continuity Power 	<ul style="list-style-type: none"> Management transparency based on the autonomous improvement of its functions by the Board of Directors Proportion of Outside Directors: 40% Proportion of female Directors: 20%

Major businesses

Business segment	Characteristics	Main products and services	Relationship with society
Component Solutions (CMP)	Significant impact of changes in production/sales volume on profitability	<ul style="list-style-type: none"> Precision reduction gears Hydraulic equipment 	Manufacturing and Infrastructure
Transport Solutions (TRS)	After-sale services (MRO ¹) that mitigate impacts from changes in OEM ² production volume	<ul style="list-style-type: none"> Railroad vehicle equipment Aircraft equipment Commercial vehicle equipment Marine vessel equipment 	Transportation of people and goods
Accessibility Solutions (ACB)		<ul style="list-style-type: none"> Automatic doors Platform doors Welfare equipment 	Daily lives and welfare
Manufacturing Solutions (MFR)		<ul style="list-style-type: none"> Packaging machines 	Production of daily commodities

¹ MRO: Maintenance/Repair/Overhaul
² OEM: Original Equipment Manufacturer

Measures to achieve the long-term vision

What we will enhance more

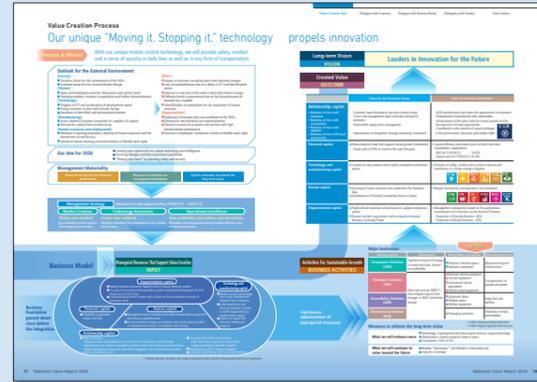
- Technology: Creating what the future wants with our unique technology
- Globalization: Global standards made in Japan
- Contribution: SDGs & ESG

What we will continue to value toward the future

- Reliable "Monozukuri" and Meisters in Manufacturing
- Enjoy the Challenge

Value Creation Process (Explanations)

The Nabtesco Group will further advance its value creation process toward the achievement of the long-term vision. In this section, we will outline the value creation process, through which we aim to address the identified material management issues and meet future needs by making use of the strengths and features of our management resources, which we have built up over a period of years.



Purpose & Mission

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

The Nabtesco Group's purpose is to provide safety, comfort and a sense of security in daily lives as well as in any form of transportation by its unique motion control technology. In line with this purpose, the management team and all members of the workforce will embrace as their mission the implementation of The Nabtesco Way to turn "All Stakeholders' Dreams" into reality, as stated in the Action Declaration.

External environment prospects

The Nabtesco Group manufactures, sells and provides after-sales services for its component products in the area of B-to-B business. In this business area, we absolutely must make appropriate responses to changes in market trends, including trends in the market of final products, as well as to related risks. When formulating the long-term vision, we summarized the risks and opportunities that the Group may encounter during the next decade due to changes to our business environment, including the impacts of COVID-19 on the market, as follows.

◆ Major risks and opportunities

In the niche markets in which we command large market shares, short-term changes in domestic and overseas demand might adversely affect our business performance and financial situation. There are also medium- to long-term risks, including loss of competitiveness due to delays in ICT and electrification, an increase in costs as a result of dealing with the issue of climate change, loss of opportunities caused by the loss of stability in procurement, and loss of competitiveness due to failure to secure and develop a sufficient workforce amid the intensification of competition for human resources.

On the other hand, the Nabtesco Group has opportunities to contribute to the SDGs. We can make such contributions by solving social issues through the businesses that we are conducting across a broad range of fields, such as manufacturing and community development, transportation of people and goods, daily life and welfare, and the production of daily necessities.

By using our technologies to respond to needs for electrified and systematized components, which are increasing in line with the progress of ICT, we can add more value to the Group's products. We can also gain important business opportunities through the implementation of environmental measures. In addition to fostering our own

manufacturing innovation, we will provide products with higher environmental performance and offer MRO services to manufacturers of finished products and end user companies, thereby expanding our contributions to the reduction of environmental impacts and the solution of the issue of climate change.

● Risks and opportunities

Risks	Opportunities
<ul style="list-style-type: none"> • Impact on performance caused by short-term changes in demand • Loss of competitiveness due to a delay in ICT and electrification • Increase in cost due to the need to deal with climate change • Difficulty faced in procurement due to the discontinuance of business by a supplier • Intensification of competition for the acquisition of human resources 	<ul style="list-style-type: none"> • Expansion of business that can contribute to the SDGs • Demand for electrification and systematization • Greater needs for products and services with high environmental performance • Increase in employees' satisfaction thanks to flexible work styles

Our Aim for 2030 and management materiality

The Nabtesco Group established its long-term vision for 2030 as a set of guidelines for achieving growth and development. We also seek to attain "Our Aim for 2030," which was set as part of the vision. We also set "Management materiality" as our material management issues. We will tackle these issues on a long-term basis for the attainment of the long-term vision and in our pursuit of business model innovation.

◆ Our Aim for 2030

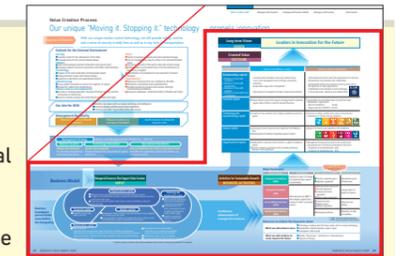
- Creating new values with our unique technology and intelligence
- Enriching lifestyles and the environment worldwide
- "Moving your heart" by providing safety and security

◆ Management materiality

- Measures to improve our financial performance
- Measures to enhance our management foundation
- Specific measures to achieve the long-term vision

Business Model

In our business activities, the Nabtesco Group inputs a range of managerial resources to supply products and services. We also work to provide our own Group and stakeholders with more value by implementing measures for financial management and the solution of ESG issues. In the following, we detail our business model for value creation with a focus on the flow from the input of major managerial resources to the output of major products and services and the outcome (created value).



INPUT

Managerial Resources That Support Value Creation

The managerial resources that support the Nabtesco Group's business operations include relationship capital, financial capital, technology and manufacturing capital, human capital and organizational capital. The most important capital among these is relationship capital, which is based on relations of trust with customers, shareholders, investors and other external stakeholders. Relationship capital and the other types of capital supplement each other. By using such capital, we create value through our business activities and based on our efforts for financial management and the solution of ESG issues.

Relationship capital

◆ Relationship with customers

Strength and features: The Nabtesco Group has customers representing a broad range of industries, including those engaged in manufacturing and infrastructure building. Among them are excellent corporate customers that are operating on a global scale and fulfilling their social responsibilities to a high standard. We have been meeting the high expectations of these customers, thereby continuing to achieve growth in the market. Our excellent customer base, which we have built up by earning trust from customers, provides a sustainable source of our profits.

● Major customers by segment

Component Solutions	Industrial robot manufacturers, FA equipment manufacturers, construction machinery manufacturers, etc.
Transport Solutions	Aircraft manufacturers, companies engaged in railroad, marine and air transportation businesses, etc.
Accessibility Solutions	Major construction companies, others engaged in the construction business, etc.
Manufacturing Solutions	Food manufacturers, etc.

Related management materiality

"Specific measures to achieve the long-term vision" and "Deliver solutions for social challenges through business"

◆ Relationship with shareholders and investors

Strength and features: Non-Japanese shareholders account for nearly 50% of Nabtesco's shareholders (47.2% as of the end of December 2020). Moreover, the Group gets a high rating for our growth potential, and the percentage of our shares owned by institutional growth investors, including those both within and outside Japan, is uniquely high. We engage in financial and non-financial dialogues with these investors for more sophisticated management of the company.

Related management materiality

"Measures to improve our financial performance" and "Measures to enhance our management foundation"

◆ Relationship with suppliers

Strength and features: A total of around 1,500 companies, including both large and small, supply their products (mainly metal, electronic and electric components) or offer machine processing and component assembly services to the Nabtesco Group. It is critical to have a resilient supply chain in order to maintain and improve our cost structure and QCDS performance. Based on this recognition, we are building close collaborative relationships with our suppliers founded on fair, proper and transparent transactions for the sustainable growth of the Nabtesco Group.

Related management materiality

“Build a resilient supply chain”

◆ Relationship with local communities

Strength and features: The Nabtesco Group established a supply chain for local production and local consumption, thereby contributing to the economic development of local communities. We also uphold the Nabtesco Group Community Investment Policy to clarify our commitment to promoting exchange and cooperation with local communities in the fields deeply related to our business in each region where we operate. We work to contribute to the solution of local issues across the globe as one of the basic measures for increasing our corporate value on a long-term basis.

Related management materiality

“Promote engagement with local community”

Financial capital

Strength and features: The Nabtesco Group has continued to produce stable operating cash flow. This cash flow provides us with the financial resources to make growth investments and return profit to stakeholders.

Technology and manufacturing capital

Strength and features: In each of the businesses for which we have secure a large market share, the Nabtesco Group has a proprietary system for developing products and services in a way that is integrated with the product development of our customers. The core technology that allows us to do this is our unique motion control technology. By continuing to meet the demanding requests of customers, we have built up our basic technologies, including cutting technology, assembly technology and fluid control technology. In addition, we have an enviable collection of advanced element technologies, such as those for surface treatment, heat treatment, CAE analysis and additive manufacturing. All these technologies provide the basis for our motion control technology.

For production, we secure sufficient production capacity to meet demand that will expand on a medium- to long-term basis in the businesses for which we keep the top position in the market, including the business of precision reduction gears to be used in medium- to large-sized industrial robots. We have established systems to fulfill responsibilities for stable supply for these businesses, and these systems make

it difficult for new companies to enter the market.

Moreover, the Nabtesco Group protects its core value, such as the technologies and ideas incorporated into our products as well as our design/manufacturing know-how. Furthermore, we are conducting IP landscape analysis to search for new market/customer needs to enhance our market position and win new customers. We are also collaborating with startup companies through our CVC fund in our pursuit of innovation.

Related management materiality

“Acquire next-generation technologies and create new businesses” and “Foster smart manufacturing”

Human capital

◆ Management team members who demonstrate diverse expertise to increase corporate value

Strength and features: In the Action Guidelines for Top Management, which is included in The Nabtesco Way, it is clearly stated that top executives shall manage the Nabtesco Group in a manner that increases corporate value. In fact, members of the management team are strongly committed to increasing that value with their leadership. Also, members of the Board of Directors, including the four independent outside directors, have general knowledge about corporate management, global business, legal and personnel affairs, risk management and financial accounting. They also have expertise in manufacturing, technology, sales and marketing. Comprised of such talented and diversely skilled individuals, the Board of Directors is supervising the management of the Group for the sustainable increase of its corporate value.

Related management materiality

“Increase the effectiveness of our management entities” and “Ensure management transparency”

◆ Diverse workforce made up of people who value quality as well as collaborative creation, competition and sharing

Strength and features: The Nabtesco Group has a unique system to educate employees on high-quality manufacturing. The Group develops workers who can manufacture high-quality products based on systematic and regular education on quality, compliance education and awareness-raising activities, which also provides the basis for the Group to develop human resources who can conduct business with a high sense of ethics and transparency as well as to create value for customers.

In recent years, the number of employees has been on the rise in accordance with the expansion of the Group's businesses. For Nabtesco's employees on a non-consolidated basis, employees of the former Teijin Seiki and former NABCO and new graduates and mid-career hires employed by Nabtesco (founded by the merger of the aforementioned two) each account for about 50% of the total number. With diverse backgrounds, its employees are committed to collaborative creation, competition and sharing as a unique feature of the Nabtesco Group.

Related management materiality

“Ensure management transparency,”
“Pursue safety, comfort and a sense of security” and
“Respect diversity and various expertise in the workplace”

Organizational capital

Strength and features: The Nabtesco Group adopts the in-house company system and the executive officer system. Under these systems, each in-house company pursues profits by making decisions independently and attributing importance to capital efficiency and sustainable growth and has a prompt business execution system suitable for its business environment. For the management of the entire Group, the CEO makes business decisions through the Management Committee, while the Board of Directors formulates the Group's basic policies and strategies, decides on important operations and supervises

the execution of business. The Nominating Committee, Remuneration Committee and Compliance Committee serve as advisory organizations to the Board of Directors.

In addition, we have the CSR Committee, Risk Management Committee, Group Quality & PL Committee and Group ESH (ESH stands for “environment, safety and health”) Committee to address ESG issues across the Group under the leadership of the Directors and executive officers.

The Nabtesco Group thus has a highly transparent corporate governance system for prompt and flexible execution of business and for the sustainable increase of its corporate value.

Related management materiality

“Increase the effectiveness of our management entities”

BUSINESS ACTIVITIES

Activities for Sustainable Growth

The Nabtesco Group's products and services are connected with society through their use by customers of the Group's customers. At the same time, through its own measures implemented cross-organizationally toward the achievement of the long-term vision, the Group is working to provide itself and its stakeholders with more value.

OUTPUT

Major businesses, products and services

In the Component Solutions Segment, which comprises the precision reduction gear business and the hydraulic equipment business, we focus on Original Equipment Manufacturer (OEM) production. These businesses provide social value by contributing to automation, labor saving and infrastructure improvement mainly in the domain of “Manufacturing and Infrastructure.” Compared with other businesses, the profitability of these two businesses can be easily influenced by changes in market demand, while great synergy effects can be generated in the segment through the joint procurement of materials and flexible use of core production staff.

The Transport Solutions Segment, which is composed of the railroad vehicle equipment business, aircraft equipment business, commercial vehicle equipment business and marine vessel equipment business, contributes to higher safety and greater comfort in the domain of “Transportation of people and goods.” We provide the MRO services in all of the businesses and can share MRO bases and know-how to generate synergy effects between the businesses.

The Accessibility Solutions Segment, in which we conduct the automatic door business including the platform door business, contributes to higher safety and greater comfort in public spaces and to the creation of a barrier-free society in the domain of “Daily lives and Welfare.” In the automatic door business, we have adopted the following business model: expand the sales and service network through M&A and enhance the value chain (manufacture, sales, installation, maintenance and after-sales service) to integrate the production and marketing processes to generate more profit.

In the Manufacturing Solutions Segment, we mainly operate the packaging machine business, which contributes to food safety and labor saving at production facilities food and for daily necessities.

Measures to achieve the long-term vision

The Nabtesco Group, based on its identity built up over many years, will conduct its business with a focus on “Creating what the future wants with our unique technology,” fostering “Globalization (Global standards made in Japan)” and “Contribution (to the SDGs & ESG).” We will thereby create new value in the market by staying one step ahead of our customers and maintain our own profitable growth while continuing to provide our stakeholders with value.

Financial management

For financial management, we are improving our capital efficiency to achieve “ROE: 15%.” We are also working to have stable cash flow to make proactive growth investments and return profit to shareholders in a steady and flexible manner.

Measures to solve ESG issues

We will implement “Measures to enhance our management foundation” as part of our management materiality activities, placing a focus on solving ESG issues. Specifically, we will address the ESG items having a major impact on financial issues and the ESG items that drive sustainability in a systematic manner, while maintaining our own profitable growth.

OUTCOME

Created Value

By inputting various resources and conducting activities for sustainable growth, we will continuously create value for ourselves and for external stakeholders.

Relationship capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Relations of trust with customers Customer bases founded on top-class market shares</p> <p>The large market shares we command in each business are proof of the trust our customers have in the Nabtesco Group and provide the basis for us to offer more value to society.</p> <p>The Nabtesco Group boasts top-class shares and adequate profitability in both domestic and overseas product markets.</p> <p>We will make use of the ability to collect information, which we have gained through holding these leading market positions, to identify more social needs and contribute to the solution of social issues through our business operations.</p>	<p>QCDS performance that meets the requirements of customers</p> <p>We can create value for customers by continuing to meet their expectations and trust. We are contributing to increasing our customers' own quality, cost, delivery and service (QCDS) performance by providing them with high value-added products and services that meet their QCDS requirements. Moreover, to become "Leaders in Innovation for the Future," as upheld in our long-term vision, we will identify the needs of customers ahead of even the customers themselves, thereby meeting the challenge of creating new needs.</p>
<p>Relations of trust with shareholders Trust in the management team and high-scoring ESG evaluation</p> <p>We regard the affirmative vote rate of selected Directors as one of the indicators of trust in our top management team. Over the past five years, the rate has been 97% or higher, exceeding the average rate among listed companies in Japan, and thus proving strong trust in our management team. The Nabtesco Group is included in the major ESG stock indexes both in Japan and abroad and is highly rated by ESG evaluating organizations. We will continue to foster dialogue with shareholders and investors who make long-term investments and with investors who attribute importance to ESG issues, thereby deepening our understanding of their ideas to sophisticate the management of our business.</p>	<p>Enhancement of partnership with stakeholders</p> <p>Ensuring management transparency and building a sustainable value creation process helps increase the opportunities for shareholders and investors to make investments on a long-term basis. Proactively communicating with these stakeholders also fosters our partnerships with them. By enhancing this relationship capital, we will continue to make contributions to Goal 17 of the SDGs: Strengthen the means of implementation and revitalize the global partnership for sustainable development.</p>
<p>Relations of trust with suppliers Responsible supply chain management</p> <p>The Nabtesco Group is committed to fulfilling our corporate social responsibility across our supply chain based on fair, proper and transparent transactions with suppliers. Based on the relations of trust with our suppliers, whose understanding of the Nabtesco Group's CSR-Oriented Procurement Policy we seek, we will build a responsible supply chain to ensure the sustainability of our value creation.</p>	<p>Enhancement of the value chain for mutual growth</p> <p>The Nabtesco Group believes that the improvement of suppliers' QCDS performance will directly help the Group improve its own QCDS performance. Based on this recognition, the Group is working to increase our QCDS performance across our supply chain. The enhancement of the value chain based on collaboration with suppliers will result in mutual growth and the expansion of trade opportunities.</p>
<p>Relations of trust with local communities Improvement of recognition through community investment</p> <p>We can contribute to the solution of social challenges faced by local communities through community investment, which in turn helps us improve our recognition. We also regard community investment as an initiative that provides Group employees with opportunities to take on the challenge of contributing to the solution of social issues in fields related to the businesses in which they work and to change their way of thinking. These measures are important for winning the trust of local communities in the regions where we operate and also for securing human resources in the future, and provide us with a foundation to increase our corporate value on a long-term basis.</p>	<p>Contribution to the solution of social issues in the fields of the environment, education and welfare</p> <p>The Nabtesco Group implements its community investment initiative by using its resources and knowledge in the three key fields of the environment, education and welfare, which are closely connected to its businesses. The specific activities conducted in the initiative are in line with the Group's material CSR issues (materiality) and a range of targets set in the SDGs. As a global corporate citizen, the Group will contribute to the solution of social challenges faced by local communities and to their long-term prosperity.</p>

Related SDGs

By enhancing its relationship capital, the Nabtesco Group can contribute to Goal 17 of the SDGs: Strengthen the means of implementation and revitalize the global partnership for sustainable development.



Financial capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Strong balance sheet that supports growth investments</p> <p>Strong balance sheets support growth investments and the stable return of profit to employees and shareholders. The Nabtesco Group is fostering the improvement of capital efficiency and disciplined financial management, being rated A by the credit rating agencies. As a result, the equity ratio has been 55% or more for the most recent five years, and this means that we are on a level that allows us to make steady growth investments and stably return profit to stakeholders.</p>	<p>Improvement of capital efficiency and stable return of profit</p> <p>The Nabtesco Group is committed to "ROE: 15%" in its medium-term management plan. For the fiscal year ended December 31, 2020, our actual ROE is 10.6% and is below the level committed to. However, it is above the average level of listed companies in Japan and has been on the rise.</p> <p>We are also committed to "Consolidated payout ratio: 35% or over" in the medium-term management plan. We have steadily increased the dividend amount in line with the expansion of profit and have been maintaining a payout ratio of 35% or over.</p>

Technology and manufacturing capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Creation of new products and a highly competitive production system</p> <p>By enhancing our technology and manufacturing capital, we can meet more diversified and advanced customer needs to increase our competitiveness in the existing businesses while also adding value to our products by including more mechatronic products and systematized products in them. Moreover, we can foster the development of new products and services through open innovation, IP landscape analysis using intellectual property information and strategic M&A projects toward the creation of a new business foundation.</p> <p>Furthermore, our unique manufacturing innovations, including the enhancement of our production capability, production management ability and procurement ability, are designed for the establishment of an overwhelmingly competitive production system and for the provision of a basis to prevail in global competition.</p>	<p>Provision of safety, comfort and a sense of security and contribution to the mitigation of climate change</p> <p>For the Nabtesco Group, which is engaged in the manufacturing industry, safety means to manufacture products safely; manufacture safe products; and ensure that the manufactured products can continue to be used in a safe manner. Based on this recognition, we are working to provide customers with safety, comfort and a sense of security by implementing a range of measures at our manufacturing sites. The Nabtesco Group is also addressing climate change issues, which are global challenges, and supporting the recommendations made by the TCFD. We are speeding up measures to achieve our long-term CO₂ emission reduction targets and are also helping suppliers reduce their CO₂ emissions for emission reduction across our supply chain.</p>
<p>Related SDGs</p> <p>By enhancing its technology and manufacturing capital, the Nabtesco Group can contribute to the attainment of the SDGs shown on the right.</p>	

Human capital

Value for the Nabtesco Group	Value for external stakeholders
<p>Securing of human resources who implement The Nabtesco Way</p> <p>The Nabtesco Group continues to conduct activities aimed at making all employees aware of The Nabtesco Way, while encouraging them to attain their own targets and uniting the Group as one. In order to maintain and improve our competitiveness on a long-term basis, it is essential for us to secure human resources. The rate of employees who have quit working for the Group for their own reasons has been as low as 1% to 2%, providing evidence that our workplaces are favorable for employees.</p>	<p>Provision of safe and comfortable workplaces</p> <p>Giving due consideration to human rights in all business operations is a basic social responsibility to be fulfilled by companies. The Nabtesco Group is implementing measures to respect human rights based on the Nabtesco Group Code of Ethics and the Nabtesco Group Human Rights Policy, while also promoting work style reforms and diversity to further revitalize its workplaces. Through these measures the Group is working to provide employees with safe and comfortable workplaces, which will in turn lead to the creation of sound and sustainable employment opportunities.</p>
<p>Related SDGs</p> <p>By enhancing its human capital, the Nabtesco Group can contribute to the attainment of the SDGs shown on the right.</p>	



Organizational capital

<p>Highly ethical corporate culture based on a global compliance system</p> <p>The Nabtesco Group conducts business globally, and compliance provides the basis for the Group to implement our corporate philosophy through business operations. Each and every employee supports the Group's business activities by behaving in a highly ethical and transparent manner. Compliance is one of the most important preconditions for the Group to be selected by customers as their business partner. Toward building a highly ethical corporate culture, we are applying the Nabtesco Group Code of Ethics globally to all Group members and raising their compliance awareness through training and by other means.</p>	<p>Management transparency based on the autonomous improvement of its functions by the Board of Directors</p> <p>In order to improve the functions of the Board of Directors, the Nabtesco Group makes a yearly analysis and evaluation of the effectiveness of the Board based on the self-evaluations of the Directors. In FY2019, it was confirmed that both the number of Board members and composition of the Board were appropriate and that the members were able to discuss issues in an open and constructive manner. Subsequently, in FY2020, the number of independent Outside Directors was increased by one person, making Outside Directors account for more than 40% of the total number of Directors. In addition, the proportion of female Directors has been increased to 20%, and the Board is expected to discuss issues from a wider range of viewpoints. The effectiveness is thus evaluated to be well secured.</p> <p>However, the following issues are identified as challenges: the need to further increase the proportion of female Directors, employing non-Japanese Directors and to manage Board of Directors meetings in a more efficient manner to secure enough time for the deliberation of important management issues such as growth strategies.</p> <p>Nabtesco will further enhance its corporate governance system and increase its corporate value by continuously enhancing the functionality of the Board of Directors based on the effectiveness evaluation results.</p>
<p>Disaster-resilient organization with constantly enhanced Business Continuity Power</p> <p>The Nabtesco Group is enhancing its Business Continuity Power so that it can promptly resume operation even if it suffers from a large-scale disaster. Advocating the ideas proposed by the government in the basic law on national resilience, we have acquired Resilience Certification for all of our nine plants in Japan as proof that we are an enterprise that is implementing effective business continuity plans (BCPs). We also assist suppliers with making BCPs, believing that it could pose a serious business risk to us if a supplier suffers from a disaster, thereby reducing procurement-related risks in our supply chain.</p>	

Management Strategy and Performance

By strategically promoting the value creation process, we will fulfill the commitments we have made in the medium-term management plan.

The Nabtesco Group launched the medium-term management plan in FY2017. We postponed the end of this four-year plan by one year from FY2020 to FY2021 due to the impact of COVID-19. Accordingly, now in 2021, we are continuously working to achieve the targets and fulfill the three commitments that we made to our stakeholders in the plan, as shown on the right, while building the foundation for the formulation of our new medium-term plan.

For Market Creation, we are speeding up overseas business expansion and the pioneering of new fields to find new markets. For Technology Innovation, we are shifting from the manufacture of components (machine components) to the creation of new solutions. For Operational Excellence, we are improving profitability by production reforms and operational reforms and enhancing

the basis for business operations by revitalizing our organizations and making more advanced use of human resources. We will proactively allocate resources to the core strategies for the maximization of their effects.

In the medium-term management plan, we have made the following three management commitments to stakeholders.

Our commitments

ROE: 15%
Consolidated payout ratio: 35% or over
Focus on solving ESG issues

Long-term Vision

The Nabtesco Group has set its long-term vision, in which we show "Our Aim for 2030." We will achieve this vision to provide our stakeholders with more value.

New long-term vision for 2021 to 2030

Leaders in Innovation for the Future

The Nabtesco Group upholds "Leaders in Innovation for the Future" in its long-term vision for 2030. Based on Nabtesco's identity that we have built up over many years, we will conduct our business with a focus on "Creating what the future wants with our unique technology," fostering "Globalization (Global standards made in Japan)" and "Contribution (to the SDGs & ESG)," thereby creating new value in the market by staying one step ahead of our customers. We will thereby become "Leaders in Innovation."

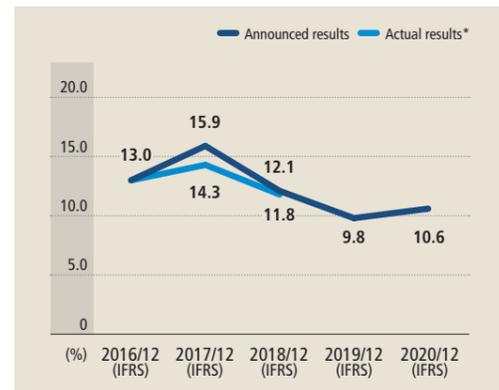
Under the long-term vision launched in 2005 soon after the founding of Nabtesco, we worked to develop into

Innovation In Action
Vision 2030

a global corporate group. Then, under the second long-term vision set in 2012, we upheld "Global Partner with Best Solutions" to become a reliable partner who can help customers solve their problems. What we achieved under these long-term visions has been incorporated into Nabtesco's corporate DNA. Under the new long-term vision, we will further enhance our DNA to be a true innovation leader that can outstrip competitors across the world. By working to soar to new heights, we will achieve further growth, thereby meeting the expectations of all our stakeholders.

Financial/Non-Financial Highlights

ROE



Nabtesco has focused on continuously improving a capital efficiency level that can meet the expectations of its shareholders and investors and has made a commitment of "ROE: 15%" in the Medium-term Management Plan. In FY2017, we started to use the "improvement rate of return on invested capital (ROIC)" as an internal management indicator. While paying attention to cost of capital, we will work to profit and improve the operating income margin and total assets turnover, which are ROE elements. We will also consider using financial leverage as necessary. In FY2020, our ROE was 10.6%. In FY2021, however, it will drop to 10%, making it difficult for us to reach the committed level within the final year of the Medium-term Management Plan. Nonetheless, we will continue to endeavor to raise ROE to 15% as soon as possible.

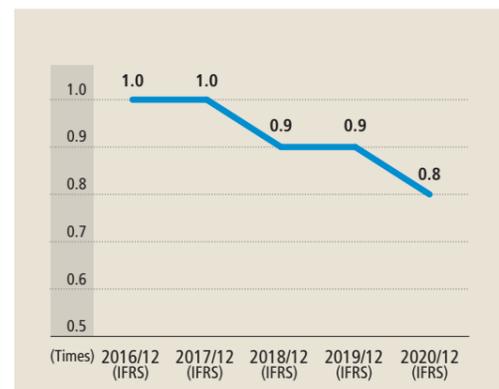
*For FY2017 and FY2018, the graph shows the actual results excluding the equity method-based profit gained through the overseas subsidiary acquisition by Harmonic Drive Systems Inc.

Operating Income Margin/Net Income Margin¹



For FY2020, our operating income margin increased due to cost reduction, productivity improvement and the sale of non-business property. Going forward, Nabtesco will endeavor to improve the net income margin while focusing on securing a sound level of profitability as a prerequisite for business growth. To improve the net income margin through an increase in the operating income margin, we will promote cross-organizational measures to increase sales in business sectors offering MRO services, while aiming at enhancing added value through the development of mechatronic and systematized products toward the future.

Total Assets Turnover



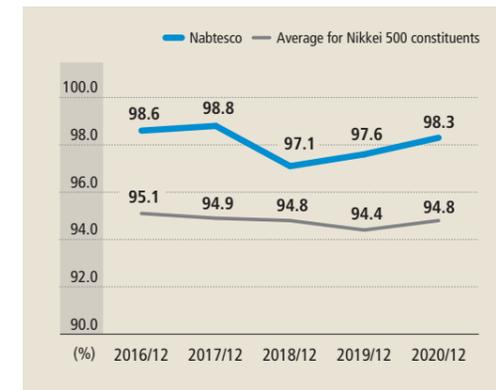
It is indispensable to efficiently use management resources in order to improve total assets turnover. At present, the Nabtesco Group is fostering group-wide manufacturing innovation to enhance our production technologies, production management ability and procurement ability. We are also promoting the introduction of optimal production management by using AI and IoT for digitization and visualization, while implementing logistics reforms. By using the ROIC tree, we will boost our competitiveness in manufacturing and improve the rate of utilization of business assets.

Financial Leverage



Nabtesco upholds a policy of maintaining an A credit rating in order to secure balance sheet soundness as a prerequisite for long-term value creation. As we have recorded steady earnings every year, equity capital is increasing. With a view to further improving capital efficiency, we will consider the use of financial leverage as necessary. Moreover, we will drive growth investment including in capital expenditure, R&D and M&A. At the same time, we will practice the type of financial management that enables stable and flexible shareholder returns.

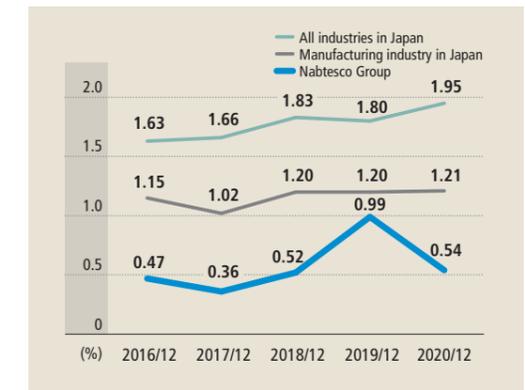
Affirmative Vote Rate of Selected Directors



Nabtesco values relations of trust with our shareholders to enhance our business management for sustainable value creation and defines an affirmative vote rate for selected Directors at the general meeting of shareholders as an indicator of confidence in management. The affirmative rate has been over 97% for the past five years, exceeding the average for listed companies in Japan. At the ordinary meeting of shareholders held in March 2021, the rate for Nabtesco was 98.3%. We will continue to reinforce our approach to corporate governance to ensure management transparency and improve corporate value to meet the expectations of our shareholders.

(Note) Nabtesco's affirmative vote rate of selected Directors is the average rate calculated based on the affirmative vote rates recorded for each of the selected Directors at the ordinary general meeting of shareholders for the fiscal period. For Nikkei 500 constituents' affirmative vote rates of selected Directors, the average rate was calculated for companies that submitted temporary reports on their general meetings of shareholders held in June by early July. (Surveyed by Sumitomo Mitsui Trust Bank)

Lost Time Injury Frequency Rate²

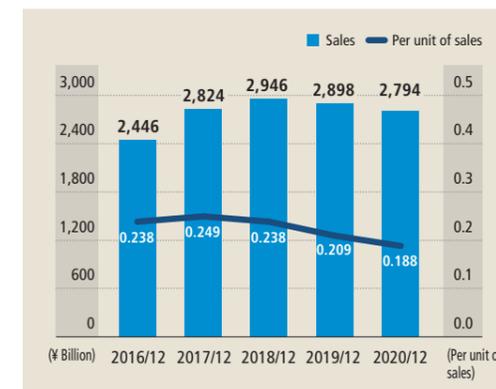


Nabtesco gives first priority to safety, deeming safety as a basic requirement to be met in all its business activities. We are making efforts to eliminate workplace accidents as the basis for protecting the day-to-day safety of employees and for sustainable value creation.

Although Nabtesco's lost time injury frequency rate has always been lower than the all-industries average and the manufacturing average in Japan, we have not achieved the Group's target of zero industrial injuries, including commuting-related injuries. To attain the target, it is necessary to raise safety awareness at our workplaces. To this end, we are conducting activities to nurture a Nabtesco-style culture of safety in addition to implementing ongoing measures against individual risk factors.

(Note) Data for the all-industries average and the manufacturing industry average in Japan are from the 2020 Survey on Industrial Accidents, Ministry of Health, Labour and Welfare.

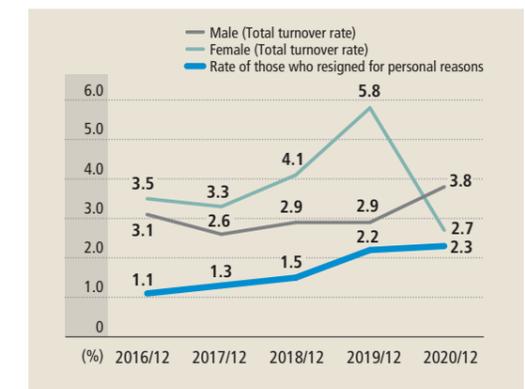
CO₂ Emissions per Unit of Sales [Global]



To combat climate change as one of our material CSR issues, Nabtesco is working to reduce greenhouse gas emissions and to conserve energy. As a result, our CO₂ emissions per unit of sales have been decreasing globally. In order to achieve business growth while reducing CO₂ emissions, we built plants by using advanced environmental technologies and have proactively introduced renewable energy equipment. We achieved the medium-term target for FY2020 (a reduction of 9% or more relative to the FY2015 level) in FY2019, one year earlier than planned. In FY2020, we achieved a more substantial reduction.

For the long-term targets for FY2030 and FY2050 (30% reduction and 80% reduction from FY2015, respectively), we are setting new targets in line with the "1.5 degrees Celsius target." We are committed to achieving these targets by stepping up our efforts to save and create energy.

Rate of Those Who Resigned for Personal Reasons³



Nabtesco recognized our employees as human assets, as they constitute the human capital that underpins the Group's sustainable value creation. Retention of the workforce is essential to maintain and enhance competitiveness in the long run. At Nabtesco, the rate of employees who resigned for personal reasons³ was at a low level of roughly 1% to 2%. In order to secure a better work environment for employees, we have been promoting measures for work style reform including teleworking and encouraging employees to take more paid leave, while endeavoring to revitalize the organization through workplace diversity. We will continue activities to develop human assets that drive global business operations and to increase employees' awareness of The Nabtesco Way, while encouraging them to fulfill their own goals and foster a sense of unity across the Group.

*In 2020, we revised the definition of "resignation for personal reasons."
 • According to the revised definition, "resignation for personal reasons" includes termination of employment due to the death of the person, as a disciplinary punishment imposed by the company and all other reasons excluding those originating from the company.
 • The graph above shows corrected data for FY2019 and before.

*1 Net income attributable to owners of the parent
 *2 The calculation scope includes Nabtesco Corporation and domestic Group companies.
 *3 The calculation scope covers only Nabtesco Corporation.

Financial Information

Operating Results

◆ Operating Results for the Fiscal Year Ended December 31, 2020

During the consolidated fiscal year under review, the Group was affected by the sluggish world economy in many business fields due to the spread of the COVID-19. Consolidated net sales were ¥279.4 billion, down 3.6% year on year, reflecting the decrease in demand in the automatic door business, the aircraft equipment business and the commercial vehicle equipment business due to the restriction of movement because of COVID-19 in contrast to strong sales in China of hydraulic equipment for construction machinery. Meanwhile, operating income was ¥28.5 billion, up 12.7% year on year, partly due to the sale of real estate for non-business purposes (investment properties). Income before tax was ¥33.7 billion, up 20.5% year on year. Net income attributable to owners of the parent increased to ¥20.5 billion, up 14.4% year on year.

◆ Operating Results by Business Segment for the Fiscal Year Ended December 31, 2020

■ Component Solutions (CMP)

Net sales in the Component Solutions segment rose 2.5% to ¥109.9 billion, while operating income increased 11.2% to ¥17.7 billion.

Sales of precision reduction gears stood at the same level as in the previous year, because capital expenditure has recovered in the automotive industry in China and North America since the fourth quarter. Sales of hydraulic equipment recorded growth compared with the previous year reflecting continued robust demand in the Chinese market and recovery trends in Europe and the United States.

■ Transport Solutions (TRS)

Net sales in the Transport Solutions segment fell 7.0% year on year to ¥78.1 billion, and operating income plunged 42.2% to ¥3.3 billion.

Railroad vehicle equipment saw net sales unchanged from the previous year supported by domestic demand for new vehicles. Sales of aircraft equipment decreased year on year reflecting a sharp decrease in demand for equipment for private-sector aircraft. Sales of commercial vehicle equipment declined from the previous year due to stagnant demand in the domestic and Southeast Asian markets. Sales of marine vessel equipment for both new shipbuilding and MRO remained unchanged from the previous fiscal year.

■ Accessibility Solutions (ACB)

Net sales in the Accessibility Solutions segment dropped 7.9% year on year to ¥73.7 billion, and operating income decreased 9.7% year on year to ¥7.7 billion.

Sales from the automatic door business decreased compared to the previous year, reflecting stagnant demand in both the domestic and overseas markets due to the impact of COVID-19 in addition to the slowdown of previously robust demand such as redevelopment for the planned Olympic and Paralympic Games.

■ Manufacturing Solutions (MFR)

Net sales dropped in the Manufacturing Solutions segment 4.9% year on year to ¥17.7 billion, while operating income declined 8.7% year on year to ¥2.3 billion.

Sales of packaging machine decreased year on year due to a decrease in the amount of orders received owing to sluggish demand from the food service industry.

◆ Analysis of Factors behind Year-on-Year Changes in Operating Income (Actual Results) for the Fiscal Year Ended December 31, 2020

Key contributing positive factors included a ¥2.5 billion reduction in overhead expenses, a ¥0.8 billion reduction of costs for a temporary reason, a ¥1.0 billion increase due to the productivity improvement, a ¥0.7 billion decrease in costs due to reforms and proceeds of ¥4.9 billion from the sale of non-business property. In sum, operating income increased by ¥3.2 billion year on year to ¥28.5 billion, despite negative factors such as a ¥4.1 billion decrease due to the sales decrease including a ¥0.4 billion decrease due to foreign exchange impacts as well as a ¥2.6 billion decrease caused by impairment loss and other factors.

Overhead expenses decreased, mainly through the reduction of R&D and indirect materials costs.

The reduction of costs for a temporary reason refers to the reduction of commuting and travel costs caused by the restrictions on movement imposed due to COVID-19.

Improvement of productivity was attributable to initiatives implemented by each plant to promote automation, visualization and others.

The decrease in costs due to reforms refers to the cost reduction achieved through the reduction of working hours as part of efforts that we have been making since 2017 to reform our operations and work styles.

The decrease due to the sales decrease was mainly caused by the stagnation of economic activities and a decrease in demand due to restrictions on movement caused by COVID-19.

The impairment loss refers to the loss of ¥3.4 billion concerning the fixed assets and others of OVALO.

◆ Projections for the Consolidated Fiscal Year Ending December 31, 2021

Over the course of the fiscal year, COVID-19 will continue to

have a serious impact on the world economy.

As for the Nabtesco Group, restrictions on movement imposed across the world will cause a decrease in demand in the Transport Solutions business, while demand for precision reduction gears will further recover and sales will remain favorable for hydraulic equipment for construction machinery. Accordingly, the Group expects net sales for FY2021 to be ¥286.0 billion, up 2.4% year on year, and operating income to be ¥29.0 billion, up 1.6% year on year. Income before tax and net income attributable to owners of the parent will substantially increase due to the gain on valuation following the exclusion of Harmonic Drive Systems Inc. from equity method affiliates (¥125.1 billion as calculated according to the closing stock price on January 29, 2021).

◆ Projections for Operating Results by Business Segment for the Fiscal Year Ending December 31, 2021

■ Component Solutions (CMP)

Net sales and operating income in this segment for the fiscal year ending December 31, 2021 are expected to amount to ¥122.8 billion (up 11.8% year on year) and ¥20.4 billion (up 15.4% year on year), respectively.

Sales of precision reduction gears are expected to increase year on year due to an expansion of needs for automatization in general industry in the second half of FY2021 in addition to an increase in demand for robots triggered by a recovery in capital investment in the automotive industry.

We expect sales of hydraulic equipment to grow compared with the previous fiscal year as demand will recover in developed countries and Southeast Asian countries in addition to continued robust demand in China.

■ Transport Solutions (TRS)

Net sales and operating income in this segment for the year ending December 31, 2021 are expected to amount to ¥70.6 billion (down 9.6% year on year) and ¥6.6 billion (up 97.7% year on year), respectively.

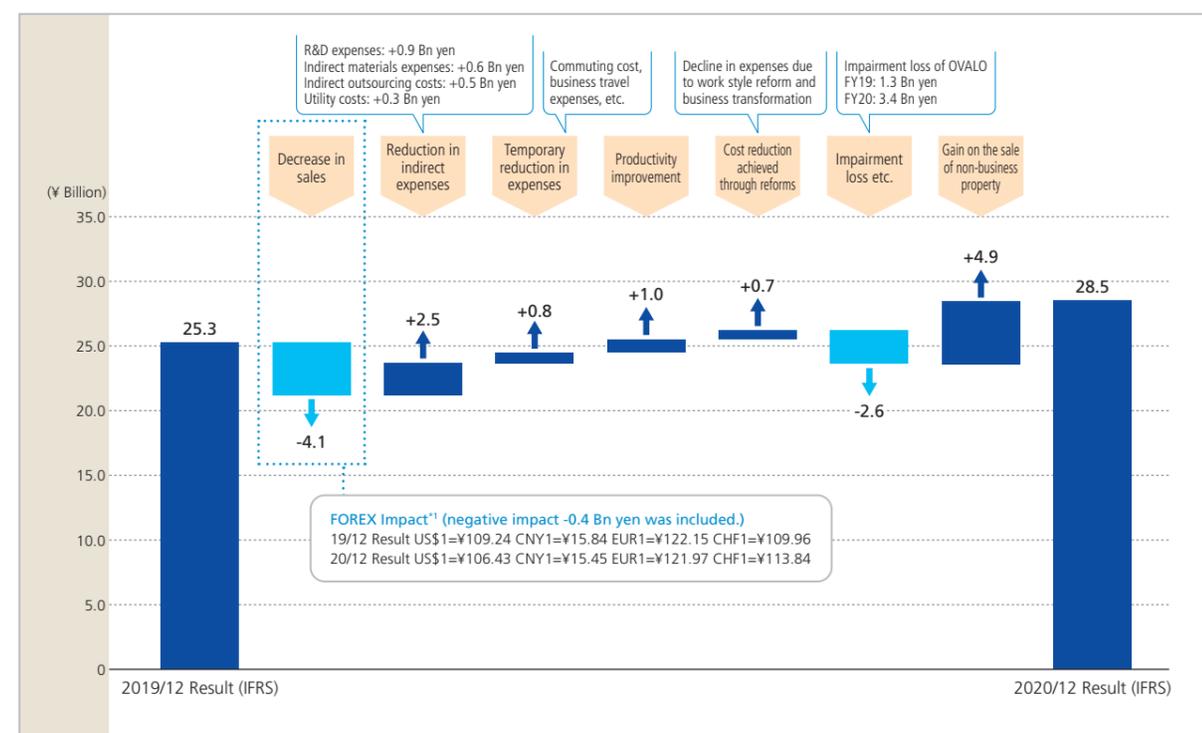
Sales of railroad vehicle equipment are expected to see a year-on-year decrease due to a delay in bidding for overseas projects due to the impact of COVID-19.

Sales of aircraft equipment will face a year-on-year decrease due to a decrease on the back of the off-season period of defense equipment procurement plans in addition to a decline in demand for private-sector aircraft.

Sales of commercial vehicle equipment are anticipated to remain flat year on year on the back of a recovery in demand in Chinese and the Southeast Asian markets while the environment for domestic demand is anticipated to become increasingly difficult.

Sales of marine vessel equipment are expected to remain unchanged from the previous fiscal year as the decrease in demand for new shipbuilding will be offset by an expansion of sales in MRO.

● Analysis of Factors behind Year-on-Year Changes in Operating Income for the Fiscal Year Ended December 31, 2020



*1 FOREX sensitivity in O.P. (This represents the effect to be expected on operating profit if the exchange rate fluctuates by one yen): (US\$): ¥52 million, (CNY): ¥932 million, (EUR): minimal, (CHF): minimal

Financial Information

■ Accessibility Solutions (ACB)

Net sales and operating income in this segment for the fiscal year ending December 31, 2021 are expected to remain at ¥72.4 billion (down 1.7% year on year) and ¥7.3 billion (down 5.6% year on year), respectively.

Sales in the automatic doors business are expected to remain at the same level as in the previous fiscal year reflecting our continued efforts in Japan and abroad to expand sales of doors for buildings despite a year-on-year decline in demand for platform doors.

■ Manufacturing Solutions (MFR)

Net sales and operating income in this segment for the fiscal year ending December 31, 2021 are expected to reach ¥20.2 billion (up 13.8% year on year) and ¥2.9 billion (up 24.5% year on year), respectively.

Packaging machines are expected to see an increase in sales as we expect an expansion of domestic demand for chemical products and overseas demand for retort foods.

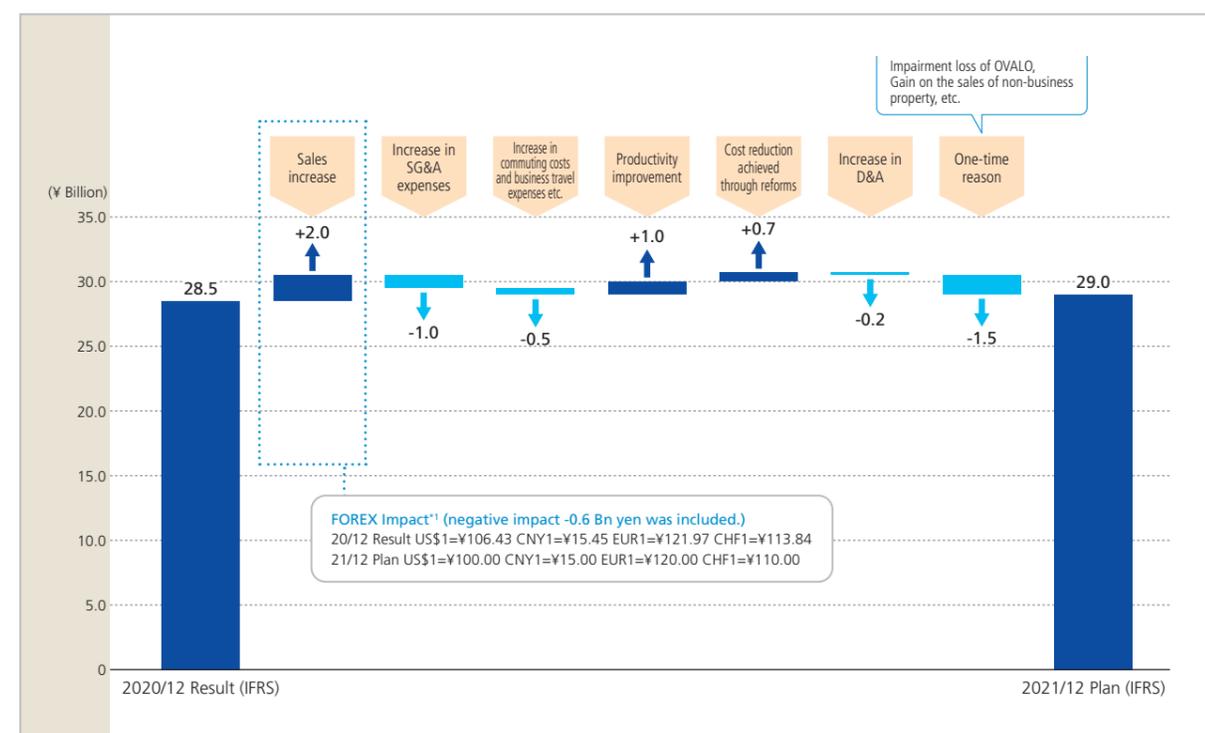
◆ Analysis for Factors behind Year-on-Year Changes in Operating Income (Plan) for the Fiscal Year Ending December 31, 2021

The Group expects operating income for the fiscal year ending December 31, 2021 to reach ¥29.0 billion, an increase of 1.6% year on year.

Key contributing positive factors include an increase in net sales (¥2.0 billion, despite a decrease of ¥0.6 billion due to foreign exchange impacts), productivity improvement (¥1.0 billion) and cost reduction achieved through reforms (¥0.7 billion). On the other hand, negative factors include an increase in SG&A (¥1.0 billion), an increase in commuting and travel costs (¥0.5 billion), an increase in depreciation cost (¥0.2 billion), an impairment loss posted by OVALO, and the elimination of special factors, such as proceeds from the sale of non-business property (a decrease of ¥1.5 billion).

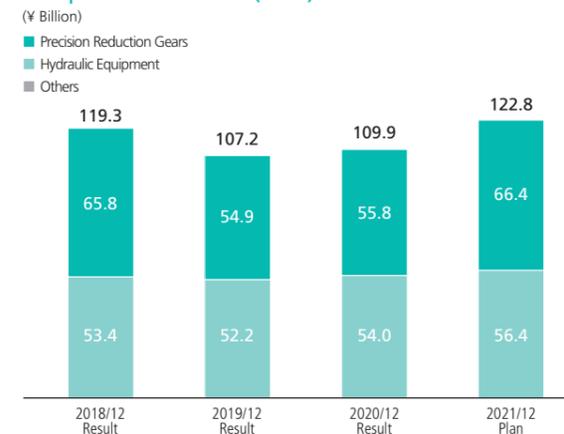
We expect increases in net sales in the Component Solutions (CMP) segment and the Manufacturing Solutions (MFR) segment.

● Analysis of Factors behind Year-on-Year Changes in Operating Income (Plan) for the Fiscal Year Ending December 31, 2021

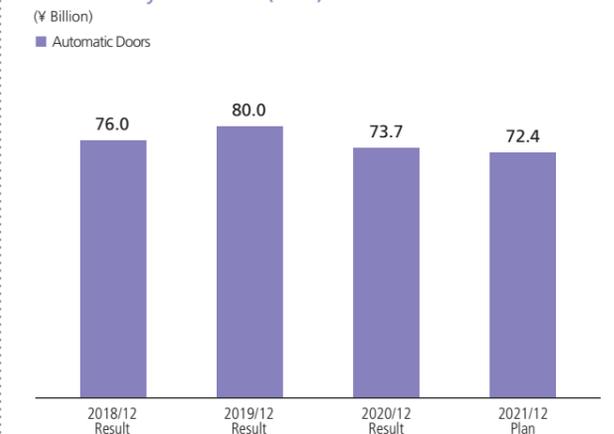


● Sales by Business Segment (IFRS)

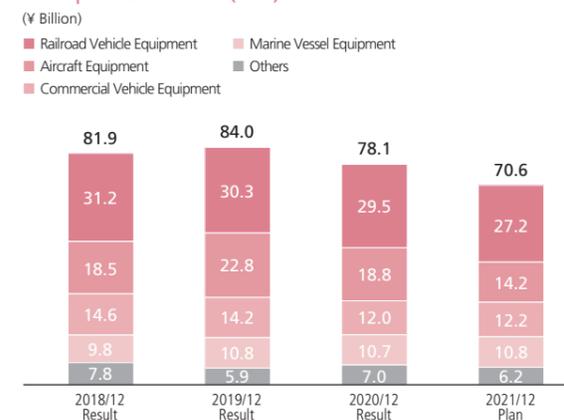
Component Solutions (CMP)



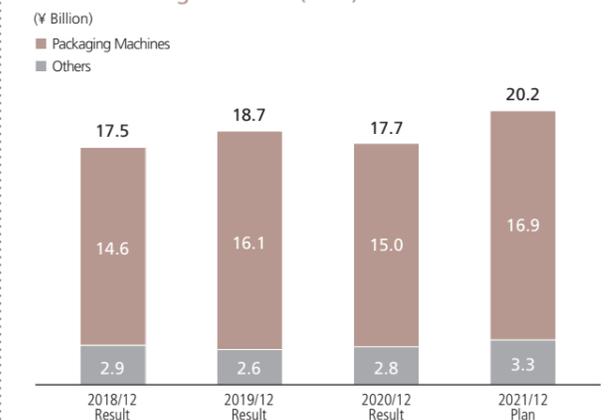
Accessibility Solutions (ACB)



Transport Solutions (TRS)



Manufacturing Solutions (MFR)



Financial Information

Status of Assets, Liabilities and Net Assets (Fiscal year ended December 31, 2020)

◆ Assets

Total assets as of December 31, 2020 were ¥351.7 billion, an increase of ¥7.2 billion from December 31, 2019, consisting of ¥183.1 billion in current assets and ¥168.6 billion in non-current assets. Key contributing positive factors included increases of ¥6.0 billion in cash and cash equivalents, ¥5.5 billion in trade receivables and ¥2.9 billion in investments accounted for by the equity method. The key contributing negative factors included decreases of ¥4.8 billion in inventories, ¥2.2 billion in other financial assets and ¥1.7 billion in investment property.

◆ Liabilities

Total liabilities as of December 31, 2020 were ¥140.1 billion, a decrease of ¥5.3 billion from December 31, 2019, reflecting ¥113.7 billion in current liabilities and ¥26.4 billion in non-current liabilities. The main contributing negative factors included decreases of ¥4.7 billion in other liabilities and ¥4.1 billion in bonds and borrowings.

◆ Equities

Total equity as of December 31, 2020 stood at ¥211.6 billion. Equity attributable to owners of the parent was ¥198.0 billion, an increase of ¥10.6 billion from December 31, 2019. The key contributing positive factor was an increase in retained earnings due to net income attributable to owners of the parent of ¥20.5 billion, while the main contributing negative factor was a decrease of ¥9.7 billion in retained earnings due to dividend payment. As a result of the above, the ratio of equity attributable to owners of the parent was 56.3%, and equity attributable to owners of the parent per share was ¥1,594.10.

Status of Cash Flows (Fiscal year ended December 31, 2020)

Cash and cash equivalents (hereinafter, "capital") as of December 31, 2020 stood at ¥64.7 billion, an increase of ¥6.0 billion from December 31, 2019, reflecting ¥34.2 billion in capital generated from operating activities, which was mainly used for capital expenditure and dividend payments.

◆ Cash flows from operating activities

Net cash generated from operating activities for the fiscal year ended December 31, 2020 totaled ¥34.2 billion. Principal positive factors included decreases in net income, depreciation and amortization and inventories. Meanwhile, the main negative factor was an increase in trade receivables.

◆ Cash flows from activities

Net cash used in investing activities for the fiscal year ended December 31, 2020 amounted to ¥10.7 billion, mainly due to the proceeds from sale of real estate for non-business purposes (investment properties). On the other hand, the main negative factor was purchase of property, plant and equipment.

◆ Cash flows from investing activities

Net cash used by financing activities for the fiscal year ended December 31, 2020 totaled ¥17.5 billion. The main negative factors included repayment of loans and dividend payments.

Status of Capital Expenditure, R&D and Depreciation and Amortization (Results for the fiscal year ended December 31, 2020 and plan for the fiscal year ending December 31, 2021)

The Group is currently working on production reforms, including the promotion of automation, renewal of production management systems, procurement reforms and environmental initiatives, with the aim of promoting "manufacturing innovation" to generate a competitive advantage. These efforts are led by the Production Innovation Division, which supports the initiatives by each in-house company across the Group. The Group will also make aggressive capital expenditure that will contribute to the modernization of outdated equipment, plants, etc., as well as innovation of production technologies.

Capital expenditure for the fiscal year ended December 31, 2020 was ¥15.1 billion. The fund was mainly used to acquire land for a new factory in Japan to meet the future demand for precision reduction gears, which is expected to grow.

Capital expenditure for the fiscal year ending December 31, 2021 will be ¥12.7 billion. We plan to make investments mainly to update and newly build IT systems and for the environment.

R&D costs for the fiscal year ended December 31, 2020 amounted to ¥9.0 billion. In 2020, affected by COVID-19, we reduced our R&D investments, but for the fiscal year ending December 31, 2021, we set aside ¥10.9 billion for R&D activities. In order to meet the requirement from market, we will make necessary investments including those to foster electrification, while promoting a shift from a business model focused on the provision of component products toward becoming a manufacturer of systematized products.

Depreciation for the fiscal year ended December 31, 2020 stood at ¥13.7 billion, up ¥0.6 billion year on year.

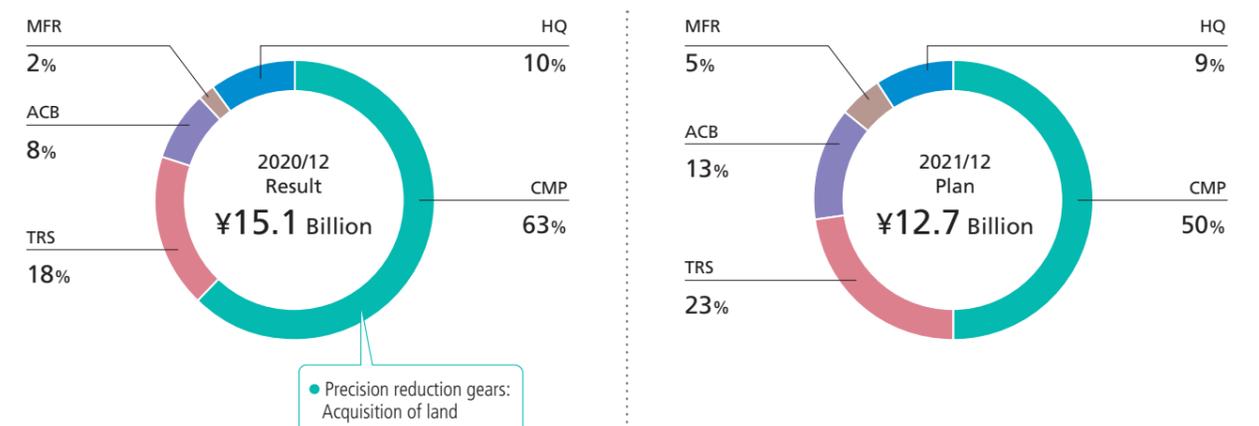
● Status of Capital Expenditure, R&D Costs and Depreciation and Amortization

(¥ Billion)

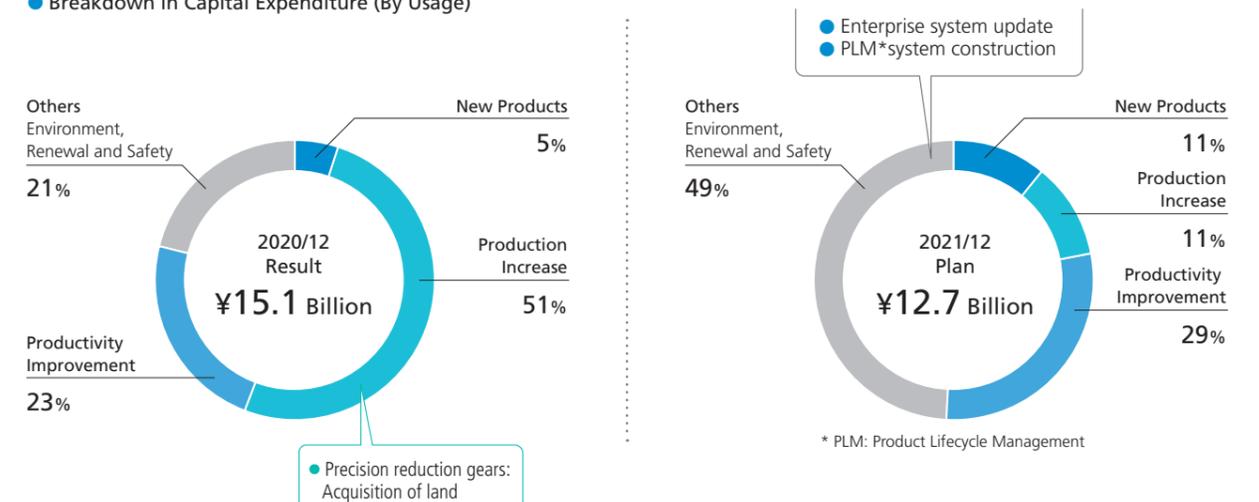
	2017/12 Result	2018/12 Result	2019/12 Result	2020/12 Result	2021/12 Plan	Medium-Term Plan for 2017 to 2020
Capital Expenditure	18.8	20.3	16.4	15.1	12.7	77.0
R&D Costs	8.7	10.2	9.9	9.0	10.9	40.0
Depreciation and Amortization	9.0	10.0	13.1*	13.7*	13.6*	—

*Includes the right-of-use assets. (IFRS 16 Leases is applied.)

● Breakdown in Capital Expenditure (By Business Segment)



● Breakdown in Capital Expenditure (By Usage)



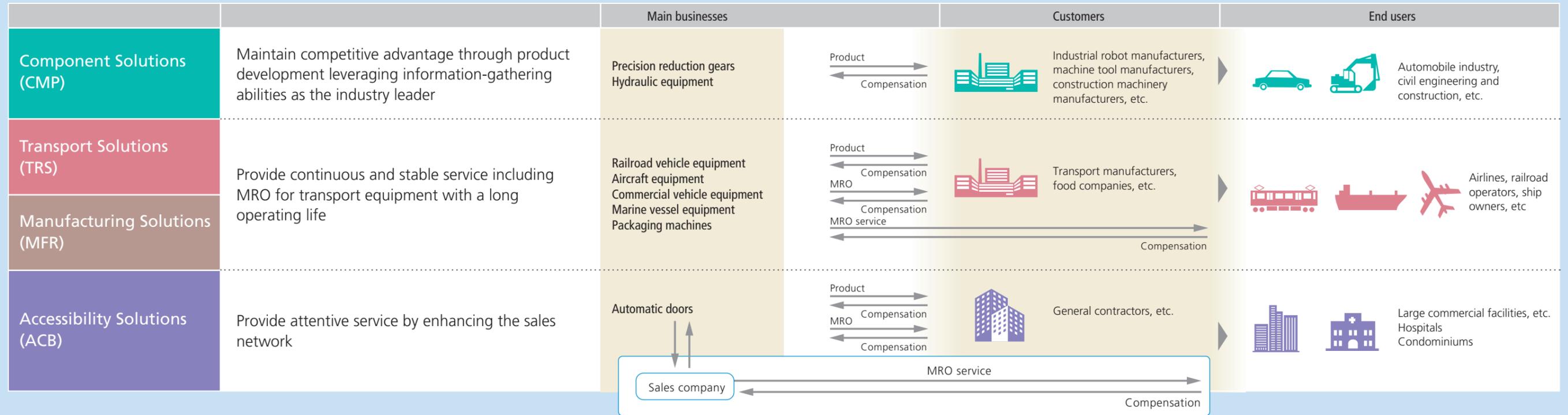
* PLM: Product Lifecycle Management

Business Portfolio

We will provide high value-added products and services through motion control technology.

The Nabtesco Group continues to achieve profitable growth with a portfolio of multiple mutually complementary businesses in different categories.

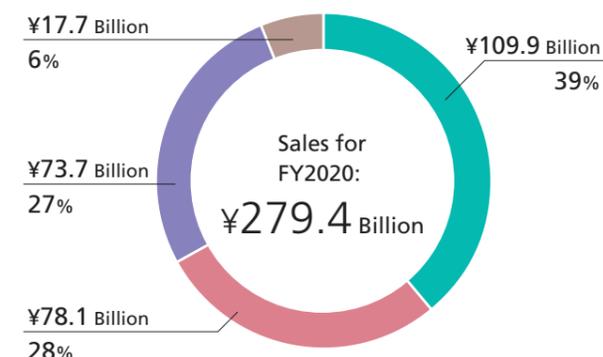
Main business models



Differentiation strategy by business segment

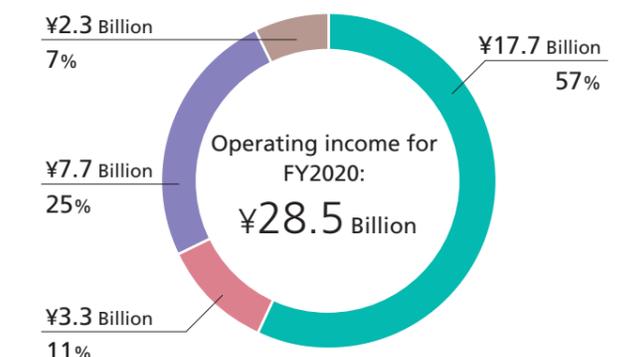
Business segment	Characteristics	Growth driven by market growth Technological advantage strategy	Growth based on each market-oriented strategy		
			Expansion of regional market shares	Capturing shares in new markets	Expansion of sales products
Component Solutions (CMP)	Significant impact of changes in production/sales volume on profitability	● Precision reduction gears	Maintaining competitive advantage of products and technologies		● Hydraulic equipment
Transport Solutions (TRS)		● Aircraft equipment		● Railroad vehicle equipment	● Commercial vehicle equipment ● Marine vessel equipment
Accessibility Solutions (ACB)	After-sales services (MRO) that mitigate impacts from changes in OEM production volume		● Automatic doors	Capturing shares in overseas market	● Expansion of product lineup ● Systematization/modularization
Manufacturing Solutions (MFR)		● Establishment of a sales network ● Enhancement of value chain model		● Packaging machines	

Sales by business segment



Operating income by business segment

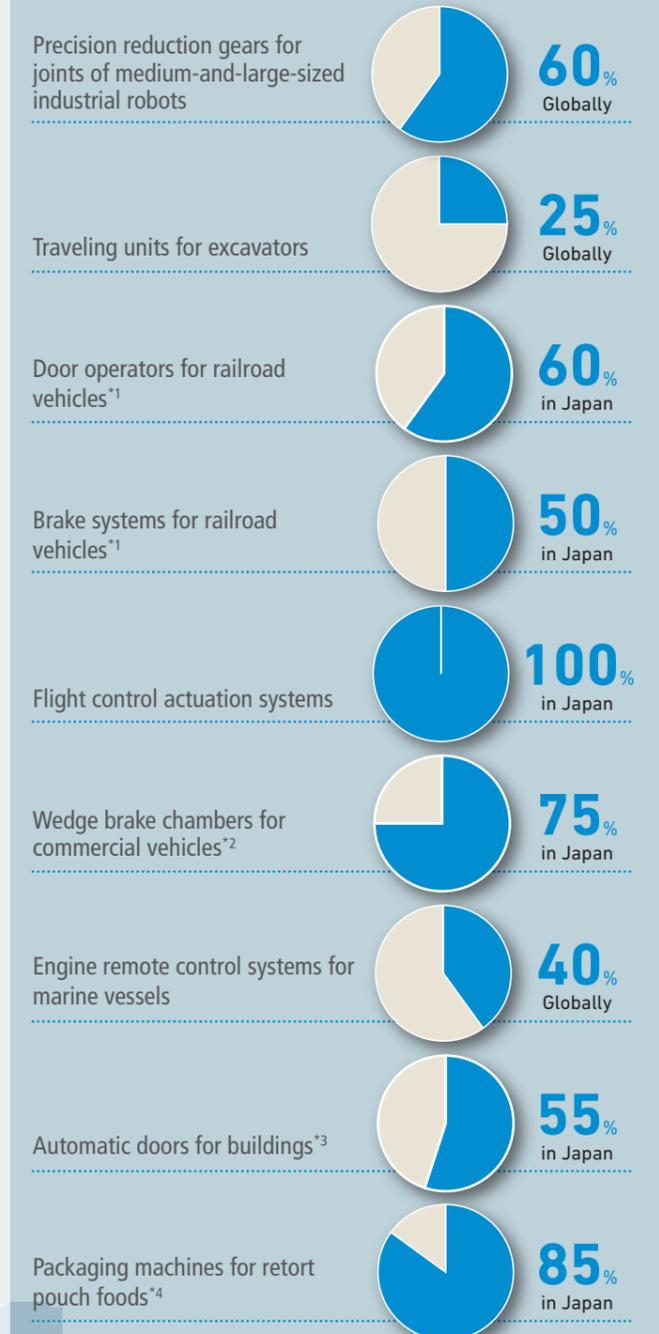
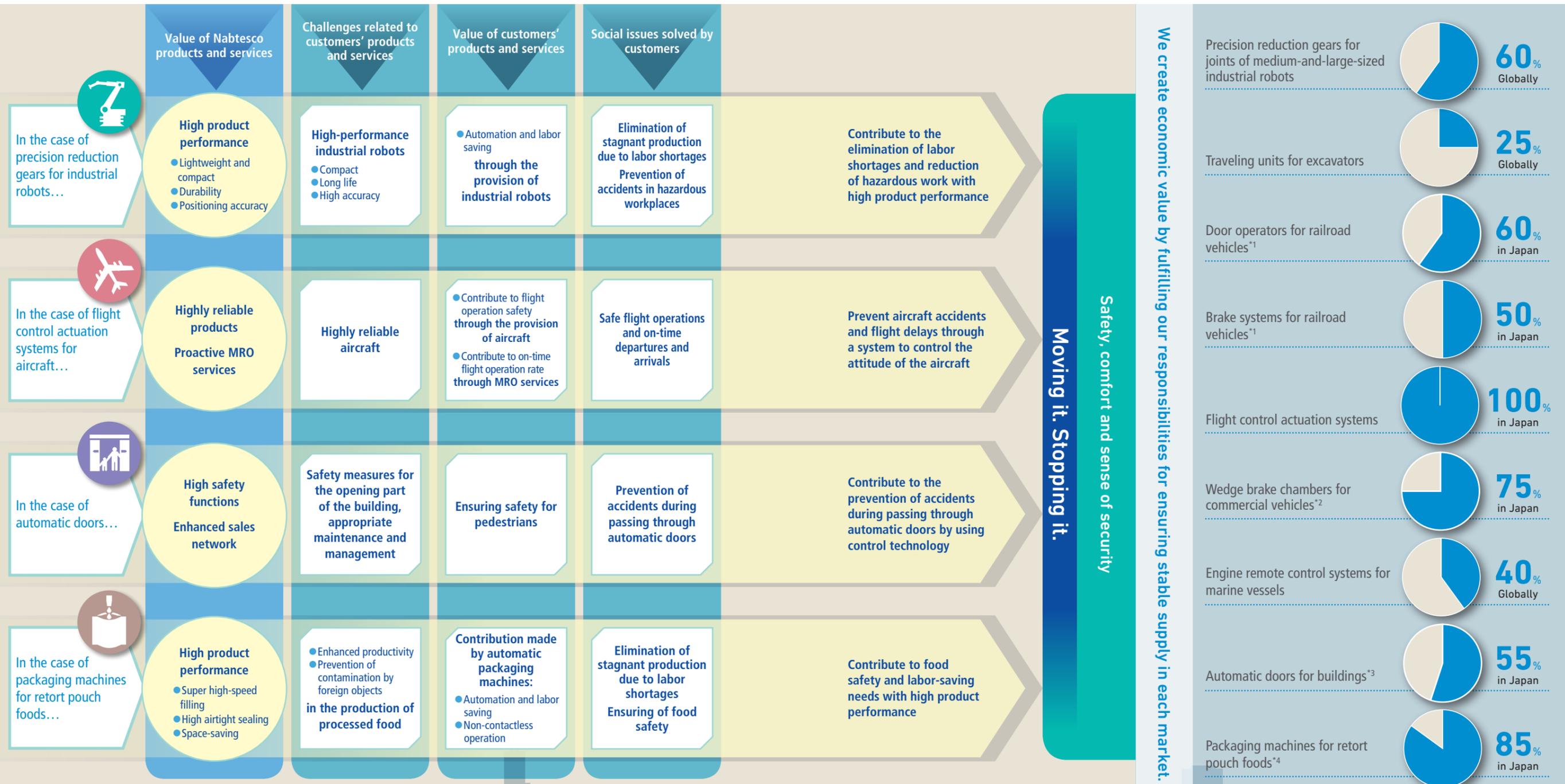
Adjustments: Minus ¥2.5 Billion



Deliver Solutions for Social Challenges through Business

Nabtesco will continue to act as an unsung hero in solving social challenges.

The Nabtesco Group strives to provide value on a continuous basis by offering a range of highly reliable products and services to contribute to the solution of social issues.



^{*1} Nabtesco's estimate based on "Statistics Data of Production," Japan Association of Rolling Stock Industries
^{*2} Nabtesco's estimate based on "Large and Medium-Sized Freight Vehicle Unit Sales," Japan Automobile Dealers Association
^{*3} Nabtesco's estimate based on "Number of Automatic Doors Installed," Japan Automatic Door Association
^{*4} Nabtesco's estimate based on "Production Volume of Retort Package Food," Japan Canners Association and the survey by Tokyo Shoko Research, Ltd.

PRECISION REDUCTION GEAR BUSINESS

SDGs related to our business



President, Precision Equipment Company Toshiya Fujiwara



“ In the manufacturing industry, smart production is becoming mainstream on a global basis and is propelling reforms toward further automation, digitization and the use of AI at an extremely rapid rate. In such an environment, our Precision Reduction Gear RV™ plays a core role for automation. We are committed to developing products that meet the unidentified needs of customers and the world to contribute to global manufacturing reforms, as well as to continuously supplying products useful for an aging society with a decreasing birthrate and for work style reforms. Moreover, we will proactively promote a shift from hydraulic and pneumatic products to electrified ones for the reduction of CO₂ emissions. ”

Strengths	Opportunities
<ul style="list-style-type: none"> Close relationships with major customers High-performance and high-quality products Capability to develop technologies to meet customers' needs Capability to build a highly efficient automated production line Wide product lineup for general industry 	<ul style="list-style-type: none"> Growth in demand from industrial robot manufacturers and from general industry due to the needs for labor saving and automation Structural increase in demand for industrial robots in China
Weaknesses	Threats
<ul style="list-style-type: none"> High level of dependence on demand for industrial robots 	<ul style="list-style-type: none"> Large fluctuations in demand due to changes made by end users to their equipment investment policies Inability to maintain technological lead over existing competitors as well as manufacturers in emerging markets

Measures to achieve further growth

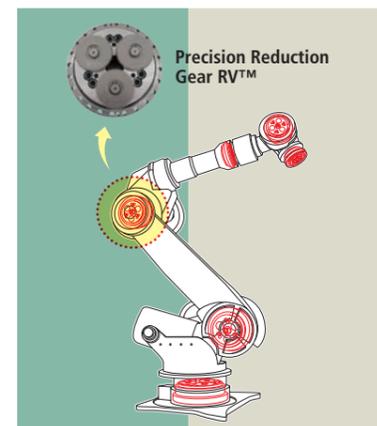
- Expand production capability steadily in anticipation of increases in demand
- Expand the product lineup for general industry
- Implement measures to prevent the outflow of core technologies

Business Overview (Fiscal year ended December 31, 2020)

Market share	Precision reduction gears for the joints of medium- to large-sized industrial robots: Approx. 60% global market share
Production bases	Tsu City, Mie Prefecture, Japan/Jiangsu Prefecture, China/Hamamatsu City, Shizuoka Prefecture, Japan (To be constructed)
Major customers	Industrial robots: FANUC CORPORATION, YASKAWA Electric, Kawasaki Heavy Industries, KUKA AG (Germany), ABB Robotics (Sweden) Machine Tools: YAMAZAKI MAZAK, Okuma, DMG Mori
Sales by geographic segment (Full-year results)*1	Sales to Japanese robot manufacturers: Approx. 60%; Sales to overseas robot manufacturers: Approx. 40%*2 *1 Sales to industrial robot manufacturers *2 Including sales to the overseas plants of Japanese robot manufacturers

Features of the Business

Factors that could change demand	Nabtesco's precision reduction gears are mainly adopted for use in medium- to large-sized industrial robots and are used in particular by the automobile industry, which is making effective use of industrial robots. Accordingly, demand for our products is influenced by the size of equipment investments made by automobile manufacturers.
Mass production of a medium variety of products	We need to have the technology and ability to mass-produce a medium variety of products in order to meet customers' requirements.
Delivery lead time	It takes us about four weeks on average from the receipt of an order to the delivery of the product.



Main Products

Precision reduction gears provide a mechanism by which to extract a large amount of power from a motor, which supplies motive power, by reducing the motor's rotation speed. These gears are used mainly in the joints of industrial robots.

Nabtesco's precision reduction gears are highly rigid, precise and durable, and are therefore used mainly in medium- to large-sized robots with heavy load capacity. As our products are compact, they contribute to reducing the size and weight of robots. They also help boost the controllability of robots based on our proprietary mechanism designed to reduce vibrations and increase behavioral precision.

Social Value Provided by Main Products

Industrial robots contribute to reducing dangerous manual labor, solving the issue of labor shortages and stabilizing quality and increasing productivity at factories. Nabtesco supplies high-quality precision reduction gears to industrial robot manufacturers, thereby bringing safety and higher efficiency to manufacturing factories across the world.



For Sustainable Growth

We installed solar panels on the rooftop of the Tsu Plant to produce clean energy. Electricity generated by the panels usually covers 20% to 30% of the total power consumption at the plant and thus contributes greatly to its CO₂ emissions reduction. For the Hamamatsu Plant to be constructed, we are also considering installing solar panels as part of our efforts to reduce our environmental impact.

Solar panels installed at the Tsu Plant

Sources of Strength

Products and Technology

Nabtesco began conducting the precision reduction gear business in 1986 and applied our technologies developed in the hydraulic equipment business to overcome the technological problems faced by reduction gears at that time, including those related to durability and resistance against vibration. Since then we have built close relationships with our major customers, regarding customer satisfaction as the most important value to be delivered by us, and as a result, we now command a roughly 60% market share of the world market for precision reduction gears used in medium- to large-sized industrial robots.

Precision Reduction Gear RV™ products are light and compact but provide high durability and high positioning accuracy. As our strength, we have the ability to develop more technologies to meet our customers' needs, while making better use of these excellent product features.

Precision reduction gears are usually used with servomotors. Recently, we have started to sell precision reduction gears and servomotors in a package for use by general industry. We are thus expanding our product lineup to meet various customer needs.

Production

Nabtesco is working to build a highly efficient automated production line that is one step ahead of competitors. We aim for the most advanced automation of the age, with a view to making our plants the No. 1 manufacturing sites in the world based on the efforts of individual employees who are highly committed to their work.

Business Environment (Opportunities and Risks)

Business Environment

The International Federation of Robotics (IFR) made multiple demand forecasts for industrial robots in light of uncertainties caused by the spread of COVID-19. Among these forecasts, Nabtesco's present rationale is that demand will gradually recover, having bottomed out in 2020.

Impact of COVID-19

Short term	Decrease in demand for robots due to restricted capital investment in the automobile and other industries
Medium to long term	Increase in demand for robots driven by labor-saving and automation needs

Opportunities and Risks

In the industrial robot field, driven by expanded demand for EVs and (P)HVs, production lines will be updated and newly installed by the automobile industry, which is a major customer of these robots. Also, in other industries, labor-saving and automation needs will dramatically increase, being driven by the need to reduce interpersonal contacts in the face of COVID-19, leading to the introduction of more robots and automation equipment. We perceive that we can achieve further growth by grasping opportunities provided by such demand. We also regard technology catch-up by existing competitors and manufacturers in emerging market countries as a potential risk.

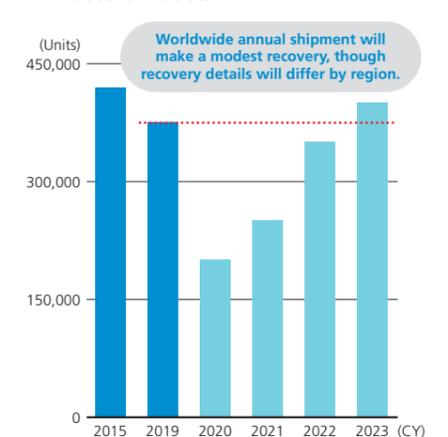
Measures to Achieve Further Growth

As one of the world's top manufacturers of precision reduction gears, we will further enhance our production capacity. To this end, we acquired land in Hamamatsu City in 2020 to add a new plant to our existing plants in Tsu City in Japan and in Changzhou in China.

Moreover, we will take action in R&D to reduce the weight of our precision reduction gears, enhance our downsizing technologies and develop optimal materials for products, thereby continuing to provide products that are highly competitive. We will also expand the product lineup for general industry, which could provide us with more business opportunities.

In addition, we will implement measures to prevent the outflow of our core technologies, including manufacturing technologies, by turning them into "black boxes."

Worldwide Annual Shipment of Industrial Robots



Note: Above IFR data includes the number of small- and medium-large and large-sized robots.
Source: International Federation of Robotics (IFR) 2020

HYDRAULIC EQUIPMENT BUSINESS

SDGs related to our business



President, Power Control Company Kiyoshi Ando



“ Nabtesco contributes to society through our highly efficient equipment used in construction machinery, which supports the establishment of social infrastructure. Recently we have upgraded our global production system in Japan, China and Thailand to secure flexibility to meet demand changes. We will develop high value-added products in response to the expanded use of ICT in construction machinery and their electrification, thereby providing optimal solutions for next-generation construction machinery. ”

Strengths	Opportunities
<ul style="list-style-type: none"> Highly efficient and durable products Wide product lineup Global production system to respond flexibly to changes in demand 	<ul style="list-style-type: none"> Expand the use of ICT in construction machinery and electrification Demand for infrastructure driven by the boost of economic stimulus packages
Weaknesses	Threats
<ul style="list-style-type: none"> Lineup of systematized products 	<ul style="list-style-type: none"> Change in demand for construction machinery Emergence of competitors in developing countries

Measures to achieve further growth

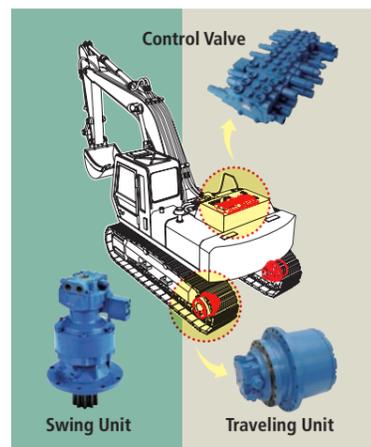
- Develop systematized products
- Respond to expand the use of ICT in construction machinery and electrification
- Build a flexible production system to meet demand changes

Business Overview (Fiscal year ended December 31, 2020)

Market share	Traveling units for hydraulic excavators: Approx. 25% global market share
Production bases	Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan/Kobe city, Hyogo Prefecture, Japan/Shanghai, China/Chonburi, Thailand
Major customers	KOMATSU, Sumitomo Construction Machinery, Kobelco Construction Machinery, Sany Heavy Industry (China), XCMG Construction Machinery (China), LiuGong (China)
Sales by geographic segment (Full-year results)	Japan: Approx. 30%, China: Approx. 60%, Others: Approx. 10% * In terms of the final destinations of excavators

Features of the Business

Factors that could change demand	Nabtesco's hydraulic equipment is used mainly in construction machinery, such as hydraulic excavators and cranes, and is supplied to Japanese and Chinese construction machinery manufacturers. Demand for our products is influenced by the need for infrastructure investment in China, Western countries and Southeast Asia, as well as by the implementation of environmental regulations.
Local production for local consumption	We produce our products in the regions where our customers' construction machinery is needed, with an eye to enhancing cooperation with our customers.
Delivery lead time	It takes us about a week on average from the receipt of an order to the delivery of the product.



Main Products

Traveling units represent one of our main products in the business. A traveling unit consists of a hydraulic motor, a reduction gear, a brake and others integrated into one unit. It is a core component of construction machinery, such as hydraulic excavators and cranes. Our traveling units are compact but efficiently generate large amounts of power and are therefore highly energy efficient. They are also highly durable and reliable for use under severe conditions. We have achieved this high product performance by applying our advanced processing and fitting skills. We also provide control valves, swing units and various other products for the motion control of construction machinery.

Social Value Provided by Main Products

Construction machinery is indispensable for the establishment of infrastructure and supports the basis of industrial development and people's daily life. Going beyond supplying hydraulic equipment to construction machinery manufacturers, Nabtesco contributes to the development of local industries by developing and manufacturing construction machines in the countries and regions where these machines are needed.



For Sustainable Growth

At the Tarui Plant, we provide all on-site employees with a safety training course, with a view to raising their safety awareness by introducing past occupational accidents to them and giving them hands-on experience by the use of simulators. We are thereby working to reduce occupational accidents, stabilize production and provide employees with safe and comfortable workplaces at the plant.

Sources of Strength

Products and Technology

- Both Teijin Seiki and NABCO, which were integrated into Nabtesco, had already been conducting the hydraulic equipment business before the integration. In our long history of the business, which dates back to 1930, we have developed high-quality, high value-added products by making use of our technological capabilities as our strength.
- In 2015, we acquired Hyst Corporation from TOSHIBA MACHINE to expand the product lineup in the business. The acquisition enabled us to sell multiple products as a set, whereas we used to sell products mainly as single items. We have since been adding more value to our products by proposing their use in systems.

Production

- At the Tarui Plant, which is the mother plant for the business and has advanced machine processing technologies, we are promoting the automation of the processing and assembly processes as well as logistics reforms for higher productivity. Outside Japan, we have our production bases in China and Thailand, which are near their consumption areas, thereby building an efficient production system on a global scale.

Business Environment (Opportunities and Risks)

Business Environment

In FY2020, China recovered from the impact of COVID-19 ahead of others, and the sales quantity of excavators hit a record high, driven by the infrastructure investment made as part of the government's economic stimulus package. In other regions, demand dropped due to COVID-19 but has been gradually recovering.

From a medium- to long-term viewpoint, we can begin to see new trends that will help value creation in the construction machinery industry, such as the spread of ICT, progress of electrification and the need to comply with exhaust gas regulations.

Impact of COVID-19

Short term	Expansion of demand for construction machinery driven by infrastructure investment in China Decrease in demand due to deterioration of economic conditions in each country
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Opportunities and Risks

Helping the construction machinery industry to meet the needs for the greater use of ICT and electrification will provide us with tremendous business opportunities. On the other hand, a rapid change in demand might cause an excessive inventory of construction machinery, which will in turn cause stagnant demand. We also regard the market participation of highly cost-competitive manufacturers from emerging market countries to be a risk.

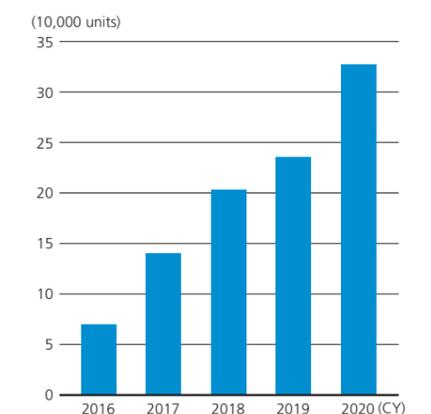
Measures to Achieve Further Growth

We acquired Hyst Corporation in 2015 as the first step to becoming a manufacturer of hydraulic systems. Hyst had a wide product lineup for construction machinery, which however, did not overlap with our product lineup and was actually supplementary to ours. With the acquisition, we were thus able to expand our product lineup.

Moreover, we released the Nabtesco Dual Bypass System (NDS) for small excavators to promote our shift from being a seller of components to a proposer of systems, with an eye to winning more orders on a medium- to long-term basis.

In addition, based on the lessons learned from the experience of suffering from large surges in demand in China, we are working to make our production system more adaptive to changes by increasing its production efficiency through automation and other measures and by keeping inventory at an appropriate level.

Sales of Excavators in China



Source: China Construction Machinery Association

RAILROAD VEHICLE EQUIPMENT BUSINESS

SDGs related to our business



President, Railroad Products Company Shigeru Naoki



“ We contribute to the safety of passengers and the on-time operation of trains by supplying brake and door systems, which are important components to ensure the safety of railroad vehicles. Capitalizing on the reliability and safety technologies that we have developed in the market in Japan, we will enhance our lineup of products in overseas markets with high growth potential, thereby proactively expanding the business. ”

Strengths	Opportunities
<ul style="list-style-type: none"> Ability to customize products to meet the needs of customers Establishment of MRO Team Three production footprints for “local consumption” in Japan, China and Europe 	<ul style="list-style-type: none"> Expansion of an urban traffic network (including subways) in China Replacement demand of railroad vehicles in Europe Increase demand for new railway projects in emerging markets
Weaknesses	Threats
<ul style="list-style-type: none"> Ability to expand business globally 	<ul style="list-style-type: none"> Customers’ stringent selection of investment targets amid the lingering COVID-19 crisis

Measures to achieve further growth

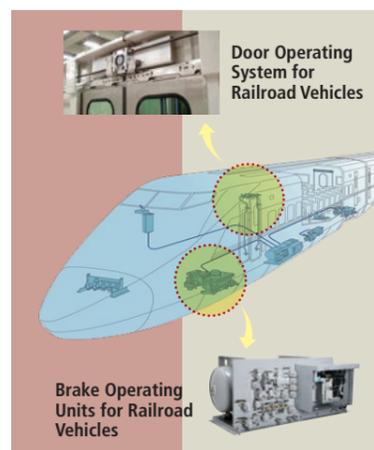
- Acquire European certification to conduct business in Europe
- Expand business for subways
- Acquire orders in the MRO business in Southeast Asia

Business Overview (Fiscal year ended December 31, 2020)

Market share	Brake systems: Approx. 50% domestic market share Door opening systems: Approx. 60% domestic market share
Production bases	Kobe City, Hyogo Prefecture, Japan/Jiangsu Prefecture, China/Piedmont, Italy
Major customers	Japan Railways (JR) companies, private railway companies, Kawasaki Heavy Industries, bullet train and subway projects in China
Sales by geographic segment (Full-year results)	Japan: Approx. 65%, Overseas: Approx. 35%

Features of the Business

Factors that could change demand	Our railroad vehicle equipment is used in the new rolling stock of conventional trains and Shinkansen bullet trains. Demand for our products depends on demand for railroad vehicles (and total running distances).
Demand for MRO services	The user tends to place an order for MRO services about four years after we deliver a product.
Delivery lead time	It takes us about four to six months on average from the receipt of an order to the delivery of the product.



Main Products

Our brake control systems for railroad vehicles, which represent one of our main products in the business, optimally control the braking force for each of the vehicles based on the calculations of the train driver’s brake control and the speed and weight of the vehicle, showing high responsiveness to electric braking. The systems, which we have made smaller, lighter and less noisy in line with the recent trend for environmental friendliness, also contribute to the reduction of electricity consumed by the vehicles and to the improvement of the cabin environment.

We also supply door operating systems for railroad vehicles, which are highly safe. We have electrified the operators to make them light, more efficient and energy saving. The operators can be used for Shinkansen and other trains for which airtightness is required.

Social Value Provided by Main Products

The main products are light and energy saving and therefore contribute to the reduction of environmental impact. Moreover, by providing highly safe and reliable brake systems and door operating systems, we contribute to increasing the safety and reliability of railroad vehicles and to the safety and on-time operation of railroad transportation systems. Further, we can contribute to reducing and eliminating road traffic congestion by helping to optimize railroad transportation.



For Sustainable Growth

At the Kobe Plant, we are implementing an educational program for employees engaged in production processes. As part of the program, they regularly take a test to check the level of their safety awareness and skills. We thereby ensure that they can keep manufacturing high-quality products and work with safety and a sense of security at the plant.

Sources of Strength

Products and Technology

• Since receiving our first order for air brake equipment from the former Japanese Ministry of Railways in 1925, we have long nurtured the ability to develop technologies to provide customers with products that meet their individual needs as well as the high reliability and durability requirements set for railroad vehicle equipment.

Services

• In addition to establishing a special team for MRO, we have enhanced the ability for MRO business to acquire more orders for MRO services, including introducing a system to have a clearer forecast of the maintenance cycles for the products that we have delivered to customers.

Production

• Since 2000, we have delivered products and services for high-speed trains and subways in China and Taiwan. We also acquired an Italian railroad vehicle door manufacturer (presently Nabtesco Oclap S.r.l.) in 2013. To find new markets in Europe and other regions, we are fostering development, procurement and production in three regions, specifically Japan, China and Europe.

Business Environment (Opportunities and Risks)

Business Environment

Demand for new railroad vehicles, which comprise part of the country’s social infrastructure, will remain stable in the Japanese market on a medium- to long-term basis, despite temporary changes caused by the revision of customers’ investment plans. For Chinese subways, demand will continue to expand for the improvement of urban transportation and the solution of the issue of environmental pollution.

In Europe, demand will be driven by the need to replace old vehicles with new ones, and in emerging markets including those in Southeast Asia, demand is likewise expected to expand.

Impact of COVID-19

Short term	Postponement of non-urgent investment projects
Medium term	Partial shift from the introduction of new railroad vehicles to the use of MRO services due to stringent investment decisions that lead to the prolonged use of existing vehicles

Opportunities and Risks

We can also boost our business thanks to the expansion of the Chinese subway market and also by participating in the European market and receiving new orders in Southeast Asia.

As a precondition for global business expansion outside the Chinese market, we need to acquire certification for European regulations, for which we are now implementing necessary actions.

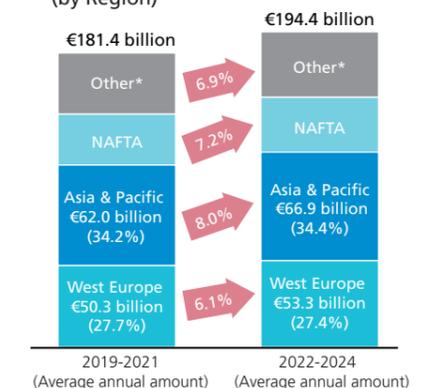
Measures to Achieve Further Growth

By using the technologies developed in the Japanese market, we are promoting sales in markets overseas.

To this end, we established a joint venture in the Chinese subway market and have made use of the Italian railroad vehicle door manufacturer that we acquired in 2013 to build relationships with local customers. We are also focusing on measures to promote the sales of our brake products in Europe, including those directed at meeting European standards.

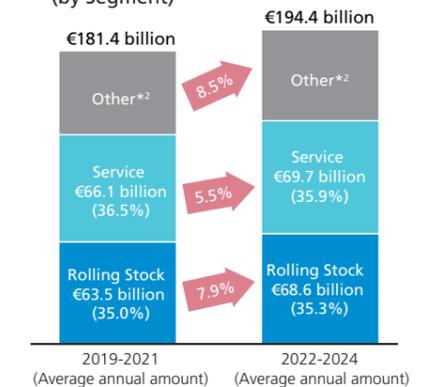
In order to receive orders for MRO services in the Southeast Asian market, Nabtesco Service Co., Ltd., a subsidiary of Nabtesco Corporation, established Nabtesco Service Southeast Asia Co., Ltd. as an after-sale service base in Thailand. The entity gives technological support to local railroad companies and provides them with education on maintenance operations.

Market Size of Railroad Industry (by Region)



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

Market Size of Railroad Industry (by Segment)



* Other: Infrastructure, railroad signals and control equipment
Source: UNIFE

AIRCRAFT EQUIPMENT BUSINESS

SDGs related to our business



President, Aerospace Company Norimasa Takagi



“ In the private aircraft sector, which provides a growth market, we will offer unique customer value by innovating our production, technologies and after-sale service toward achieving sustainable growth. We will also make maximum use of the enhanced manufacturing facilities to expand the production of highly reliable products. We will thereby support the safety of aircraft while reducing their environmental impact and also contribute to local communities. ”

Strengths	Opportunities
<ul style="list-style-type: none"> Know-how and technologies accumulated over 40 years for aircraft equipment business Close relationships with major customers and support systems Highly environmentally friendly and efficient production system 	<ul style="list-style-type: none"> Medium- to long-term growth of the private aircraft market Stable demand for provided by the Japanese Ministry of Defense
Weaknesses	Threats
<ul style="list-style-type: none"> Less experience for the electrification of aircraft 	<ul style="list-style-type: none"> Decrease in the number of flights due to the downturn of the airline market

Measures to achieve further growth

- Develop high value-added MRO plans
- Improve QCDS performance by fostering automation and high productivity at plants

Business Overview (Fiscal year ended December 31, 2020)

Market share	Flight control actuation system: Approx. 100% domestic market share
Production bases	Tarui-cho, Fuwa-gun, Gifu Prefecture, Japan/State of Washington, the United States
Major customers	The Boeing Company (U.S.), Kawasaki Heavy Industries, Mitsubishi Heavy Industries, IHI, SUBARU, the Japanese Ministry of Defense, airline companies and others
Sales by geographic segment (Full-year results)	Japan: Approx. 50%, Overseas: Approx. 50%

Features of the Business

Factors that could change demand	Nabtesco's aircraft equipment is used in both defense aircraft and private aircraft. For products used in private aircraft, demand is influenced by changes in the world economy, while demand from the Japanese Ministry of Defense is stable. For private aircraft, demand for our products is influenced by the production and participation in relevant programs by Boeing, one of our major customers.
Demand for MRO services	The user tends to place an order for our MRO services about five years after we deliver a product.
Delivery lead time	It takes us about one year on average from the receipt of an order to the delivery of the product for private aircraft and up to around two years for defense aircraft.



Main Products

Aircraft equipment needs to provide high safety and reliability, and Nabtesco's flight control actuation systems precisely control the three-dimensional attitude of aircraft, including braking as well as tilting the fuselage up, down, left and right. Without an actuator, the pilot could not get the aircraft to take off or land stably, control its attitude or change its direction, and also passengers could not feel comfortable on board.

Social Value Provided by Main Products

Nabtesco contributes to the safe operation of aircraft and the safe and comfortable travel by large numbers of people by supplying highly safe and reliable aircraft equipment.

We also provide highly reliable products for use by the Japanese Ministry of Defense and thereby contribute to the safe and prompt operation of their aircraft for purposes such as emergency rescues.



For Sustainable Growth

For the three buildings newly established at the Gifu Plant for surface treatment and for the manufacture of precision parts, and for actuators, we have achieved a substantial reduction in CO₂ emissions by adopting advanced environmental technologies. In recognition of this achievement and others, we have been highly applauded by stakeholders, including receiving an environmental prize at the Boeing Supplier of the Year 2016 event.

Sources of Strength

Products and Technology

- We began manufacturing landing gear for aircraft during WWII and launched business targeting the private aircraft industry subsequently. Since then, we have long nurtured the ability to develop technologies to meet the needs of customers for both defense aircraft and private aircraft as our strength.
- For flight control actuation systems, which are items of aircraft equipment that need to be highly safe and reliable, we boast a nearly 100% share in the domestic market.

Services

- For private aircraft, we have our production and MRO bases near the sites of our major customers so that we can offer sufficient support whenever they need it.

Production

- We newly built three buildings on the premises of the Gifu Plant over the period from 2016 to 2018 in order to make our production system more environmentally friendly and efficient and to further improve our QCDS performance.

Business Environment (Opportunities and Risks)

Business Environment

In the private aircraft sector, demand for aircraft has been dropping due to a decrease in the number of passengers caused by the spread of COVID-19, and it will take several years for demand to make a full recovery.

In the defense field, the budget for equipment has been slightly decreasing, but there will be no major changes in demand on a medium- to long-term basis and demand will continue to be robust.

Impact of COVID-19

Short to medium term	Decrease in demand for OEM and MRO services in the private sector due to a drop in the number of passengers
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Opportunities and Risks

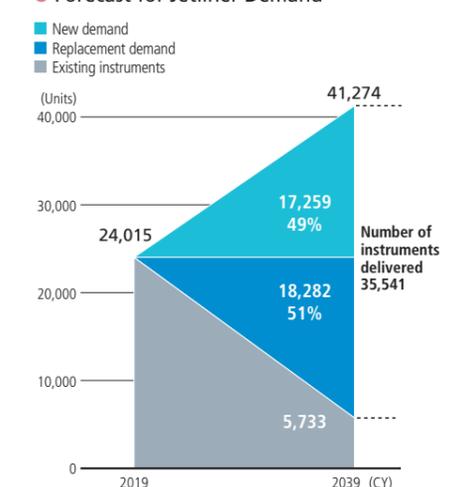
If the number of air travelers continues to decrease due to the spread of COVID-19, it might adversely affect the demand for OEM and MRO services for private aircraft. However, on a medium- to long-term basis, globalization will undoubtedly progress, boosting demand for aircraft on a long-term basis and providing us with opportunities to expand our business.

Measures to Achieve Further Growth

Anticipating the expanded use of aircraft on a long-term basis, we will make use of our relationships with customers and foster close communication with them for the provision of highly competitive products and services. To this end, we are improving our ability to develop technologies and also utilizing our bases in the three international regions (North America, Europe and Japan) to propose more value-added MRO service plans promptly to customers according to their individual needs.

Moreover, in order to respond flexibly to changes in our business environment, we are pressing forward with automation and the improvement of productivity at our plants. In particular, at the Gifu Plant, we aim to further improve QCDS performance by using the newly constructed facilities.

Forecast for Jetliner Demand



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

COMMERCIAL VEHICLE EQUIPMENT BUSINESS

SDGs related to our business



President, Nabtesco Automotive Corporation Ataru Inoue



“ As a company that supports transportation by truck in Japan, we will contribute to society with pride and a sense of responsibility, while giving first priority to safety. We will proactively make development investments and take on challenges in new fields, including measures for electronic systems. In addition, we will enhance collaboration with our production bases in Japan, Thailand and India with an eye to making our company a truly global enterprise. ”

Strengths	Opportunities
<ul style="list-style-type: none"> Know-how and technologies accumulated over 80 years for air brake systems Cost reduction at our production bases in Thailand and India Highly precise and efficient production system established by introducing fully automated equipment 	<ul style="list-style-type: none"> Increasing demand for advanced safety technologies for great changes, as represented by CASE* <ul style="list-style-type: none"> * CASE: Connected Autonomous Shared/Service Electric
Weaknesses	Threats
<ul style="list-style-type: none"> Ability to propose systematized products 	<ul style="list-style-type: none"> Competition in the market with leading European manufacturers

Measures to achieve further growth

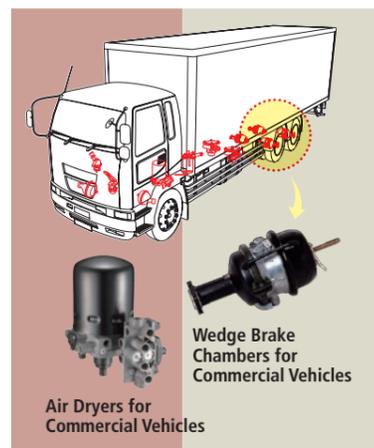
- Measures for air supply management (ASM) systems
- Measures for market trends, including those for CASE

Business Overview (Fiscal year ended December 31, 2020)

Market share	Wedge brake chambers for commercial vehicles chambers: Approx. 75% domestic market share Air dryers for commercial vehicles: Approx. 70% domestic market share
Production bases	Murayama City, Yamagata Prefecture, Japan/Samutprakarn, Thailand/Haryana, India
Major customers	Hino Motors, Mitsubishi Fuso Truck and Bus, Isuzu Motors, UD Trucks
Sales by geographic segment (Full-year results)	Japan: Approx. 90%, Overseas: Approx. 10%

Features of the Business

Factors that could change demand	Nabtesco's commercial vehicle equipment is used mainly in medium- to heavy-duty trucks. Demand for our products is influenced by the economic situations in the Japanese and Southeast Asian markets, the two major markets for Japanese truck manufacturers, which are our main customers, as well as by changes in demand for trucks caused by infrastructure investments and environmental regulations.
Demand for MRO services	The user tends to place an order for our MRO services about two years after we deliver a product.
Delivery lead time	It takes us about a week on average from the receipt of an order to the delivery of the product.



Main Products

For many heavy-duty trucks and buses, air control systems (pneumatic) are operated to move and stop the vehicles. Nabtesco's air dryers represent the first product developed in Japan to remove any water and oil from compressed air to prevent these impurities from causing problems to the system. Nabtesco also developed pneumatic air brake systems to assuredly stop trucks and buses ahead of other manufacturers in Japan in 1937, and these systems are still used in almost all heavy commercial vehicles in Japan today. For air brake systems, Nabtesco's wedge brake chambers are particularly outstanding in terms of brake operability and these compactly designed chambers also contribute to improve fuel efficiency.

Social Value Provided by Main Products

Nabtesco has developed wedge brake chambers, which help improve fuel efficiency, and oil catchers to prevent the outflow of oil collected by the air dryer from the vehicle, thereby helping reduce the environmental impact from vehicles.

We also contribute to the safety of passengers and drivers of commercial vehicles, for example, by helping increase the safety and reliability of the air control systems (pneumatic) of the vehicles by supplying air dryers. Moreover, we plan to release a new product (EDSS*) to the market.

* EDSS standards for emergency driving stop system, which is used when the driver suddenly becomes unable to drive the car due to illness and for other reasons. After being switched on by the driver or others in the vehicle, the system will function to safely reduce the speed of the vehicle and bring it to a gradual halt.



For Sustainable Growth

Nabtesco provides brake systems in an industry-academia-government collaboration project, with an eye to contributing to the development of self-driving technologies and to the solution of the logistics crisis caused by the shortage of drivers. The project also provides us with an opportunity to acquire the know-how to develop brake systems in response to changes made to commercial vehicles with the advancement of automation.

Sources of Strength

Products and Technology

We provide air brake systems that are excellent in safety and environmental performance. In particular, the technology to separate the oil contained in compressed air gives us an advantage. We became the first company to develop this technology in Japan in 1937 and it is installed for almost all heavy-duty commercial vehicles running in Japan at present.

Production

- The Yamagata Plant had all its equipment designed and made by specialists in each of its manufacturing processes with a view to responding speedily to the needs of automakers, who manufacture a range of products in small lots. The plant has also built a quality assurance system in line with global standards and introduced fully automated equipment for highly precise and efficient production and to make "high quality" and "cost reduction" compatible.
- We have built a global production system, having production bases in Thailand and India as well as in Japan. While meeting the local quality requirements, we are also reducing the materials cost and fixed cost to enhance our cost competitiveness.

Business Environment (Opportunities and Risks)

Business Environment

Although demand for commercial vehicles has been temporarily diminishing due to the spread of COVID-19, it will recover and expand, particularly in Southeast Asia, in and after 2021. On the other hand, the automobile industry is entering an age of great changes, as represented by CASE. Moreover, there are social issues to be solved, including reducing CO₂ emissions, creating a safer motorized society and dealing with the logistics crisis faced by Japan due to the shortage of drivers. Accordingly, we need to supply high value-added products and services for the current situation.

Impact of COVID-19

Short term	Decrease in demand for buses due to a drop in the number of passengers Decrease in demand for trucks due to the shrinkage of core transportation volume
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Opportunities and Risks

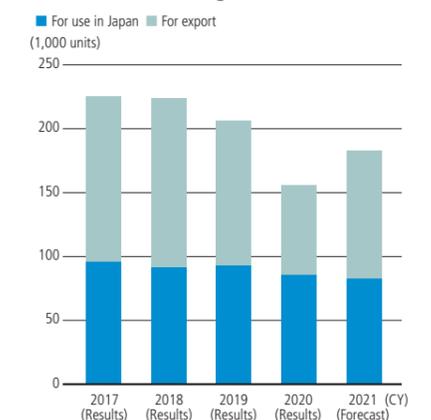
If we fall behind European competitors in meeting the challenges including fostering decarbonization in transportation by truck, it might cause a negative impact on our market share.

Measures to Achieve Further Growth

We will focus on air supply management (ASM), which we deem essential to add more value to our products. By supplying not only our conventional products but also peripheral systems, we will contribute to the higher quality and fuel efficiency of air control systems (pneumatic).

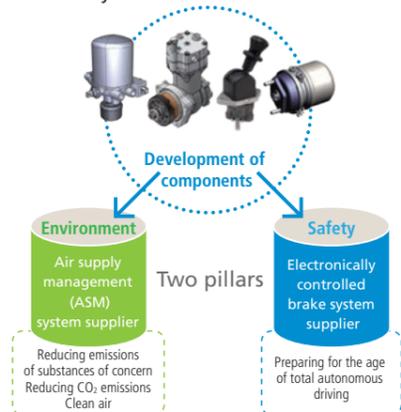
We will also utilize the strength of the entire Nabtesco Group by fostering cooperation with the Technology and R&D Division and make flexible responses to industry trends, including electrification.

Production of Large Trucks and Buses



Source: Estimated by Nabtesco based on materials provided by customer companies

Meeting More Environmental and Safety Needs



Nabtesco Automotive

MARINE VESSEL EQUIPMENT BUSINESS

SDGs related to our business



President, Marine Control Systems Company Tadashige Eto

“ In the shipbuilding and marine vessel equipment industry, the same as other industries, we are strongly required to develop ‘smart’ technologies and foster decarbonization. ‘Smart’ technologies here mean those used to centrally control ships and automate their operation by the use of computers. As for decarbonization, the International Maritime Organization (IMO) adopted a strategy to reduce greenhouse gases (GHGs) and since then, activities for zero emissions have been fostered in the industry. In order to meet these requirements in society, we will work for the technological innovation of ships, marine vessel equipment and related systems by making use of the technologies and experience that we have accumulated in the business. ”

Strengths	Opportunities
<ul style="list-style-type: none"> Broad lineup of environment-friendly products Global production and service system Ability to make proposals on entire control systems Proposals on preventive maintenance 	<ul style="list-style-type: none"> Diversification of marine vessel equipment to meet environmental regulations* <p>* Environmental regulations: There exist a range of regulations on the shipping industry for the identification and minimization of its environmental impact. When the existing regulations are enhanced or new regulations are issued, marine vessel equipment is updated to meet them.</p>
Weaknesses	Threats
<ul style="list-style-type: none"> Cost competition 	<ul style="list-style-type: none"> Change in demand for new shipbuilding due to changes in the price of crude oil

Measures to achieve further growth

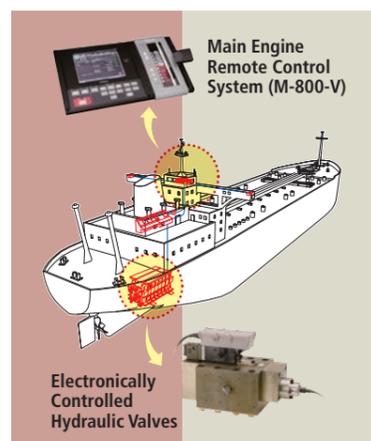
- Foster electrification and develop environment-friendly products
- Develop new MRO plans and enhance the service system to win more orders for MRO services from customers
- Promote “local production for local consumption” at the three bases for higher QCDS performance

Business Overview (Fiscal year ended December 31, 2020)

Market share	2-stroke main engine control systems: Approx. 50% domestic market share Approx. 40% global market share
Production bases	Kobe City, Hyogo Prefecture, Japan/Shanghai, China/Busan, South Korea
Major customers	Kawasaki Heavy Industries, Makita, Hitachi Zosen, Mitsui E&S Holdings, Japan Engine Corporation, Hyundai Heavy Industries (Korea), HSD Engine (Korea), HuDong Heavy Industry Machinery Manufacturing (China), MAN Energy Solutions (Denmark)
Sales by geographic segment (Full-year results)	Japan: Approx. 60%, Overseas: Approx. 40%

Features of the Business

Factors that could change demand	Nabtesco’s marine vessel equipment is mainly used in medium- to large-size vessels equipped with two-stroke diesel engines. Demand for new shipbuilding is influenced mainly by ship prices, demand for marine transportation and measures to meet environmental regulations.
Demand for MRO services	We tend to receive an order for MRO services for a new ship about five years after its first navigation.
Delivery lead time	It takes us about four months on average from the receipt of an order to the delivery of the product.



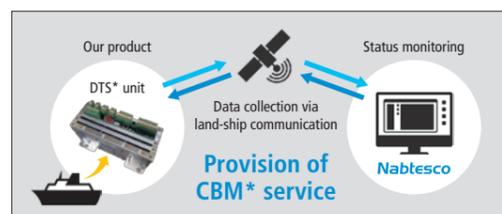
Main Products

The M-800-V main engine remote control system enables the remote control of the diesel engine of a ship, which provides the ship with its main propulsive force, from the ship’s bridge and control room. The system gives commands to control the engine speed (rpm) and monitors the engine status. Equipped with advanced network functions and a liquid crystal touch panel display, the system provides excellent operability and expandability.

Used in electronically controlled engines, the hydraulic valves precisely control fuel injection and the behavior of exhaust valves. These products are indispensable to increase fuel and driving efficiency and to implement environmental measures including those to reduce NOx emissions.

Social Value Provided by Main Products

Marine transportation has a relatively low environmental impact per unit of transportation volume, as a ship can transport a larger amount of goods at one time compared with other means of transportation. However, due to the growth of emerging markets, marine transportation volume has been increasing, resulting in an increase in CO₂ emissions from ships. Nabtesco supplies highly safe, reliable and environmentally friendly marine vessel equipment. Through these products, we contribute to reducing the environmental impact of ships, to the safe navigation of ships and to the stability of marine transportation.



For Sustainable Growth

In the marine vessel equipment business, we have launched MRO services, in which we use advanced sensing and data analysis technologies to diagnose the product status and give necessary support to customers. We are contributing to the safe navigation of ships by predicting product failures in MRO services and are working to increase the quality of MRO services for higher customer satisfaction.

* Condition-based maintenance (CBM) means the maintenance of products according to their conditions. CBM helps prevent problems and contributes to stable operation and cost reduction.
* A data storage unit (DTS) stores data on the status of marine vessel equipment, including main engine remote control systems and electronically controlled hydraulic valves, and transmits it to a server installed on the ship.

Sources of Strength

Products and Technology

- In 1963, we became the first company in Japan to develop a pneumatic remote control system for marine vessels engines to meet the standards set by the Classification Society of each country. Since then, we have developed products that meet the needs of customers in line with market trends. We have strengths in terms of our ability to develop technologies for these products and in the lineup of products that can support the electronic engines to be developed in anticipation of the future enhancement of environmental regulations on marine vessels.

Services

- We have globally expanded our MRO network, including one established in the Netherlands in 1995. Presently we have bases in Japan, the Netherlands, Singapore, South Korea and China, where we provide MRO services around the clock.
- Recently we have also enhanced MRO services by proposing preventive maintenance to customers. We have developed and released a status monitoring system that diagnoses and predicts the product status to help failure prognosis and shorten the maintenance lead time/cost.

Production

- We established a production base in South Korea in 2000 and another in China in 2013, thereby fostering “local production for local consumption” for higher QCDS performance based on production in the three regions of Japan, China and South Korea.

Business Environment (Opportunities and Risks)

Business Environment

Environmental regulations on marine vessels have been strengthened, as represented by the enhancement of the regulations on SOx and the enforcement of the Ballast Water Management Convention. Accordingly, electrification and the diversification of fuels will be further promoted for large marine vessel engines to increase their fuel efficiency. Due to the enhancement of the regulations, not only demand for new shipbuilding but also demand for MRO services will expand, as needs for retrofitting to meet the regulations that will come into force are increasing.

Impact of COVID-19

Short term	Temporary stagnation of the MRO business caused by restrictions on movement
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Opportunities and Risks

For two-stroke engines used in ocean-going vessels, examinations have been promoted for a shift from the use of fossil fuels to the use of hydrogen and ammonia to ensure compliance with the GHG regulations, and we can achieve growth by developing and releasing products that help foster this shift. For four-stroke engines used in coastal vessels, for which electrification has been promoted, we can make use of our advantageous technology to efficiently control the engine system for the electrification of engines in connection with motors, generators and batteries. We can also contribute to the autonomous operation of marine vessels, which is increasingly needed, through our system control technology, and this will in turn help solve issues caused by a decrease in the working population.

However, there is a risk that the world economic situation might badly affect the demand for new shipbuilding and for MRO services.

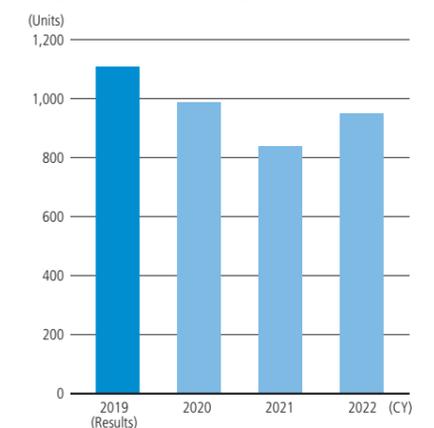
Measures to Achieve Further Growth

We will foster co-creation through open innovation and work to develop systematized products by responding flexibly to the aforementioned changes, thereby contributing to increasing the safety, security and comfort of ship operation for the benefit of our customers.

In the MRO business, we will enhance the global 24-hour support system at our bases in Japan, the Netherlands, Singapore, South Korea and China, and will implement measures to win more orders for MRO services, including predicting product failures via the service and developing new service plans that help users reduce the maintenance lead time and cost. We will expand our business through digital transformation (DX), specifically by making proactive use of ICT for the detection of product failures, reduction of lead time and the development of new methods for the substantial reduction of operational cost.

Global Production of 2-stroke Diesel Engines for Marine Vessels

Estimates as of December 2020



Source: Nabtesco estimates

AUTOMATIC DOOR BUSINESS

SDGs related to our business



President, Accessibility Innovations Company Daisuke Hakoda

“ We are working every day to help all people in society move and travel with a greater level of safety, sense of security and comfort through the provision of automatic doors, platform doors and welfare equipment. In this business, we will take on the challenge of creating value in a manner that exceeds the expectations of customers by developing products based on close communication with the market and expanding MRO services. ”

Strengths	Opportunities
<ul style="list-style-type: none"> Sales network that covers the world's four major automatic door markets Wide lineup of high-quality automatic doors Sales, installation and service networks in the major markets 	<ul style="list-style-type: none"> Stable growth of the automatic door market mainly in developed countries Growth of the platform door markets
Weaknesses	Threats
<ul style="list-style-type: none"> Lineup with major focus on automatic doors* * Reference: Overseas competitors are adding value to their automatic doors, for example, by providing security-related services. Branding in emerging market countries 	<ul style="list-style-type: none"> Long-term tendency for the domestic market to shrink due to maturity

Measures to achieve further growth

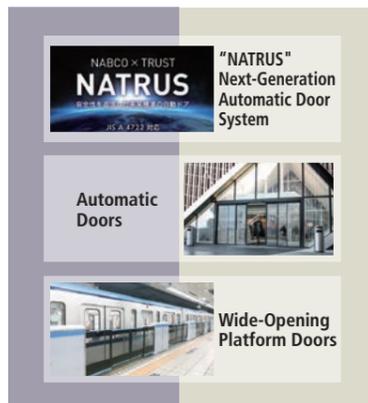
- Expand the sales, installation and service networks also through M&A
- Enhance sales activities and find new customers in emerging markets
- Provide solutions to win more orders for MRO services
- Win more orders by fostering brand recognition

Business Overview (Fiscal year ended December 31, 2020)

Market share	Automatic doors for buildings: Approx. 55% domestic market share Platform screen doors: Approx. 95% domestic market share (cumulative)
Production bases	Kobe City, Hyogo Prefecture, Japan/State of Wisconsin, the United States/Bern, Switzerland/Beijing, China
Major customers	Automatic doors for buildings: Major general contractors, sash manufacturers, hospitals, banks, public institutions, etc. Platform doors: Japan Railways (JR) companies, subways in Japan, major railways, subway projects in France, others
Sales by geographic segment (Full-year results)	Japan: Approx. 60%, Overseas: Approx. 40%

Features of the Business

Factors that could change demand	We supply automatic doors for buildings and platform doors for railroad stations. Demand for our products is influenced by demand for new buildings in Japan, North America, Europe and China and by railroad companies' plans to install platform doors. However, we have relatively stable demand with no major changes as we mainly target the mature markets of developed countries.
Demand for MRO services	For automatic doors for buildings, customers tend to place orders for MRO services about seven to 10 years after the installation of the doors.
Delivery lead time	It differs by project. It takes us several weeks to one or more years depending on the size of the project.



Main Products

Nabtesco supplies a range of automatic doors, including automatic doors for buildings, barrier-free doors, super-large automatic doors for industrial use and platform doors. Automatic doors are opened when the sensor detects nearby motion and sends a signal to the controller and are closed when the sensor no longer detects the motion. Nabtesco makes use of advanced technologies to develop sensors, controllers with built-in microcomputers and high-performance automatic door systems equipped with them. We also supply platform doors that are opened and closed in connection with the operation of railroad vehicle doors, thereby preventing passengers from falling from platforms or coming into physical contact with trains. Our platform doors are adopted for major railroad lines, including for use at subway stations in Japan, Hong Kong and Paris.

Social Value Provided by Main Products

Nabtesco supplies automatic doors that are friendly to all people. We contribute to the provision of barrier-free environments by supplying automatic doors for buildings, which do not need to be manually operated, and also contribute to the safety of passengers and on-time operation of trains by delivering platform doors to railroad stations. Moreover, we have developed energy-saving automatic doors, such as the "NATRUS+e" door, which reacts only to people who will actually pass through the door, for the reduction of environmental impacts caused by our products.



For Sustainable Growth

Nabtesco annually holds a class to provide students of nearby elementary schools with hands-on computer programming experience. For this class, for which our employees serve as instructors, we created unique teaching materials by using the mechanism of automatic doors. We are thus contributing to the development of children by using our unique expertise and resources.

Sources of Strength

Products and Technology

We are the first automatic door supplier in Japan ahead of competitors in 1956 and have since developed high-level technological capabilities as our strength. We provide a range of automatic doors, not limited to those for buildings, and have recently developed the energy-saving and barrier-free automatic door "NATRUS+e" by decreasing the frequency of unnecessary door openings, with a view to delivering environment-friendly products.

Services

- In Japan, we have more than 100 bases for conducting business across the nation. We sell and install automatic doors and provide MRO services to meet the needs of customers, mainly through our sales companies (NABCO SYSTEMS Co., Ltd., NABCO DOOR Ltd. and Orient Industries Co., Ltd.).
- We have established a global operation system for the four major automatic door markets, specifically, Japan and three other regions, having NABCO Entrances Inc. in North America, NABCO Auto Door (Beijing) Co., Ltd. in China and Gilgen Door Systems AG, which we acquired in 2011, in Europe.

Business Environment (Opportunities and Risks)

Business Environment

Nabtesco's automatic doors are used mainly in developed regions including Japan, North America and Europe. In order to keep our competitive advantages in these mature markets, we need to identify precise market needs and promptly provide more value-added products and services. Breaking demand down by region, we expect that demand will expand in Japan on a medium-term basis, being driven by the redevelopment projects implemented in urban areas. In Europe, we expect that stable demand will continue and in Southeast Asia, where more social infrastructure is being established, demand will expand.

Moreover, demand for platform doors will expand across the world, as it is increasingly required to ensure safety on platforms at railroad stations.

Impact of COVID-19

Short term	Postponement of projects due to the deterioration of customers' business environments
Medium term	Increase in demand driven by needs for "contactless" products

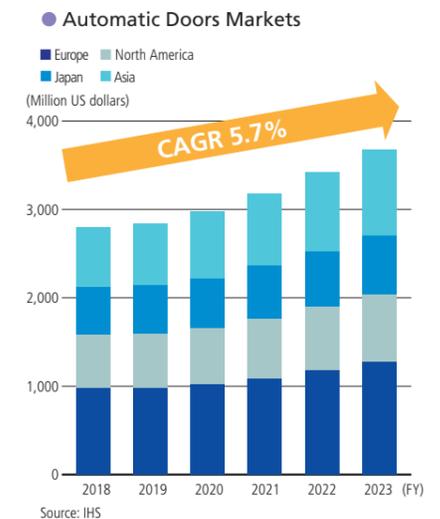
Opportunities and Risks

On a long-term basis, the domestic market might shrink due to the aging of society and decreasing birth rate. However, as a whole, the global automatic door market will remain robust. Due to the spread of COVID-19, demand for automatic doors might become stagnant temporarily. On the other hand, the value of automatic doors, which can be operated in a contactless manner, is gaining renewed appreciation. Accordingly, the number of automatic doors installed per building is increasing, which might lead to the expansion of demand on a long-term basis.

Measures to Achieve Further Growth

In the mature markets of developed countries, we will enhance our product lineup and expand sales and service networks by M&A and other means. We will also work to increase customer satisfaction by providing turnkey solutions that include the delivery, installation, maintenance and management of automatic doors from general-purpose to custom-made products, thereby steadily winning orders for our MRO services.

In Southeast Asia and other regions where more social infrastructure is being established, we will enhance our sales network to solidify the business foundation and promote branding. By broadly expanding the size of our business in both developed and developing countries, we will mitigate our business risks to ensure profitability.



PACKAGING MACHINE BUSINESS

SDGs related to our business



President, PACRAFT Co., Ltd. (Former: Toyo Jidoki Co., Ltd.) Akiyoshi Kitamura

“ We have long contributed to the reduction of CO₂ emissions by fostering packaging in pouches to reduce transportation load in addition to meeting a range of customer needs, including the need to save labor and ensure food safety. As a leading company for a range of packaging systems, we will focus on measures to promote the use of ‘mono-material’* for the recycling of pouches while also taking measures for new packaging materials, such as biomaterials, to make more contributions to the protection of the global environment. ”

* The use of mono-material (a single material) facilitates recycling.

Strengths	Opportunities
<ul style="list-style-type: none"> Ability to develop technologies for high-speed, space-saving and highly airtight packaging Know-how to pack wet contents Ability to customize packaging machines Official distributors located in major overseas cities Mass production system 	<ul style="list-style-type: none"> Expanded needs for small-lot lightweight packaging Expanded needs for labor saving and automation at food processing factories and others Increased awareness of food safety and the need to reduce environmental impact
Weaknesses	Threats
<ul style="list-style-type: none"> Lack of global recognition 	<ul style="list-style-type: none"> Changes in market share due to participation by manufacturers in emerging market countries and to the release of cheap products

Measures to achieve further growth

- Increase overseas bases and official distributors for overseas sales promotion
- Strengthen MRO services system in Japan and abroad
- Develop and supply next-generation high-speed machines and “total line systems”
- Expand production capacity

Business Overview (Fiscal year ended December 31, 2020)

Market share	Packaging machines for retort pouch foods: Approx. 85% domestic market share
Production bases	Iwakuni City, Yamaguchi Prefecture, Japan/Dalian, China
Major customers	Mitsui Sugar, Ajinomoto, MARUDAI FOOD, ARIAKE JAPAN, KENKO Mayonnaise, Procter & Gamble Japan, Kao, Lion, beverage companies in North America, food companies in China
Sales by geographic segment (Full-year results)	Japan: Approx. 70%, Overseas: Approx. 30%

Features of the Business

Factors that could change demand	Demand for our products is influenced by the needs for equipment investment by our customers, including sugar and salt manufacturers, food and pet food manufacturers and chemical product manufacturers.
Demand for MRO services	The user tends to place an order for our MRO services about one to two years after the installation of a product.
Delivery lead time	It takes us about six months on average from the receipt of an order to the delivery of the product.



Main Products

Automatic fillers/sealers are machines designed to package things using the packaging materials supplied by their manufacturers. Toyo Jidoki has accumulated know-how for packaging wet contents that are difficult to fill, particularly retort foods.

We have strengths in measuring performance, space-saving and high-speed packaging, and airtight sealing, which is essential for food safety. Our packaging machines are customized to meet a range of customer needs in an appropriate manner. In addition to supplying packaging machines as single products, we also provide “total line systems” suitable for individual manufacturing sites.

Social Value Provided by Main Products

The amount of food that is wasted around the world totals about 1.3 billion tons annually, and about one-third of produced foodstuffs are wasted. We can greatly contribute to the reduction of food loss by providing packaging machines that help prolong the expiration dates of foods. Recently, we have also provided high value-added fillers/sealers by incorporating X-ray and infrared cameras, thereby contributing to food safety.

Our products are used also to pack chemical products in refill pouches. The amount of plastic used to make refill pouches is about 20% of that used to make containers for chemical products, and the use of the pouches thus contributes to reducing the use of plastic. We will proactively implement measures to promote the use of eco-friendly packaging materials, thereby making further contributions to CO₂ emissions reduction.



For Sustainable Growth

In commemoration of the 60th anniversary of its founding, we changed the name, brandmark and slogan of the company. Under the new slogan, “Packaging for you,” we will work to foster packaging innovation as a single unified team and make proposals that exceed the expectations of our customers.

Sources of Strength

Products and Technology

- Since developing the world’s first rotary packaging machine that integrates a series of processes into one line, we have accumulated the ability to develop technologies as our strength. We provide high-speed and space-saving packaging machines with a highly airtight sealing function to ensure food safety.
- We have accumulated know-how for the difficult packaging of wet contents and boast an 85% share in the domestic market for fillers/sealers for retort foods.

Services

- In order to meet more sophisticated customer needs, we are developing next-generation high-speed machines and enhancing our MRO services in Japan and abroad, and are thus maintaining and expanding our competitive advantages. We have local subsidiaries in China, the United States and Germany as well as official distributors in major overseas cities, and have delivered more than 2,000 units in more than 40 countries across the world.

Production

- We established a production base in Dalian, China, which cooperates with the Iwakuni Plant to establish a production system that can respond to an increase in demand for packaging machines. In 2020 we also enhanced our local functions in North America in order to meet local needs in the region.

Business Environment (Opportunities and Risks)

Business Environment

Due to the impact of the spread of COVID-19, the restaurant industry has stagnated, temporarily causing a decrease in equipment investment. However, needs for small and light food packaging, factory automation and labor saving are increasing globally. In addition to these needs, the increasing need to reduce environmental impacts will also boost the demand for packaging machines on a medium- to long-term basis, as these machines help reduce the use of energy for transportation, the use of resources for packaging materials and the loss of food.

Moreover, the diversification and sophistication of customer needs are also boosting demand for our “total line systems,” which include front-end and back-end processes beyond the scope of conventional packaging machines.

Impact of COVID-19

Short term	Decrease in demand due to the stagnation of the restaurant industry
Medium to long term	Increases in demand due to more hygienic lifestyles, stay-at-home consumption and an increase in the number of pet-owning households

Opportunities and Risks

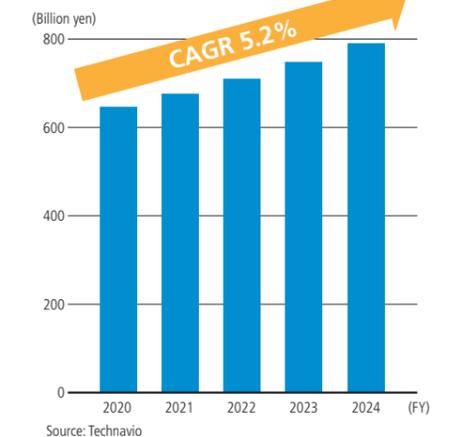
Demand for food packaging in pouches is expanding, being driven by an increase in demand for prepared meals for consumption at home as well as by an increase in the number of individuals who eat alone. Moreover, the spread of packaging in pouches in North America and higher food safety awareness in China and Southeast Asia provide us with opportunities to expand our business. On the other hand, market participation by manufacturers in emerging market countries and the supply of cheap packaging machines could pose risks to us.

Measures to Achieve Further Growth

We will strengthen our bases and official distributors outside of Japan to promote sales mainly in Europe, North America, China and Southeast Asia.

In line with the diversification and sophistication of customer needs, we will develop next-generation high-speed machines, provide “total line systems” suitable for the production size and facilities of individual customers, expand our production capacity and enhance our service systems in Japan and abroad to maintain and expand our competitive advantages.

Global Pouch Packaging Machinery Market



Approach to ESG Issues

The Nabtesco Group reviewed former CSR materiality (material CSR issues) and newly identified its “Management materiality.” Toward the goal set in the long-term vision for 2030, we will create innovation based on our unique value creation process and work to solve ESG issues, paying attention to their impact

on financial issues as well.

In line with our management materiality, we will set specific action plans and KPIs in the process of formulating our next medium-term management plan.

General Category	ESG Category	Management Materiality	Achievements in 2020	Targets for FY2021	Major Impacts on Our Corporate Activities / Strategies		Major SDGs of Relevance	
		Major Initiatives and Related Pages			Negative Impacts	Positive Impacts		
ESG items having a major impact on financial issues	Governance (G)	Increase the effectiveness of our management entities ▶ P.67	<ul style="list-style-type: none"> Increased the ratios of outside directors and female directors 	<ul style="list-style-type: none"> Increase the management efficiency of the Board of Directors 		<ul style="list-style-type: none"> As a result of slow decision-making by the Board of Directors, <ul style="list-style-type: none"> opportunities to increase corporate value are lost. 	<ul style="list-style-type: none"> As a result of faster decision-making, <ul style="list-style-type: none"> corporate value can be maintained or improved. 	
	Environment (E)	Countermeasures for climate change ▶ P.75	<ul style="list-style-type: none"> Achieved the CO₂ emissions reduction targets in Japan Received the highest rating from CDP in three fields (climate change, water security and supplier engagement leaderboard) 	<ul style="list-style-type: none"> Make preparations toward the 1.5 degrees Celsius target Set a target for the introduction of renewable energy 		<ul style="list-style-type: none"> As a result of the realization of natural disaster risks and energy risks, <ul style="list-style-type: none"> business operations are disrupted. As a result of the strengthening of climate change-related laws and regulations, including the introduction of carbon taxes, <ul style="list-style-type: none"> financial cost increases. 	<ul style="list-style-type: none"> As a result of preventing natural disaster risks and energy risks, <ul style="list-style-type: none"> business operations can be secured. financial risks can be reduced. As a result of selling products with high environmental performance, <ul style="list-style-type: none"> business opportunities increase. 	
	Society (S)	Deliver solutions for social challenges through business ▶ P.79 Build a resilient supply chain ▶ P.81	<ul style="list-style-type: none"> Developed environment-friendly products Fostered the management of hazardous substances contained in products Conducted life cycle assessment (LCA) activities 	<ul style="list-style-type: none"> Promote environment- and safety-conscious design and development 		<ul style="list-style-type: none"> As a result of the lack of meeting of customer and social needs, <ul style="list-style-type: none"> competitiveness in the product market declines. 	<ul style="list-style-type: none"> As a result of the provision of products that provide safety, comfort and a sense of security, <ul style="list-style-type: none"> trust of customers is gained. As a result of the contribution to solving social issues through business operations, <ul style="list-style-type: none"> competitiveness in the product market is improved. 	
ESG items that drive sustainability power	Governance (G)	Ensure management transparency ▶ P.85	<ul style="list-style-type: none"> Established a comprehensive risk management system Conducted compliance training across the Group Identified management materiality 	<ul style="list-style-type: none"> Expand the activity scope of the Risk Management Committee Expand the internal reporting system Enhance the disclosure of non-financial information in line with the long-term vision and management materiality 		<ul style="list-style-type: none"> As a result of functional deficiency of corporate governance, <ul style="list-style-type: none"> corporate value is damaged. As a result of the realization of risks and breaches of compliance, <ul style="list-style-type: none"> business operations are interrupted or suspended; or financial cost increases. As a result of the decline in trust of stakeholders, <ul style="list-style-type: none"> competitiveness decreases; or reputation is damaged. 	<ul style="list-style-type: none"> As a result of the reinforcement of the global compliance system, <ul style="list-style-type: none"> corporate value can be maintained or improved. As a result of cooperation with stakeholders and development of relationships of trust, <ul style="list-style-type: none"> business operations can be continued and business opportunities can be generated; or talented people can be secured; or reputation can be maintained or improved. 	
	Environment (E)	Foster environmental management ▶ P.91	<ul style="list-style-type: none"> Achieved zero waste landfill 	<ul style="list-style-type: none"> Set a medium-term target for waste reduction Enhance the system to manage risks related to chemical substances used in products 		<ul style="list-style-type: none"> Due to the lack of the contribution to solving environmental issues, <ul style="list-style-type: none"> reputation is damaged; or trust of customer declines 	<ul style="list-style-type: none"> As a result of the contribution to solving environmental issues, <ul style="list-style-type: none"> reputation is maintained and improved; or business operations can be continued and business opportunities can be generated 	
	Society (S)	Pursue safety, comfort and a sense of security ▶ P.93	<ul style="list-style-type: none"> Reduced the rate of high-level stress individuals 	<ul style="list-style-type: none"> Encourage more plants to obtain occupational safety and health certification 		<ul style="list-style-type: none"> As a result of deficiencies, accidents, etc., involving products, <ul style="list-style-type: none"> business operations are interrupted/suspended or financial loss is incurred; or financial cost increases. As a result of the lack of meeting of customer and social needs, <ul style="list-style-type: none"> competitiveness in the product market declines. As a result of labor issues or labor accidents, <ul style="list-style-type: none"> productivity declines. 	<ul style="list-style-type: none"> As a result of the provision of products that provide safety, comfort and a sense of security, <ul style="list-style-type: none"> trust of customers is gained. As a result of the pursuit of customer needs, <ul style="list-style-type: none"> in-house technologies are enhanced, or human resources are developed. As a result of the realization of safe and pleasant working environments, <ul style="list-style-type: none"> productivity is enhanced. 	
		Respect diversity and various expertise in the workplace ▶ P.95	<ul style="list-style-type: none"> Enhanced human rights management 	<ul style="list-style-type: none"> Make a commitment to promoting diversity and conduct awareness-raising activities Foster career planning training 		<ul style="list-style-type: none"> Due to the lack of ability to develop human resources and the lack of diversity, <ul style="list-style-type: none"> organizational power and loyalty of employees decrease. As a result of the realization of human rights and corruption risks, <ul style="list-style-type: none"> reputation is damaged. 	<ul style="list-style-type: none"> As a result of the acquisition and development of capable and versatile human resources, <ul style="list-style-type: none"> organizational capabilities and loyalty of employees improve. As a result of preventing human rights and corruption risks, <ul style="list-style-type: none"> reputation is maintained and improved. 	
		Enhance work style reforms ▶ P.97	<ul style="list-style-type: none"> Achieved the target for reducing average number of overtime hours worked Fostered remote work 	<ul style="list-style-type: none"> Clearly state the policy on health and productivity management Implement measures to prevent the aggravation of medical conditions 		<ul style="list-style-type: none"> As a result of the deteriorations of employees' health, <ul style="list-style-type: none"> their QOL decreases, which in turn weakens their motivation to work. financial cost increases. As a result of failing to provide diverse work style options, <ul style="list-style-type: none"> the efficiency of operational systems decreases, leading to a drop in productivity; or competitiveness in the employment market decreases. 	<ul style="list-style-type: none"> As a result of promoting employees' health, <ul style="list-style-type: none"> their QOL increases, which in turn increases their motivation for work. financial cost decreases. As a result of providing diverse work style options, <ul style="list-style-type: none"> operational efficiency increases, which in turn increases productivity. competitiveness in the employment market increases. 	
Promote engagement with local community ▶ P.100	<ul style="list-style-type: none"> Donated attendant controlled wheelchairs 	<ul style="list-style-type: none"> Promote community investment 		<ul style="list-style-type: none"> As a result of sluggish local economy/society, <ul style="list-style-type: none"> the product market shrinks and employment opportunities are lost. 	<ul style="list-style-type: none"> As a result of the development of trust with and contribution to the local community, <ul style="list-style-type: none"> reputation is maintained and improved; or the product market expands and employment opportunities are gained. 			
Specific measures to achieve the long-term vision	Acquire next-generation technologies and create new businesses Foster smart manufacturing Strengthen global bases	<ul style="list-style-type: none"> Implemented two investment projects through deployment of CVC Fostered further automation Accelerated logistics reforms 	<ul style="list-style-type: none"> Enhance human resource base for next-generation technologies Acquire new technologies through deployment of CVC Build a foundation for next-generation manufacturing and foster further automation Empower regional headquarters outside Japan 		<ul style="list-style-type: none"> As a result of failing to create new businesses, <ul style="list-style-type: none"> the growth of the company becomes stagnant. As a result of becoming outdated in terms of productivity and environmental measures, <ul style="list-style-type: none"> competitiveness in production decreases. As a result of failing to have more global bases, <ul style="list-style-type: none"> business opportunities are lost overseas. 	<ul style="list-style-type: none"> As a result of succeeding in creating a new business, <ul style="list-style-type: none"> the company can achieve profitable growth. As a result of realizing smart manufacturing, <ul style="list-style-type: none"> the company can become overwhelmingly competitive. As a result of promoting localization, <ul style="list-style-type: none"> overseas business opportunities increase. 		

Management Materiality

Increase the Effectiveness of Our Management Entities

Why Important? For its sustainable growth, Nabtesco pursues profitability and capital efficiency in its business management. For the achievement of our long-term vision, we deem it necessary to make decisions in response to changes in our business environment in a prompt, bold, transparent and fair manner. To this end, we are working to increase the effectiveness of our management entities.

Strengthen Corporate Governance

Measures to Enhance Corporate Governance

Nabtesco is committed to enhancing its corporate governance based on the Corporate Governance Basic Policy, which indicates the Company's basic approach to, framework of and measures for corporate governance. Nabtesco will achieve sustainable growth, increase its corporate value on a medium- to long-term basis and earn even more trust from stakeholders by fulfilling this commitment through the implementation of The Nabtesco Way.

In 2021, we increased by one the number of independent outside directors on the Nominating Committee and the Remuneration Committee, respectively, thereby enhancing the objectiveness of the monitoring of nomination and remuneration activities.

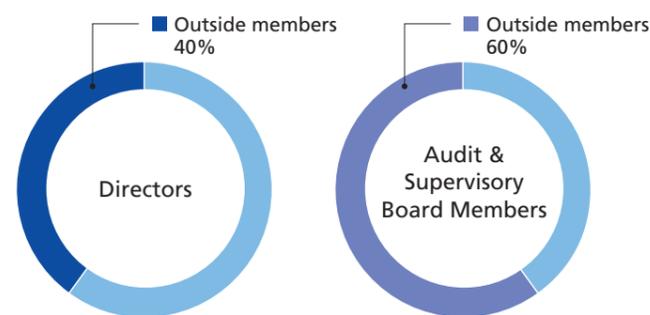
*For Nabtesco's basic approach to and system for corporate governance, please refer to our website.

Web Corporate Governance <https://nabtesco.disclosure.site/en/themes/133>

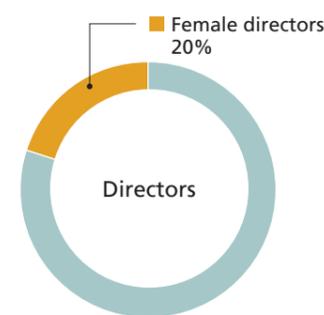
Directors and Audit & Supervisory Board Members (as of March 23, 2021)

Since FY2020, the proportion of independent outside directors and female directors sitting on the Board of Directors has increased.

Proportion of Outside Directors



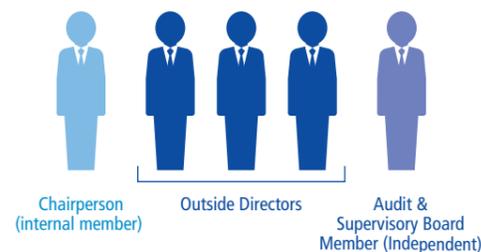
Proportion of Women



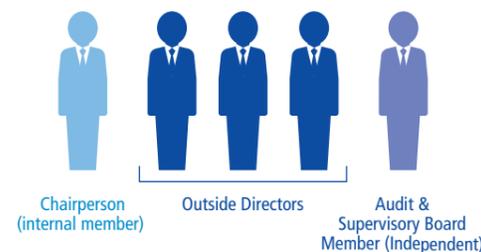
Nominating Committee and Remuneration Committee

Nabtesco is a "Company with Board of Auditors" under the Companies Act of Japan and has the Nominating Committee and Remuneration Committee as advisory organizations to the Board of Directors. The following shows the composition of the committees.

Nominating Committee 5 Members



Remuneration Committee 5 Members



Evaluation of the Effectiveness of the Board of Directors

Nabtesco conducts a yearly analysis and evaluation of the effectiveness of the Board of Directors based on the self-evaluations of the directors to improve the Board's functions. Also, in FY2020, we conducted an anonymous self-evaluation questionnaire survey of all directors and Audit & Supervisory Board members. The survey results were tabulated and analyzed by external lawyers for the evaluation of the effectiveness of the Board of Directors through discussions by members of the Board. According to the results, the directors believe that the number of members and the structure of the Board are appropriate and that open, natural and constructive discussion is taking place, as was the case in FY2019. In FY2020, the number of independent outside directors increased by one person, bringing the proportion of independent outside directors to 40% of the total. Moreover, the number of female directors also increased in FY2020, and the Board is discussing issues from a wider range of viewpoints. Judging from

these facts, the effectiveness of the Board is considered to be well secured.

On the other hand, issues including the following were identified as challenges: the need to increase the operational efficiency of Board meetings to secure enough time for the Board to deliberate important issues related to management, such as growth strategies and the need to further foster the diversity of the Board. We are continuing our efforts to make improvements regarding these issues.

Skill Matrix of Directors and Audit & Supervisory Board Members

Nabtesco selects its directors and Audit & Supervisory Board members from both inside and outside the company by identifying candidates with the required skills.

In order to make flexible responses to our dynamically changing business environment and to implement management strategies in consideration of the various features of our business, we choose directors with a focus on diversity.

Skill Matrix of directors and Audit & Supervisory Board members (as of March 23, 2021)

	Term of service	Level of independence	Field of specialization						Nominating Committee	Remuneration Committee	Compliance Committee ¹
			Corporate management	Global	Legal, personnel & labor affairs and risk management	Financial accounting	Manufacturing and technology	Sales and marketing			
Directors	Katsuhiro Teramoto	5 yrs. & 9 mths.	✓	✓		✓		✓	✓	✓	
	Daisuke Hakoda	5 yrs. & 9 mths.	✓	✓	✓	✓					
	Shigeru Naoki	2 yrs.	✓				✓				
	Akiyoshi Kitamura		✓					✓			
	Atsushi Habe		✓	✓		✓		✓		✓	
	Kazumasa Kimura	2 yrs.	✓			✓	✓			✓	
	Norio Uchida	5 yrs. & 9 mths.	✓	✓	✓		✓	✓			
	Mari Iizuka	1 yr.	✓		✓	✓		✓	✓		
	Naoko Mizukoshi	1 yr.	✓		✓	✓		✓	✓		
	Naoki Hidaka		✓	✓	✓			✓	✓		
Audit & Supervisory Board members	Kenichi Kikuchi	2 yrs.		✓		✓					
	Isao Shimizu	1 yr.					✓				
	Zenzo Sasaki	5 yrs.	✓			✓				✓	
	Takemi Nagasaka	5 yrs.	✓		✓		✓		✓		
	Tetsuro Hirai	2 yrs.	✓	✓			✓	✓			

The above does not represent an exhaustive list of the directors' expertise.

*1 The Compliance Committee is composed of seven members, including two in-house executive officers and one outside expert in addition to directors.

Management Team

Board of Directors (as of March 23, 2021)



Katsuhiko Teramoto

Representative Director, President & CEO
(Dec. 13, 1955)

- Jun. 2007 General Manager, Sales Department No. 1, Precision Equipment Company of Nabtesco Corporation
- Jul. 2008 General Manager, Overseas Sales Department, Precision Equipment Company of Nabtesco Corporation
- Jun. 2009 General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation
- Jun. 2011 Executive Officer of Nabtesco Corporation
- Oct. 2011 Vice President and General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation
- Feb. 2013 Deputy Senior General Manager, Corporate Planning Division, and General Manager, Corporate Planning Department of Nabtesco Corporation
- Jun. 2015 Representative Director (to present), Managing Executive Officer and Senior General Manager of Corporate Planning Division of Nabtesco Corporation
- Mar. 2017 President and Chief Executive Officer (CEO) of Nabtesco Corporation (to present)
- Mar. 2018 President of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Katsuhiko Teramoto has served as Representative Director since June 2015, and has appropriately led and supervised management. In addition, after serving as Vice President of Accessibility Innovations Company and Senior General Manager of Corporate Planning Division, he currently serves as the President, a position bearing the highest responsibilities for business execution, and has broad experience at the Company and extensive insight concerning global business. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 13,799 shares



Shigeru Naoki

Director
President, Railroad Products Company
(Oct. 21, 1958)

- Jul. 2013 Plant Manager, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Jun. 2014 Executive Officer of Nabtesco Corporation
- Mar. 2017 Vice President, Railroad Products Company of Nabtesco Corporation
- Aug. 2017 President, Railroad Products Company of Nabtesco Corporation (to present)
- Mar. 2018 Managing Executive Officer of Nabtesco Corporation (to present)
- Mar. 2019 Director of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Shigeru Naoki has engaged in management of the Company as Director since March 2019, and has effectively fulfilled its roles and duties. After serving as Plant Manager, Tsu Plant of Precision Equipment Company, he currently serves as President of Railroad Products Company, and has experience and extensive insight as the manager of a broad range of business areas at the Company. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 5,222 shares



Atsushi Habe

Director
Corporate Planning, Accounting & Finance,
Information Systems, Business Transformation and Corporate
Communication
(Nov. 27, 1959)

- Sep. 2006 General Manager, International Sales Department, Aerospace Company of Nabtesco Corporation
- Jun. 2011 General Manager, Planning Department, Aerospace Company of Nabtesco Corporation
- Nov. 2012 General Manager, Planning Department, Precision Equipment Company of Nabtesco Corporation
- Feb. 2016 General Manager, Sales Department, Precision Equipment Company of Nabtesco Corporation
- Oct. 2016 General Manager, Sales Promotion Department, Precision Equipment Company of Nabtesco Corporation
- Mar. 2017 Executive Officer of Nabtesco Corporation
- Mar. 2018 Vice President and General Manager, Sales Promotion Department, Precision Equipment Company of Nabtesco Corporation
- Jan. 2019 President, Precision Equipment Company of Nabtesco Corporation
- Jan. 2020 Managing Executive Officer of Nabtesco Corporation (to present)
- Jan. 2021 Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Business Transformation and Corporate Communication of Nabtesco Corporation (to present)
- Mar. 2021 Director of Nabtesco Corporation (to present)

Reasons for appointment

After serving as General Manager, Planning Department of Aerospace Company, as well as General Manager, Sales Promotion Department of Precision Equipment Company and President of the said Company, Mr. Atsushi Habe currently serves as Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Business Transformation and Corporate Communication, and has broad experience and extensive insight at the Company. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 7,420 shares



Daisuke Hakoda

Representative Director
President, Accessibility Innovations Company
(Oct. 25, 1957)

- Jun. 2007 President of Nabtesco Aerospace, Inc.
- Jun. 2009 General Manager, Accounting & Finance Department of Nabtesco Corporation
- Jun. 2010 General Manager, Corporate Planning Department of Nabtesco Corporation
- May 2013 General Manager, Shanghai Nabtesco Hydraulic Co., Ltd.
- Jun. 2013 Executive Officer of Nabtesco Corporation
- Jun. 2015 Director and General Manager, General Administration & Human Resources Division of Nabtesco Corporation
- Mar. 2017 Managing Executive Officer, Senior General Manager, Corporate Planning Division and Senior General Manager of General Administration & Human Resources Division of Nabtesco Corporation
- Jan. 2018 Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Corporate Communication and Human Resources of Nabtesco Corporation
- Mar. 2018 Representative Director of Nabtesco Corporation (to present)
- Jan. 2019 President, Accessibility Innovations Company (to present)
- Jan. 2020 Senior Managing Executive Officer of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Daisuke Hakoda has engaged in management of the Company as Director since June 2015, and has effectively fulfilled its roles and duties. After being engaged mainly in the areas of corporate planning as well as accounting and finance for many years, he currently serves as President of Accessibility Innovations Company, and has broad experience and extensive insight as a corporate manager. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 19,507 shares



Akiyoshi Kitamura

Director
President, PACRAFT Co., Ltd. (Former: Toyo Jidoki Co., Ltd.)
(Feb. 12, 1959)

- Jul. 2008 General Manager, Nagoya Sales Department, Precision Equipment Company of Nabtesco Corporation
- Apr. 2010 General Manager, Tokyo Sales Department, Precision Equipment Company of Nabtesco Corporation
- Apr. 2011 General Manager, Sales Department, Precision Equipment Company of Nabtesco Corporation
- Mar. 2016 President, Toyo Jidoki Co., Ltd. (current Toyo Jidoki Co., Ltd.) (to present)
- Mar. 2017 Executive Officer of Nabtesco Corporation
- Jan. 2020 Managing Executive Officer (to present)
- Mar. 2021 Director of Nabtesco Corporation (to present)

Reasons for appointment

After serving as General Manager, Sales Department of Precision Equipment Company, Mr. Akiyoshi Kitamura currently serves as President of PACRAFT Co., Ltd. and has experience and extensive insight as the manager of a broad range of areas at the Group. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 2,979 shares



Kazumasa Kimura

Director
Component Solution Segment, Senior General Manager,
Technology and R&D Division, and in charge of Production
Innovation
(Aug. 17, 1961)

- Jun. 2011 General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation
- Jun. 2012 General Manager, Manufacturing Department, Tarui Plant, Power Control Company of Nabtesco Corporation
- Apr. 2015 Representative Director and Vice President of Hyst Corporation (merged into Nabtesco Corporation in Apr. 2016)
- Mar. 2016 General Manager, Production Management Department, Power Control Company of Nabtesco Corporation
- Mar. 2017 Executive Officer and President, Power Control Company of Nabtesco Corporation
- Jan. 2019 Executive Officer, Corporate Planning, Accounting & Finance, Information Systems and Corporate Communication of Nabtesco Corporation
- Mar. 2019 Director of Nabtesco Corporation (to present)
- Jan. 2021 Managing Executive Officer (to present), Component Solution Segment, Senior General Manager, Technology and R&D Division, and in charge of Production Innovation (to present)

Reasons for appointment

Mr. Kazumasa Kimura has engaged in management of the Company as Director since March 2019, and has effectively fulfilled its roles and duties. After serving as General Manager of Manufacturing Department, Precision Equipment Company, General Manager of Production Management Department, Power Control Company and President of Power Control Company, he currently serves as Managing Executive Officer, Component Solution Segment, Senior General Manager, Technology and R&D Division, and is in charge of Production Innovation. He has broad experience at the Company and extensive insight concerning production. Due to these factors, he has been determined to be an appropriate person to realize sustainable improvement in corporate value, and thus appointed as Director.

Number of shares of the Company held: 1,967 shares



Norio Uchida

Outside Director
(Oct. 22, 1950)

- Apr. 1973 Joined Tokyo Optical Co., Ltd. (current TOPCON CORPORATION)
- Jun. 1980 General Manager of Topcon Singapore Pte. Ltd.
- Feb. 1989 President of Topcon Australia Pty Ltd.
- Oct. 1994 Senior Vice President of Topcon Laser Systems, Inc. (current Topcon Positioning Systems, Inc.)
- Jun. 2003 Executive Officer of TOPCON CORPORATION
- Jul. 2003 President and Director of Topcon Sales Co., Ltd. (current Topcon Sokkia Positioning Japan Co., Ltd.)
- Jun. 2005 Director and Executive Officer of TOPCON CORPORATION
- Jun. 2007 Director, Managing Executive Officer, Supervising Sales Promotion Group, and Chief of Positioning Business Unit of TOPCON CORPORATION
- Jun. 2010 Director, Senior Managing Executive Director and Supervising Corporate Planning Group of TOPCON CORPORATION
- Jun. 2011 President & Representative Director of TOPCON CORPORATION
- Jun. 2013 Advisor of TOPCON CORPORATION (retired in June 2015)
- Jun. 2015 Director of Nabtesco Corporation (to present)
- Sep. 2015 Outside Director of ULVAC, Inc. (to present)

Reasons for appointment

Mr. Norio Uchida has served as Representative Director of TOPCON CORPORATION and has broad experience and extensive knowledge and insight as a corporate manager. As an Outside Director of the Company from 2015, he has appropriately supervised management. The Company, having high regard for his experience and insight, has appointed Mr. Norio Uchida as Outside Director, so that we may expect him to provide his supervision and advice on technical development and global business overall.

Number of shares of the Company held: 0 shares



Naoko Mizukoshi

Outside Director
(Sep. 23, 1967)

- Apr. 1995 Registered at Osaka Bar Association
Joined Miyazaki Law Firm
- Apr. 1998 Registered at Yokohama Bar Association (current Kanagawa Bar Association)
Joined Nomura Research Institute, Ltd.
- Sep. 1999 Registered at Dai-ni Tokyo Bar Association
Joined Autodesk Co., Ltd.
- Sep. 2002 Registered at the State of California Bar
Joined Microsoft Co., Ltd. (current Microsoft Japan, Co., Ltd.)
- Nov. 2006 Joined TMI Associates
- Jan. 2008 Partner of Endeavour Law Office
- Mar. 2010 Partner of Endeavour Law Office
- Jun. 2018 Outside Director of TIS Inc. (to present)
- Dec. 2018 Partner of Leftright Law & IP (to present)
- Mar. 2020 Director of Nabtesco Corporation (to present)

Reasons for appointment

Although Ms. Naoko Mizukoshi has not been involved in corporate management except as an outside director, she has a high level of expertise as an attorney-at-law. She also held various posts including outside officers of other business entities and posts in public offices including a member of Unfair Competition Prevention Subcommittee, Intellectual Property Committee, Industrial Structure Council, Ministry of Economy, Trade and Industry. As an Outside Director of the Company from March 2020, she has appropriately supervised management. The Company, having high regard for her experience and insight, has appointed Ms. Naoko Mizukoshi as Outside Director, so that we may expect her to provide her supervision and advice from decisions from an objective and legal viewpoint based on the above.

Number of shares of the Company held: 0 shares



Mari Iizuka

Outside Director
(Mar. 29, 1959)

- Apr. 1982 Joined Henkel Hokusai Corporation (current Henkel Japan Ltd.)
- Aug. 1987 Joined The World Bank
- Jul. 1992 Assistant Professor of Asian Institute of Management Graduate School of Business
- Apr. 2005 Assistant Professor of Ritsumeikan Asia Pacific University Graduate School of Management
- Apr. 2007 Associate Professor of Ritsumeikan Asia Pacific University Graduate School of Management
- Apr. 2008 Professor of Ritsumeikan Asia Pacific University Graduate School of Management
- Apr. 2010 Professor of Doshisha Business School (to present)
- Mar. 2020 Director of Nabtesco Corporation (to present)

Reasons for appointment

Although Ms. Mari Iizuka has not been involved in corporate management except as an Outside Director of the Company, she has a high level of expertise in the fields of global management human resources and international management strategies as a Professor of Doshisha Business School. She also held various posts including Chair of Japan Global Compact Academic Network, which was established for collaboration between business and academia for achievement of Sustainable Development Goals (SDGs), and as an Outside Director of the Company from March 2020, she has appropriately supervised management. The Company, having high regard for her experience and insight, has appointed Ms. Mari Iizuka as Outside Director, so that we may expect her to provide her supervision and advice utilizing her expertise and insight based on the above.

Number of shares of the Company held: 0 shares



Naoki Hidaka

Outside Director
(May 16, 1953)

- Apr. 1976 Joined SUMITOMO CORPORATION
- Apr. 2001 General Manager, Chicago Branch, Sumitomo Corporation of U.S.A.
- Apr. 2007 Executive Officer, General Manager of Metal Products for Automotive Industry Division of SUMITOMO CORPORATION
- Apr. 2009 Managing Executive Officer, Head of Chubu Block of SUMITOMO CORPORATION
- Apr. 2012 Senior Managing Executive Officer, Head of Kansai Block of SUMITOMO CORPORATION
- Jun. 2013 Representative Director, Senior Managing Executive Officer, and General Manager, Transportation & Construction Systems Business Unit of SUMITOMO CORPORATION
- Apr. 2015 Representative Director, Executive Vice President, Executive Officer, and General Manager, Transportation & Construction Systems Business Unit of SUMITOMO CORPORATION
- Jun. 2018 Special Adviser of SUMITOMO CORPORATION
- Jun. 2019 Adviser of SUMITOMO CORPORATION (retired in March 2020)
- Jun. 2020 Outside Director of BROTHER INDUSTRIES, LTD. (to present)
- Mar. 2021 Director of Nabtesco Corporation (to present)

Reasons for appointment

Mr. Naoki Hidaka has served as a Representative Director of SUMITOMO CORPORATION and has broad experience and extensive knowledge and insight as a corporate manager. In addition, he has been engaged in overseas businesses, and has held various posts including General Manager of Transportation & Construction Systems Business Unit, in the same business domain as the Company. The Company, having high regard for his experience and insight, has appointed Mr. Naoki Hidaka as Outside Director, so that we may expect him to provide his supervision and advice utilizing his knowledge.

Number of shares of the Company held: 0 shares

* The average term of office of Outside Directors was 2.3 years as of March 23, 2021.

* Number of shares held as of December 31, 2020.

Management Team

Audit & Supervisory Board Members (as of March 23, 2021)



Kenichi Kikuchi
Audit & Supervisory Board Member
(Dec. 18, 1959)

Apr. 2015 Senior Manager, Accounting & Finance Department of Nabtesco Corporation
Jul. 2017 General Manager, Business Auditing Department of Nabtesco Corporation
Mar. 2019 Audit & Supervisory Board Member of Nabtesco Corporation (to present)

Number of shares of the Company held: 1,548 shares



Isao Shimizu
Audit & Supervisory Board Member
(Sep. 3, 1960)

Apr. 2008 General Manager, Production Control Department, Gifu Plant, Aerospace Company of Nabtesco Corporation
Jul. 2010 General Manager, Materials Department, Gifu Plant, Aerospace Company of Nabtesco Corporation
Jul. 2011 General Manager, Supply Chain Management Department, Gifu Plant, Aerospace Company of Nabtesco Corporation
Jun. 2012 Plant Manager, Gifu Plant, Aerospace Company of Nabtesco Corporation
Mar. 2016 General Manager, Production Innovation Division of Nabtesco Corporation
Mar. 2018 Executive Officer of Nabtesco Corporation
Mar. 2020 Audit & Supervisory Board Member of Nabtesco Corporation (to present)

Number of shares of the Company held: 3,890 shares



Zenzo Sasaki
Audit & Supervisory Board Member (Independent)
(Nov. 1, 1952)

Apr. 1979 Appointed Public Prosecutor
Apr. 2000 Deputy General Manager, Special Investigation Department of Tokyo District Public Prosecutor's Office
Sep. 2002 Manager, Facilities Division, Minister's Secretariat of Ministry of Justice
Jan. 2004 General Manager, Public Safety Department and General Manager, Transportation Department of Tokyo District Public Prosecutor's Office
Aug. 2006 Chief Public Prosecutor of Wakayama District Public Prosecutor's Office
Jan. 2008 Public Prosecutor of Supreme Public Prosecutor's Office
Oct. 2008 Chief Public Prosecutor of Mito District Public Prosecutor's Office
Jul. 2010 Chief Public Prosecutor of Sendai District Public Prosecutor's Office
Aug. 2011 Chief Public Prosecutor of Kyoto District Public Prosecutor's Office
Nov. 2012 Retired as Public Prosecutor
Feb. 2013 Registered with Tokyo Bar Association
Joined Harumi-kyowa Law Offices (to present)
Mar. 2016 Audit & Supervisory Board Member (Independent) of Nabtesco Corporation (to present)

Number of shares of the Company held: 0 shares



Takemi Nagasaka
Audit & Supervisory Board Member (Independent)
(Jan. 24, 1956)

Oct. 1978 Joined Musashi Audit Corporation (currently Ernst & Young ShinNihon LLC)
Aug. 1981 Joined Sony Corporation
Sep. 1986 Sony Corporation of America/Director, Tax Department
Apr. 2004 Audit & Supervisory Board Member of Sony Financial Holdings Inc.
Jun. 2004 General Manager, Accounting Department of Sony Corporation
Jun. 2004 Audit & Supervisory Board Member of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.)
Jun. 2006 Auditor of Sony Music Entertainment (Japan) Inc.
Apr. 2007 Senior General Manager, Accounting Division of Sony Corporation
Jun. 2010 Senior Vice President, Corporate Executive, Senior General Manager, Accounting Division of Sony Corporation
Jun. 2013 Director of Sony Financial Holdings Inc.
Jun. 2015 Senior Advisor of Sony Corporation
Mar. 2016 Audit & Supervisory Board Member (Independent) of Nabtesco Corporation (to present)
Jun. 2016 Audit & Supervisory Board Member of DAIO Paper Corporation (to present)

Number of shares of the Company held: 963 shares



Tetsuro Hirai
Audit & Supervisory Board Member (Independent)
(Dec. 19, 1955)

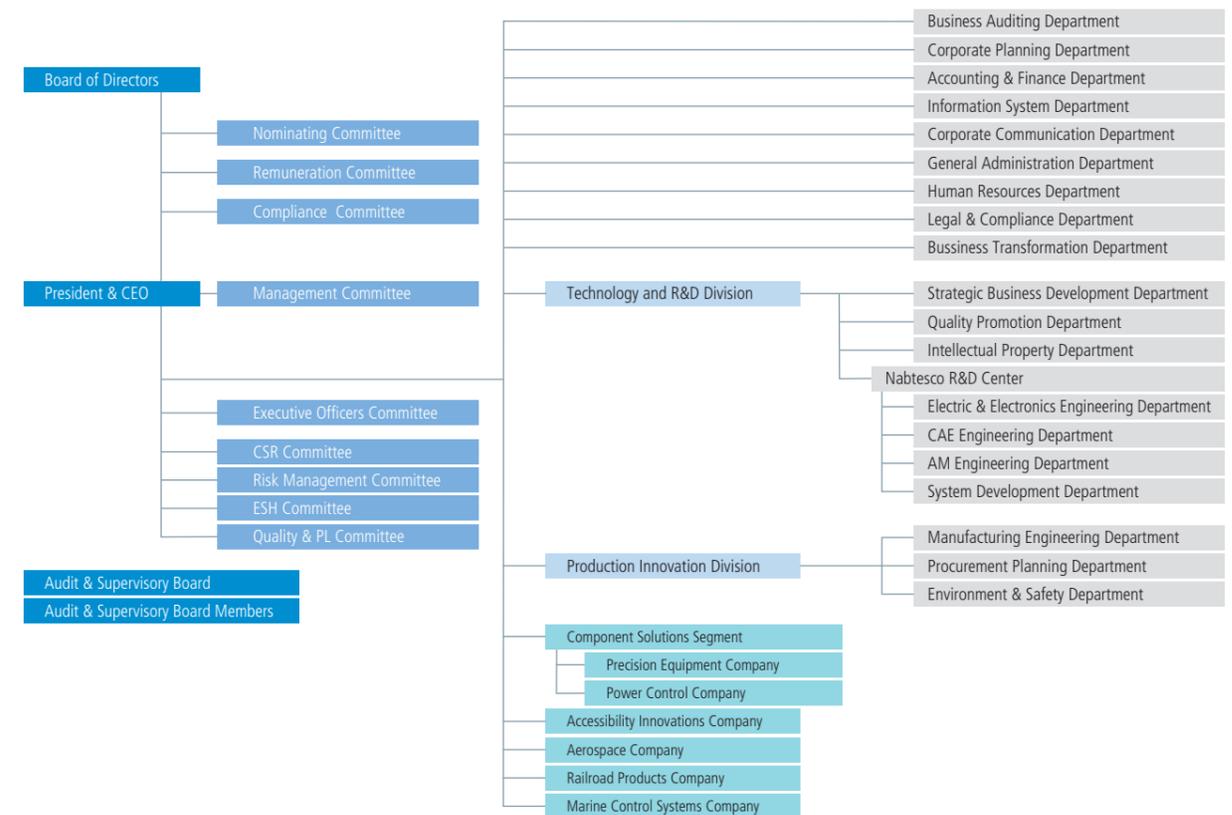
Apr. 1980 Joined Toyota Motor Co., Ltd. (current Toyota Motor Corporation)
Jan. 2006 General Manager, Vehicle Planning Department, Global Strategic Production Planning Division and Project General Manager of China Division of Toyota Motor Corporation
Jan. 2008 General Manager, Machinery Division, Motomachi Plant of Toyota Motor Corporation
Jun. 2010 Executive Officer of Toyota Tsusho Corporation
Jun. 2011 Managing Executive Officer of Toyota Tsusho Corporation
Apr. 2018 Technical Supervisor of Toyota Tsusho Corporation
Mar. 2019 Audit & Supervisory Board Member (Independent) of Nabtesco Corporation (to present)

Number of shares of the Company held: 0 shares

Executive Officers (as of January 1, 2021)

President	Katsuhiro Teramoto	Chief Executive Officer (CEO)
Senior Managing Executive Officer	Daisuke Hakoda	President, Accessibility Innovations Company
Managing Executive Officer	Shigeru Naoki	President, Railroad Products Company
Managing Executive Officer	Akiyoshi Kitamura	President, PACRAFT Co., Ltd. (Former : Toyo Jidoki Co., Ltd.)
Managing Executive Officer	Atsushi Habe	Corporate Planning, Accounting & Finance, Information Systems, Business Transformation and Corporate Communication
Managing Executive Officer	Shoji Ijuin	General Administration, Human Resources and Legal & Compliance
Managing Executive Officer	Tadashige Eto	President, Marine Control Systems Company
Managing Executive Officer	Kazumasa Kimura	Component Solutions Segment, Senior General Manager, Technology and R&D Division and in charge of Production Innovation
Executive Officer	Kiyoshi Ando	President, Power Control Company
Executive Officer	Norimasa Takagi	President, Aerospace Company
Executive Officer	Koji Nakano	President, Shanghai Nabtesco Hydraulic Co., Ltd.
Executive Officer	Ataru Inoue	President, Nabtesco Automotive Co., Ltd.
Executive Officer	Yukihiro Mizutani	Vice President, Accessibility Innovations Company, and Responsible for Domestic Businesses
Executive Officer	Seiji Takahashi	Vice President, Accessibility Innovations Company, and Responsible for Business Management & Governance
Executive Officer	Toshiya Fujiwara	President, Precision Equipment Company
Executive Officer	Michihito Suzuki	Responsible for technology, Railroad Products Company
Executive Officer	Yasuhiro Nakagawa	General Manager, Production Innovation Division
Executive Officer	Koichi Miyaguchi	Plant Manager, Kobe Plant, Railroad Products Company
Executive Officer	Hiroshi Usui	General Manager, Planning Department, Aerospace Company
Executive Officer	Masakazu Kurita	Responsible for production, Plant Manager, Tsu Plant and Project Leader, Hamamatsu Plant construction project, Precision Equipment Company

Management Structure (as of January 1, 2021)



Message from Newly Appointed Directors



Akiyoshi Kitamura

Director
Managing Executive Officer
President, PACRAFT Co., Ltd.
(Former: Toyo Jidoki Co., Ltd.)

Working to establish an autonomous organization for the creation of new businesses

Q What do you particularly focus on as a new director?

I would like to deepen my engagement with the management of the Group to make even a small contribution based on my expertise in a range of businesses, including the packaging and precision reduction gear businesses. In particular, I will focus on nurturing a corporate culture that will promote the creation of new businesses, which I regard as an urgent requirement. Nabtesco has been proactively committed to ensuring corporate governance, for which I think we need

to continuously pursue autonomy by measures such as fostering empowerment. To this end, it is important to help each employee understand the related systems and further raise their awareness across the Group.

Q What challenges should be met for Nabtesco to further increase its corporate value?

Presently, we should give first priority to creating a new business as soon as possible, for which the management team needs to demonstrate leadership by expanding their engagement in business beyond the conventional business domains. If top executives communicate their ideas with enthusiasm to employees, it will naturally help

increase their engagement. Nabtesco is a manufacturer, and its predecessor companies played an important part in fostering the growth of Japanese industries. The company has acquired new technologies and know-how by meeting its customers' needs in a sincere manner. Based on the assets thus accumulated and by making use of tools for digital transformation (DX), Nabtesco needs to make proposals to customers that are unique to the Company and go beyond customers' expectations. To this end, I think it is necessary to make improvements, including giving more discretion to the executive team so that they can embrace even those challenges that entail risks.



Atsushi Habe

Director
Managing Executive Officer, Corporate Planning,
Accounting & Finance, Information Systems, Business
Transformation and Corporate Communication

Demonstrating leadership to foster innovation for survival

Q What challenges is Nabtesco currently facing?

The business environment surrounding our company has undergone tremendous change in line with the progress of a paradigm shift from analogue to digital. We are facing wave after wave of a digital revolution driven by AI and IoT technologies, and there is a growing sense of crisis that we will be unable to survive unless we ourselves foster innovation and change our business formats accordingly. Under such circumstances, we uphold "Innovation in

Action" in our long-term vision for 2030, and accordingly, I will do everything that I can for the launch of new businesses, to which we have long been committed.

Q What do you specifically want to undertake to spur innovation?

I think we should meet two requirements to drive innovation. First, we must build a system to make use of new ideas. For the launch of new business, we need to establish a process to collect and examine ideas internally in addition to fostering CVC investment.

Second, we must increase the diversity of our human resources. Due to the recent trend for work style reform

and also owing to the impact of COVID-19, people's work styles are being increasingly diversified. In order to maintain and increase employees' motivation in such a situation, leaders need to play more significant roles. For the development of innovative leaders who can predict changes, articulate a new business vision and formulate clear strategies for their implementation, we should promote diversity.

I will make my best efforts to implement all possible measures to generate innovation. By searching for and launching new business, we will go beyond achieving the stable growth of our core businesses to soar to new heights.



Naoki Hidaka

Outside Director

Contributing to Nabtesco's globalization based on experience gained at a general trading firm

Q Please share your present impression of Nabtesco.

Nabtesco is an excellent manufacturer with world-class technologies and products and boasts an outstanding market share for its products as a market leader. Nabtesco also makes significant contributions to society by supplying important components for the control of motion. I expect that the company will foster a shift from being a product supplier to an added-value supplier.

Q What do you see as your mission as an outside director?

I have engaged in the transport equipment and construction machinery businesses as a representative director of Sumitomo Corporation. Based on the experience I gained through dealing with products that "move," just like the equipment that Nabtesco targets in its business, I would like to participate proactively in discussions as a member of the Board of Directors. Also, I would like to utilize my experience of engaging in business outside Japan for 16 years for the global activities of Nabtesco. I also regard it as my role to make use of the network that I built up while working for the trading company to help Nabtesco increase its market presence.

Q Please describe your impression of Nabtesco's long-term vision and your expectations for the company.

Nabtesco aims to lead innovation in the market, evolving from a supplier of components. It really is quite an ambitious vision but is one that is suitable for this stage, in which you are required to set lofty targets in response to major changes in conventional ideas about the market, thereby sparking changes and growth from inside the company.

Management Materiality

Countermeasures for Climate Change

Why Important?

Without the Earth and the natural environment it provides, companies would be unable to continue their business. Based on this recognition, the Nabtesco Group is proactively promoting decarbonization in its management, deeming it its duty to address the issue of climate change for the benefit of future generations. Currently we are reviewing our long-term CO₂ emissions reduction target for FY2050 as part of our effort to speed up our anti-climate change measures. We will work to reduce the CO₂ emissions of the entire Group in a steady manner, while also promoting decarbonization across our supply chain.

Mitigation of Climate Change

Countermeasures for Climate Change

The Nabtesco Group is fostering greenhouse gas emissions reduction and energy conservation activities as countermeasures for climate change based on the Group's management materiality.

We have introduced the energy conservation activity commendation program, energy-saving product certification system, achievement of positive environmental contribution and other environment-related incentive systems. Moreover, we are utilizing the Nabtesco Energy Management System (NEMS) to monitor the entire Group's energy conservation activities and results in a quantitative manner for the steady reduction of greenhouse gas emissions.

In November 2016, the Paris Agreement¹ came into effect as an international framework to deal with climate change in and after 2020, with the "2 degrees Celsius target" being set as a global target to be pursued under the agreement. Based on this target, the Nabtesco Group set its own long-term greenhouse gas emissions reduction target and had it approved by SBT². The Nabtesco Group is strongly committed to contributing to such international frameworks and we are now formulating a new long-term reduction target in line with the "1.5 degrees Celsius target."

The Nabtesco Group supports the initiative implemented by CDP³ of the UK to reduce the impacts of climate change

and greenhouse gas emissions. Accordingly, since FY2010, we have been disclosing our climate change-related strategies and amount of GHG emissions to increase the transparency of our measures. From FY2016 to FY2020, we were granted the highest rating from CDP by being included in its "Climate Change A List." We were also selected to be among the "Supplier Engagement Leaders" in FY2018 and FY2020. Moreover, we expressed our support for the recommendations made to the Financial Stability Board (FSB)⁴ by the Task Force on Climate-related Financial Disclosures (TCFD)⁵ and are taking relevant measures. In line with the progress of these measures, we will disclose more climate change-related information in accordance with the TCFD's recommendations.

^{*1} An international treaty to curb climate change beyond 2020, which was adopted by multiple nations on December 12, 2015 in Paris, following the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21). Under this agreement, the 2 degrees Celsius target was set as an international target to keep the average rise in global temperature to less than 2 degrees Celsius above preindustrial levels. Also, the 1.5 degrees Celsius target was set to encourage the parties to pursue efforts to limit the temperature rise to 1.5 degrees Celsius.

^{*2} The Science Based Targets (SBT) is a framework that encourages companies to set their medium-term targets (for five to 15 years ahead) at a level that will enable achievement of the 2 degrees Celsius target. Such targets are certified following a screening by the SBT initiative.

^{*3} The CDP is an international non-profit organization. It urges companies that boast the world's top-ranked total market value to disclose their climate change strategies and greenhouse gas emissions levels. Based on the information disclosed, the CDP annually evaluates the companies and announces their scores to the public.

^{*4} A body consisting of central banks in major countries, financial regulatory authorities and other principal institutions. The FSB acts as a facilitator of cooperation among authorities that take measures against vulnerabilities in and stabilization of financial systems.

^{*5} Established in December 2015 by FSB. The TCFD recommends that companies analyze the risks and opportunities associated with climate change and reflect the results in their financial information.

Measures Addressing Climate Change Issues

Category	-2010	2011	2012	2013	2014	2015	2016-
Activity to increase employees' awareness of environmental philosophy	2005: Formulated the Environmental Philosophy and Environmental Action Plan		Setting of environment-related incentive system ● Introduced the energy conservation activity commendation program ● Introduced the energy-saving product certification system			Achievement of positive environmental contribution	Introduced in-house company evaluation index Achievement of positive environmental contribution
Environmental Management	2003: Six plants operated NEMS by major Group companies have become ISO 14001 certified			Tools for managing environmental information		NEMS (Nabtesco Energy Management) Energy conservation guidelines Energy monitoring system	
Expansion of target scope	2004: Started calculation of Scope 1 and 2	Third-party verification of Scope 1 and 2 emissions	Calculation of Scope 3 emissions			Third-party verification of calculation of Scope 3 emissions	
Cooperation with suppliers and customers						● Improving logistics efficiency using Scope 3 data ● Started Environmental Self Assessment Questionnaire (SAQ)	

Governance

Nabtesco Corporation's Board of Directors determines and supervises our strategies, basic policies and the execution of important operations by sharing information through reports on important issues. Regarding climate change, a director in charge of environmental security reports on the progress toward the CO₂ emission reduction targets and the status of major environmental facility investments.

Under the guidance of and supervision by the Board of Directors, the President and CEO establishes the Nabtesco Group's environmental philosophy, environmental action plan and long-term targets. At the Executive Officers Committee (composed of the CEO and executive officers), the director in charge of environmental security reports the status of CO₂ emissions at our companies and main Group companies. If there is a gap between the current status and the goal, we identify the causes and take measures accordingly. If any item under discussion or report is deemed to affect our business, the CEO determines appropriate measures and reflects them in our business strategies.

As a promoting organization under the direct control of the CEO that is involved in ESH management, Nabtesco has established the Group ESH Committee with jurisdiction over the entire Nabtesco Group. The CEO appoints the chairperson and members of the Group ESH Committee from our officers, including members of the Board of Directors. The chairperson of the Group ESH Committee collects important information on the environment, safety and health, including climate change-related risks and opportunities, from our companies and Group companies. The chairperson also visits each site to carry out ESH audits and company-wide energy conservation meetings, etc. The Group ESH Committee uses the results of this monitoring to evaluate importance and deliberate measures for any issues deemed to be important.

Strategies

When the result of the audits by the Group ESH Committee shows that any issues (risks or opportunities) associated with climate change have an important effect on our business, they are reflected in our business strategies by the determination of the CEO.

In the future, the following risks are anticipated depending on requests from the market or customers: increase of carbon prices, increase of operating costs due to the purchase of electricity from renewable sources, increase of capital expenditures for the introduction of power generation equipment, etc., using renewable resources and the increase of R&D costs for energy-saving product development. There are also physical risks such as business interruption due to damaged infrastructure or unstable electric power supply caused by wind or water disaster.

On the other hand, the enactment of new laws and regulations, including those to make energy-efficiency labeling mandatory, is expected to provide new business opportunities. Also, the need to prolong product lives for CO₂ emissions reduction will increase in line with growing

public awareness of climate change, which will in turn expand opportunities for our MRO business.

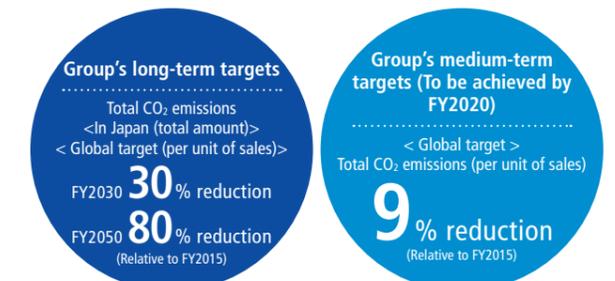
Going forward, Nabtesco Corporation will continue to strive to identify risks and opportunities associated with the environment and make efforts to take measures to address the risks and realize the opportunities, including the further promotion of energy conservation activities.

Indicators and targets

In FY2016, the Nabtesco Group set long-term greenhouse gas emissions targets toward FY2050. Specifically, we aim to reduce (1) CO₂ emissions by our Group companies in Japan and (2) CO₂ emissions relative to sales (per unit of sales) from global production activities, including emissions from our overseas sites, by 30% by FY2030 and by 80% by FY2050 compared to FY2015 levels. Moreover, the long-term target for the reduction of CO₂ emissions from Nabtesco Corporation, which is included in (1) above, has been approved by the SBT Initiative.

We had also set medium-term targets for FY2020. Specifically, we aimed to reduce our domestic CO₂ emissions to a level below that of FY2015 and to lower our emissions per unit of global sales by 9% or more, in light of the anticipated increase in production volume and reinforcement of plants and equipment in line with the expected future growth of our operations.

In addition, we have begun to expand activities from our company alone to our suppliers as well. Of the greenhouse gas emissions from the entire supply chain, the percentage of emissions from purchased goods and services (category 1 of Scope 3 emissions) is high, making it essential for our suppliers to take initiatives to reduce their greenhouse gas emissions. In response, we began a survey of our main suppliers (top suppliers that constitute 70% of the annual amount of purchases) to see whether they have set voluntary targets to reduce their greenhouse gas emissions. According to the results of the FY2020 survey, 59.4% of our main suppliers have set voluntary targets to reduce their greenhouse gas emissions and begun to take initiatives to achieve the targets. We will provide support so that all of our main suppliers will set voluntary reduction targets by 2025.



* Achieved in FY2019 and FY2020

Striving for Harmony with Global Environment
Combating Climate Change
<https://nabtesco.disclosure.site/en/themes/126>

FY2020 Targets and Results

Thanks to energy conservation activities and the introduction of solar power generation, the Nabtesco Group achieved a significant reduction in domestic CO₂ emissions in FY2020. In FY2019, we had achieved the medium-term target for FY2020 one year ahead of schedule, and in FY2020 we were able to achieve additional reductions.

In FY2020, as an energy conservation activity, we renovated processing facilities using inverters and replaced air conditioning and lighting equipment with high-efficiency equipment. For CO₂ emissions per unit of sales, we also achieved the medium-term target for FY2020 on a global scale for emissions from both our domestic and overseas sites one year ahead of schedule in FY2019. We achieved even more substantial reductions in FY2020.

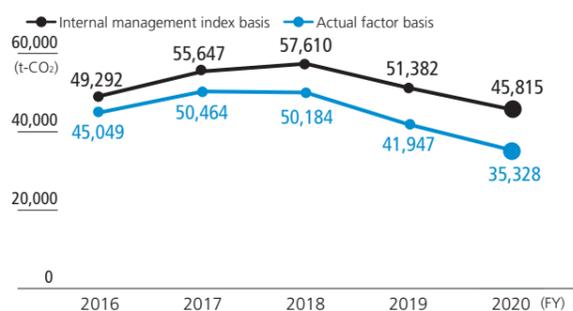
The Nabtesco Group has been fostering energy conservation activities to achieve the long-term reduction targets, including improving the efficiency of its production and air-conditioning equipment and utilizing energy monitoring systems. Although our production volume will further increase in line with our business growth, we make it a rule to make each of our new plants in Japan and overseas at least 40% more energy efficient relative to our existing plants. We will also make use of the energy-saving technologies and know-how adopted for our new plants at our existing plants in and outside Japan, thereby reducing the CO₂ emissions of the Group as a whole.

FY2020 Targets and Results

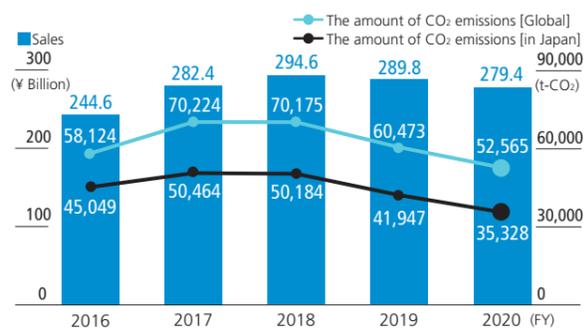
Item	FY2020 target	FY2020 results	Status	Status
Total CO ₂ emissions in Japan (t-CO ₂) ^{*1 *2 *3 *4}	49,154	45,815	Achieved	Achieved
Global CO ₂ emissions per unit of sales	0.218	0.188	Achieved	Achieved

*1 The calculation policy and standards comply with the Act on the Regional Use of Energy and the Act on the Promotion of Global Warming Countermeasures, and are aligned with the internal Guidelines on the Management of Environmental Information.
 *2 The management of the results for the total CO₂ emissions is based on the number derived from the internal management index. The CO₂ conversion factors used to calculate actual results are the FY2008 factors, except the factor for electricity, for which the default value of 0.555 kg-CO₂/kWh is used.
 *3 The calculation period covers January to December 2020.
 *4 The calculation scope includes Nabtesco Corporation and domestic Group Companies (11 companies and 27 sites), which are listed at "Scope of Environment and Other Data."
 *5 The CO₂ conversion index published by the Ministry of the Environment for each industry is used as the actual emission factor.
 *6 The calculation scope includes Nabtesco Corporation and Group companies both in and outside Japan (23 companies and 39 sites), which are listed at "Scope of Environment and Other Data." (<https://nabtesco.disclosure.site/en/themes/148>)

CO₂ Emissions [in Japan]



CO₂ Emissions [Global]

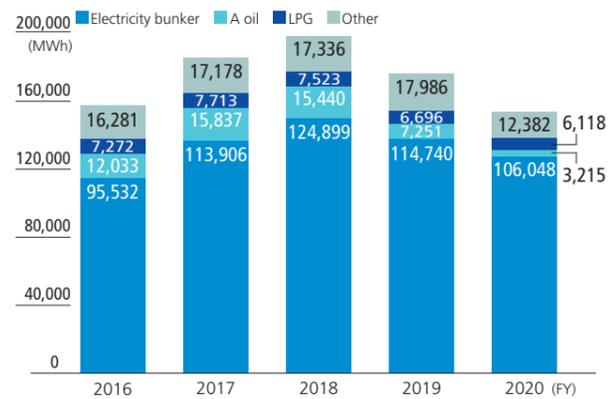


Reduction in Energy Consumption

The Nabtesco Group strives to reduce its energy consumption. We are continuously working to conserve energy and replace existing equipment with energy-saving alternatives. We have also installed electricity meters in our energy-heavy production facilities to monitor excessive use of electricity and standby power, repair equipment and improve operational methods.

We have also visualized our energy consumption by introducing a monitoring system, which permits us to monitor our energy consumption on a real-time basis.

Energy Consumption (Global)



Renewable Energy

The Nabtesco Group is promoting the use of renewable energy equipment at its facilities. First introduced to the Tarui Plant (Gifu Prefecture) in 2012, solar power generation facilities began operating at the Tsu Plant (Mie Prefecture) and the Kobe Plant (Hyogo Prefecture) in 2016, at the Gifu Plant (Gifu Prefecture) and a precision reduction



Solar panels installed at the Tsu Plant

gear plant of a Group company in China in 2017, at PACRAFT Co., Ltd. (Former: Toyo Jidoki Co., Ltd.) (Yamaguchi Prefecture) and Nabtesco Service Co., Ltd. (Kanagawa Prefecture) in 2018, and in 2019, a second system was introduced at both the Tsu Plant (Mie Prefecture) and the Gifu Plant (Gifu Prefecture). In 2020, the third system started operation at the Tsu Plant.

The Nabtesco Group will continue its proactive measures to promote the use of renewable energy in the future.



Solar panels installed at the Kobe Plant

Calculation of Scope 3 emissions

The Nabtesco Group began to calculate greenhouse gas emissions from the entire supply chain in FY2013 with a view to identifying and effectively reducing the environmental impact of our business activities as a whole. The table on the top right shows the calculation results of past four years.

Scope 3 Emissions (FY2020)

Category	Emissions (t-CO ₂)	Rate	Remarks
1 Purchased goods and services	630,758	76.95%	
2 Capital goods	30,543	3.73%	
3 Fuel- and energy-related activities	5,194	0.63%	
4 Upstream transportation and distribution	127,131	15.51%	
5 Waste generated in operations	959	0.12%	
6 Business travel	1,290	0.16%	
7 Employee commuting	1,472	0.18%	
8 Upstream leased assets	—		N/A (No corresponding leased assets)
9 Downstream transportation and distribution	—		N/A (Completed products transported on consignment are included in Category 4)
10 Processing of sold products	—		N/A (Nabtesco products are completed products and not processed after being sold)
11 Use of sold products	21,621	2.64%	
12 End-of life treatment of sold products	759	0.09%	
13 Downstream leased assets	—		N/A (No corresponding leased assets)
14 Franchises	—		N/A (No corresponding franchises)
15 Investments	—		N/A (No corresponding investments)
Total	819,726	100.00%	

*The Scope 3 calculations for FY2020 were made by the following method and for the following period and scope. Calculation method: As shown in the basic guidelines on the calculation of greenhouse gas emissions from supply chains set by the Ministry of the Environment and the Ministry of Economy, Trade and Industry Targeted period: January 1 to December 31, 2020

Emissions from the Entire Supply Chain

Classification	FY2017	FY2018	FY2019	FY2020
Direct emissions (Scope 1) ^{*1 *2}	8,686	8,781	6,599	4,483
Indirect emissions through the use of electricity and others (Scope 2) ^{*1 *2}	61,538	61,395	53,874	48,073
Emissions from the supply chain (Scope 3) ^{*3}	871,463	979,097	940,976	819,726

The Scope 3 Emissions (FY2020) table below shows our breakdown. "Purchased goods and services" (category 1) accounts for the largest percentage of 77.0%, followed by "Upstream transportation and distribution" (category 4) at 15.5%.

The Nabtesco Group will continue to identify and reduce greenhouse gas emissions from our entire supply chain. In order to ensure the reliability of the calculation results, we had them verified by a third party, Lloyd's Register Quality Assurance Limited.

*1 The calculation scope includes Nabtesco Corporation and Japanese and overseas consolidated subsidiaries (23 companies and 39 sites).
 *2 The calculation policy and standards comply with the Act on the Regional Use of Energy and the Act on the Promotion of Global Warming Countermeasures, and are aligned with the internal Guidelines on the Management of Environmental Information.
 *3 The calculation scope includes Nabtesco Corporation only.
 *4 Scope of Environment and Other Data: <https://nabtesco.disclosure.site/en/themes/148>

Management Materiality

Deliver Solutions for Social Challenges Through Business

Why Important? Nabtesco has been meeting the various needs of customers to supply products that have high public value. Moreover, we uphold the long-term vision “Leaders in Innovation for the Future.” To achieve this vision, we will foster the research and development of even more environment-friendly products to be more needed by society as a corporation that contributes to solving social issues.

Mitigation of Environmental Impact through Products and Services

Certification System for Energy-Saving Products

We established this certification system to foster the research and the development of energy-saving products in order to promote environmental protection and the development of a sustainable society. Through this system we are contributing to the mitigation of global warming while increasing the environmental awareness of our employees.

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

In FY2020, we certified the “RV-Z/ZC” precision reduction gear series provided by the Precision Equipment Company and the “TT-8A2” dry packaging machine from PACRAFT Co., Ltd. (former Toyo Jidoki Co., Ltd.) as energy-saving products. For the “RV-Z/ZC” precision reduction gears, the mass per unit of rigidity has been reduced relative to conventional reduction gears to cut energy consumption by downsizing and weight reduction. For the “TT-8A2” dry packaging machine, its installation footprint has been reduced by 15.5% compared with that of conventional products. In addition to downsizing and weight reduction, the production capacity of the machine has also been increased by at least two to up to four times. The product is thus more energy efficient while being

● Criteria set for energy-saving products

Downsizing and weight reduction	Higher efficiency and smaller loss	Longer life	Non-use of hazardous substances
15% or more relative to conventional products	15% or more relative to conventional products	20% or more relative to conventional products	Not used

● Products certified in FY2020

Product name	Criterion			
	Downsizing and weight reduction	Higher efficiency and smaller loss	Longer life	Non-use of hazardous substances
“RV-Z/ZC” precision reduction gear series	Reduction in mass per unit of rigidity	On par with conventional products	On par with conventional products	Not used
“TT-8A2” dry packaging machine	15.5% reduction in installation footprint	Doubled to quadrupled productivity	On par with conventional products	Not used

highly productive.

The Nabtesco Group will further develop its technology for precise motion control, thereby contributing to mitigating climate change.

Product Life Cycle Assessment (LCA)

Our products, which are used in a range of fields, have an impact on the environment throughout their life cycle. We quantify their environmental impact for each of their life cycle stages to implement necessary environmental measures to reduce that impact. As part of this effort, we also disclose the results of LCA*, as shown below. Moreover, as a means to identify the sources of environmental impact existing in relation to our products and systems and the improvements that we can make to reduce the impact, we assess the environmental impact of the major products of Nabtesco (non-consolidated) on global warming (in terms of CO₂ emissions and the use of fossil fuels) at each of the stages from the procurement of materials through to the disposal and recycling of the products. As for raw materials wasted in our manufacturing process and hazardous substances contained in our products, the amount is very limited in both cases, and only a minimum amount of water is used at the procurement, manufacturing, transportation and use

● Outline of LCA

Purpose	Identification of sources and improvements that can be made regarding the environmental burdens of products and systems
Product scope	Major products (in Nabtesco Corporation)
Assessment method	Assessing environmental issues, i.e., the impact on global warming (CO ₂ emissions)
Usage of assessment results	Utilized in the design of future products
System scope	From domestic procurement to disposal and recycling

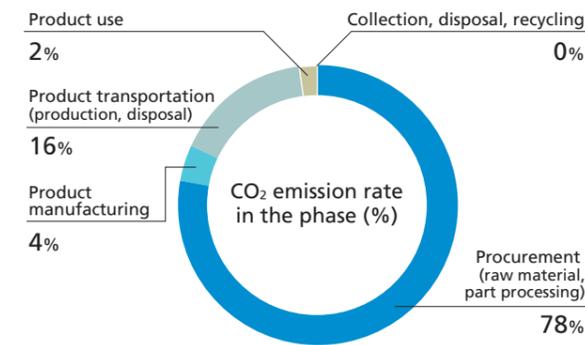
stages of our products.

Concerning our products, emissions of air pollutants other than CO₂ are very small relative to CO₂ emissions and can therefore be excluded from the target of LCA. We consequently assess the life cycle impact of our products targeting only CO₂ emissions (and the use of fossil fuels) and deem this as the “full LCA” of our products. The

Nabtesco Group is thus developing products based on the criteria set in consideration of the environmental impact of its products.

*A method of quantifiably estimating and assessing the resources and energy used by products and the environmental burdens imposed by products, across the life cycle, including raw material procurement, manufacturing, use, recycling and eventual disposal. It also assesses the potential environmental impact of products.

● CO₂ emission rate in the phase



LCA Results

Nabtesco works to develop environment-friendly products in consideration of their CO₂ emission risks for each of their LCA stages. In the precision reduction gear and hydraulic equipment businesses, we work to reduce the weight and increase the recyclability of our products in view of the high CO₂ emission risks posed by materials used in the products. In the automatic door business, we strive to reduce the power consumption and opening/closing frequency of our products, which tend to create large amounts of CO₂ emissions in their use stage.

● Results of LCA and the direction of product development

Product category	CO ₂ emission risks in phases				Product development orientation
	Raw Materials	Manufacturing	Use	Disposal	
Precision Reduction Gear Business ● Precision Reduction Gears: RV Component Type ● Gear Head Type ● Gear Head Type (Table Type)	High	Low	—	Low	Weight reduction, rigidity improvement, recycling
Hydraulic Equipment Business ● Traveling Unit for Crawlers ● Control Valve for Mini Excavators ● Swing Unit for Hydraulic Excavators	High	Low	—	Low	Weight reduction, recycling
Aircraft Equipment Business ● Flight Control Actuation System ● High Voltage Electric Power Distribution Unit	Middle	Low	—	Low	Weight reduction, MRO
Railroad Vehicle Equipment Business ● Unit Brakes ● Brake Operating Units for Railroad Vehicles ● Door Operators for Railroad Vehicles	Middle	Low	—	Low	Weight reduction, MRO
Marine Vessel Equipment Business ● Main Engine Remote Control System (M-800-V) ● Electronically Controlled Hydraulic Valves ● GAP Sensors	Middle	Low	—	Low	Weight reduction, MRO
Automatic Door Business ● Automatic Doors ● Automatic Platform Doors ● Automatic Platform Screen Doors	Low	Low	High	Low	Energy saving, reduction in the opening/closing frequency

Management Materiality

Build a Resilient Supply Chain

Why Important? We at the Nabtesco Group have been pursuing collaboration with suppliers with the aim of strengthening our comprehensive procurement capabilities from the perspectives of sustainability, including QCDS and technological development. In order to achieve medium- to long-term growth for the Group, it is essential to secure a sustainable supply chain. In 2020, we revised the Nabtesco Group's CSR-Oriented Procurement Policy. We will continue to enhance our measures to prevent the materialization of our supply chain-related risks, which are becoming more complex and diversified.

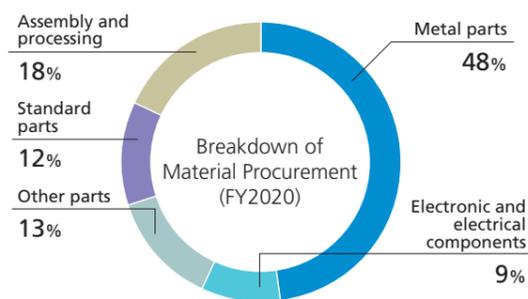
Nabtesco Group's Procurement Activities

Fundamental Approach for Proper, Fair and Transparent Procurement Activities

The Nabtesco Group conducts business with about 1,500 suppliers of various types, centering around the purchase of metal parts, and electronic and electrical components, outsourced machining, assembly and processing. Our business with suppliers is an important factor that affects the Nabtesco Group's cost structure and QCDS performance. It is indispensable to secure the supply chain continuously in order to achieve medium- to long-term growth. Therefore, we develop collaboration systems through proper, fair and transparent business transactions based on the proper cost structure and close partnerships with suppliers.

Also, we are well aware of the importance of meeting the demands and expectations of society regarding social and environmental impacts of activities in our supply chain. By developing mutual trust relationships with suppliers through fair, proper and transparent transactions, we are committed to meeting our social responsibilities not just through the efforts of the Nabtesco Group alone but with the cooperation of the entire supply chain, placing emphasis on local procurement and local employment.

Material Procurement in Japan



The Nabtesco Group's CSR-Oriented Procurement Promotion System

We at the Nabtesco Group have been pursuing collaboration with suppliers with the aim of strengthening our comprehensive procurement capabilities from the perspectives of sustainability, including QCDS and technological development. In order to achieve medium- to long-term growth for the Group, it is essential to secure a sustainable supply chain. To this end, we are promoting proper, fair and transparent procurement activities.

In order to promote CSR-oriented procurement, we need to have expertise and know-how on environment- and human rights-related issues, which are not conventionally handled by procurement departments. Therefore, the Procurement Planning Department of the Production Innovation Division, in collaboration with the head office departments, plays a central role in promoting CSR-oriented procurement, including supporting the activities conducted to this end by the in-house companies and Group companies. The Procurement Planning Department discusses and decides on the related policies and measures at the Group Procurement Meeting held with the participation of the procurement departments of each in-house and Group company, providing education and training for procurement managers. Through these Group-

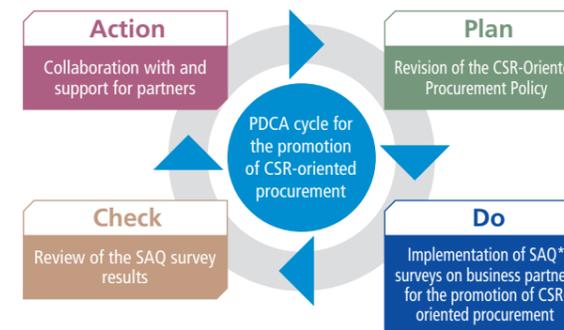
Promotion Framework for CSR-Oriented Procurement



wide efforts, we endeavor to fulfill our social responsibility throughout the supply chain in cooperation with our suppliers.

Nabtesco Group's CSR-Oriented Procurement Policy

The Nabtesco Group formulated the Nabtesco Group's CSR-Oriented Procurement Policy in 2014 and has since been fostering CSR-oriented procurement to solve ESG issues related to its supply chain. In December 2020, we revised the policy in light of the need to enhance collaboration across our supply chain and in response to a rise in social demand for the solution of supply chain-related ESG issues. In order to meet such demand by preventing the materialization of risks related to our supply chain, which are becoming increasingly complex and diversified, we reviewed the items included in the policy and revised it to clarify what we expect all business partners in our supply chain to understand and implement. Based on this revised policy, we will execute a PDCA cycle and foster communication with our partners on a continual basis for the promotion of CSR-oriented procurement.



*Self-Assessment Questionnaire (SAQ)

CSR Procurement in Collaboration with Suppliers

Organization of Briefing Sessions for Suppliers

Since FY2014, we have been holding briefing sessions on the Nabtesco Group's procurement policy with a view to promoting awareness and understanding of this policy among our suppliers. In our effort to promote CSR-oriented procurement across the Group, we ask for an understanding of the policy from new suppliers and enhance our partnerships with existing suppliers.

In 2021, due to the impact of COVID-19, we held the briefing sessions online and a total of around 350 suppliers participated in the sessions held at five of our sites.

Number of suppliers participating in the briefing sessions

2019 (Results)	2020 (Results)	2021 (Preliminary results)
Approx. 600 (Offline session)	Approx. 180	Approx. 350 (Mainly online)

Implementation of Self-Assessment Questionnaire (SAQ) to Suppliers

The Nabtesco Group identifies the important suppliers for our business sustainability based on their trade volume, QCDS performance, technical development capability, financial health and other factors. To enhance our CSR-oriented procurement, we have implemented SAQ for the primary suppliers, including key suppliers in and outside Japan every year.

Following the revision of the CSR-Oriented Procurement Policy in December 2020, we also renewed our SAQ form by using the standard questionnaire form created by the Global Compact Network Japan (GCNJ) as an SAQ template to be shared by its members, including Nabtesco. By using this template, we reduced the burden imposed on suppliers requested to answer the SAQ, while also updating the questions by adopting the standard questions prepared by the GCNJ and adding items from the Nabtesco Group's CSR-Oriented Procurement Policy that were not included in the template.

In FY2020, we conducted the SAQ survey on our primary suppliers (about 890 companies) and received replies from 65% of those targeted (81% in the previous survey). The response rate was 83% for our 100 major suppliers accounting for about 70% of our procurement in terms of transaction amount (76% previously) and was 78% for 200 of the targeted suppliers (73% previously). We analyzed and evaluated the questionnaire results for each supplier and gave relevant feedback to them. In addition, we have been continuously monitoring and dealing with the risks identified through the survey.

Results of the SAQ conducted on primary suppliers (national average)



In FY2021, we will start conducting CSR audits also on our secondary suppliers via our major suppliers. Following the revision of the CSR-Oriented Procurement Policy, we plan to add items related to human rights and environmental due diligence to the audit items. As part of the audits, our major suppliers will conduct individual interviews with secondary suppliers who do not respond to the SAQ as well as those whose SAQ score was low. In addition, a collective briefing session will be held for all targeted suppliers to provide education on CSR-related issues. As for greenhouse gas emissions reduction

targets and emissions monitoring, rather than focusing solely on emissions produced by the company itself, the Procurement Planning Department and the Environment & Safety Department of the Production Innovation Division are jointly conducting awareness-raising activities to reduce SBT Scope 3 emissions across the supply chain. We expect all our major suppliers, who collectively account for 70% of our procurement costs, to conduct this auditing activity by 2025.

Partnership with Suppliers

The Nabtesco Group is proactively helping suppliers increase their productivity. We give instructions to help them improve their quality management for the products to be manufactured and delivered to us, including improvements to ensure compliance with work standards and eliminate human error factors and defective products. We also help suppliers to conduct 5S activities on a regular basis at their plants. Furthermore, we provide suppliers with training on how to use the value engineering (VE) method to perform functional analyses of their products and daily operations to increase their productivity.

Declaration of Partnership Building

In June 2020, we addressed the Declaration of Partnership Building. The Declaration of Partnership Building is an initiative introduced by the Council on Promoting Partnership Building for Cultivating the Future, which comprises representatives of the economic and business communities as well as related cabinet ministers. The initiative is supported and promoted by the Cabinet Office and the Small and Medium Enterprise Agency. Through the declaration, the Nabtesco Group shows our commitment to achieving shared prosperity and sustainable growth together with our suppliers.



Declaration of Partnership Building logo

Nabtesco Group's BCP Activities

Expansion of BCP Activities to Include Suppliers

The Nabtesco Group is working to enhance its Business Continuity Power (BCP)* by preparing for emergencies, such as the suspension of operations at its sites due to damage caused by a disaster. Recognizing the potential risk to ourselves if a supplier suffers from a disaster, we are also accelerating our measures to assist our suppliers with enhancing their own BCP.

Since the BCP awareness-raising seminar that we held for suppliers in 2018, we have been providing our suppliers with a range of training opportunities to support them in formulating their business continuity plans and acquiring practical BCP skills, thereby enhancing BCP across our suppliers. For suppliers that we prioritize for BCP, we provide individual support in enhancing their BCP, thereby reducing procurement risks posed to the Nabtesco Group.

We have thus been supporting the BCP of our suppliers since before the July 2019 enactment of the law to increase the resilience (business continuity capability) of small and medium enterprises. Our BCP support activities have attracted the attention of the Ministry of Economy, Trade and Industry, the Small and Medium Enterprise Agency and related local governments and have been shared as model examples. We have thus also contributed to increasing the public awareness of BCP. Moreover, in order to accelerate our BCP support to suppliers, we have established a unique position ("BCP buyer") within our procurement team and have already trained 13 people in this role.

* BCP usually stands for "Business Continuity Plan." For Nabtesco, however, BCP stands for "Business Continuity Power," and we are striving to enhance the BCP of our organizations and increase our capability to mount effective responses to a crisis.

Launch of Measures to Increase Resilience of Major Suppliers

The Nabtesco Group is proactively conducting BCP activities on a group-wide basis to enhance its BCP and has acquired Resilience Certification for its 10 major business sites in Japan.

Resilience Certification is awarded under the certification system implemented by the national government based on the basic law on national resilience. It is granted to enterprises that are steadily increasing their ability to resume their business operations promptly after crises such as disasters. The Nabtesco Group has expanded the target of its activities to acquire the certification to include its major suppliers, with an eye to further reducing its procurement risks and enhancing the overall resilience of its supply chain. The number of suppliers who have acquired the certification totals seven as of the end of 2020, but will steadily increase by three in 2021, by five in 2022 and again by five in 2023.

Moreover, we expect that the suppliers who have acquired the certification will lead BCP activities in the local areas surrounding their sites to make contributions to their local communities and to the solution of social issues.

The Nabtesco Group will go forward with BCP measures in line with the features of its own sites and local communities, regarding it as one of its material management issues to build a resilient supply chain that can respond quickly to disasters.

PACRAFT's BCP Activities and Measures to Support Its Suppliers

PACRAFT Co., Ltd. (former Toyo Jidoki Co., Ltd.) is a Nabtesco Group company that serves as a BCP leader for the entire Nabtesco Group. The company is conducting BCP activities targeting its supply chain, with its Iwakuni Plant playing a central role for the activities. PACRAFT boasts a roughly 85% share of the domestic market in packaging machines for retort pouch foods, which is one of its major product items. The company launched its BCP activities in 2013, deeming BCP a management priority in view of its responsibilities as the top supplier, and has since been focusing on increasing the effectiveness of the activities.

PACRAFT has identified the following two key requirements to be met to ensure its business continuity: (1) ability to promptly transfer production from the Iwakuni Plant to a substitute plant in the event that the plant suffers a serious disaster and (2) ability to receive at all times the delivery of necessary components from its major suppliers.

In 2018, in recognition of the effectiveness of its BCP, PACRAFT became the first company in Yamaguchi Prefecture to acquire Resilience Certification. It also started support activities for suppliers, whom it regards as business partners, on a full scale in the same year. In addition to increasing the number of plants to which production could be transferred in the event of an emergency at the Iwakuni Plant, PACRAFT has included measures to deal with a potential Nankai Trough earthquake, which is deemed a future risk, for the full-scale launch of its BCP support activities.

By applying its experience and expertise, the company has been supporting 31 suppliers in their

efforts to acquire Resilience Certification, and three have already done so. It will continue its efforts to further increase the number of suppliers having the certification.

BCP Activities Conducted by Miyahara Co., Ltd., One of PACRAFT's Suppliers

In the following we will introduce the BCP activities conducted by Miyahara, one of PACRAFT's partner companies, to show how PACRAFT assists its partners with BCP activities.

PACRAFT annually places about 14,000 orders—a relatively large amount—with Miyahara for sheet metal processed products, including important components that have no substitutes. The supplier is also designated as one of the sites to which production might be transferred from the Iwakuni Plant in the event that its operation is suspended. Miyahara is therefore one of PACRAFT's indispensable partners.

Supported by the Nabtesco Group, Miyahara started its BCP activities in 2018 and established an emergency communication system and procedures. By providing employees with substantial education and training and making improvements to deal with the identified issues, while at the same time fostering prompt decision-making and information-sharing, the company finally acquired Resilience Certification at the end of 2020. PACRAFT will continue to support Miyahara, whose president is committed to making BCP a part of the company's corporate culture, and will develop a win-win relationship with the supplier.



"Thanks to support from the Nabtesco Group, we were able to acquire the Resilience Certification."
President Matsubara and project members of Miyahara Co., Ltd.

Ensure Management Transparency

Why Important? For a company to increase its corporate value in a sustainable manner as a trusted corporate member of society, it is essential to ensure the transparency of its management. We recognize this in The Nabtesco Way, which calls on us to "Ensure Transparency: Be open, fair and honest" and to "Hold a High Work Ethic: Make individual conscientious effort." The Nabtesco Group thus conducts its business activities on the premise of high levels of management transparency and high ethical standards. On this basis, we are committed to enhancing our corporate governance, risk management and compliance.

Strengthen Corporate Governance

Compensation System for Directors

◆ Basic policy on the compensation system

- By linking compensation more with performance and stock value, ensure that shareholders and management can share profit and risk.
- Make the system function as an incentive to improve the medium- to long-term performance.
- Determine compensation for directors through a highly objective and transparent process.

◆ Method for determining compensation

For compensation for Directors, the Remuneration Committee deliberates on the upper limits approved at the general meeting of shareholders and reports the results to the Board of Directors for the final decision of the amount. For compensation for Audit & Supervisory Board Members, the amount is decided through discussions with Audit & Supervisory Board Members.

◆ Structure of the compensation system

Compensation to Directors is composed of monthly compensation, comprising fixed basic compensation and short-term performance-linked compensation, and stock compensation based on the degree of achievement of the Medium-term Management Plan as well as share value.

[Basic compensation]

Basic compensation is fixed compensation according to the position of each Director and is paid as monthly compensation.

[Performance-linked compensation (Monthly compensation)]

The amount of performance-linked compensation (monthly compensation) to be paid is determined according to the following formula, based on the degree of achievement of annual results.

[Short-term performance-linked compensation]

Short-term performance-linked compensation = Standard payment amount by position × Performance evaluation coefficient

* Performance evaluation coefficient: Determined by a matrix table using ROIC and profit (attributable to owners of the parent) for the previous fiscal year within a certain threshold as indicators (coefficient: 0.00 – 3.00)

For Directors in charge of internal companies, short-term performance-linked compensation is adjusted based on factors including the net sales growth rate, degree of improvement of operating income, degree of ROIC improvement, R&D indicators and environmental indicators of the relevant companies.

[Stock Compensation]

Stock compensation is paid using the Board Benefit Trust (BBT) mechanism, and the amount of payment is determined according to the following formula, based on the degree of achievement of the Medium-term Management Plan.

[Tenure grant-type stock compensation]

Tenure grant-type stock compensation = Share grant points by position × Performance evaluation coefficient × Medium-term Management Plan achievement coefficient

* Performance evaluation coefficient: Determined by a matrix table using ROIC and profit (attributable to owners of the parent) for the previous fiscal year within a certain threshold as indicators (coefficient: 0.00 – 3.00)

* Medium-term Management Plan achievement coefficient: Set based on the degree of achievement of the net sales and operating income stated in the Medium-term Management Plan (0 – 0.5)

Grant points will be vested on the day of the Annual General Meeting of Shareholders relating to the final fiscal year ending within three years from the awarding of points.

[Retirement grant-type stock compensation]

Retirement grant-type stock compensation = Share grant points by position

Grant points will be vested on the day that the Director retires.

◆ Nabtesco's approach to indicators for performance-linked compensation

The basic indicators for performance-linked compensation paid to Directors (excluding Outside Directors) are ROIC and profit (attributable to owners of the parent), which reflect the fruits of all employee activity and are principal indicators linked to the improvement of ROE.

In this way, the Company encourages all Directors to take note of capital costs and the payout ratio, and promotes management that is mindful of the sustainable growth of the Group. Furthermore, indicators for Directors in charge of businesses have the added functions of incentivizing them to improve performance in the medium- to long-term by including R&D indicators to encourage the creation of intellectual property and environmental indicators showing how much CO₂ emissions were reduced, in addition to management indicators such as the degree of ROIC improvement.

Furthermore, net sales and operating income are

adopted as indicators for the degree of achievement of the Medium-term Management Plan, as they reflect the business activities of all Directors and employees, with the aim of aligning all business activities in one direction.

However, in case of impacts from events not triggered by the Company's management decisions, above indicators may be adjusted.

◆ Composition of compensation

- The composition of Directors' compensation emphasizes the link with performance and shareholder value.
- Compensation, etc., for Outside Directors and Audit & Supervisory Board Members consists only of fixed compensation, with no performance-linked compensation,

as these officers are in a position independent from business execution.

◆ Clawback clause

As a result of having to revise the financial results of past fiscal years due to inappropriate accounting, etc., the Company has stipulated a clawback clause in the internal compensation regulations so as to demand the return of all or part of performance-linked compensation in the event of material revisions in the performance of past fiscal years which was the basis of the calculation of performance-linked compensation, or in the event that the Company incurs material loss due to an officer's wrongful or illegal act.

Position	Fixed compensation		Performance-linked compensation	
	Basic compensation	Short-term performance-linked compensation	Tenure grant-type stock compensation	Retirement grant-type stock compensation
Chairman of the Board/President	30%	30%	20%	20%
Director	35%	30%	20%	15%

Amount of Compensation Paid to Directors (FY2020)

- Total amount of compensation by managerial position, total amount of compensation by type of compensation and number of recipients

Directors/Audit & Supervisory Board Members	Total amount of compensation (¥ Million)	Types of compensation (¥ Million)				Number of Directors and Audit & Supervisory Board Members
		Fixed compensation	Performance-linked compensation		Board Benefit Trust (BBT)	
			Monthly compensation			
Directors (Outside Directors)	320 (37)	178 (37)	69 -	0 -	72 -	12 (5)
Audit & Supervisory Board Members (Audit & Supervisory Board Members (Independent))	78 (24)	78 (24)	- -	- -	- -	6 (3)
Total	397	256	69	0	72	18

(Notes)

1. The "Number of Directors and Audit & Supervisory Board Members" for Directors includes two Directors and an Audit & Supervisory Board Member who retired during the fiscal year under review.
2. Monthly compensation consists of basic compensation and short-term performance-linked compensation paid out in total on a monthly fixed basis.
3. The Board Benefit Trust (BBT) amount is the amount expensed during the fiscal year under review according to J-GAAP, based on the number of share grant points awarded or expected to be awarded during the fiscal year under review.
4. The upper limit on compensation as resolved at the 14th Annual General Meeting of Shareholders (March 28, 2017) is set at ¥400 million per year for Directors (of which ¥50 million is for Outside Directors), and ¥90 million for Audit & Supervisory Board Members.
5. In addition to the compensation amounts stated above, the Company has introduced a Board Benefit Trust (BBT) system for Directors (excluding Outside Directors) as resolved at the 14th Annual General Meeting of Shareholders (March 28, 2017). Based on the Regulations for Provision of Shares to Officers established under this system, the Company is making contributions to the Trust, with upper limits of ¥450 million (for three business years) for the tenure grant, and ¥420 million (for three business years) for the retirement grant, respectively. With regard to this system, upper limits for share grants were set at 56,000 points for the tenure grant (for a single fiscal year) and 51,000 points for the retirement grant (for a single fiscal year) separately from the upper limits on compensation stated in 4. above at the 14th Annual General Meeting of Shareholders (March 28, 2017).

Treatment/Reduction of Cross-Shareholdings

Nabtesco makes it a rule to dispose of cross-holdings of shares that are revealed to have lost their significance as of the end of the most recent fiscal year. In line with this basic policy, the Board of Directors annually makes examinations based on certain criteria about the purpose, benefit and capital cost-based risk of cross-shareholdings to decide whether to continue holding each of the stocks and on the number of shares to be kept.

At the Board meeting held on February 26, 2021, the directors confirmed the appropriateness of keeping the cross-holdings of shares issued by 11 companies (as of the end of FY2020) as a result of examining the significance of

- FY2020 actual performance of principal indicators related to performance-linked compensation

ROIC	Net sales	Operating income	Profit
7.6%	¥289,808 million	¥25,320 million	¥17,931 million

Performance-linked compensation for the fiscal year under review is calculated based on the figures in the financial results as of December 31, 2019.

the cross-holding as well as the economic rationality for each of the stocks. However, the Board also reaffirmed its policy of reducing cross-shareholdings in light of changes to the environment related to such shares.

Management Materiality

Ensure Management Transparency

Crisis Management

In preparation against incidents, accidents, disasters and quality problems that might have serious impacts on the Nabtesco Group's performance, financial situation or reputation, we have our own in-house reporting rules as well as prompt and appropriate emergency information communication and response systems in place. Moreover,

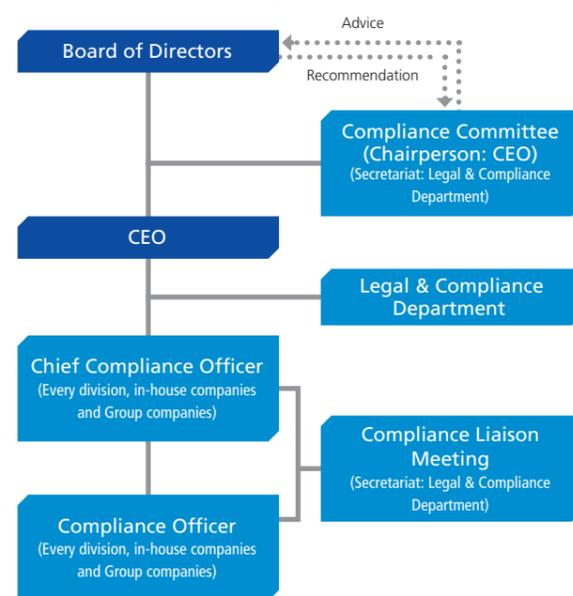
we have established a crisis management system, under which, in the event of a serious incident that could force us to suspend our business activities or have other material impacts on us, we will immediately establish a crisis response headquarters headed by the CEO. The headquarters will report to the Board of Directors and deal with the incident promptly for its resolution.

Enhancement of Compliance

Enhancement of the Compliance System

According to the Rules for the Group Compliance Promotion System, our Compliance Committee deliberates the basic policies and important issues related to the compliance system. This committee, which includes external experts among its members, serves as an advisory board to the Board of Directors. In addition, by appointing Chief Compliance Officers and Compliance Officers who support the chief officers for all of our administrative departments, in-house companies and Group companies within and outside Japan, we are enhancing our compliance system on a Group-wide and global scale. We held a Compliance Liaison Meeting to enable the Chief Compliance Officers and Compliance Officers to share information and exchange opinions, both in Japan and in all overseas regions where we conduct business (China, other Asia regions, North America and Europe).

Compliance Promotion System



Raising Awareness of the Nabtesco Group Code of Ethics

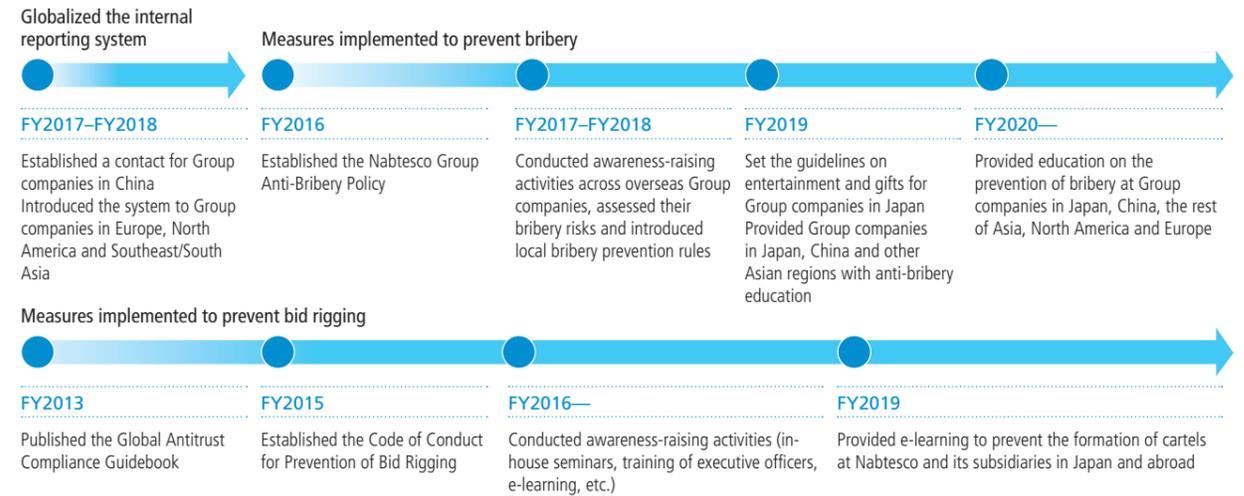
To strengthen the Group-wide and global compliance system, the Nabtesco Group has established the Nabtesco Group Code of Ethics.

The Legal & Compliance Department, which is in charge of compliance issues, fulfills a central role by increasing compliance awareness among members of the Nabtesco Group in addition to fostering their compliance with laws and regulations in order to enhance the Group's corporate value over the medium to long term. The Nabtesco Group Code of Ethics shows, from a compliance viewpoint, the basic approach to be taken by Directors and employees of the Group for the implementation of the Corporate Philosophy in their business activities.

In order to help Directors and employees deepen their understanding of this Code of Ethics and take actions that are in line with it, we have prepared a Compliance Handbook, which is used for compliance education and awareness-raising activities. The Code of Ethics and the Compliance Handbook are available in nine languages (Japanese, English, Simplified Chinese, Traditional Chinese, Korean, Thai, German, Italian and French) on Nabtesco's website.

In FY2020, in the face of COVID-19, we provided employees in 16 countries and regions across the world in their languages with compliance education online, with an eye to helping them deepen their understanding and awareness of the Nabtesco Group Code of Ethics, the importance of preventing bribery, cartel formation and accounting fraud, and the availability of the internal reporting system.

Established a global compliance system



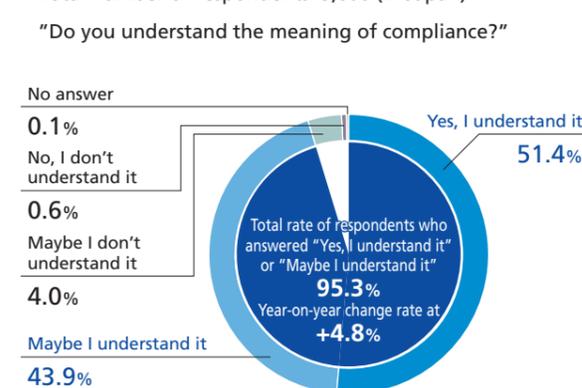
Fostering Compliance Awareness

Since FY2011, we have designated every October as the Nabtesco Group's Corporate Ethics Month for all employees to conduct activities to raise their compliance awareness under the leadership of the management team at their workplaces.

In FY2020, we sent a video message from the CEO of Nabtesco to all Group companies in Japan and overseas as well as compliance messages from the presidents of our Group companies and in-house companies. Moreover, we conducted a Compliance Awareness Survey targeting employees of Nabtesco and our subsidiaries in Japan and all of our Chinese subsidiaries. (Respondents to the compliance awareness survey: 6,404 employees in total (a total of 5,808 in Japan and a total of 596 in China))

In FY2018, we changed the frequency of the Compliance Awareness Survey from every two years to every year.

Responses to the Compliance Awareness Survey



Internal Reporting System

For the prevention, early detection and correction of wrongdoing, the Nabtesco Group launched an internal reporting system ("Nabtesco Hot Line") and provides both an internal contact (Legal & Compliance Dept.) and external contacts (a law firm and a specialized company). In order to raise employees' awareness of this hotline, we provide information about the contacts through our internal portal site, in-house magazine and compliance newsletter, while also distributing posters and cards introducing the hotline internally. For each of the reports made to the contacts, we conduct necessary surveys and make appropriate responses.

In FY2017, we completed the establishment of a contact for the internal reporting system for all Group companies in China. Then, in FY2018, we introduced the Global Hot Line as a system to receive internal reports from employees of Group companies in Europe, North America and Southeast and South Asia, and began operating the system.

Management Materiality

Foster Environmental Management

Why Important? The Nabtesco Group is implementing a range of environmental initiatives. In addition to dealing with the issue of climate change, we are also fostering a range of other measures, including those for zero emissions and the protection of water resources. For these initiatives, we are highly rated internationally.

Environmental Management

Environmental Management System Implemented by the Group ESH Committee

Since its establishment in 2003, the Nabtesco Group has positioned environmental measures as one of its business strategic priorities and promoted environmental management.

The Nabtesco Group has set up the Group ESH Committee as the promotional organization related to the environment, safety and health. A series of discussions has been held at meetings of the committee, in which the heads of the in-house companies and Group companies have participated. Our environmental strategies, including medium- to long-term targets, have thus been decided and implemented in a top-down manner.

By formulating our Environmental Philosophy and Environmental Action Plan in 2005, we have been working to raise awareness of these principles across Group companies while making use of the ISO 14001 international standard as an effective tool for environmental management, leveraging it in the establishment and operation of our environmental management system. All Nabtesco Corporation plants and seven major Group companies (that account for over 70% of consolidated sales) are already certified under ISO 14001, and we are fostering environmental measures across the Group.

In addition, in 2017, we expressed our support for the recommendations that had been made and reported to the Financial Stability Board (FSB) by the Task Force on Climate-related Financial Disclosures (TCFD). Accordingly, we are implementing climate change-related measures and will disclose the related information in line with the TCFD's recommendations.

Web Nabtesco's environmental management <https://nabtesco.disclosure.site/en/themes/125>

Speeding Up the Execution of the PDCA Cycle for Saving Energy through the Nabtesco Energy Management System (NEMS)

For energy conservation, we established the Nabtesco Energy Management System (NEMS) for the continuous execution of the PDCA cycle under the control of the Group ESH Committee and have been fully operating the system since 2015.

Specifically, we have introduced environmental information management tools and an energy monitoring system to collect environmental information from our sites, analyze the collected information and estimate the

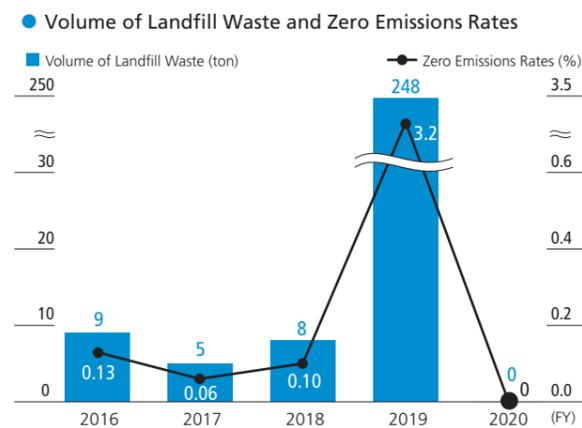
amount of energy used by each device in real time. By disseminating and sharing the obtained data at the monthly meetings of our sites, we extract energy conservation ideas and promote activities for saving energy by all employees. Also, by sharing information on such activities at the Board of Directors meeting each month, we will respond quickly when improvement is deemed necessary.

Waste Reduction

The Nabtesco Group sends waste metals, plastics and glass that do not contain hazardous substances to landfill sites at present, but is fostering activities to reduce all types of emissions generated in the course of its business to zero through the 3Rs (reduce, reuse, recycle)—the basic practice for establishing a resource-circulating society.

In FY2020, the zero emissions rate* reached 0%, and we were able to achieve the medium-term targets for FY2020. We will continue to promote the 3Rs across the Group to continuously achieve the zero emissions goal of 0%.

* 0.05% or below is rounded to zero



Measures to Reduce Hazardous Waste

The Nabtesco Group was landfilling 0.1 ton per year of waste alkalis, which are hazardous, until FY2014. In FY2015, however, we began to detoxify alkalis, water-soluble waste oil and other hazardous waste prior to their disposal. Accordingly, we have not released any waste containing hazardous substances.

Conservation of Water Resources

The Nabtesco Group does not require a large amount of water nor water of a certain quality for our business operations. However, we deem it important to manage water resources for environmental conservation, and accordingly, conduct water-related risk analyses, measure the amount of water used and discharged, monitor water quality and implement measures to prevent the leakage of hazardous substances into water.

The amounts of water used and discharged at each base are measured every month, and the Group data are accumulated through the environmental information management tool. As for bases where the amount of water per month fluctuates greatly, we conduct surveys to identify contributing factors for the increased water usage and implement measures to reduce the water use as necessary.

Risk Assessment on Groundwater Use

On some of its premises, the Nabtesco Group pumps groundwater from a well for on-site use. Due to this, in FY2020, the Group also started investigating the impact of the use of groundwater to the water resources in the area. First, the Group performed an investigation in the Gifu Region, where the quantity of groundwater used is large. In the Gifu Region, the Tarui Plant (for hydraulic equipment) and Gifu Plant (for aircraft equipment) of Nabtesco use groundwater. Based on the investigation, it is believed that the two plants do not place a large burden on the groundwater resources of Tarui-cho.

Water Use and Water Discharge Management

The Nabtesco Group uses groundwater mainly to cool test stands and melt snow in snowy regions (Yamagata and Gifu). We discharge the used groundwater to rivers under the strict water quality control criteria set by the Group. In FY2020, there were some cases wherein used groundwater did not meet the water quality control criteria. In response, we promptly implemented measures in consultation with the local authorities and have already completed the corrective actions.

The total volume of water used by the Nabtesco Group in FY2020 amounted to 685,000m³, which was almost the same level as in the previous fiscal year. Due to heavy rain falls caused by recent climate change, the risk of rainwater flooding our plants is increasing. The Nabtesco Group

uses oil-based type and water-soluble type cutting fluids in our business operations and recognizes the risk that hazardous substances contained in these cutting might be discharged to rivers if rainwater floods the manufacturing facilities. To prevent this, we have been making capital expenditure to install oil-water separation tanks and oil recovery equipment.

In FY2020, we spent ¥4.29 million to enhance the rainwater discharging function, and make our facilities more water-resistant.

Gaining Higher External Evaluation

Being internationally recognized for its environmental measures and information disclosure, Nabtesco has been included in CDP's Climate Change A List for five straight years from 2016. The CDP, through cooperation among institutional investors, urges the world's leading companies in terms of market capitalization to disclose information about their strategies to combat climate change and CO₂ emissions. The CDP annually discloses evaluation scores to the public and selects companies that demonstrate excellence in the relevant measures as the A List companies.



Target of water use activities and FY2020 results

Item	Targets	FY2020 results	Status
Global water use	Year-on-year change rate at 10%: The amount of water usage 0.803Mm ³ or less	0.685Mm ³	Achieved
Global water quality control	In-house management criteria* Excessive number: zero	0	Achieved

* Set criteria that are stricter than local standards, and monitor and manage the discharge of water.

Why Important? The Nabtesco Group has engaged in market creation, product development and product safety in collaboration with customers based on the trust it has built up with them. We regard it as one of our material management issues to pursue safety, comfort and a sense of security both for our own customers and for users of our customers' products. We will work tirelessly to increase the safety, reliability and stability of our products as well as the comfort provided through their functions and performance as part of our efforts to ensure the quality and safety of our business operations.

Management of Occupational Safety

Ensure Safety by a Three-Pronged Approach, Giving First Priority to Protecting People

For manufacturers, "safety" means: (1) manufacturing products in a safe manner, (2) making safe products, and (3) ensuring the safety of products during use. These three requirements should be met together, as we cannot deliver safe products to customers without ensuring the safety of our manufacturing facilities and providing necessary maintenance, service and safety functions.

Manufacturing safe products and ensuring the safety of products during use help our customers ensure the safety of their products and their end users, while ensuring the safety of our manufacturing facilities and providing even safer maintenance and service functions help protect the health and well-being of our employees and their families and reduce social losses. Based on this recognition, the Nabtesco Group is taking a three-pronged approach to safety, with first priority given to protecting people over cost reduction and profit-making.

Centrally Fostering Environmental, Safety and Health Management

The Nabtesco Group has been implementing multifaceted measures to increase the safety of its manufacturing facilities toward achieving the goal of zero work-related accidents in the Group-wide ESH activities.

ESH stands for "environment, safety and health." Our Group Environment, Safety & Health (ESH) Committee, which reports directly to the president, centrally fosters the management of ESH across the Group, including by promoting the reduction of environmental impacts as well as ensuring the safety and health of employees.

The Group ESH Committee centrally collects, analyzes and evaluates important ESH-related information to formulate necessary measures. In addition, the committee members annually visit each of the Group's sites to carry out ESH audits to check on-site activities and give instructions as necessary. For safety, the members examine whether the accident and disaster countermeasures implemented at the sites are appropriate or not and how these measures are implemented, as well as investigating any remaining on-site safety risks. The members also summarize the audit results and the achievements made by the sites through the ESH activities for review by the Group's management team at the end of each fiscal year, and the review results are utilized to improve the activities for the next fiscal year. We have thus been executing the PDCA cycle to steadily increase the

safety of our manufacturing facilities.

Conducting Multifaceted and Steady Activities

All incidents, including minor ones, are required to be reported across the Nabtesco Group for information-sharing purposes. In particular, for a serious incident, we conduct an on-site examination to analyze the cause, decide on the items to be focused on and implement measures based on the results. In addition, we enhance our safety patrols and risk detection training to increase employees' sensitivity to risks, as well as promote "near miss"^{*1} incident reporting and safety awareness-raising activities.

As a result of these efforts, the lost time injury frequency rate^{*2} has been below the industry's average for the most recent six years. However, in order to achieve zero workplace accidents, which is the Group's overall target, we are implementing even more advanced measures.

^{*1} Near miss: An event that could have resulted in injury or other incidents

^{*2} Lost time injury frequency rate: Please see Financial/Non-Financial Highlights on page 38.

Starting New Activities to Nurture a Safety Culture

In order to further improve workplace safety, we commenced new activities aimed at nurturing a safety culture and ensuring that the entire organization adopts a more safety-oriented attitude in 2017 in addition to implementing measures against individual risk factors. We will aim to achieve zero-workplace accidents by creating an organization that nurtures a safety culture through our four activities including the STOP3 activity, stratified safety education system, safety model workplaces and environmental safety forums.

Nabtesco Group ESH Basic Policy and Management Targets

The Nabtesco Group conducts environmental, safety and health (ESH) activities in line with the basic policy and targets on ESH. We include Nabtesco, all Nabtesco Group companies, and partner companies and contractors operating on the Group's premises in the target of our ESH activities.



Nabtesco Group ESH Basic Policy and Management Targets
<https://nabtesco.disclosure.site/en/themes/121>

Management of Quality

Promotion System Based on the Quality & PL Committee

In an effort to listen to the voices of its customers and the users of its products and to respond to the changes, demands and requests of society, the Nabtesco Group sets forth the Nabtesco Group Quality and PL Policy and promotes manufacturing based on quality engineering, quality management and PL management (including product safety control) under the leadership of the Quality & PL Committee.

At the Group Quality & PL Committee, annual activity policies are determined by clarifying issues and challenges for the entire Group, and actual work is conducted by each in-house company by applying the policies to specific activities. However, since the types of products and target industries significantly vary among in-house companies, it has become increasingly difficult to carry out audits on the activities of all in-house companies in accordance with fixed rules and standards. To address such issues, we strive to grasp the situation of each in-house company, provide advice and identify what the head office can do in order to support improvement at our regular meetings, thus implementing more effective, specific measures.

● Nabtesco Group Quality and PL Policy

To fulfill our corporate social responsibility (CSR) by delivering products with the highest levels of safety, comfort, security and reliability, we will:

1. Give priority to safety over anything else, based on the principle of respect for people;
2. Meet safety and other quality needs of products through the integration of business activities and quality and PL activities; and
3. Realize product quality, which satisfies market demand, by conducting safety and other quality evaluations prior to the release of products to the market.

Measures to Enhance the Foundation for Quality

In addition, we provide our young engineers with mandatory education on quality in the form of intensive training and also hold quality training and give improvement instructions on-site at our overseas bases. Furthermore, in response to COVID-19, we are providing employees with more remote quality education and e-learning opportunities. We are thus building a system for continuous quality education.

Continuing to Cultivate a Quality-Oriented Workforce to Create an Advanced Quality Culture

The Nabtesco Group provides a variety of systems and product lineups and believes that we will not be able to increase the quality of all these products by drawing upon a limited stock of technologies and methods. We are therefore introducing IT and other advanced technologies to our quality management, while attributing special importance to the creation of a culture of quality manufacturing for all our products.

Such a culture can be created as a result of long-term education, training and organizational management. We believe that helping employees gain a meaningful experience that allows them to think and act in line with core principles and rules to make really effective use of available technologies will, in turn, help the entire company improve its manufacturing quality on a long-term basis. Based on this belief, we have been providing employees with unique education, including via the "Quality University" courses.

While the Quality University courses were initially targeted at selected design engineers when they were introduced in 2007, a course for managers was added in 2009. Since FY2012, we have designated a mandatory quality education course for Group employees in their third year of employment. Every year, about 30 to 40 young employees participate in this six-month course to learn about quality management to increase their quality awareness. The number of employees who have completed the Quality University courses has been steadily increasing each year. The graduates have been acting as forerunners of the Nabtesco Group's culture of quality manufacturing.

In order to ensure the continuity of our quality education despite the COVID-19 crisis, we are fostering remote education and e-learning.



Group photo of past students of the Quality University courses (Jan. 2010)

Management Materiality

Respect Diversity and Various Expertise in the Workplace

Why Important? The Nabtesco Group is implementing a wide range of initiatives on human capital management that makes use of the abilities of individual employees for the benefit of the entire company. We are also continuing to raise employees' awareness of The Nabtesco Way to enhance the unity of the entire Group.

Fostering Workplace Diversity

Active Recruitment of Non-Japanese Nationals Including Foreign Students Studying in Japan

Nabtesco proactively employs non-Japanese workers, believing that exchange between Japanese employees and those of other nationalities who may have different ideas will help reform the workplace mindsets of our Japanese workers. As of December 31, 2020, 64 foreign nationals from 9 countries are working for Nabtesco, and we will also support these employees in their career development.

Employment of Women

Nabtesco conducts recruitment activities by upholding the target of increasing to 20% the proportion of women among the total number of new graduates employed by the company as career-track employees. In FY2020, the actual rate exceeded the targeted 20% after showing a downward tendency for three straight years. The annual number of female graduates employed by Nabtesco varies a lot each year depending on the recruitment plans made (for engineers and others) for the year. In regard to engineering students in particular, women account for a very small percentage in the total number of our primary recruitment targets (students who major in mechanical engineering, electrification, electrical/electronic engineering, and information science), and we therefore need to differentiate our company from competitors to attract female students.

To meet this requirement, we will hold events targeting these female students as early as possible and provide them with more opportunities to interact with our employees. Through these measures we will help more of these students learn about Nabtesco throughout the year, while also working to increase the comfort levels at our workplaces and giving due consideration to regional

characteristics for ongoing recruitment.

Moreover, based on the Act on Promotion of Women's Participation and Advancement in the Workplace, we formulated a three-year action plan and have been implementing it since April 2020.

● Nabtesco's General Employers Action Plan made under the Act on Promotion of Women's Participation and Advancement in the Workplace

Target 1	Before the end of the period of the plan, double the percentage of women in the total number of managers relative to the April 2019 level (from 0.8% to 1.6%)
Measures:	Provide career planning training and give follow-up support to employees taking childcare leave
Target 2	Rate of annual paid days off taken by employees: Achieve and maintain "more than 80%"
Measures:	Build an environment that makes it easier for employees to take annual paid days off

Employment of Persons with Disabilities

Nabtesco has endeavored to maintain the employment of persons with disabilities. The percentage of persons with disabilities in the total number of regular employees was 2.28% for FY2020, and we have thus continued to achieve the statutory employment rate for the persons.

However, the statutory employment rate was raised from 2.2% to 2.3% on March 1, 2021. In response, we will make further efforts to promote the employment of persons with disabilities for the continuous achievement of the rate.

Human Rights Management

Human Rights Policy/Human Rights Due Diligence

In FY2016, we established the Nabtesco Group Code of Ethics to uphold human rights and prevent corruption, thereby fostering measures to "Respect diversity and various expertise in the workplace," which is one of the Group's material management issues. Further, Nabtesco has committed itself to the Nabtesco Group Human Rights Policy to promote respect for human rights, based on the International Bill of Human Rights established by the United Nations (UN), the ILO Declaration on Fundamental Principles and Rights at Work established by the

International Labour Organization (ILO), and the UN Guiding Principles on Business and Human Rights.

Nabtesco identifies and assesses impacts on human rights and tries to mitigate human rights risks through a human rights due diligence process. We also continuously verify the methods and effects of human rights due diligence to effectively respond to human rights impacts and risks.



Nabtesco's Human Rights due Diligence
<https://nabtesco.disclosure.site/en/themes/193>

Human Capital Development

Development of Globally Competitive Human Capital

In order to share the company's ideal image of human capital in which it is the people who make the company, and to define the direction that all employees should follow, Nabtesco established the Basic Policy on Human Capital Development and has since been providing a range of educational opportunities in line with this policy.

As overseas business is expected to continue to expand, it is becoming increasingly important to develop globally competitive human capital. In addition to various training programs aimed at enhancing language capabilities, including the intensive study camp for English conversation, we introduced an overseas trainee program for middle-ranking employees, which included both study and work components, in FY2012. Furthermore, in 2017, we introduced short-term overseas job training for

young employees with the aim of helping them nurture an international business mindset at an early stage of their career.

Moreover, to develop human resources at Group companies outside Japan, we proactively employ local workers and implement various educational programs aimed at improving the skills of locally hired personnel. In China, we provide business management training for executive candidates. In addition, we offer an OJT-based training program designed for skill enhancement, in which employees of overseas Group companies are assigned, for a certain period of time, to plants in Japan belonging to various business segments.

We proactively promote local staff to managerial positions and in some of our Group companies outside Japan we appoint presidents from the local workforce.

Increasing Employees' Awareness of The Nabtesco Way

Activities to Increase Employees' Awareness of The Nabtesco Way

The Nabtesco Group is committed to conducting operations in line with the Corporate Philosophy, Our Promises and the Action Guidelines.

In order to share and spread awareness of the values expressed in The Nabtesco Way, we have been holding briefing sessions and workshops on it as part of our training sessions. We have also been holding workplace meetings on The Way as part of the "Nabtesco Way Month" campaign, which we launched in FY2013. In FY2020, we were unable to hold the meetings due to COVID-19, but usually nearly 4,000 employees participate in the meetings at our Group companies in Japan. In and after FY2021, we will resume holding the meetings while implementing necessary infection prevention measures including social distancing.

The Nabtesco Way is translated into seven languages and we regularly conduct awareness-raising activities for The Way at our bases outside Japan. In China in 2019, aiming to encourage local employees to change their behaviors for the better, we held a training seminar in which participants were asked "What does The Nabtesco Way mean to you?" and encouraged them to think deeply about the answer. We will continue to foster The Nabtesco Way across the Group.

Furthermore, we regularly conduct an employee awareness survey to improve our organizations. We visualize the situations of our organizations based on the numerical data gained through the survey and analyze the findings to identify any problems and make improvements as required.

● Satisfaction with communication within the organization (based on employee questionnaire)

(Unit: %)	2013	2015	2017	2020
Ratio of satisfaction	67.1	68.6	69.3	69.9
(Male)	67.1	69.0	69.5	70.5
(Female)		68.1	69.2	69.4
Coverage of employee respondents	100	100	100	100

* The calculation scope covers only Nabtesco Corporation.
 * Held every two years in principle
 * We evaluate above two indicators according to seven grades: 1: Completely disagree, 2: Disagree, 3: Somewhat disagree, 4: Neither agree nor disagree, 5: Somewhat agree, 6: Agree, 7: Completely agree, and rate the results (4 or more is defined as satisfied).

Management Materiality

Enhance Work Style Reforms

Why Important? Due to the forthcoming aging society and low birthrate, the competition for recruiting will become more intense. Through work style reforms, we will make Nabtesco an attractive company where employees can work with more satisfaction and in accordance with their individual preferences, thereby attracting more talent to the company and upgrading its corporate value.

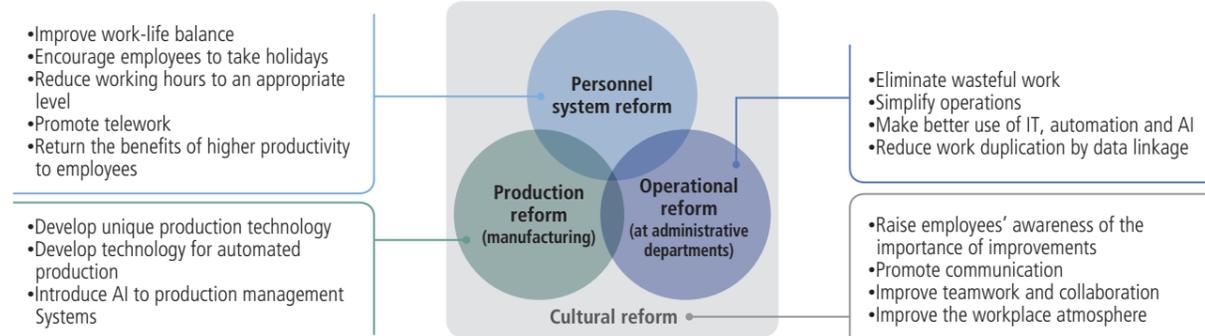
Direction of Our Work Style Reforms

“Stage-up 2.0” Work Style Reforms

Nabtesco fostered work style reforms collectively dubbed “Stage-up 2.0” for four years from 2017 to 2020. Under this initiative, we worked to make the following reforms: (1) personnel system reform to improve work-life balance and the work environment; (2) production reform to foster the development of production and automation technologies; (3) operational reform to eliminate wasteful work by making

better use of IT, automation and AI; and (4) cultural reform to provide the basis for other types of reform. Under the leadership of the Business Transformation Div. (presently Business Transformation Dept.), the Human Resources Dept., Production Innovation Div., Information System Dept. and other specialist departments worked on the four categories of reform, specifically personnel affairs, operations, production and corporate culture.

Four Types of Reform for Work Style Reforms



Measures for “Stage-up 2.0”

2017	2018	2019	2020
Step 1. Grasp the situation	Step 2. Build systems and introduce tools		Step 3. Cross-organizational expansion
<ul style="list-style-type: none"> • Internal questionnaire survey • Review of operations • Examination of improvement themes • Setting of targets • Information collection 	<ul style="list-style-type: none"> • Improvement through entire company • Building of rules • Introduction of tools (for RPA, AI-OCR, paperless operation and others) • Office reform and others • Awareness-raising and educational activities 		<ul style="list-style-type: none"> • Cross-organizational introduction of systems • Further improvement of workplace environment • Digital transformation (DX)-related survey and verification

(1) Personnel system reform

• Improve work-life balance
To improve the work-life balance of employees, we are introducing a range of systems, based on the belief that if individual employees can maintain their physical and mental health and lead fulfilling lives in accordance with their individual preferences, they will be better placed to nurture new value and hit upon new ideas, which will in turn help revitalize our organizations and increase productivity.

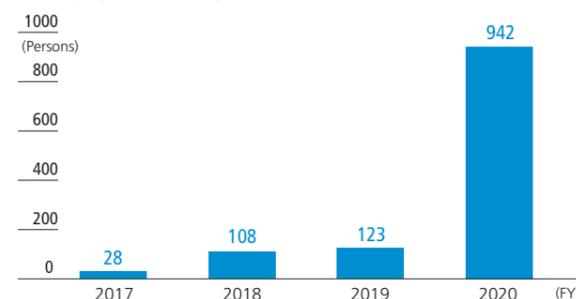
We are developing a system and a tool to ensure the appropriate management of working hours and eliminate excessive overtime work.

We have introduced systems for employees to work from home and work at satellite offices so that they can have flexibility in choosing where and when to work in accordance with their work styles.

In addition, we have established the “smart work bonus”

system to provide employees who have reduced their overtime work hours through operational improvements with a special bonus as an incentive to encourage each employee to foster work style reforms with ownership.

• Employees working from home



* Employees who engaged in teleworking during the year
* In FY2020, the number of these employees dramatically increased in the face of COVID-19.

(2) Production reform

• Reform work styles through manufacturing innovation
At our production sites as well, we are fostering a range of reforms, including the automation of production equipment and processes. Through these reforms we aim to add more value to on-site operations and improve the work-life balance of on-site employees in addition to increasing production efficiency, toward making their workplaces even more comfortable.

P103 Manufacturing Innovation

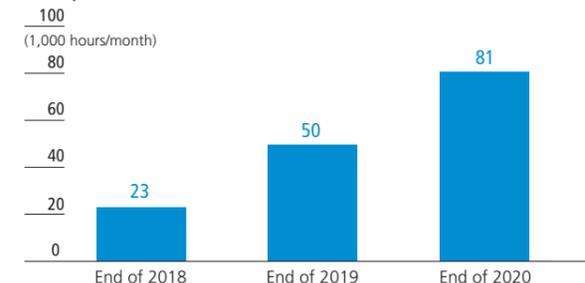
(3) Operational reform

• Review operations for higher efficiency at administrative departments
Nabtesco has been working to increase the operational efficiency of its administrative departments as part of its work style reforms. To this end, we reviewed the operations conducted by staff of all the departments (about 2,800 persons) with a view to making operational improvements by visualizing and analyzing the operations. For the operations included in the target of improvement in the review process, we set improvement themes by department. Then, for three years through regular monitoring, we supported the departments in increasing the efficiency of the operations based on the themes.

For the improvement of the operational efficiency of the departments, we fostered automation by making use of robotic process automation (RPA) technology and artificial intelligence (AI).

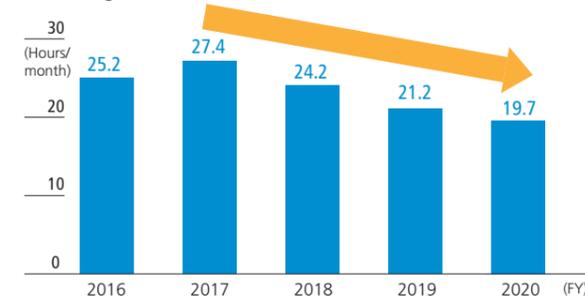
As a result, we increased operational efficiency by 81,200 hours per month in terms of hours saved by the end of 2020, which was the final year of the aforementioned monitoring period, and also reduced average overtime hours worked by about 30% relative to 2017.

• Operational improvement made at administrative departments (in terms of hours saved)



* Total number of hours saved relative to the operations review in 2018

• Average overtime hours worked

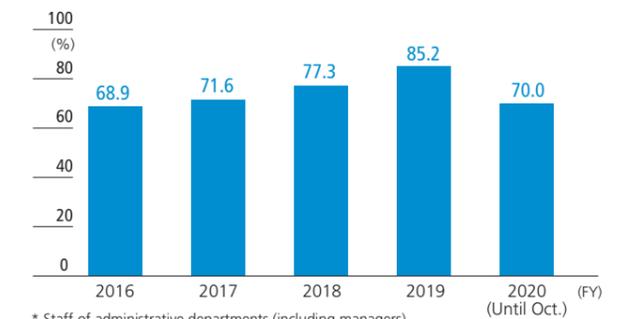


(4) Cultural reform

In addition to the aforementioned measures, we have also been providing employees with IT literacy education and awareness-raising activities using posters, with a view to nurturing a corporate culture that promotes the entrenchment of new work styles.

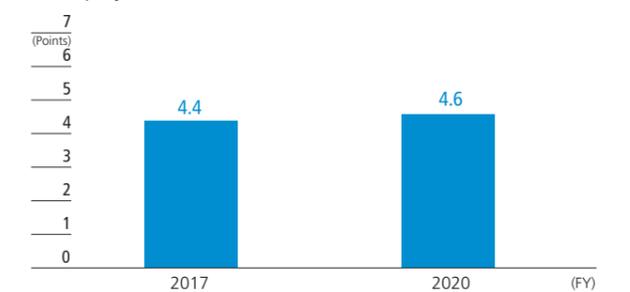
As a result, the rate of annual paid days off taken by employees had been trending upward until FY2020 (when it dropped due to the impact of COVID-19), leading to the behavioral reforms of employees. Also, the results of our regular employee satisfaction survey show positive effects of the “Stage-up 2.0” initiative.

• Rate of annual paid days off taken by employees



* Staff of administrative departments (including managers)

• Employee satisfaction (ES)



Enhance Work Style Reforms

In the “Stage-up 2.0” initiative, we focused on increasing our operational efficiency and reducing burdens imposed on employees through system reforms and operational improvements. From now on, to be “Leaders in Innovation,” as stated in our new long-term vision, we will foster digital transformation (DX) to increase individual employees’ work motivation and satisfaction in addition to enhancing our corporate competitiveness.

Embracing the challenge of stepping up to a new stage toward a new age

1. Enhance our competitiveness through DX in our business operations (for higher efficiency, speed and new value creation)
2. Boost reforms and encourage a spirit of challenge through awareness-raising activities across the company
3. Provide employees with diverse work style options to enable each person to choose how they work in accordance with their own values
4. Foster system reforms and make more extensive use of IT tools, technologies and data to achieve the aforementioned targets

Nabtesco's Responses to the COVID-19 Crisis

Nabtesco has been continuing its business operations at each of its bases for the fulfillment of their respective missions, while paying utmost attention against the infectious disease.

Establishment of a System to Implement Countermeasures Promptly

In February 2020, launched the headquarters led by the CEO and composed of leaders from the head office, in-house companies and affiliated companies to grasp the domestic and overseas situations concerning COVID-19, make plans to ensure the safety of employees and make relevant decisions.

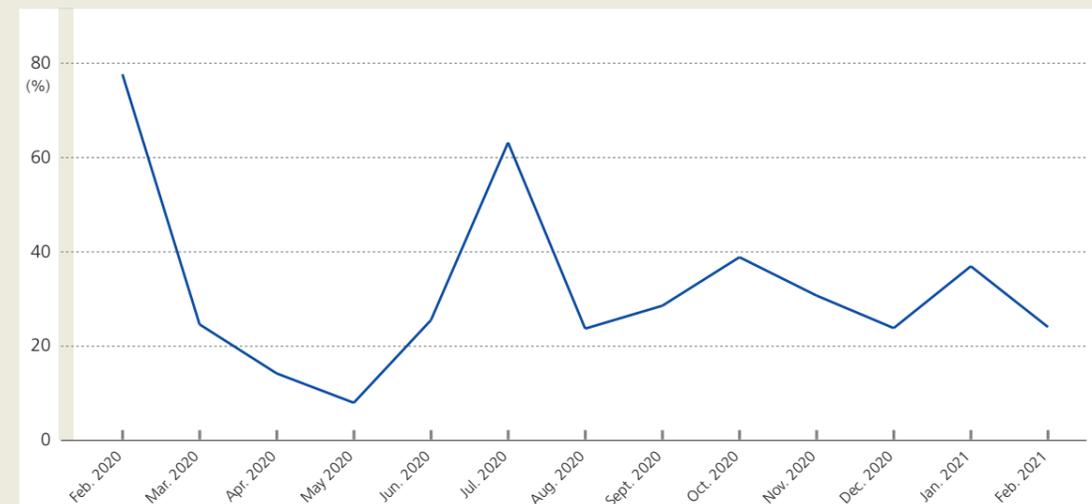
Shift to Work Rotation and Teleworking Systems

In March, launched a work rotation system at each site except for the plants to reduce the number of on-site employees.

Succeeded in having a large number of employees work from home in the face of the pandemic, which imposed restrictions on people's movement, thanks to measures already taken since 2017 for the planned introduction and promotion of teleworking.

Rates of employees working on-site at bases excluding plants

Establishment of the headquarters to implement infection prevention measures as well as measures to promote teleworking and reduce business trips and movement between plants



Thorough Infection Prevention Measures Taken at the Plants

Each of the plants implemented thorough infection prevention measures so as to be able to continue to meet customer demands in the face the crisis.

Zoning to prevent infection at manufacturing sites

At the plants, areas accessible to employees were limited, and they were asked to use only designated lounges, restrooms and smoking areas on the premises.

Establishing an interval between work shifts

The plants established an interval between work shifts in order to prevent contact between dayshift and nightshift workers. Also, the plants installed transparent partitions, through which employees working different shifts communicated with each other when they needed to do so for important reasons.

Use of reception rooms and conference rooms as satellite offices

At each department, employees were divided into two groups and one of the groups moved from the office to reception rooms and conference rooms, which were turned into satellite offices. Contact between the two groups was prohibited to prevent infection.

Staggered use of the canteen

The plants divided their employees into teams for the staggered use of the canteen and mandated that employees record their seat positions in the canteen and avoid facing each other while they ate.

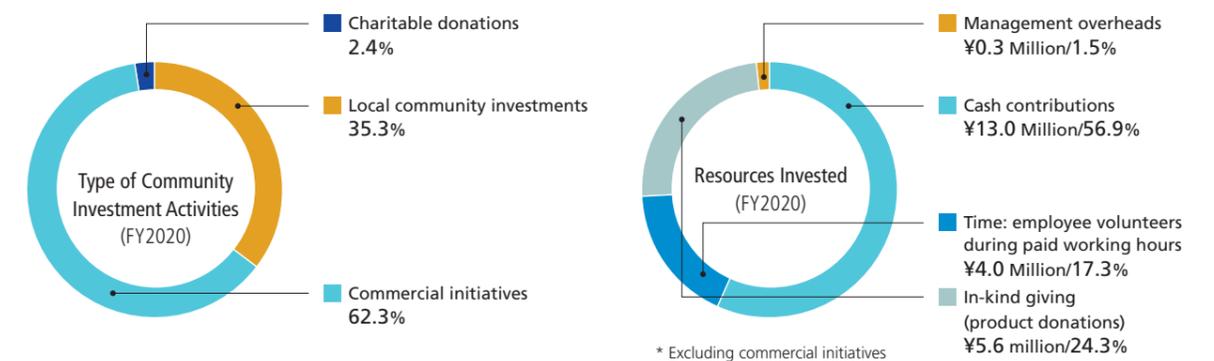
Recording of persons with whom employees had close contact

Defined the meaning of "close contact" and asked employees to record the names of those with whom they had had close contact, so that the company could immediately make a list of "close contacts" in the event of any employees becoming infected.

Why Important? The Nabtesco Group is proactively conducting community investment activities for the mutual development of local communities and the Group. By conducting activities to help solve social issues faced by local communities in the business and geographical territories of the Group, we are nurturing an innovative mindset and spirit of challenge among employees, thereby increasing the Group's brand value.

Nabtesco Group's Community Investment

Resources Invested and Impact



Environment

Number of mangroves planted (FY2013 to FY2020) Not conducted in 2020 due to COVID-19. Accumulated total: 5,870

Number of persons who planted mangroves (FY2013 to FY2020) Not conducted in 2020 due to COVID-19. Accumulated total: 1,209

Education

Number of persons who joined various programs FY2020: 261,848

Welfare

Number of welfare devices donated (FY2008 to FY2020) FY2020: 7. Accumulated total: 349

Establishment of the Nabtesco Group Community Investment Policy

In the Nabtesco Group Community Investment Policy established in FY2018, it is clearly stated that through our community investment activities, we will proactively engage in exchanges and cooperate with local communities in fields closely related to our business in each region where the Group conducts business as good practices of The Nabtesco Way. The policy states the targets of the activities as value creation for stakeholders to contribute to solving global social challenges and social challenges faced by local communities in each region where the Group conducts business. As the Group values, it also states that we encourage our employees' challenging spirit and innovative ways of thinking by contributing to solving social issues in fields related to the Group's business and that we strive to further increase the Group's brand

value. Moreover, we aim to foster the growth of both the Nabtesco Group and local communities and to build long-term relationships of mutual trust.

We have set the environment, education and welfare as priority areas. Those three areas are highly related to the sustainable business activities of the Group and correspond to the SDGs discussed in the section on management materiality. Through the proactive promotion of community investment activities, we will work to establish relationships of trust with local communities while contributing to their development.

Web Consideration of Community and Society <https://nabtesco.disclosure.site/en/themes/140>

Management Materiality

Specific Measures to Achieve the Long-term Vision

Why Important? In order to become “Leaders in Innovation for the Future,” as stated in our long-term vision, we need to continuously foster innovation to make Nabtesco a company that can make innovative proposals to customers. To this end, we regard the following as material management issues of particular importance: “Acquire next-generation technologies and create new businesses,” “Foster smart manufacturing” and “Strengthen global bases.”

Acquire Next-Generation Technologies and Create New Businesses

Measures to Create Innovation

Based on its motion control technology, Nabtesco is striving to develop high-precision control/drive units and others by making integrated use of its component and system technologies. We are working to grasp the sophisticated needs of our highly advanced corporate customers based on our relations of trust with them while enhancing our existing technologies. In this way we are fostering a shift from the sale of components to the proposal of solutions in our business and pursuing the creation of new products and businesses, including electrified and systematized products.

Fostering the Sharing of Advanced Technologies and Know-How across the Business Departments

One of the missions of the Technology and R&D Division is to make use of its expertise in each field to technically support each business department in implementing measures for sustainable growth. To this end, the division is working to acquire development methodologies that use advanced tools, element technologies and know-how ahead of competitors and to share them with the business departments across a range of fields for product development progress.

At Nabtesco, we are proactive in using CAE, which is product development and analysis assisted by computer software, as well as AM (Additive Manufacturing), a new production technology gaining attention in the industry.

In the CAE field, the division is conducting fluid analysis to analyze the flows of air and oil, and is also performing advanced analysis by combining structural analysis on strength and heat resistance with flow analysis. In addition, the division is examining control systems, simulating them to understand the physical behavior of products and sharing advanced analysis technologies widely with the business departments to make their development and manufacturing processes more efficient. In the AM field, we are making use of the know-how of CMET Inc. This Nabtesco Group company provides customers with 3D printers that use resin-based high-speed stereolithography technology. We are thus pressing forward with the development of metal additive manufacturing technology, including peripheral element technologies, and using these innovative technologies for manufacturing innovation in the aircraft equipment business.

Furthermore, in response to the rapid advancement of IoT and AI, we are enhancing our sensing technologies.

Monitoring products using sensors and performing analyses of relevant big data makes the diagnosis of failures possible. This helps us add the monitoring function to the stopping and moving functions provided by our products, allowing us to provide high value-added products and expand the MRO services.

Acquisition of New Manufacturing Technology by the Effective Use of 3D Printers

Technologies for 3D printers have been evolving from the stage of conventional rapid prototyping (RP) to AM. Nabtesco has concentrated its 3D printer-related technologies at its R&D Center, where we have a resin-based stereolithography 3D printer, for which CMET has know-how, as well as a metal-based 3D printer (AM equipment). At this base we are pressing forward with the R&D of 3D printing technologies including peripheral element technologies, thereby driving manufacturing innovation. We are also inputting resources and conducting activities for the development of materials and related technologies to enhance the foundation for 3D printing technologies.

Accelerating Electrification and Systematization

Nabtesco acquired OVALO GmbH of Germany in March 2017. By making effective use of this company’s ability to develop modules that integrate a motor with a control unit, we will speed up the electrification and systematization of all our products toward meeting the increasingly diversified and advanced needs of customers.

For adcos GmbH, which has also become one of Nabtesco’s consolidated subsidiaries, we will effectively utilize the technology owned by the company as it provides the know-how to dramatically boost our development efficiency and quality. Specifically, this subsidiary has model-based development technology, which provides the basis for the development of mechatronics products.

Co-Creation of Business with Startups

Nabtesco established Nabtesco Technology Ventures AG in Zurich in June 2018 as a company playing a central role in Nabtesco’s CVC fund operations. We also formed a strategic partnership with Emerald Technology Ventures for these operations toward fostering the co-creation of business with startup companies.

Business domains targeted for investment and actual examples

We will foster co-creation through joint development with startups that have the following technologies and will continue to invest in them.

Business domains targeted for investment	<ul style="list-style-type: none"> • Domains related to motion control technology, peripheral technologies (including AI and IoT) and those related to “disruptive innovation” Domains related to robotics, brakes, construction machinery, medical/welfare equipment, 3D printers, motors, sensors and others • Domains related to production technology Including those for surface treatment, processing technology and model-based development
Actual examples (from June 2019)	<ul style="list-style-type: none"> • Electrification technology • Power electronics technology • Battery technology

Intellectual Property Activities to Support Innovation

Intellectual Property-Backed Management Strategies

In order to help all of its stakeholders, including customers and partner companies, to achieve sustainable growth and business expansion, the Nabtesco Group deems the core values that serve as a source of business competitiveness as intellectual properties and makes Group-wide efforts to promote intellectual property-backed management strategies that are designed to protect and increase the competitive advantage of such intellectual properties, thus pursuing the enhancement of corporate value.

Creation of New Business through IP Landscape Analysis

Nabtesco is working to enhance its core value and acquire new value by searching for new market/customer needs by the effective use of IP landscape analysis. Regarding the equipment and systems for which the Nabtesco Group’s products and services are adopted, we globally collect information available in the public domain, including patent and other intellectual property information, in order to conduct macroanalyses of the related technologies, market trends and customer needs. Based on the analysis results,

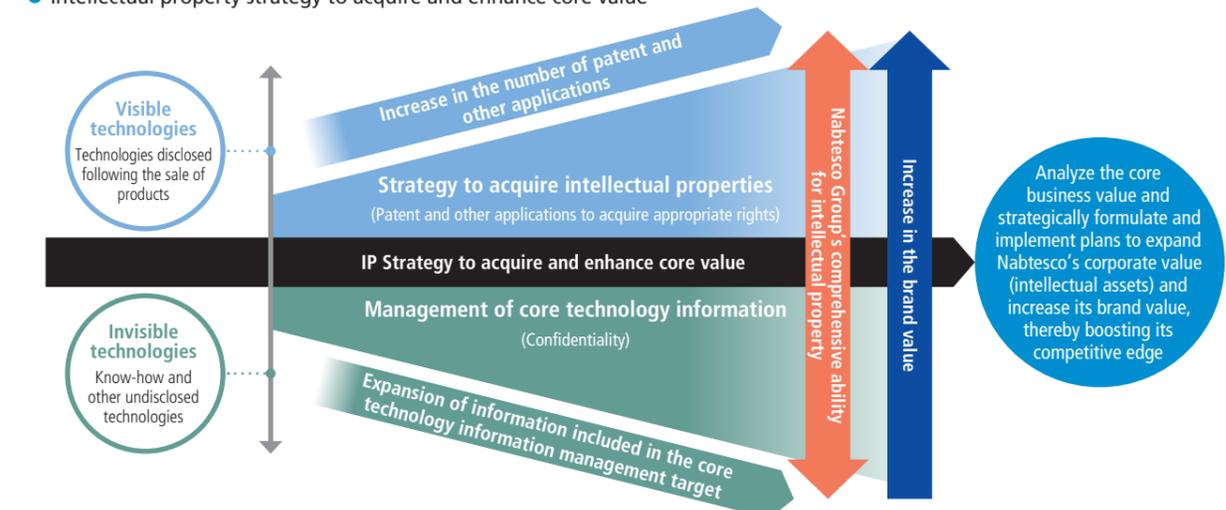
we search for new business themes and new market/customer needs, verify our development themes, and also search for open innovation partners in our effort to set our future business policies and promote discussion across internal organizations, such as in-house companies, about collaboration with other companies.

Management of Core Technological Information and Strategy to Acquire Intellectual Property Rights

The Nabtesco Group’s competitive advantages, which provide us with core value, include deep relationships of trust with customers, successful branding in the market, technological ideas for products and services and design and manufacturing know-how. We protect these intellectual properties by patent and design rights and trademarks and as trade secrets. For technologies that we can keep confidential, we impose strict management controls to protect them as core (confidential) technological information, while for technologies that we cannot keep confidential because we sell them, we protect them based on our strategy to acquire intellectual property rights proactively.

We will protect our existing and future intellectual

Intellectual property strategy to acquire and enhance core value



Specific Measures to Achieve the Long-term Vision

properties as our core value through the management of core technological information and the strategy to acquire intellectual property rights, thereby continuing to enhance the Nabtesco Group's comprehensive ability regarding intellectual property and increase our brand value.

Central Management of Intellectual Property and Promotion of Business Utilization

In order to create intellectual properties and acquire intellectual property rights based on our core value acquisition and enhancement plan, we are working to centrally manage the following information in our database of intellectual property ideas in order to share such information and use it more widely across the company: notifications made about the ideas, know-how, design and others created as core value within the company as well as information about customers' and competitors' patent and other rights collected for and examined through IP landscape analysis.

In the future we will also include in the database technological information related to design and development and manufacturing services as well as information about transactions with suppliers and about technological agreements, with an eye to developing a central and comprehensive intellectual property management system based on the database. We will utilize this system for the creation of new businesses, M&A and for the establishment of a patent-related network.

Inclusion of the Creation of Intellectual Property in Performance Indicators

In FY2017, we included the creation of intellectual property in the performance indicators for the in-house companies and Group companies. It has been ensured that actions related to intellectual property strategies are systematized, formulated and implemented as one of the business plans in the medium-term management plans set for each of the in-house companies and Group companies.

In addition, with the aim of nurturing a culture in which all engineers proactively develop ideas for new businesses and technologies as well as design/manufacturing know-how, we encourage proactive creative activities as a performance evaluation target for in-house companies. Moreover, we give commendations to excellent in-house inventors who have contributed to our businesses under the Nabtesco Brilliant Inventor (NBI) system at

the company's founding anniversary ceremonies, thus recognizing such contributions across the Group and increasing employees' motivation toward creative activities.

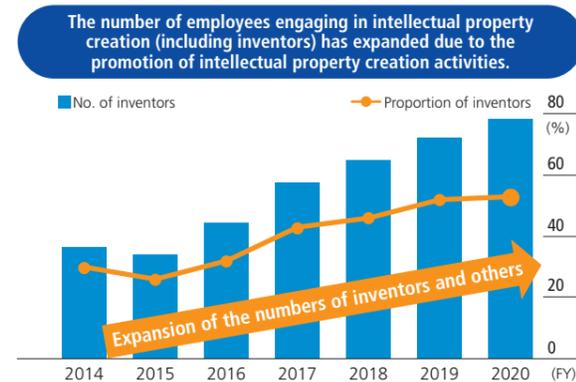
Through these activities, the number of notifications made on intellectual property creation steadily increased by about four times the FY2013 level in FY2020. Moreover, the ratio of inventors to the total number of our engineers has been increasing year on year. In the category of engineers, we include not only those engaging in design and development but also those in charge of production technologies at our plants. By conducting intellectual property creation activities as a unified team across the company, we have steadily nurtured a mindset oriented to the creation of innovation among engineers across the Nabtesco Group.

Number of notifications on intellectual property creation



* Because the fiscal year-end was changed from FY2015, the results for this fiscal year have been annualized.

Number of in-house inventors



Manufacturing Innovation

Promoting Manufacturing Innovation with the Aim of Developing Unrivalled Manufacturing Technology to Be Globally Competitive

Since FY2016, the Nabtesco Group has been committed to promoting its manufacturing innovation in order to establish an overwhelming competitive edge and enhance profitability and capital efficiency.

Through manufacturing innovation, we endeavor to further enhance corporate value by pursuing even higher QCDS performance to meet the needs of our customers based on advanced automation, renewed production management, logistics reforms and strengthening of supply chains, while improving profitability and capital efficiency.

Identifying Strengths and Weaknesses through Analysis of the Management KPIs of Each In-House Company

We analyze the management KPIs from various aspects, including labor productivity, inventory and CO₂ emissions, to identify the strong and weak points for each of the companies and to further enhance their respective strengths and the Group's strength as a whole. We have 20 KPIs including the aforementioned, based on which we set our daily improvement themes.

Management KPIs

1. Net sales
2. Operating income (margin)
3. Value added per employee
4. Labor productivity per employee
5. ROE
6. ROIC
7. Inventory
8. Inventory turnover period
9. Production lead time
10. On-time delivery rate for customer services
11. On-time delivery rate for procurement
12. Procurement cost reduction
13. Procurement-related nonconformity rate
14. Internal nonconformity rate
15. Quality complaint rate
16. CO₂ emissions
17. CO₂ emissions per unit of sales
18. CO₂ emissions reduction
19. Frequency rate of occupational accidents
20. Frequency of traffic accidents

Building a Visualization (Status Monitoring) System with ICT

For the smooth operation of production lines, it is important to analyze on-site situations in real time and detect problems and implement measures as soon as possible.

To address this issue, we have taken measures to develop a system to promote the visualization and unified management of on-site information as well as the early detection of daily issues through the usage of ICT devices.

We plan to automate decision-making and forecasting, which are currently conducted by people, through the introduction of manufacturing execution systems with the use of AI, thus developing cutting-edge systems to realize production management suitable for each in-house company in the future.

Promoting Automation of Labor-Intensive Work That Requires Advanced Skills

As there are processes that require advanced skills, including machining processes, assembly and inspection in plant operations, the automation of processes that depend on the advanced skills of workers is indispensable looking ahead to the further decline of the working-age population.

To this end, we promote the automation of high-level work processes by introducing and utilizing unique production technologies in addition to advanced robot and sensing technologies. In addition, we aim to develop flexible, advanced automated lines in order to respond to large variety and small quantity production and enable agile changes in variety and quantity.

Logistics Reforms for Overall Optimization across Supply Chains

While realizing a comprehensive production system without delay by expanding the use of automated guided vehicles (AGVs) at our manufacturing sites, we reinforce data linkage in supply chains. Moreover, we strive to enhance logistics efficiency through 3rd party logistics (3PL) as well as the milk-run system¹ and modal shift². For cost reduction, we will review our procurement activities across our in-house companies, create synergies through joint purchasing and foster intensive purchasing from suppliers that consistently demonstrate high QCDS performance. We will thereby further increase our cost competitiveness to outstrip our competitors.

¹ Collecting shipments in a preset route

² Modal shift means to shift from cargo transportation by road to more environment-friendly transportation by rail and sea.

Development of the Next Generation of Manufacturing Human Resources

In order to maintain and further develop Nabtesco's unique manufacturing approach over coming generations, we are attributing importance also to the development of employees who are in charge of production and procurement activities. We are working to increase the operational skills of these employees by supporting their self-directed research activities and providing them with new educational courses.

ROIC Improvement by Building Manufacturing Innovation

ROIC improvement measures	Aim	Direction	Key challenges
Increasing operating income margin	Reduce internal costs	Strengthening production capability	<ul style="list-style-type: none"> • More advanced automation • Standardization/on-site improvement (manufacturing support) • Development of unique production technologies
	Lower procurement costs	Strengthening procurement ability (strengthening of supply chains)	<ul style="list-style-type: none"> • Optimization of "Make & Buy" • Cross-organizational procurement • Generating CR (Cost Reduction) synergies - Centralized/joint procurement
Increasing assets turnover	Shortening production lead times	Strengthening production management ability	<ul style="list-style-type: none"> • Renewal of production management with the use of ICT • Logistics reform - Realization of 3PL, milk-run system, etc.
	Shortening inventory turnover period		

Financial Data

(¥ Million)

Major Financial Indicators	2011/3	2012/3	2013/3	2014/3	2015/3	2015/12*2	2016/12*3	2017/12	2018/12	2019/12	2020/12
Net sales	169,303	198,527	179,543	202,292	219,657	187,000	244,968	282,422	294,626	289,808	279,358
Cost of sales	127,712	148,184	134,859	148,321	158,693	136,576	175,508	201,982	215,043	212,105	206,166
Selling, general and administrative expenses (SG&A)	21,379	27,484	29,670	33,877	37,347	35,129	44,294	51,285	53,184	51,998	50,655
Operating income	20,212	22,858	15,013	20,092	23,615	15,294	25,982	29,468	21,889	25,320	28,533
Profit before tax	21,954	24,847	18,997	23,522	27,026	15,358	26,779	34,907	29,962	27,979	33,718
Income taxes expense	7,485	8,873	5,598	8,140	9,254	5,731	7,843	8,338	6,997	8,028	10,206
Non-controlling interests*1	1,080	1,217	129	404	25	(1,432)	330	1,423	1,935	2,020	3,008
Net income attributable to owners of the parent	13,387	14,756	13,269	14,978	17,746	11,059	18,606	25,146	21,029	17,931	20,505
At year-end											
Current assets	119,003	123,929	112,048	134,159	139,321	128,575	143,792	165,695	179,124	179,154	183,110
Property, plant and equipment	44,442	51,509	54,475	55,225	56,877	55,916	63,155	70,700	80,573	87,083	89,522
Total assets	180,729	208,092	203,056	233,984	245,992	233,381	256,973	301,557	328,568	344,558	351,723
Current liabilities	74,892	70,897	52,322	73,161	64,830	73,000	74,876	96,934	112,558	109,614	113,662
Interest-bearing debt	20,157	31,694	26,389	26,204	16,659	15,333	16,949	27,720	45,310	43,936	39,866
Equity	96,531	107,466	120,857	139,471	158,664	148,924	155,904	177,002	189,255	199,133	211,641
Equity attributable to owners of the parent	90,241	99,092	114,038	131,043	149,862	142,068	147,929	167,537	178,702	187,398	198,031
Cash flows											
Cash flows from operating activities	27,997	15,104	12,952	27,597	19,949	8,746	27,730	23,071	24,165	38,433	34,203
Cash flows from investing activities	(4,419)	(27,464)	(13,693)	(8,064)	(7,880)	(4,886)	(14,989)	(20,186)	(21,823)	(20,086)	(10,710)
Cash flows from financing activities	(1,849)	6,035	(10,090)	(8,175)	(15,888)	(19,090)	(4,808)	(950)	8,396	(13,365)	(17,497)
Per share of common stock (¥)											
Net income per share	105.91	116.74	104.57	117.95	140.24	88.85	150.64	203.85	169.65	144.50	165.18
Equity attributable to owners of the parent per share	713.77	784.12	894.86	1,035.68	1,184.17	1,150.41	1,193.79	1,355.72	1,438.64	1,508.53	1,594.10
Cash dividends per share	25.00	34.00	34.00	38.00	44.00	44.00	50.00	72.00	73.00	73.00	75.00
Major management indicators (%)											
Operating income margin	11.9	11.5	8.4	9.9	10.8	8.2	10.6	10.4	7.4	8.7	10.2
Return on assets (ROA)	8.1	7.6	6.5	6.9	7.4	4.6	7.6	9.0	6.7	5.3	5.9
Return on equity (ROE)	15.8	15.6	12.5	12.2	12.6	7.6	13.0	15.9	12.1	9.8	10.6
Payout ratio	23.6	29.1	32.5	32.2	31.4	49.5	35.1	35.3	43.0	50.5	45.4
Equity ratio	49.9	47.6	56.2	56.0	60.9	60.9	57.6	55.6	54.4	54.4	56.3

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

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

*3 Adopted IFRS from the fiscal year ended December 31, 2017. Figures for the fiscal year ended December 31, 2016 have been restated in IFRS terms.

Financial Data

	(¥ Million)	
	As of December 31, 2019	As of December 31, 2020
Consolidated Balance Sheets		
Assets		
Current assets		
Cash and cash equivalents	58,686	64,665
Trade receivables	69,175	74,632
Contract assets	1,000	1,230
Other receivables	1,300	1,114
Inventories	41,257	36,505
Other financial assets	4,752	2,582
Other current assets	2,984	2,382
Total current assets	179,154	183,110
Non-current assets		
Property, plant and equipment	87,083	89,522
Intangible assets	5,127	3,905
Right-of-use assets	9,004	7,558
Goodwill	14,161	14,658
Investment property	3,928	2,192
Investments accounted for using the equity method	31,952	34,887
Other financial assets	11,210	12,646
Deferred tax assets	1,868	2,016
Other non-current assets	1,072	1,230
Total non-current assets	165,404	168,614
Total assets	344,558	351,723
Liabilities and equity		
Liabilities		
Current liabilities		
Operating payables	45,021	44,838
Contract liabilities	5,579	5,763
Bonds and borrowings	30,719	37,001
Other payables	14,405	9,723
Income taxes payable	4,040	6,700
Provisions	1,162	1,065
Lease liabilities	2,236	2,209
Other financial liabilities	13	—
Other current liabilities	6,439	6,362
Total current liabilities	109,614	113,662
Non-current liabilities		
Bonds and borrowings	13,217	2,865
Lease liabilities	6,568	6,291
Liabilities concerning retirement benefits	9,569	10,211
Deferred tax liabilities	4,540	4,949
Other financial liabilities	—	69
Other non-current liabilities	1,916	2,035
Total non-current liabilities	35,810	26,421
Total liabilities	145,424	140,083
Equity		
Capital stock	10,000	10,000
Share premium	14,932	14,998
Retained earnings	163,794	173,988
Treasury shares	(2,536)	(2,471)
Other components of equity	1,208	1,515
Equity attributable to owners of the parent	187,398	198,031
Non-controlling interests	11,735	13,610
Total equity	199,133	211,641
Total liabilities and equity	344,558	351,723

	(¥ Million)	
	FY2019	FY2020
Consolidated Statements of Profit or Loss		
Net sales	289,808	279,358
Cost of sales	(212,105)	(206,166)
Gross profit	77,703	73,192
Other income	1,795	6,515
Selling, general and administrative expenses	(51,998)	(50,655)
Other expenses	(2,180)	(519)
Operating income	25,320	28,533
Finance income	766	2,291
Finance costs	(971)	(573)
Equity in earnings of affiliates	2,864	3,467
Profit before tax	27,979	33,718
Income tax expense	(8,028)	(10,206)
Net income	19,951	23,512
Net income attributable to		
Owners of the parent	17,931	20,505
Non-controlling interests	2,020	3,008
Net income	19,951	23,512
Net income per share		
Basic earnings per share (¥)	144.50	165.18
Diluted earnings per share (¥)	144.42	165.09

Financial Data

	(¥ Million)	
Consolidated Statements of Comprehensive Income	FY2019	FY2020
Net income	19,951	23,512
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement of net defined benefit plans (assets)	(189)	(578)
Net changes in financial assets measured at fair value through other comprehensive income	288	(528)
Share of other comprehensive income for equity method affiliates	328	516
Total items that will not be reclassified to profit or loss	427	(590)
Components that may be reclassified subsequently to profit or loss		
Exchange differences on foreign operations	(919)	368
Total components that will be reclassified to profit or loss	(919)	368
Other comprehensive income after taxes	(492)	(222)
Total comprehensive income	19,459	23,291
Comprehensive income attributable to		
Owners of the parent	17,602	20,201
Non-controlling interests	1,856	3,090
Total comprehensive income	19,459	23,291

	(¥ Million)	
Consolidated Statements of Cash Flows	FY2019	FY2020
Cash flows from operating activities		
Net income	19,951	23,512
Depreciation and amortization	13,093	13,730
Impairment loss	1,268	3,885
Increase (decrease) in liabilities concerning retirement benefits	151	79
Interest and dividends income	(302)	(301)
Interest expenses	269	205
Equity loss (gain) in earnings of affiliates	(2,864)	(3,467)
Loss (gain) on sales of fixed assets	400	104
Decrease (Increase) in sales on investment property	—	(4,892)
Decrease (Increase) in valuation on investment securities	(456)	(1,983)
Expenses of income tax	8,028	10,206
Decrease (increase) in trade receivables	5,972	(5,242)
Decrease (increase) in inventories	2,015	4,613
Increase (decrease) in operating payables	(4,888)	(223)
Others	2,589	132
Subtotal	45,226	40,358
Interest and dividends received	1,230	1,141
Interest paid	(256)	(190)
Income taxes refunded (paid)	(7,767)	(7,106)
Net cash and cash equivalents provided by operating activities	38,433	34,203
Cash flows from investing activities		
Increase (decrease) in time deposits (Increase)	(4,535)	2,163
Purchases of tangible fixed assets	(13,743)	(17,148)
Proceeds from sales of tangible fixed assets	206	112
Purchase of intangible fixed assets	(1,020)	(1,549)
Proceeds from sales on investment property	—	6,585
Others	(994)	(872)
Cash flows from investing activities	(20,086)	(10,710)
Cash flows from financing activities		
Increase (decrease) in short-term bank loans	(3,106)	(3,805)
Proceeds from long-term loans payable	2,152	60
Repayment of long-term loans payable	(232)	(310)
Payments of lease liabilities	(2,477)	(2,547)
Increase in treasury shares	42	12
Cash dividends paid	(9,071)	(9,691)
Cash dividends paid to minority shareholders	(674)	(1,215)
Cash flows from financing activities	(13,365)	(17,497)
Increase (decrease) in cash and cash equivalents	4,982	5,995
Cash and cash equivalents at the beginning of term	54,039	58,686
Effect of exchange rate changes on cash and cash equivalents	(335)	(16)
Cash and cash equivalents at the end of term	58,686	64,665

Non-Financial Data

● Governance

Indicators		FY2017	FY2018	FY2019	FY2020	Unit
Number of Directors	Inside Directors	Male	7	7	6	6
		Female	0	0	0	0
		Subtotal	7	7	6	6
	Independent Outside Directors	Male	2	2	2	2
		Female	1	1	2	2
		Subtotal	3	3	4	4
Total		10	10	10	10	Persons
Number of Executive Officers-cum-Directors		6	7	6	6	
Ratio of Executive Officers-cum-Directors		60	70	60	60	%
Ratio of Independent Outside Directors		30	30	40	40	%
Ratio of female Directors		10	10	20	20	%
Number of Audit & Supervisory Board Members	Inside Members	Male	2	2	2	2
		Female	0	0	0	0
		Subtotal	2	2	2	2
	Independent Outside Members	Male	3	3	3	3
		Female	0	0	0	0
		Subtotal	3	3	3	3
Total		5	5	5	5	Persons
Ratio of Audit & Supervisory Board Members (Independent)		60	60	60	60	%
Average age of Executive Officers		62	62	63	62	Years old
Term of office of Directors		1	1	1	1	Years
Number of times Board of Directors' meetings are held		18	18	16	15	Times
Attendance rate at Board of Directors' meetings		96.7	98.89	100	100	%
Attendance rate of Independent Directors		94.4	96.29	100	100	%
Number of times Audit & Supervisory Board meetings are held		13	13	13	10	Times
Number of times Supervisory Board meetings are held		2	2	2	2	Times
Attendance rate at Audit & Supervisory Board meetings		100	100	100	98	%
Attendance rate of Audit & Supervisory Board Members (Independent)		100	100	100	96.7	%
Executive Officers	Male	21	21	21	24	Persons
	Female	0	0	0	0	
	Subtotal	21	21	21	24	
Number of Nominating Committee members	Inside Executive Officers	2	2	1	1	Persons
	Independent Outside Executive Officers	3	3	3	4	
	Total	5	5	4	5	
Number of times Nominating Committee meetings are held		3	3	3	3	Times
Number of Remuneration Committee members	Inside Executive Officers	1	1	1	1	Persons
	Independent Outside Directors/Audit & Supervisory Board Members	2	2	3	4	
	Total	3	3	4	5	
Number of times Remuneration Committee meetings are held		2	2	2	2	Times

● Remuneration for Directors and Audit & Supervisory Board Members

Composition	FY2017	FY2018	FY2019	FY2020	Unit	
Remuneration of Directors (excl. Outside Directors)	Basic Compensation (Fixed Compensation + Performance-linked Compensation)	235	301	220	210	Million yen
	Performance-linked stock compensation (BBT)	134	122	101	73	
	Stock options	8	-	-	-	
	Total	377	424	320	283	
Remuneration for Audit & Supervisory Board Members (excl. Independent Members)	Basic Compensation (Fixed Compensation)	53	48	54	54	Million yen
	Performance-linked stock compensation (BBT)	-	-	-	-	
	Stock options	-	-	-	-	
	Total	53	48	54	54	
Remuneration for Outside Directors and Audit & Supervisory Board Members (Independent)	Basic Compensation (Fixed Compensation)	51	54	53	61	Million yen
	Performance-linked stock compensation (BBT)	-	-	-	-	
	Stock options	-	-	-	-	
	Total	51	54	53	61	

* Following the introduction of the Board Benefit Trust (BBT) as resolved at the 14th Annual General Meeting of Shareholders held on March 28, 2017, the previous long-term performance-linked stock compensation-type stock option compensation was abolished. Figures for the stock compensation-type stock option stated in the above table are those issued during the fiscal year under review prior to the abolition.

● Shareholder Rights

Anti-takeover Measures	None
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● Remuneration Paid or payable to the Financial Auditor

Indicators	Data Coverage	FY2017	FY2018	FY2019	FY2020	Unit
Remuneration paid or payable to the Financial Auditor	Nabtesco	88	109	94	94	Million yen
Total *		112	125	110	110	

* The total amount described above represents the remuneration concerning the audit under the Companies Act and remuneration concerning the audit under the Financial Instruments and Exchange Act.

● Compliance

Indicators	Data Coverage	FY2017	FY2018	FY2019	FY2020	Unit
Whistleblowing program (round number of times used)	Consolidated	50	50	40	40	Times
Violation of law, etc.	Consolidated	0	0	0	0	Times
Allowance for financial penalties and settlement money	Consolidated	0	0	0	0	Yen
Number of participants of compliance education through e-learning	Consolidated	9,390	4,179	10,756	8,526	Persons (cumulative total)
Political contributions	Consolidated	0	0	0	0	Yen

● Socially Beneficial Products and Services

● Quality management system

Indicator	Data Coverage	As of 2019	As of 2020	Unit
Certification status (including ISO 9001 and industry-specific standards)	Consolidated	Domestic: 13 certifications, Overseas: 19 certifications	Domestic: 12 certifications, Overseas: 18 certifications	Times
Certified rate		90%	over 90%	%

● Employment-related Data/Fostering Workplace Diversity

Indicator	Data Coverage	FY2017	FY2018	FY2019	FY2020	Unit		
Number of consolidated employees	Consolidated	7,526	7,687	7,596	7,544	Persons		
	Male	6,292	6,413	6,426	6,360	Persons		
	Female	1,234	1,274	1,170	1,186	Persons		
Female employee rate		16.4	16.6	15.4	15.7	%		
Number of non-consolidated employees	Non-consolidated	2,201	2,253	2,297	2,324	Persons		
	Male	1,984	2,030	2,078	2,099	Persons		
	Female	217	223	219	225	Persons		
Female employee rate		9.9	9.9	9.5	9.7	%		
Average age	Non-consolidated	41.4	41.3	41.4	41.4	Years old		
	Male	41.6	41.5	41.5	41.5	Years old		
	Female	38.9	39.4	40.3	41.7	Years old		
Average service years	Non-consolidated	16.0	16.0	16.1	16.1	Years		
	Male	16.2	16.1	16.2	16.3	Years		
	Female	14.6	14.6	15.0	15.3	Years		
Average annual salary		Non-consolidated	7,343,000	7,495,000	7,230,000	6,945,000	yen	
Number of non-Japanese employees (Non-consolidated)	Non-consolidated	66	70	63	63	Persons		
	Male	41	42	41	40	Persons		
	Female	25	28	25	23	Persons		
Number of non-Japanese employees (Consolidated)	Consolidated	2,956	3,019	3,012	2,899	Persons		
	Male	2,324	2,371	2,399	2,282	Persons		
	Female	632	648	613	617	Persons		
Ratio of non-Japanese employees (Consolidated)		Consolidated	39.3	39.3	39.6	38.4	%	
Number of employed new graduates	Non-consolidated	62	74	70	72	Persons		
	Male	57	68	66	62	Persons		
	Female	5	6	4	10	Persons		
Number of employed mid-careers	Non-consolidated	37	40	36	38	Persons		
	Male	29	35	31	37	Persons		
	Female	8	5	5	1	Persons		
Retention rate of employed new graduates (turnover rate 3 years later)	Non-consolidated	7	4	6	5	%		
	Male	8	2	3	4	%		
	Female	0	13	17	20	%		
Voluntary retirement rate	Non-consolidated	1.3	1.5	2.2	2.3	%		
	Male	1.1	1.4	1.9	2.3	%		
	Female	2.4	2.8	5.4	2.7	%		
Promotion status	Employees in Managerial positions	Non-consolidated	376	376	377	389	Persons	
		Male	Non-consolidated	350	348	350	358	Persons
		Male (non-Japanese)	Non-consolidated	5	6	6	5	Persons
		Female	Non-consolidated	1	1	4	4	Persons
		Female (non-Japanese)	Non-consolidated	0	0	1	1	Persons
	Female managerial position rate		Non-consolidated	0.3	0.3	1.1	1.1	%
	Executive officers	Male	Non-consolidated	21	21	21	24	Persons
		Male (non-Japanese)	Non-consolidated	0	0	0	0	Persons
		Female	Non-consolidated	0	0	0	0	Persons
		Female (non-Japanese)	Non-consolidated	0	0	0	0	Persons
		Female executive officer ratio		Non-consolidated	0	0	0	0
	Board of Directors	Male	Non-consolidated	9	9	9	8	Persons
		Male (non-Japanese)	Non-consolidated	0	0	0	0	Persons
		Female	Non-consolidated	1	1	1	2	Persons
		Female (non-Japanese)	Non-consolidated	0	0	0	0	Persons
Female board member ratio		Non-consolidated	10	10	10	20	%	
Number of board of Directors including subsidiaries		Consolidated	273	278	276	264	Persons	
Board members	locally employed	Consolidated	124	122	123	120	Persons	
	percentage of locally employed	Consolidated	45.4	43.9	44.6	45.5	%	
Number of employed people with disabilities		Non-consolidated	55.5	58.3	58.9	99	Persons	
Employment rate of people with disabilities		Non-consolidated	2.1	2.16	2.13	2.28	%	
Total working hours/year		Non-consolidated	2,097	2,058	2,024	2,002	hours	
Overtime work hours/month		Non-consolidated	27.2	24.2	22.5	19.7	hours	
Business department (Internal company)	Non-consolidated	28.1	25.2	23.0	19.5	hours		
	Indirect department (corporate department)	Non-consolidated	16.8	15.6	16.5	21.1	hours	
Rate of paid leave taken		Non-consolidated	70.5	72.9	81.0	73.9	%	
Number of employees who used childcare schemes	Non-consolidated	5	10	10	15	Persons		
	Male	Non-consolidated	0	0	1	10	Persons	
	Female	Non-consolidated	5	10	9	5	Persons	
Number of employees who took nursing care leave	Non-consolidated	0	0	1	3	Persons		
	Male	Non-consolidated	0	0	0	2	Persons	
	Female	Non-consolidated	0	0	1	1	Persons	
Number of re-employed retirees		Non-consolidated	24	25	17	29	Persons	
Re-employment rate of retirees		Non-consolidated	77.4	75.8	81.0	96.7	%	
Labor union participation rate		Non-consolidated	84.8	85.3	85.2	85.1	%	

* Only regular employees are included in the numbers of consolidated and non-consolidated employees.

Non-Financial Data

Occupational Health and Safety Management

Management System of Occupational Health and Safety (Acquisition of OHSAS 18001 certification)

Indicator	Data Coverage	As of 2019	As of 2020
Plants certified under OHSAS 18001	Group companies in Japan	4 plants in Japan (Gifu Plant, Tarui Plant, Tsu Plant, Kobe Plant)	5 plants in Japan (Gifu Plant, Tarui Plant, Tsu Plant, Kobe Plant, Seishin Plant)
OHSAS 18001 Acquisition ratio	Group companies in Japan	50%	63%

Education and Awareness-raising Activities on Health and Safety

Indicator	Data Coverage	As of 2019		As of 2020	
		Times held	Participants	Times held	Participants
Safety practitioner liaison group meeting	Group companies in Japan	2 times	53 in total	2 times	131 in total
Safety manager training		2 times	54 in total	2 times	65 in total
Safety youth training		1 times	80 in total	2 times	123 in total

Assessment of Safety and Health Risks

Indicator	Data Coverage	FY 2019	FY 2020	Unit
ESH risk assessment*	Consolidated companies	5	3	Number of assessments

* Safety and health risk assessment performed by Nabtesco associated with new businesses before they are launched

Occupational Health and Safety

Indicator	Data Coverage	FY2017				FY2020	
		FY2017	FY2018	FY2019	FY2020	Unit	
Occupational accident frequency rate	Group companies in Japan*	0.36	0.52	0.99	0.54	%	
Fatal accidents		0	0	0	0	Number of accidents	
Occupational illness frequency rate (OIFR)		Not available	0	0	0	%	

* Including employees of group companies in Japan and their subcontractors

Efforts to Eliminate Mental Health Issues

Indicator	Data Coverage	FY2020	Unit
Rate of employees who took part in the stress check	Non-consolidated	96.1	%
Rate of employees with a high level of stress	Non-consolidated	9.03	%

Human Resource Development

Human Capital Development

Indicator	Data Coverage	FY2017	FY2018	FY2019	FY2020	Unit
Accumulated hours taken for training/year	Non-consolidated	29,437	44,556	53,200	29,921	Times
Training hours per person/year		13	19	23	16.9	Times
Total cost for training/year		Cannot be calculated due to interdepartmental integration	164,456	136,855	58,416	Thousand yen
Training cost per person/year	Cannot be calculated due to interdepartmental integration	73.8	60.2	25.3	Thousand yen	
Number of trainees dispatched overseas (combination of overseas education and work experience)	Non-consolidated	3	6	3	0	Persons
Number of employees dispatched to overseas training	Non-consolidated	5	30	27	9	Persons

Satisfaction of Communications in Organization (Questionnaire result for employees)

Indicator	Data Coverage	FY2015	FY2017	FY2020	Unit
Satisfaction	Non-consolidated (implement once every two years)	68.6	69.3	69.9	%
Male employees		69	69.5	70.5	%
Female employees		68.1	69.2	69.4	%
Covered employee rate		100	100	100	%

Human Rights and Labor Practices

Human Rights Due Diligence

Indicator	Data Coverage	FY2020	Unit
Targeted countries of country risk survey	Consolidated	16 (countries where offices located)	countries
Targeted offices of human rights risk survey		13 (employee coverage rate: 98%)	locations
Recognized serious human rights risk		None	-
Violation of local laws and regulations and international norms		None	-
Issues related to the infringement of human rights		None	-

Fair, Proper and Transparent Procurement Activities

CSR-Oriented Procurement

Indicator	Data Coverage	FY2019	FY2020	Unit
Number of respondents to the SAQ	Japan, China	About 1,000	890	companies
Number of engagement by visiting suppliers	Japan, China	9	10	companies

Consideration of Community and Society

Invested Resource and Impact

Indicator	Data Coverage	FY2020	Unit
Types of activities as corporate citizen	Donation	Consolidated	2.4
	Investment in community	Consolidated	35.3
	Commercial / initiative	Consolidated	62.3
Invested resource	Cash donation	Consolidated	13/56.9
	Time donation	Consolidated	4/17.3
	In-kind donation	Consolidated	5.6/24.3
	Operation cost	Consolidated	0.3/1.5
Impact	Number of people who participated in the corporate citizen activity program	Consolidated	261,848

Environmental Management

At the end of each fiscal year

Environmental Compliance

Indicator	Data Coverage	FY2017	FY2018	FY2019	FY2020	Unit
Violation of environment-related laws and regulations	Consolidated	None	None	None	None	Times
Accident/pollution that causes environmental issues		None	None	None	None	Times
Complaints about environmental issues		None	None	None	None	Times

Environmental Management System

Indicator	Data Coverage	FY2019	FY2020	Unit
Situation regarding obtaining of ISO 14001 certification	Consolidated*	9	9	companies
ISO 14001 Acquisition ratio (to sales)		over 70	over 70	%

* Nabtesco Corporation and major group companies in Japan

ESH (environment, safety, and health) Audits

Item	Data Coverage	FY2017	FY2018	FY2019	FY2020	Unit
ESH audit I*	Consolidated	•Nabtesco: 6 offices •Group companies: 6 companies •Number of guidance: 142	•Nabtesco: 6 offices •Group companies: 4 companies	•Nabtesco: 6 offices •Group companies: 6 companies	•Nabtesco: 6 offices •Group companies: 4 companies	-
Follow-up audit*		•Nabtesco: 6 offices •Group companies: 6 companies	•Nabtesco: 6 offices •Group companies: 6 companies	•Nabtesco: 6 offices •Group companies: 6 companies	•Nabtesco: 6 offices •Group companies: 4 companies	-
ESH audit II*		•Nabtesco: 7 offices •Group companies: 8 companies •Number of improvements completed: 142	•Nabtesco: 7 offices •Group companies: 7 companies	•Nabtesco: 7 offices •Group companies: 8 companies	•Nabtesco: 7 offices •Group companies: 9 companies	-

* Environmental and safety audit performed by Nabtesco

Combating Climate Change

Prevention of Global Warming

Indicator	FY2017	FY2018	FY2019	FY2020	Unit	
CO ₂ emissions	Total CO ₂ emissions	70,224	70,175	60,473	52,565	t-CO ₂
	CO ₂ emissions (in Japan)	50,464	50,184	41,947	35,328	t-CO ₂
	Scope 1	8,686	8,781	6,599	4,491	t-CO ₂
	Scope 2	61,538	61,395	53,874	48,073	t-CO ₂
	Scope 3	871,463	979,097	940,976	819,726	t-CO ₂
Energy consumption	Basic unit sales	0.249	0.238	0.209	0.188	-
	Electricity Bunker	113,906	124,899	114,740	106,048	MWh
	A oil	15,837	15,440	7,251	3,215	MWh
	LPG	7,713	7,523	6,669	6,118	MWh
	Other	17,178	17,336	17,986	12,382	MWh
Per unit of sales	0.548	0.561	0.506	0.457	-	

* The calculation scope includes Nabtesco Corporation and Group companies both in and outside Japan (23 companies and 39 sites). The calculation scope Scope 3 includes Nabtesco Corporation only.

Water Resources Conservation

Water Consumption and Water Intake Quantity

Indicator	FY2017	FY2018	FY2019	FY2020	Unit
Water resource consumption	0.78	0.76	0.73	0.68	Mm ³
Breakdown of water intake (tap water consumption)	0.296	0.287	0.287	0.237	Mm ³
Breakdown of water intake (groundwater consumption)	0.484	0.468	0.443	0.447	Mm ³

ESG Evaluation

	FY2017	FY2018	FY2019	FY2020
ESG indices	DJSI Asia Pacific	● (2013~)	●	●
	DJSI World	● (2016~)	●	●
	FTSE4Good	●	●	●
	FTSE Blossom Japan	●	●	●
	MSCI ESG Leaders Indexes	● (2015~)	●	●
S	MSCI Japan ESG Select Leaders	●	●	●
	MSCI Japan Empowering Women		●	●
E	S&P/JPX Carbon Efficient		●	●
	CDP CLIMATE CHANGE	●	●	●
	CDP WATER SECURITY		●	●
	CDP SUPPLIER ENGAGEMENT LEADER		●	●

Glossary

■ Terms related to Nabtesco's business ■ Terms related to financial and non-financial issues ■ Terms related to technologies

Term	Meaning
AGV	An automated guided vehicle (AGV) is a type of self-driving vehicle and generally means a self-running cart. It runs along the magnetic guidance of a magnetic tape and other guide paths installed on the floor. AGVs are widely used mainly at manufacturing sites for the transportation of materials, components and finished products. The application of AGVs has recently been expanded to other facilities including hospitals, where AGVs are used to transport meals. Nabtesco's RVW series drive unit is used in AGVs and others. We provide a solution through this unit, into which we have integrated the precision reduction gear RV, a specially designed omnidirectional Mecanum wheel and a motor. It is compact but provides a high load capacity and can move omnidirectionally to reduce the turning radius.
Ballast Water Management Convention	This international convention sets the provisions for the control and management of ships' ballast water and sediments, with a view to preventing the spread from one region to another of harmful aquatic organisms and pathogens that are harmful to the environment, human health and economic activities. It is one of the main factors that are propelling the digitization of engines for large marine vessels and the use of non-fossil fuels.
CASE	CASE is an acronym coined from the initial letters of four words: Connected, Autonomous, Shared/Service, and Electric. It is said that the always-on connection of automobiles to the Internet will enable the collection of big data about the situations of automobiles and the surrounding roads, thereby accelerating reforms to the automobile industry.
CVC	Through a corporate venture capital (CVC) fund, a company invests in companies that will generate synergy effects with its own business and in ventures in new business fields. Nabtesco established Nabtesco Technology Ventures AG in Zurich, Switzerland, as a company to lead its CVC activities in 2018. At the same time, we built a strategic partnership with Emerald Technology Ventures, which has 20 years of experience in corporate venturing and a prominent profile in Western countries, thereby accelerating our collaboration with start-up companies.
Digital Transformation (DX)	DX means to reform business and operational processes by using the latest digital technologies. Nabtesco is implementing a range of reform projects, such as those for work style reforms and manufacturing innovation. In these projects, we are fostering DX by making more effective use of IoT technologies and introducing advanced digital tools.
FA	Factory automation (FA) means to automate a series of work processes implemented at a plant, including production and shipment, by using robots, sensors and information systems.
MRO	To foster after-sale business, Nabtesco provides maintenance, repair and overhaul (MRO) services widely across its Transport Solutions, Accessibility Solutions and Manufacturing Solutions segments. By providing more functions that contribute to the preventive maintenance of equipment in the service, we are helping customers use our products with more safety and a greater sense of security and comfort.
OEM	An original equipment manufacturer (OEM) is generally a company that manufactures products to be sold under the brands of other companies. For Nabtesco, however, OEM means to manufacture and sell a component to be used in a new product of a customer.
QCD(S)	QCD refers to the following three important elements for manufacturing: quality (Q), cost (C) and delivery (D). QCDS means QCD plus service (S). Nabtesco is working to improve its QCDS levels by promoting automation, increasing its production management efficiency, enhancing its supply chain management and streamlining its logistics operations.
Systematization	Systematization means to build a system by combining a product with peripheral elements such as engineering and other services for the provision of multifaceted value (and a solution).
CDP	CDP is an NGO that collects and evaluates information about companies' environmental measures. The organization is operating a global information disclosure system to help investors, companies, nations, regions and cities manage their environmental impact. Through CDP, companies that account for at least 50% of the world's total market value are disclosing their environmental data, including that related to climate change. Nabtesco has been disclosing its strategies to deal with climate change and its greenhouse gas emission data through CDP since FY2010 and been included in the CDP's Climate Change A list for five years in a row since 2016.
DJSI	The Dow Jones Sustainability Indices (DJSI) were developed jointly by S&P Dow Jones Indices of the United States and RobecoSAM of Switzerland. Candidate companies for the DJSI are selected annually based on an assessment of their economic, environmental and social performance, with the stocks of those found to be implementing comprehensive and advanced measures and expected to achieve sustainable growth on a long-term basis included in the indices. Nabtesco has been included in the DJSI World Index for five straight years since 2016 and is thus rated highly on a global basis.

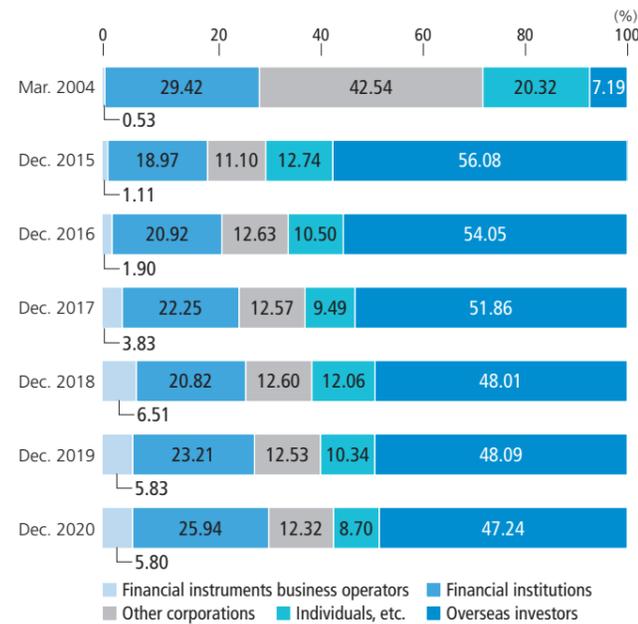
Term	Meaning
Dynamic Materiality	"Materiality" is a concept that was initially conceived in the accounting field to refer to factors that have a serious impact on financial affairs. The scope has since been expanded to mean material corporate, social and economic issues and the concept is now used in the area of sustainability, for example, under the framework used to disclose sustainability information. "Dynamic materiality" implies that materiality changes dynamically according to changes in the environment and that the priorities to be addressed for the creation of economic and social value can change depending upon changes in business and economic conditions.
Energy creation	Energy creation means to produce energy internally through photovoltaic power generation and by using fuel cells in addition to promoting energy conservation.
IP Landscape	Intellectual Property (IP) Landscape refers to an analysis method and a management strategy that makes use of intellectual property-related market information. Nabtesco analyzes IP information across a global market to gain insights into customer needs, technological trends and the situations of competitors in a multifaceted manner. Based on these insights, we search for new markets and new application areas, business partnership opportunities, M&A candidates and others.
ROIC tree	ROIC is an abbreviation for Return on Invested Capital. An ROIC tree is a tree-structured diagram that shows the elements of ROIC. You can improve ROIC by improving the elements laid out in the tree structure, and the ROIC tree thus provides a method to improve ROIC. For higher profitability and more efficient use of its operating assets, Nabtesco is working to achieve its improvement targets such as the following by breaking them down into the daily tasks to be fulfilled on-site by the business departments: improve the fixed assets turnover, reduce the inventory/receivables turnover period in terms of days and optimize the payment conditions. Meanwhile, the administrative departments carefully manage the financial affairs, including managing interest-bearing debts and making growth investment and shareholders' return compatible, and are striving to improve the company's capital efficiency.
SAQ by suppliers	For the promotion of CSR-oriented procurement across our supply chain, we ask each supplier to complete a self-assessment questionnaire (SAQ), which is intended to increase their awareness of our procurement policy and help them make improvements based on the assessment results.
SBT	The Science Based Targets (SBT) initiative helps companies set their greenhouse gas emissions targets on a medium- to long-term basis toward the attainment of the "two-degree target" (hold the "increase in the global average temperature to well below two degrees Celsius above pre-industrial levels") upheld under the Paris Agreement, which is an international agreement to curb climate change and came into force in 2016. Companies have their CO ₂ emissions reduction targets examined and certified under the SBT initiative, and Nabtesco became the eighth Japanese company to have its long-term CO ₂ emissions target certified under it.
SDGs	The Sustainable Development Goals (SDGs) are the international goals to be attained by 2030 to make the world a better place. The SDGs were included in the 2030 Agenda for Sustainable Development adopted at the UN summit held in September 2015. The SDGs are composed of 17 goals and 169 targets, with a commitment to "Leave no one behind." Nabtesco will proactively implement measures for the attainment of the SDGs. Of the 17 goals comprising the SDGs, we are particularly focusing on those closely related to our management materiality (material management issues) and will implement measures for the issues with a view to contributing to the creation of a sustainable society.
TCFD	The Task Force on Climate-related Financial Disclosures (TCFD) was created in December 2015 by the Financial Stability Board (FSB). It is implementing an international initiative to provide a framework for the disclosure of climate change-related financial information, particularly the risks and opportunities posed by climate change, thereby helping investors and others to make appropriate decisions.
3PL	Third-party logistics (abbreviated as "3PL") in logistics operations means the outsourcing of logistics functions to third-party companies. By outsourcing the whole or a part of logistics operations to professional third-party companies, you can utilize external resources to increase the efficiency of your logistics activities.
AM	Additive manufacturing (AM) refers to a method used to deposit materials into products in layers by using a 3D printer and other devices. The method is attracting a great deal of attention as a promising tool to reduce the time required for product development as well as development costs. CMET Inc., one of the Nabtesco Group companies, manufactures and sells 3D printers. It provides an AM solution that is useful for both development and production by supplying Stereolithography and Sand Casting Meister additive manufacturing systems. These products and know-how are being utilized also within the Nabtesco Group.
Digital Twin	Digital twin refers to a technology involving the transmission of a range of information to a digital space to create a digital counterpart of something that exists in physical form. It is expected to increase the precision of monitoring and simulation, which could in turn help speed up R&D activities and improve maintenance services.
RPA	Robotic process automation (RPA) represents a type of business process automation technology. RPA helps improve operational efficiency by automating manual operations, such as the manual input of information into computers.

Corporate Profile

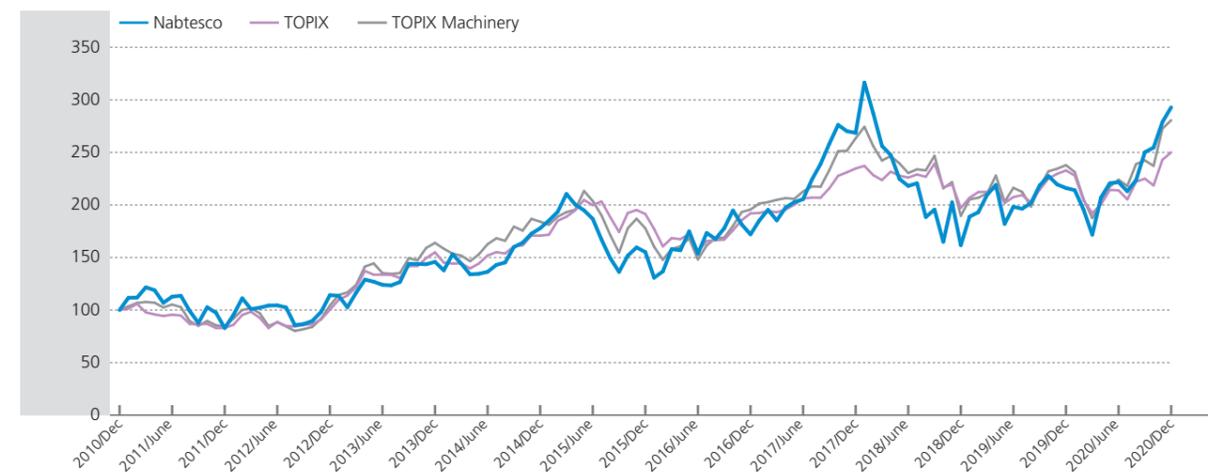
Corporate Profile (as of December 31, 2020)

Company Name	Nabtesco Corporation
Established	September 29, 2003
Address	7-9, Hirakawa-cho 2-chome, Chiyoda-ku, Tokyo 102-0093, Japan
TEL	+81-3-5213-1133
FAX	+81-3-5213-1171
Capital	¥10 Billion
Number of Issued Shares	125,133,799
Minimum Trading Unit	100 All of our issued shares are common stock with a minimum trading unit of 100 shares.
Employees	Non-consolidated 2,366 Consolidated 7,717
Consolidated Companies in Japan	14 (excl. 4 equity method affiliates)
Companies Overseas	47 (excl. 5 equity method affiliates)

Breakdown of Shareholding by Investor Type



Total Shareholder Return (TSR) for the Past 10 Years



Return on Investment (ROI) as of December 31, 2020

	Past one year	Past three years		Past five years		Past 10 years	
	Annualized return	Cumulative return	Annualized return	Cumulative return	Annualized return	Cumulative return	Annualized return
Nabtesco	40.7%	9.7%	3.1%	97.1%	14.5%	192.9%	11.3%
TOPIX	7.4%	6.6%	2.1%	30.7%	5.5%	150.1%	9.6%
TOPIX Machinery	18.0%	6.5%	2.1%	57.8%	9.6%	180.6%	10.9%

(Note 1) Total shareholder return (TSR) refers to total investment return for shareholders by combining capital gains and dividends.
 (Note 2) The above graphs show ROI as of December 31, 2020 in case where investments were made on December 31, 2010. As for the data on Nabtesco shares, investment results calculated based on the stock prices by adding dividends (on the assumption that dividends will not be reinvested) have been indexed by setting the amount of investments as of December 31, 2010 as 100. TOPIX and TOPIX Machinery have also been indexed in a similar manner by using data that included dividends.
 (Note 3) The above chart indicates ROI (dividends included) as of December 31, 2020 based on the cumulative return and the annualized return in cases where investments were made at respective timing during the period between one year ago (on December 31, 2019) and 10 years ago (on December 31, 2010).
 (Note 4) Figures of annualized return indicate annual average rates of return which are annualized using geometric average of ROI during the applicable period.
 (Source) Prepared by the Nabtesco Group based on the Tokyo Stock Exchange's monthly closing stock prices and other data

Disclosure Policy

Boundary of the Report

Nabtesco Corporation and its consolidated subsidiaries

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

Period Covered

January 1, 2020 to December 31, 2020

In light of the importance of providing up-to-date information, some activities conducted after the period are also reported.

Date of Publication

Published in June 2021 (Published annually)

Performance Data

Nabtesco has changed the accounting closing date of the fiscal year from March 31 to December 31 since FY2015. In this report, the results for FY2015 are calculated on a basis of 9 months for Nabtesco Corporation and the other consolidated subsidiaries in Japan, and 12 months for overseas consolidated subsidiaries.

Nabtesco has also applied the International Financial Reporting Standards (IFRS) to its accounting since FY2017.

For comparison with the results for FY2017, the results for FY2016 were also recalculated in line with the IFRS.

Note about the Forecasts

Forecasts made in this report about numerical figures and measures for the future are based on currently available information and on certain judgments and assumptions that Nabtesco considers reasonable. Actual results may vary significantly from such forecasts due to a variety of important factors, including the economic situations of the company's major markets in and outside Japan and changes in the foreign exchange market.

Third-Party Assurance

Our environmental and social data is examined by Lloyd's Register Quality Assurance Limited with a view to ensuring the reliability of the calculated data.

Guidelines Referenced

- International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC)
- SASB Standards by Sustainability Accounting Standards Board (SASB)
- WICI Intangible Reporting Framework published by the World Intellectual Capital/Assets Initiative (WICI)
- GRI Standards by the Global Reporting Initiative (GRI)
- ISO26000 (International standard on the social responsibilities of organizations)
- Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation, Ministry of Economy, Trade and Industry of Japan

Participation in External Initiatives and External Evaluation

The Nabtesco Group announced our support for the United Nations Global Compact and for the recommendations made by the Task Force on Climate-related Financial Disclosures. Also, our long-term greenhouse gas emissions reduction targets have been officially approved by the SBT Initiative.



The Nabtesco Group's approach to ESG issues is highly recognized globally, which is evident by the fact that Nabtesco is included in the Dow Jones Sustainability World Indices, FTSE4Good, S&P/JPX CARBON EFFICIENT INDEX and all domestic ESG indices adopted by the GPIF. In addition, we have obtained the highest evaluations on environmental measures from the CDP in three different fields.

Member of Dow Jones Sustainability Indices

Powered by the S&P Global CSA



2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

