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(Securities code: 6268)
March 1, 2021

To Shareholders with Voting Rights:

Katsuhiro Teramoto
Representative Director and
President
Nabtesco Corporation
7-9, Hirakawa-cho 2-chome,
Chiyoda-ku, Tokyo, Japan

NOTICE OF CONVOCAION OF THE 18TH ANNUAL GENERAL MEETING OF SHAREHOLDERS

- 1. Date and Time:** Tuesday, March 23, 2021 at 10:00 a.m. (JST)
(Reception begins at 9:00 a.m. (JST))
- 2. Venue:** Cosmos Hall, 3F Toshi Center Hotel Tokyo, located at
4-1, Hirakawa-cho 2-chome, Chiyoda-ku, Tokyo, Japan
- 3. Meeting Agenda:**
- Matters to be reported:**
1. The Business Report, Consolidated Financial Statements for the Company's 18th Fiscal Year (from January 1, 2020 to December 31, 2020) and results of audits by the Financial Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements
 2. Non-consolidated Financial Statements for the Company's 18th Fiscal Year (from January 1, 2020 to December 31, 2020)

Proposals to be resolved:

- Proposal No. 1:** Distribution of Surplus
Proposal No. 2: Election of Ten Directors

4. Exercising Voting Rights If You Are Not Attending the Meeting

If you are not attending the meeting, you may exercise your voting rights in writing or via Internet. Please read the Reference Documents for the General Meeting of Shareholders (described hereinafter), and cast your vote by 6:00 p.m. on Monday, March 22, 2021 (JST) by (1) indicating your vote for or against the proposals on the enclosed Voting Rights Exercise Form and return it, or (2) visiting the Company's designated voting rights exercise website (<https://www.web54.net>).

Notes:

1) Among the documents to be provided on this Convocation Notice, the following matters are posted on the Company's website (https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html) in accordance with provisions of laws and regulations as well as Article 16 of the Articles of Incorporation:

- (1) "Subscription Rights to Shares" and "The System to Ensure the Appropriateness of the Business" of the Business Report;
- (2) "Consolidated Statement of Changes in Equity" and "Notes to the Consolidated Financial Statements" of the Consolidated Financial Statements; and
- (3) "Non-consolidated Statement of Changes in Equity" and "Notes to the Non-consolidated Financial Statements" of the Non-consolidated Financial Statements.

The Business Report that was audited by the Audit & Supervisory Board Members and the Consolidated Financial Statements and Non-consolidated Financial Statements that were audited by the Financial Auditor and the Audit & Supervisory Board Members are comprised of each reference document contained in this Notice, and the matters listed above which are posted on the Company's website.

2) Any updates to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Consolidated Financial Statements and Non-consolidated Financial Statements will be posted on the Company's website (<https://www.nabtesco.com/en/>).

Measures to Prevent the Spread of COVID-19

Request to Shareholders

- Although measures to prevent the spread of COVID-19 will be taken at the venue of the meeting, we request shareholders to refrain from attending the meeting on the day by all means, and instead exercise their voting rights beforehand by postal mail or via the Internet.

Request to Shareholders Attending the Meeting

- To prevent infection, the meeting will be held with a smaller number of seats spaced wider apart at the venue, and therefore attendees may be refused entry, due to the limited number of seats. We appreciate your understanding on this matter.
- On the day of the meeting, please check the status of COVID-19 infections and your physical condition, and take the necessary precautions to prevent infection, such as wearing a face mask.
- On the day, we will check the body temperature of attendees at the reception. Please note that attendees who are unwilling to cooperate with infection prevention measures, such as the use of face masks, and those who appear to be unwell, may be refused entry to prevent the spread of COVID-19.
- Depending on the status of the COVID-19 pandemic, the venue or the date of the meeting may have to be changed. Please make sure to check the Company's website below for updates on any new measures related to COVID-19 or any other changes.

The Company's website: <https://www.nabtesco.com/en/>

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal No. 1: Distribution of Surplus

The Company's basic policy is to appropriately distribute its corporate earnings to maintain stable dividends and an appropriate balance between strategic investment for supporting business growth, securing of a sound financial position and return of profits to shareholders, based on the business performance of the Company and the entire Nabtesco Group.

Also, as a dividend policy during the period of the current Medium-term Management Plan, the Company sets its target consolidated payout ratio at 35% or higher, aiming to continuously increase the amount of dividend per share, without upper limit.

Based on this basic policy, the Company hereby proposes its year-end dividends for the fiscal year ended December 31, 2020 as follows:

Matters concerning year-end dividends

1. Type of assets to be paid as dividends

Cash

2. Matters concerning allotment of property dividends to shareholders and the total amount

Divided per share of common stock: 34 yen

Total amount of dividends: 4,228,215,860 yen

3. Effective date for distribution of surplus

March 24, 2021

The annual dividend for the fiscal year ended December 31, 2020 including the interim dividend of 41 yen per share, will be 75 yen per share (the consolidated payout ratio of 45.4%).

(Reference)

	Annual dividend per share (Yen)	Payout ratio (%)
FY 2016	50	35.1
FY 2017	72	35.3
FY 2018	73	43.0
FY 2019	73	50.5
FY 2020 (current)	75	45.4

Proposal No. 2: Election of Ten Directors

The terms of office of all ten Directors (including four Outside Directors) will expire at the conclusion of this Annual General Meeting of Shareholders.

Accordingly, the election of ten Directors (including four Outside Directors) is proposed.

Each candidate for Director was chosen by the Board of Directors upon receipt of reports from the Nominating Committee, which acts as an advisory body to the Board of Directors.

Please refer to page 16 for the policy and procedure of the election of Directors, and the criteria for the independence of Outside Directors.

The candidates for Directors are as follows:

No.	Name		Current position and assignment at the Group	Term of office	Attendance at the Board of Directors meetings
1	Katsuhiro Teramoto	Re-elected	Representative Director President Chief Executive Officer	5 years and 9 months	100% (15 meetings /15 meetings)
2	Daisuke Hakoda	Re-elected	Representative Director Senior Managing Executive Officer President, Accessibility Innovations Company	5 years and 9 months	100% (15 meetings /15 meetings)
3	Shigeru Naoki	Re-elected	Director Managing Executive Officer President, Railroad Products Company	2 years	100% (15 meetings /15 meetings)
4	Akiyoshi Kitamura	New candidate	Managing Executive Officer President, Toyo Jidoki Co., Ltd.	—	—
5	Atsushi Habe	New candidate	Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Business Transformation and Corporate Communication	—	—
6	Kazumasa Kimura	Re-elected	Director Managing Executive Officer, Component Solution Segment Senior General Manager, Technology and R&D Division, and in charge of Production Innovation	2 years	100% (15 meetings /15 meetings)
7	Norio Uchida	Re-elected Outside Independent	Outside Director	5 years and 9 months	100% (15 meetings /15 meetings)
8	Mari Iizuka	Re-elected Outside Independent	Outside Director	1 year	100% (11 meetings /11 meetings)
9	Naoko Mizukoshi	Re-elected Outside Independent	Outside Director	1 year	100% (11 meetings /11 meetings)
10	Naoki Hidaka	New candidate Outside Independent	—	—	—

Re-elected: Candidate for Director to be re-elected

New candidate: Candidate for Director to be newly elected

Outside: Candidate for Outside Director

Independent: Candidate for independent director

- (Notes)
1. The term of office and the age of each candidate for Director under this Proposal refer to those at the time of completion of this Annual General Meeting of Shareholders.
 2. Since Ms. Mari Iizuka and Ms. Naoko Mizukoshi assumed office as Director on March 24, 2020, the number of the Board of Directors meetings to be attended on and after that day was 11.
 3. The Company has a Directors and Officers liability insurance contract (management risk protection insurance contract) in effect, as stipulated in Article 430-3 of the Amendment of the Companies Act (to be enforced on March 1, 2021). Going forward, in September 2021, the Company plans to renew the said contract, which covers the liability of the insured for legal dispute fees and compensation for damages, etc. arising from company lawsuits, third-party lawsuits, shareholder's derivative suits, etc. Other details of the contract are stated in the Business Report (refer to page 33). The candidates will be covered by the said contract if they are reelected or elected.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
1	<p>Katsuhiro Teramoto (Dec. 13, 1955, 65 years old)</p> <p>Re-elected</p> <p>Term of office: 5 years and 9 months</p> <p>Attendance at the Board of Directors meetings: 100% (15 meetings/15 meetings)</p>	<p>Jun. 2007</p> <p>Jul. 2008</p> <p>Jun. 2009</p> <p>Jun. 2011</p> <p>Oct. 2011</p> <p>Feb. 2013</p> <p>Jun. 2015</p> <p>Mar. 2017</p> <p>Mar. 2018</p>	<p>General Manager, Sales Department No. 1, Precision Equipment Company of Nabtesco Corporation</p> <p>General Manager, Overseas Sales Department, Precision Equipment Company of Nabtesco Corporation</p> <p>General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation</p> <p>Executive Officer of Nabtesco Corporation</p> <p>Vice President and General Manager, Planning Department, Accessibility Innovations Company of Nabtesco Corporation</p> <p>Deputy Senior General Manager, Corporate Planning Division, and General Manager, Corporate Planning Department of Nabtesco Corporation</p> <p>Representative Director (to present), Managing Executive Officer and Senior General Manager of Corporate Planning Division of Nabtesco Corporation</p> <p>President and Chief Executive Officer (CEO) of Nabtesco Corporation (to present)</p> <p>President of Nabtesco Corporation (to present)</p>	13,799 shares
<p>Reasons for nomination as a candidate for Director</p> <p>Mr. Katsuhiro 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 the Company requests the continued appointment of Mr. Katsuhiro Teramoto as Director.</p>				

(Note) There are no special interests between Mr. Katsuhiro Teramoto and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held			Number of shares of the Company held
2	Daisuke Hakoda (Oct. 25, 1957, 63 years old) Re-elected Term of office: 5 years and 9 months Attendance at the Board of Directors meetings: 100% (15 meetings/15 meetings)	Jun.	2007	President of Nabtesco Aerospace, Inc.	19,507 shares
		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 Senior 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, General Administration & Human Resources Division of Nabtesco Corporation	
		Jan.	2018	Managing Executive Officer, Corporate Planning, Accounting & Finance, Information System, Corporate Communication and Human Resources of Nabtesco Corporation	
		Mar.	2018	Representative Director of Nabtesco Corporation (to present)	
		Jan.	2019	President, Accessibility Innovations Company of Nabtesco Corporation (to present)	
Jan.	2020	Senior Managing Executive Officer of Nabtesco Corporation (to present)			
Reasons for nomination as a candidate for Director 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 the Company requests the continued appointment of Mr. Daisuke Hakoda as Director.					

(Note) There are no special interests between Mr. Daisuke Hakoda and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held			Number of shares of the Company held
3	Shigeru Naoki (Oct. 21, 1958, 62 years old)	Jul.	2013	Plant Manager, Tsu Plant, Precision Equipment Company of Nabtesco Corporation	5,222 shares
	Re-elected Term of office: 2 years Attendance at the Board of Directors meetings: 100% (15 meetings/15 meetings)	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 nomination as a candidate for Director 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 of 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 the Company requests the continued appointment of Mr. Shigeru Naoki as Director.			

(Note) There are no special interests between Mr. Shigeru Naoki and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held			Number of shares of the Company held
4	Akiyoshi Kitamura (Feb. 12, 1959, 62 years old)	Jul.	2008	General Manager, Nagoya Sales Department, Precision Equipment Company of Nabtesco Corporation	2,979 shares
	New candidate	Apr.	2010	General Manager, Tokyo Sales Department, Precision Equipment Company of Nabtesco Corporation	
	Term of office: —	Apr.	2011	General Manager, Sales Department, Precision Equipment Company of Nabtesco Corporation	
	Attendance at the Board of Directors meetings: —	Mar.	2016	President, Toyo Jidoki Co., Ltd. (to present)	
		Mar.	2017	Executive Officer of Nabtesco Corporation	
		Jan.	2020	Managing Executive Officer of Nabtesco Corporation (to present)	
		Significant positions concurrently held President, Toyo Jidoki Co., Ltd.			
	Reasons for nomination as a candidate for Director After serving as General Manager, Sales Department of Precision Equipment Company, Mr. Akiyoshi Kitamura currently serves as President of Toyo Jidoki 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 the Company requests the appointment of Mr. Akiyoshi Kitamura as Director.				

(Note) There are no special interests between Mr. Akiyoshi Kitamura and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
5	<p>Atsushi Habe (Nov. 27, 1959, 61 years old)</p> <p>New candidate</p> <p>Term of office: —</p> <p>Attendance at the Board of Directors meetings: —</p>	<p>Sep. 2006</p> <p>Jun. 2011</p> <p>Nov. 2012</p> <p>Feb. 2016</p> <p>Oct. 2016</p> <p>Mar. 2017</p> <p>Mar. 2018</p> <p>Jan. 2019</p> <p>Jan. 2020</p> <p>Jan. 2021</p>	<p>General Manager, International Sales Department, Aerospace Company of Nabtesco Corporation</p> <p>General Manager, Planning Department, Aerospace Company of Nabtesco Corporation</p> <p>General Manager, Planning Department, Precision Equipment Company of Nabtesco Corporation</p> <p>General Manager, Sales Department, Precision Equipment Company of Nabtesco Corporation</p> <p>General Manager, Sales Promotion Department, Precision Equipment Company of Nabtesco Corporation</p> <p>Executive Officer of Nabtesco Corporation</p> <p>Vice President and General Manager, Sales Promotion Department, Precision Equipment Company of Nabtesco Corporation</p> <p>President, Precision Equipment Company of Nabtesco Corporation</p> <p>Managing Executive Officer of Nabtesco Corporation (to present)</p> <p>Managing Executive Officer, Corporate Planning, Accounting & Finance, Information Systems, Business Transformation and Corporate Communication of Nabtesco Corporation (to present)</p>	<p>7,420 shares</p>
<p>Reasons for nomination as a candidate for Director</p> <p>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 the Company requests the appointment of Mr. Atsushi Habe as Director.</p>				

(Note) There are no special interests between Mr. Atsushi Habe and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
6	<p>Kazumasa Kimura (Aug. 17, 1961, 59 years old)</p> <p>Re-elected</p> <p>Term of office: 2 years</p> <p>Attendance at the Board of Directors meetings: 100% (15 meetings/15 meetings)</p>	<p>Jun. 2011</p> <p>Jun. 2012</p> <p>Apr. 2015</p> <p>Mar. 2016</p> <p>Mar. 2017</p> <p>Jan. 2019</p> <p>Mar. 2019</p> <p>Jan. 2021</p>	<p>General Manager, Manufacturing Department, Tsu Plant, Precision Equipment Company of Nabtesco Corporation</p> <p>General Manager, Manufacturing Department, Tarui Plant, Power Control Company of Nabtesco Corporation</p> <p>Representative Director and Vice President of Hyst Corporation (merged into Nabtesco Corporation in Apr. 2016)</p> <p>General Manager, Production Management Department, Power Control Company of Nabtesco Corporation</p> <p>Executive Officer and President, Power Control Company of Nabtesco Corporation</p> <p>Executive Officer, Corporate Planning, Accounting & Finance, Information System and Corporate Communication of Nabtesco Corporation</p> <p>Director of Nabtesco Corporation (to present)</p> <p>Managing Executive Officer (to present), Component Solution Segment, Senior General Manager, Technology and R&D Division, and in charge of Production Innovation (to present)</p>	1,967 shares
<p>Reasons for nomination as a candidate for Director</p> <p>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 the Company requests the continued appointment of Mr. Kazumasa Kimura as Director.</p>				

(Note) There are no special interests between Mr. Kazumasa Kimura and the Company.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
7	<p>Norio Uchida (Oct. 22, 1950, 70 years old)</p> <p>Re-elected</p> <p>Candidate for Outside Director</p> <p>Candidate for independent director</p> <p>Term of office: 5 years and 9 months</p> <p>Attendance at the Board of Directors meetings: 100% (15 meetings/15 meetings)</p>	<p>Apr. 1973</p> <p>Jun. 1980</p> <p>Feb. 1989</p> <p>Oct. 1994</p> <p>Jun. 2003</p> <p>Jul. 2003</p> <p>Jun. 2005</p> <p>Jun. 2007</p> <p>Jun. 2010</p> <p>Jun. 2011</p> <p>Jun. 2013</p> <p>Jun. 2015</p> <p>Sep. 2015</p>	<p>Joined Tokyo Optical Co., Ltd. (current TOPCON CORPORATION)</p> <p>General Manager of Topcon Singapore Pte. Ltd.</p> <p>President of Topcon Australia Pty Ltd.</p> <p>Senior Vice President of Topcon Laser Systems, Inc. (current Topcon Positioning Systems, Inc.)</p> <p>Executive Officer of TOPCON CORPORATION</p> <p>President and Director of Topcon Sales Co., Ltd. (current Topcon Sokkia Positioning Japan Co., Ltd.)</p> <p>Director and Executive Officer of TOPCON CORPORATION</p> <p>Director, Managing Executive Officer, Supervising Sales Promotion Group, and Chief of Positioning Business Unit of TOPCON CORPORATION</p> <p>Director, Senior Managing Executive Director and Supervising Corporate Planning Group of TOPCON CORPORATION</p> <p>President & Representative Director of TOPCON CORPORATION</p> <p>Advisor of TOPCON CORPORATION (retired in June 2015)</p> <p>Director of Nabtesco Corporation (to present)</p> <p>External Director of ULVAC, Inc. (to present)</p> <p>Significant positions concurrently held External Director of ULVAC, Inc.</p>	0 shares
<p>Reasons for nomination as a candidate for Outside Director and overview of expected role</p> <p>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 June 2015, he has appropriately supervised management. The Company, having high regard for his experience and insight, requests the continued appointment of Mr. Norio Uchida as Outside Director, as we expect him to provide his supervision and advice on technical development and global business overall, which is his role if he is elected as an Outside Director.</p>				

- (Notes)
- There are no special interests between Mr. Norio Uchida and the Company.
 - Mr. Norio Uchida is a candidate for Outside Director.
 - Mr. Norio Uchida satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 16).
The Company has already designated Mr. Norio Uchida as independent director under the provisions set forth by the Tokyo Stock Exchange.
 - Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company has concluded a limited liability agreement with Mr. Norio Uchida and plans to retain the agreement, if his reappointment is approved.
The agreement will limit his liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
8	<p>Mari Iizuka (Mar. 29, 1959, 61 years old)</p> <p>Re-elected</p> <p>Candidate for Outside Director</p> <p>Candidate for independent director</p> <p>Term of office: 1 year</p> <p>Attendance at the Board of Directors meetings: 100% (11 meetings/11 meetings)</p>	<p>Apr. 1982</p> <p>Aug. 1987</p> <p>Jul. 1992</p> <p>Apr. 2005</p> <p>Apr. 2007</p> <p>Apr. 2008</p> <p>Apr. 2010</p> <p>Mar. 2020</p> <p>Significant positions concurrently held</p> <p>Professor of Doshisha Business School</p>	<p>Joined Henkel Hakusui Corporation (current Henkel Japan Ltd.)</p> <p>Joined The World Bank</p> <p>Assistant Professor of Asian Institute of Management Graduate School of Business</p> <p>Assistant Professor of Ritsumeikan Asia Pacific University Graduate School of Management</p> <p>Associate Professor of Ritsumeikan Asia Pacific University Graduate School of Management</p> <p>Professor of Ritsumeikan Asia Pacific University Graduate School of Management</p> <p>Professor of Doshisha Business School (to present)</p> <p>Director of Nabtesco Corporation (to present)</p>	0 shares
<p>Reasons for nomination as a candidate for Outside Director and overview of expected role</p> <p>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, requests the continued appointment of Ms. Mari Iizuka as Outside Director, as we expect her to provide her supervision and advice utilizing her expertise and insight based on the above, which is her role if she is elected as an Outside Director.</p>				

- (Notes)
1. There are no special interests between Ms. Mari Iizuka and the Company.
 2. Ms. Mari Iizuka is a candidate for Outside Director.
 3. There are no transactions between The Doshisha, where Ms. Mari Iizuka belongs, and the Company, and there are no donations to the organization from the Company.
 4. Ms. Mari Iizuka satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 16).
The Company has already designated Ms. Mari Iizuka as independent director under the provisions set forth by the Tokyo Stock Exchange.
 5. Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company has concluded a limited liability agreement with Ms. Mari Iizuka and plans to retain the agreement, if her reappointment is approved.
The agreement will limit her liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
9	Naoko Mizukoshi (Sep. 23, 1967, 53 years old) Re-elected Candidate for Outside Director Candidate for independent director Term of office: 1 year Attendance at the Board of Directors meetings: 100% (11 meetings/11 meetings)	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 TMI Associates Mar. 2010 Partner of Endeavour Law Office Jun. 2018 External Director of TIS Inc. (to present) Dec. 2018 Partner of Leftright Law & IP (to present) Mar. 2020 Director of Nabtesco Corporation (to present) Significant positions concurrently held Partner of Leftright Law & IP External Director of TIS Inc.	0 shares
<p>Reasons for nomination as a candidate for Outside Director and overview of expected role</p> <p>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, requests the continued appointment of Ms. Naoko Mizukoshi as Outside Director, as we expect her to provide her supervision and advice from decisions from an objective and legal viewpoint based on the above, which is her role if she is elected as an Outside Director.</p>				

- (Notes)
1. There are no special interests between Ms. Naoko Mizukoshi and the Company.
 2. Ms. Naoko Mizukoshi is a candidate for Outside Director.
 3. There are no transactions between Endeavour Law Office, where Ms. Naoko Mizukoshi served as Partner; and Leftright Law & IP, where she serves as Partner, and the Group.
 4. Ms. Naoko Mizukoshi satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 16).
The Company has already designated Ms. Naoko Mizukoshi as independent director under the provisions set forth by the Tokyo Stock Exchange.
 5. Name of Ms. Naoko Mizukoshi recorded in the family register is Naoko Suzuki.
 6. Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company has concluded a limited liability agreement with Ms. Naoko Mizukoshi and plans to retain the agreement, if her reappointment is approved.
The agreement will limit her liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

No.	Name (Date of birth)	Career summary, position, assignment and significant positions concurrently held		Number of shares of the Company held
10	Naoki Hidaka (May 16, 1953, 67 years old) New candidate Candidate for Outside Director Candidate for independent director Term of office: — Attendance at the Board of Directors meetings: —	Apr. 1976 Apr. 2001 Apr. 2007 Apr. 2009 Apr. 2012 Jun. 2013 Apr. 2015 Jun. 2018 Jun. 2019 Jun. 2020	Joined SUMITOMO CORPORATION General Manager, Chicago Branch, Sumitomo Corporation of U.S.A. Executive Officer, General Manager of Metal Products for Automotive Industry Division of SUMITOMO CORPORATION Managing Executive Officer, Head of Chubu Block of SUMITOMO CORPORATION Senior Managing Executive Officer, Head of Kansai Block of SUMITOMO CORPORATION Representative Director, Senior Managing Executive Officer, and General Manager, Transportation & Construction Systems Business Unit of SUMITOMO CORPORATION Representative Director, Executive Vice President, Executive Officer, and General Manager, Transportation & Construction Systems Business Unit of SUMITOMO CORPORATION Special Adviser of SUMITOMO CORPORATION Adviser of SUMITOMO CORPORATION (retired in March 2020) Outside Director of BROTHER INDUSTRIES, LTD. (to present) Significant positions concurrently held Outside Director of BROTHER INDUSTRIES, LTD.	0 shares
<p>Reasons for nomination as a candidate for Outside Director and overview of expected role</p> <p>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, requests the appointment of Mr. Naoki Hidaka as Outside Director, as we expect him to provide his supervision and advice utilizing his knowledge, which is his role if he is elected as an Outside Director.</p>				

- (Notes)
1. There are no special interests between Mr. Naoki Hidaka and the Company.
 2. Mr. Naoki Hidaka is a candidate for Outside Director.
 3. Mr. Naoki Hidaka satisfies the conditions defined by the Company in the “Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)” (please refer to page 16).
The Company plans to designate Mr. Naoki Hidaka as independent director under the provisions set forth by the Tokyo Stock Exchange, if his appointment is approved under this Proposal.
 4. Article 27 of the Company’s Articles of Incorporation permits the Company to conclude an agreement limiting the liability of an Outside Director for damages in order to allow the Outside Director to fully perform the roles expected thereof. Accordingly, the Company plans to conclude a limited liability agreement with Mr. Naoki Hidaka if his appointment is approved.
The agreement will limit his liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to 10 million yen or the amount set forth by laws and regulations, whichever is higher.

(P19)

(Reference)

“Policy and Procedure of the Election of Directors and Audit & Supervisory Board Members”

The Company has established the Nominating Committee as a consultative body of the Board of Directors to deliberate the nomination of candidates for Director, Audit & Supervisory Board Member, President (CEO) and Representative Director positions, as well as a President (CEO) succession plan and other matters and report to the Board of Directors.

The Nominating Committee comprises at least three members but no more than five members, the majority of whom shall be Independent Outside Directors/ Audit & Supervisory Board Members (Independent).

[Directors]

- The number of the Board of Directors of the Company shall be no more than ten, two or more of whom shall be Independent Outside Directors.
- With the aim of maximizing the functions of Directors in order to fulfill the roles and responsibilities of the Board of Directors, the Company shall have the Board comprised of highly diverse members in terms of business backgrounds, areas of expertise, gender, international experience and shall elect candidates from both inside and outside of the Company, who have excellent character, insight, capabilities, superior expertise and ethics as well as ample experience as Directors.

[Audit & Supervisory Board Members]

- The Audit & Supervisory Board comprises no more than five Audit & Supervisory Board Members, the majority of whom shall be Audit & Supervisory Board Members (Independent).
- With the aim of maximizing the functions of Audit & Supervisory Board Members to fulfill the roles and responsibilities of the Audit & Supervisory Board, the Company shall elect candidates from both inside and outside of the company, who have excellent character, insight, capabilities, financial, accounting and legal knowledge necessary for audit, superior expertise and ethics as well as ample experience; one or more of whom shall have a sufficient degree of knowledge and experience in the fields of finance and accounting.

“Criteria for the Independence of Outside Directors and Audit & Supervisory Board Members (Independent)”

The Company considers an Outside Director/Audit & Supervisory Board Member (Independent) to be independent, if all of the following requirements are met, in addition to the requirements for independent directors as defined by the Tokyo Stock Exchange.

- 1) The Outside Director/Audit & Supervisory Board Member (Independent) is not a current major shareholder (*) of the Company or a person who executes its business;
*Person who directly or indirectly holds more than 5% of all voting rights or a person who is listed among the top 10 shareholders in the most recent shareholder registry;
- 2) The Outside Director/Audit & Supervisory Board Member (Independent) is not a person who executes business of a major lender (*) of Nabtesco Group;
*A financial institution group (person who belongs to the consolidated group to which Nabtesco Group’s direct lender belongs) from which Nabtesco Group borrows funds and Nabtesco Group’s total amount of borrowing from such financial institution group exceeds 2% of Nabtesco Group’s consolidated total assets as of the end of the previous fiscal year;
- 3) The Outside Director/Audit & Supervisory Board Member (Independent) is not a major business partner (yearly transaction amount exceeds 1% of consolidated net sales) or a person who executes its business;
- 4) The Outside Director/Audit & Supervisory Board Member (Independent) is not a person for whom Nabtesco Group is a major business partner (yearly transaction amount exceeds 1% of the counterparty’s consolidated net sales) or a person who executes its business;
- 5) The Outside Director/Audit & Supervisory Board Member (Independent) is not a consultant, accounting professional, or a legal professional who receives a large amount of money (more than ¥6 million yearly) other than the remuneration for directorship/auditorship from Nabtesco Group (including cases where the organizations such as corporation and association to which such Outside Director/Audit & Supervisory Board Member (Independent) belongs receive the remuneration);
- 6) The Outside Director/Audit & Supervisory Board Member (Independent) is not a person who executes business of an organization such as corporation and association that receives a large amount of donation (more than ¥6 million yearly) from Nabtesco Group;
- 7) The Outside Director/Audit & Supervisory Board Member (Independent) is not a spouse or a relative within the second degree of consanguinity of a person who executes business of Nabtesco Group;
- 8) The Outside Director/Audit & Supervisory Board Member (Independent) has not fallen under requirements 1) through 6) for the past three years; and
- 9) The Outside Director/Audit & Supervisory Board Member (Independent)’s term of office as an Outside Director/Audit & Supervisory Board Member (Independent) of the Company does not exceed eight years in total.

(P20)

(Reference)

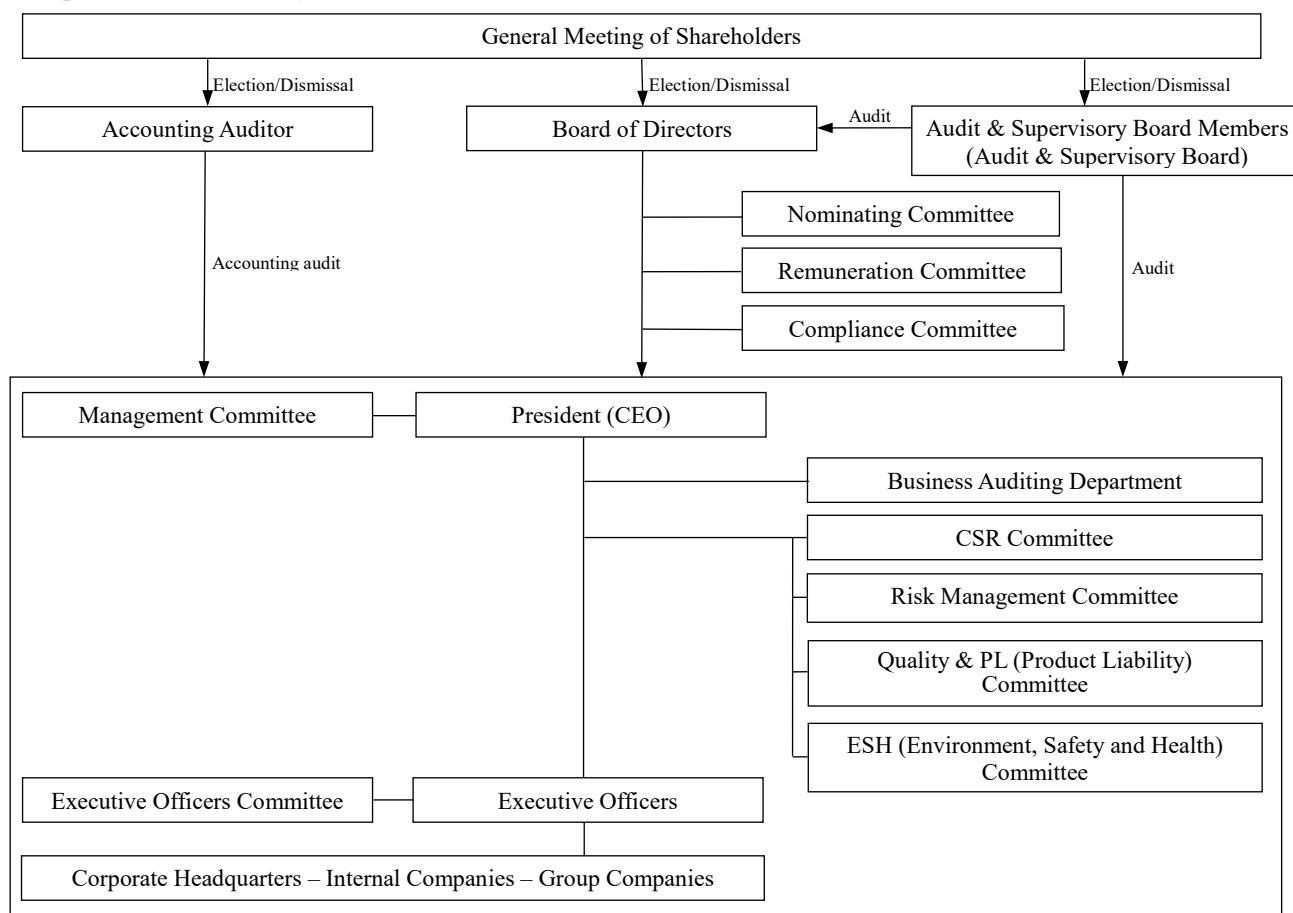
Initiatives to Improve Corporate Governance

The Company implements each principle of the Corporate Governance Code published by the Tokyo Stock Exchange and has established the “Nabtesco Corporate Governance Basic Policy” based on the resolution of the Board of Directors to set out the basic approach, framework and policy with regard to corporate governance (posted in full on the following website: <https://www.nabtesco.com/en/ir/policy/governance.html>).

Based on this “Nabtesco Corporate Governance Basic Policy,” the Company is working to improve its corporate governance with the aim of realizing its sustainable growth, enhancing its medium- to long-term corporate value and earning the greater trust of its stakeholders.

Specifically, in order to strengthen supervision from an independent and objective perspective, the Company has been working to increase the number of Independent Outside Directors. If Proposal No. 2 is approved at this General Meeting of Shareholders, there will be four (40% of the total) Independent Outside Directors out of a total of 10 Directors. Furthermore, the Company has established the Nominating Committee and the Remuneration Committee as consultative bodies of the Board of Directors, the majority of which comprise Independent Outside Directors/Audit & Supervisory Board Members (Independent). In addition, measures to enhance the corporate governance system are put in place annually including the assessment of the effectiveness of the Board of Directors and training for Directors and Audit & Supervisory Board Members.

Corporate Governance System



(P21)

Organizations of the Company

Organization	Roles and responsibilities
Board of Directors	Formulates the Group's basic policies and strategies, makes decisions about the execution of important business matters and supervises the way business is carried out. The number of the members of the Board of Directors shall be no more than ten, two or more of whom shall be Independent Outside Directors.
Nominating Committee	As a consultative body of the Board of Directors, deliberates the nomination of candidates for Director, Audit & Supervisory Board Member, the President (CEO) and Representative Director positions, as well as a President (CEO) succession plan and other matters and reports to the Board of Directors. The Nominating Committee comprises at least three members but no more than five members, the majority of whom shall be Independent Outside Directors/Audit & Supervisory Board Members (Independent).
Remuneration Committee	As a consultative body of the Board of Directors, deliberates the remuneration, etc. of management personnel and reports to the Board of Directors. The Remuneration Committee comprises at least three members but no more than five members, the majority of whom shall be Independent Outside Directors/Audit & Supervisory Board Members (Independent).
Compliance Committee	As a consultative body of the Board of Directors, deliberates the formulation and revision of the Nabtesco Group Code of Ethics and important matters concerning the Group's compliance system and reports to the Board of Directors. The Compliance Committee comprises members including Independent Outside Directors/Audit & Supervisory Board Members (Independent) and external experts.
Audit & Supervisory Board Members (Audit & Supervisory Board)	Audit the execution of Directors' duties and prepares audit reports, while also working to reinforce audit functions by establishing the Group Audit & Supervisory Board with members including Audit & Supervisory Board Members of Group companies as a way to strengthen management of the Group. The Board comprises no more than five Audit & Supervisory Board Members, the majority of whom shall be Audit & Supervisory Board Members (Independent).
Executive Officers (Committee)	The Executive Officer system has been adopted to concentrate on the execution of business under the policies, strategies and supervision of the Board of Directors.
Management Committee	The Management Committee is established mainly comprising the President (CEO), Presidents of Companies, Executive Officers of Corporate Headquarters and Senior General Managers to deliberate important matters concerning the Group's business execution and to report on the performance and execution of business based on the policies determined by the Board of Directors.
Business Auditing Department	As an organization that directory reports to the President (CEO), conducts internal business audits of Corporate Headquarters, internal Companies and Group companies.

(P23)

Business Report (from January 1, 2020 to December 31, 2020)

1. Overview of Consolidated Business Activities

(1) Developments and results of business activities

In FY 2020, many business fields of the Group were affected by the stagnation of economic activities worldwide due to the COVID-19 pandemic. Although hydraulic equipment for construction machinery performed strongly in China, mobility restrictions due to COVID-19 pushed down market demand for the automatic doors business, the aircraft equipment business, and the commercial vehicle equipment business. As a result, net sales were ¥279,358 million. On the other hand, owing mainly to the sale of non-business property in the first and fourth quarters, operating income was ¥28,533 million. Profit before taxes was ¥33,718 million and profit attributable to owners of the parent came to ¥20,505 million.

Net sales ¥279.4 billion Down 3.6% year on year	Operating income ¥28.5 billion Up 12.7% year on year
Profit before taxes ¥33.7 billion Up 20.5% year on year	Profit attributable to owners of the parent ¥20.5 billion Up 14.4% year on year

Segment information

	Net sales (Million yen)	Operating income (Million yen)
Component Solutions	109,855	17,673
Transport Solutions	78,090	3,338
Accessibility Solutions	73,665	7,733
Others	17,747	2,329
Corporate or elimination	—	(2,540)
Total	279,358	28,533

(P24)

(2) Segment information

Operating results by segment were as follows.

[Component Solutions]

Net sales composition 39.3%

	FY 2019	FY 2020 (current)
Net sales (Million yen)	107,188	109,855
Operating income (Million yen)	15,897	17,673

The amount of orders received for component solutions was ¥113,643 million, up 2.5% year on year. Net sales were ¥109,855 million, up 2.5% and operating income was ¥17,673 million, up 11.2%.

Sales of precision reduction gears were nearly at the same level as the previous fiscal year, due to the recovery of capital investments in the automotive industry in China and North America from the fourth quarter.

Sales of hydraulic equipment increased year on year, due to continued robust demand in the Chinese market and a recovery trend in the European and U.S. markets.

Main lines of business

Precision reduction gears

Hydraulic equipment

(Reference)

Precision Reduction Gears: RV Component Type

The precision reduction gears RV are compact and lightweight with outstanding rigidity and overload resistance. With these features, the reduction gears serve to provide excellent accelerating capabilities, smooth motion, low backlash, and accurate positioning precision, leading to enhanced robot controllability.

Traveling Unit for Crawlers

This series is used as a traveling unit for crawlers and the wheels of excavators, crawler drills, cranes, and aerial work platforms.

(P25)

Business Report

[Transport Solutions]

Net sales composition 28.0%

	FY 2019	FY 2020 (current)
Net sales (Million yen)	83,994	78,090
Operating income (Million yen)	5,778	3,338

The amount of orders received for transport solutions was ¥75,659 million, down 10.3% year on year. Net sales were ¥78,090 million, down 7.0% and operating income was ¥3,338 million, down 42.2% due to the recording of an impairment loss on fixed assets of ¥3,421 million at consolidated subsidiary OVALO GmbH.

In the railroad vehicle equipment business, sales were nearly at the same level as the previous fiscal year, backed by demand for new cars in Japan.

In the aircraft equipment business, sales decreased year on year, due to a decrease in demand for commercial aircrafts.

In the commercial vehicle equipment business, sales decreased year on year, due to stagnant demand in the Japanese market and the Southeast Asian Market.

In the marine vessel equipment business, sales were nearly at the same level as the previous fiscal year, both for new vessels and for Maintenance, Repair and Overhaul (MRO).

Main lines of business

Railroad vehicle equipment

Aircraft equipment

Commercial vehicle equipment

Marine vessel equipment

(Reference)

Unit Brakes for Railroad Vehicles

The unit brake incorporates the integral functions of a conventional foundation brake rigging and a built-in automatic slack adjusting mechanism. Compared to existing foundation brake units, the product offers reduced size and weight, simplified maintenance, greater noise protection, and heightened consistency of braking efficiency.

Flight Control Actuation System

Nabtesco is the leading Japanese manufacturer of this system, which controls the aircraft's attitude. This system is used to move the surface such as the ailerons on the main wings and elevators on the tail surface. Nabtesco has a solid reputation as a global leader in the commercial aircraft market.

Air Dryers for Commercial Vehicles

This product removes any water or oil in the compressed air to increase the durability and reliability of air control systems. It is used by major Japanese heavy-duty truck manufacturers.

Main Engine Remote Control System (M-800-V)

This system enables the remote control of the vessel's diesel engine from the ship's bridge and/or control room, and has functions for outputting commands to control the engine speed (rpm) and for monitoring the engine status. Equipped with advanced network functions and a liquid crystal touch panel, the system provides excellent operability and expandability.

(P26)

[Accessibility Solutions]

Net sales composition 26.4%

	FY 2019	FY 2020 (current)
Net sales (Million yen)	79,971	73,665
Operating income (Million yen)	8,565	7,733

The amount of orders received for accessibility solutions was ¥79,893 million, down 1.8% year on year. Net sales were ¥73,665 million, down 7.9% and operating income was ¥7,733 million, down 9.7%.

In the automatic doors business, sales decreased year on year as demand stagnated in the Japanese and overseas markets due to the impact of COVID-19 in addition to robust demand mainly for redevelopment aimed at the Olympic and Paralympic Games having run its course.

Main lines of business

Automatic doors

(Reference)

Automatic Doors for Buildings and for Industrial Use

We provide high-quality automatic doors, based on state-of-the-art technology. These doors are used at a wide range of facilities, such as office buildings, hospitals, airports, and commercial and industrial facilities.

Automatic Platform Doors

Automatic platform doors are now used worldwide to ensure passenger safety at railway stations. Demand for these doors is fast expanding over the world.

Intelligent Knee

This is the world's first microcomputer-controlled prosthetic knee joint. The microcomputer automatically controls the swing speed of the lower leg by detecting the wearer's walking speed, which allows wearers to walk freely at their own pace.

(P27)

Business Report

[Others]

Net sales composition 6.4%

	FY 2019	FY 2020 (current)
Net sales (Million yen)	18,654	17,747
Operating income (Million yen)	2,551	2,329

The amount of orders received for others was ¥16,944 million, down 5.1% year on year. Net sales were ¥17,747 million, down 4.9% and operating income was ¥2,329 million, down 8.7%.

In the packaging machinery business, sales decreased year on year, resulting from a decrease in orders due to the sluggish demand for machinery in the food service industry.

Main lines of business

Packaging machinery

(Reference)

Super High-Speed Automatic Filler/Sealer

A high-speed automatic continuous motion filler/sealer that delivers high performance in a compact space. This equipment is not only used for retort pouch foods but also for soups, sauces, and other food products as well as for refills for liquid detergents. It contributes to reducing the costs of mass production.

(3) Issues to be addressed

As the COVID-19 pandemic that broke out in 2020 is affecting the business activities of the Company as well, part of the action plan could not be implemented as scheduled. In view of these circumstances, the Medium-Term Management Plan has been extended by a year. In FY 2021, we shall continue working on initiatives aimed at achieving targets of the plan as the year to build a foundation for formulating the next Medium-Term Management Plan.

(P28)

(i) Basic Policy of the Medium-Term Management Plan

“Move forward! Challenge the future!”
~ Create “New Value 2020” ~

(ii) Commitment in the Medium-term Management Plan

The Company is committed to achieve and maintain ROE of 15% by FY 2020.

During the period of the relevant Medium-term Management Plan,
the Company also sets a target consolidated payout ratio of 35% or higher.

The Company focuses on solving ESG-related issues.

(iii) Mid- to Long-Term Management Strategies

During the period of the Medium-term Management Plan, we will engage in our trinity of “Market Creation,” “Technology Innovation,” and “Operational Excellence,” and implement strategies toward the realization of “Global Partner with Best Solutions,” as stated in the Long-term Vision.

■ Generating new businesses through “Market Creation”

- * The Group will further promote overseas business expansion, including through M&A.
- * By utilizing cutting-edge technology, including ICT/IoT, the Group will further strengthen and expand our after-service business (MRO).

■ Creating new solutions through “Technology Innovation”

- * The Group will expand our business domain from components to provision of system solutions.
- * The Group will establish a new competitive advantage with “production innovation,” including the development of new work methods.
- * By modernizing and converting domestic plants into smart plants, the Group will realize highly efficient production, high environmental performance and a comfortable working environment.
- * The Group aims to acquire new technologies by scouting for disruptive ventures through corporate venture capital (CVC) activities.

■ Enhancing corporate value in a sustainable manner by improving profitability and efficiency based on “Operational Excellence”

- * The Group will enhance profitability by reinforcing our operations base through production reforms and business reforms.
- * The Group will pursue greater efficiency in business management and synergies among the Company’s businesses.
- * By adding ROIC (return on invested capital) to our internal performance indicators, the Group will steadily create cash while improving capital efficiency.
- * The Group will implement a flexible return of profits to shareholders by maintaining a stable pay-out ratio of 35% or higher on a consolidated basis.
- * Investments for future growth will focus on 1) the modernization of domestic plants to increase production; 2) the promotion of R&D; and 3) the reserve of funds for strategic M&A.
- * The Group positions policies to “Ensure management transparency (governance)” and “Provide safety, comfort and a sense of security (environment and society)” as materiality (material CSR issues) and promotes systematic efforts to address a broad range of ESG issues.

(iv) Initiatives to Address Challenges

We position the achievement of the Medium-term Management Plan as our immediate top priority, and will focus on the following challenges the Company faces, in order to respond to an ever-changing, diversifying global market:

















- * Establish business models to match the market needs; Expand and enhance the profitability of overseas businesses
- * Develop products that respond to customer needs; Develop products that differentiate themselves by utilizing a wide range of technologies
- * Establish decision-making and management systems to enable flexible and swift responses
- * Secure and cultivate human resources to respond to our global business
- * Strengthen corporate governance; Improve risk management capabilities

(P29)

(Reference)

Initiatives to Solve ESG-Related Issues

In order to “Focus on solving ESG-related issues,” the Company is promoting systematical efforts based on materiality (material CSR issues) with a core policy to “Ensure management transparency” and “Provide safety, comfort and a sense of security.”

ESG category	Materiality (material CSR issues)	Major SDGs of relevance	Initiatives in FY 2020
Governance 	Strengthen corporate governance	 	<ul style="list-style-type: none"> Enhanced the ratio of Independent Outside Directors Established an integrated risk management system Held compliance training globally on a risk-based approach Held the first IR day
	Promote risks management and compliance behavior		
	Ensure proactive dialogue with stakeholders		
Social 	Enhance customer satisfaction	      	<ul style="list-style-type: none"> Promoted open innovation Nurtured a quality and safety culture Reinforced human rights management Revised the Nabtesco Group CSR-Oriented Procurement Policy Strengthened business continuity capabilities across the supply chain Promoted the Policy on Corporate Citizenship Activities
	Ensure quality and safety		
	Develop human capital and promote workplace diversity		
	Provide safe and comfortable workplaces		
	Respect human rights		
	Prevent corruption		
	Fair, proper and transparent procurement activities		
Environment 	Local community development	   	<ul style="list-style-type: none"> Accelerated PDCA cycle aimed at long-term targets for CO₂ reduction Managed hazardous substances contained in products and conducted Life Cycle Assessment (LCA)
	Countermeasures for climate change		
	Environmentally friendly manufacturing		
	Reduction of environmental impact through products and services		
	Recycling, reuse and remanufacture of products		

Topics

Selected as a component of DJSI World, an ESG investment index, for the fifth consecutive year

The Dow Jones Sustainability Indices (DJSI) were jointly developed by the U.S.-based S&P Dow Jones Indices and RobecoSAM, a Swiss company that specializes in investigation of sustainability investments. It evaluates highly sustainable companies by quantifying the companies' performance based on three elements: “economy,” “environment,” and “society.”

Activities in 2020

- **Established an integrated risk management system**

Nabtesco developed a system to further strengthen the monitoring of risks of the entire Group. By having the Risk Management Committee centrally manage the risks that were previously dispersed and managed separately at each organization, we investigate deeply into the reason for why a risk occurred and verify the effectiveness of risk response from an integrated perspective. Even in the event that the risk materializes, by conducting appropriate crisis management measures, the damages can be kept to a minimum, and we will strive to maintain and improve corporate value of the Nabtesco Group.

- **Held compliance training globally on a risk-based approach**

Even amid the COVID-19 crisis, we held compliance training leveraging our online platform in nine languages across 16 countries and regions worldwide mainly featuring the prevention of bribery, cartels, and accounting fraud.

- **Revised the Nabtesco Group CSR-Oriented Procurement Policy**

Nabtesco is strengthening its comprehensive procurement capabilities by pursuing collaboration with business partners in order to achieve sustainable growth over the medium to long term. In line with the recent call from society to solve ESG issues in the supply chain, Nabtesco revised its CSR-Oriented Procurement Policy to promote CSR-oriented procurement in closer cooperation with the entire supply chain. Going forward, based on the new policy, the entire Group will work as one to promote and implement CSR-oriented procurement activities to fulfill the expectations of customers and other stakeholders, while strengthening our partnership with existing business partners.

- **Promoted acquisition of Certification for Organizations Contributing to National Resilience (Resilience Certification)**

The Nabtesco Group, working toward an effective business continuity plan (BCP) with the aim of continuing its businesses even in the event it suffers severe damage (strengthening business continuity capabilities), is promoting the acquisition of the Resilience Certification, supervised by the National Resilience Promotion Office, Cabinet Secretariat of Japan. In FY 2020, CMET Inc., a subsidiary engaging mainly in manufacturing and sales of optical modelling systems (3D printers), acquired the certification. Going forward, we will strive to build a corporate structure resilient to disasters and crises through initiatives that span the whole supply chain as well as Group-wide.

- **Implemented Life Cycle Assessment (LCA) of products that help reduce environmental impact**

In order to grasp the impact our products, which are used in a range of fields, have on the environment throughout their life cycle, the Group conducted a life cycle assessment (LCA) of its products. The Group will utilize the assessment results for example in the design of products and take environmentally friendly measures, as a part of our regular initiatives to reduce environmental burden.

Topics

Awarded the highest rating from CDP in three environmental fields

The Company was awarded the highest rating from CDP, an international non-governmental organization that evaluates corporate efforts related to the environment, in its annual supplier engagement rating and selected for inclusion in the Climate Change A List, the Water Security A List, and the Supplier Engagement Leaderboard. The Company will continue to conduct a range of activities to solve various environmental and social issues toward the creation of a sustainable society.

(P31)

Business Report

(4) Financial highlights

Classification	FY 2016 The 14th fiscal year	FY 2017 The 15th fiscal year	FY 2018 The 16th fiscal year	FY 2019 The 17th fiscal year	FY 2020 The 18th fiscal year
Net sales (Million yen)	244,968	282,422	294,626	289,808	279,358
Operating income (Million yen)	25,982	29,468	21,889	25,320	28,533
Operating margin	10.6%	10.4%	7.4%	8.7%	10.2%
Profit attributable to owners of the parent (Million yen)	18,606	25,146	21,029	17,931	20,505
Total basic earnings per share (Yen)	150.64	203.85	169.65	144.50	165.18
Total equities (Million yen)	155,904	177,002	189,255	199,133	211,641
Equities attributable to owners of the parent per share (Yen)	1,193.79	1,355.72	1,438.64	1,508.53	1,594.10
Total assets (Million yen)	256,973	301,557	328,568	344,558	351,723
Return on equity (ROE)	13.0%	15.9%	12.1%	9.8%	10.6%
Return on assets (ROA)	7.6%	9.0%	6.7%	5.3%	5.9%

(Notes)

1. Starting from the 15th fiscal year, the Group has adopted the International Financial Reporting Standards (IFRS) on a voluntary basis. For a comparison purpose, figures for the 14th fiscal year have been restated based on IFRS.
2. Figures above are shown based on the terms in accordance with IFRS. Under J-GAAP, the following IFRS-based terms are presented as following: “profit attributable to owners of the parent” as “net income attributable to owners of the parent,” “total basic earnings per share” as “net income per share,” “total equities” as “net assets,” “equities attributable to owners of the parent per share” as “net assets per share,” “total assets” as “total assets,” “return on equity (ROE)” as “return on shareholders’ equity (ROE)” and “return on assets (ROA)” as “return on assets (ROA).”
3. Total basic earnings per share is calculated based on the average number of shares outstanding during the fiscal year. The average number of shares outstanding during the fiscal year is calculated after deducting the number of treasury shares from the total number of shares issued.

(P33)

Business Report

(5) Research and development activities

The amount used for research and development activities by the Group in FY 2020 was ¥8,968 million.

(6) Capital investment

The total amount of capital investment by the Group in FY 2020 was ¥15,059 million. The Group promoted capital investment mainly for increasing its production capacity in component solutions to increase production.

	FY 2019	FY 2020 (current)
Research and development (Million yen)	9,919	8,968
Capital investment (Million yen)	16,388	15,059

(7) Financing

The Group procured necessary funds by using its own capital and loans from financial institutions. Interest-bearing debt at the end of FY 2020 was ¥39,866 million.

(P34)

(8) Major subsidiaries

(i) Major subsidiaries

Corporate name	Capital stock	Equity ratio of the Company (%)	Main business	Location of head office
NABCO DOOR Ltd.	¥848 million	100.0	Sales, installation, and after sales service of automatic door systems, etc.	Nishi-ku, Osaka, Osaka
Nabtesco Automotive Corporation	¥450 million	100.0	Manufacturing and sales of commercial vehicle equipment	Chiyoda-ku, Tokyo
Nabtesco Service Co., Ltd.	¥300 million	100.0	Sales, installation, and after sales service of transport equipment	Shinagawa-ku, Tokyo
NABCO SYSTEMS Co., Ltd.	¥300 million	85.9	Sales, installation, and after sales service of automatic door systems, etc.	Chiyoda-ku, Tokyo
TOYO JIDOKI Co., Ltd.	¥245 million	100.0	Manufacturing and sales of various types of integrated packaging systems	Minato-ku, Tokyo
Nabtesco (China) Precision Equipment Co., Ltd.	US\$50,000 thousand	67.0	Manufacturing and sales of precision reduction gears	Jiangsu, China
Jiangsu Nabtesco KTK Railroad Products Co., Ltd.	¥1,800 million	50.0	Manufacturing and sales of brake systems and door operating systems for railroad vehicles	Jiangsu, China
Shanghai Nabtesco Hydraulic Co., Ltd.	US\$14,500 thousand	55.0	Manufacturing, sales and after sales service of hydraulic equipment	Shanghai, China
Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd.	¥100 million	67.0	Sales of hydraulic equipment	Shanghai, China
Nabtesco Aerospace, Inc.	US\$1,000 thousand	100.0 [100.0]	Manufacture, sales and after sales service of aircraft equipment	WA, U.S.A.
NABCO Entrances, Inc.	US\$0.2 thousand	100.0 [100.0]	Manufacturing and sales of automatic doors	WI, U.S.A.
Gilgen Door Systems AG	CHF2,001 thousand	100.0	Manufacturing, sales, and after sales service of automatic doors for buildings and platform doors for railways	Bern, Switzerland
Nabtesco Precision Europe GmbH	EUR51 thousand	100.0 [100.0]	Sales of precision reduction gears	Düsseldorf, Germany
Nabtesco Power Control (Thailand) Co., Ltd.	THB700,000 thousand	70.0	Manufacturing and sales of hydraulic equipment	Chonburi, Thailand

(Note)

Figures in brackets under “Equity ratio of the Company” indicate indirect investment ratios.

(ii) Specified wholly owned subsidiaries at the closing date of the fiscal year

Not applicable

(P35)

Business Report

(9) Principal offices

Nabtesco Corporation

Office name	Location
Head Office	Chiyoda-ku, Tokyo
Nagoya Office	Nakamura-ku, Nagoya, Aichi
Nabtesco R&D Center	Shimogyo-ku, Kyoto, Kyoto
Tarui Plant	Tarui-cho, Fuwa-gun, Gifu
Gifu Plant	Tarui-cho, Fuwa-gun, Gifu
Tsu Plant	Tsu, Mie
Kobe Plant	Nishi-ku, Kobe, Hyogo
Seishin Plant	Nishi-ku, Kobe, Hyogo
Konan Plant	Higashinada-ku, Kobe, Hyogo

(Note)

The office names and locations of head offices of major subsidiaries are stated in “(8) Major subsidiaries” above.

(10) Employees

Number of employees	Year-on-year change
7,717	-19

(Note)

The number of employees includes only full-time employees. The number of temporary employees is omitted since it is less than 10% of the total.

(11) Principal lenders

Lender	Outstanding loans payable (Million yen)
Mizuho Bank, Ltd.	10,683
MUFG Bank, Ltd.	7,976
Sumitomo Mitsui Banking Corporation	5,296

(P36)

2. Stock Information

(1) Total number of shares authorized to be issued	400,000,000 shares
(2) Total number of shares issued	125,133,799 shares (including 774,509 treasury shares)
(3) Number of shareholders	16,447

■ Shareholder composition (as of December 31, 2020)

	Number of shares held (thousand shares)	Shareholding ratio (%)
Financial institutions	32,436	25.92%
Financial instruments business operators	7,256	5.80%
Other domestic legal entities	15,411	12.32%
Foreign legal entities	59,067	47.20%
Individuals & others	10,189	8.14%
Own shares	775	0.62%

(4) Major shareholders (Top 10)

Shareholders	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,254	8.25
Custody Bank of Japan, Ltd. (Trust Account)	7,425	5.97
Central Japan Railway Company	5,171	4.16
SSBTC CLIENT OMNIBUS ACCOUNT	3,982	3.20
FANUC CORPORATION	3,760	3.02
Harmonic Drive Systems Inc.	3,265	2.63
Custody Bank of Japan, Ltd. (Trust Account 7)	2,683	2.16
SMBC Nikko Securities Inc.	2,629	2.11
STATE STREET BANK WEST CLIENT - TREATY 505234	2,047	1.65
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	1,863	1.50

(Note)

The shareholding ratio is calculated after deducting the number of treasury shares (774,509 shares).

(5) Other important matters relating to stock

Not applicable

(6) Subscription rights to shares

Matters regarding “Subscription Rights to Shares” are posted on the Company’s website (https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html) in accordance with provisions of laws and regulations as well as Article 16 of the Articles of Incorporation.

(P37)

Business Report

3. Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members

Position	Name	Assignment and significant positions concurrently held	
		As of December 31, 2020	As of January 1, 2021
Representative Director	Katsuhiro Teramoto	President and Chief Executive Officer (CEO)	(Same as left)
Representative Director	Shinji Juman	Senior Managing Executive Officer; Component Solution Segment; President, Power Control Company; in charge of Production Innovation	
Representative Director	Daisuke Hakoda	Senior Managing Executive Officer; President, Accessibility Innovations Company	(Same as left)
Director	Toshiaki Akita	Managing Executive Officer; Senior General Manager, Technology and R&D Division	
Director	Shigeru Naoki	Managing Executive Officer; President, Railroad Products Company	(Same as left)
Director	Kazumasa Kimura	Executive Officer; Corporate Planning, Accounting & Finance, Information System and Corporate Communication	Managing Executive Officer; Component Solution Segment; Senior General Manager, Technology and R&D Division; in charge of Production Innovation
Director	Yutaka Fujiwara	Representative, Cross-Border Bridge Corporation; Outside Director, KITZ Corporation; External Audit & Supervisory Board Member, Konoike Transport Co., Ltd.	
Director	Norio Uchida	External Director, ULVAC, Inc.	
Director	Mari Iizuka	Professor of Doshisha Business School	
Director	Naoko Mizukoshi	Partner of Leftright Law & IP; External Director of TIS Inc.	
Audit & Supervisory Board Member	Kenichi Kikuchi		
Audit & Supervisory Board Member	Isao Shimizu		
Audit & Supervisory Board Member (Independent)	Zenzo Sasaki	Attorney-at-law (Harumi-kyowa Law Offices)	
Audit & Supervisory Board Member (Independent)	Takemi Nagasaka	Outside Audit & Supervisory Board Member, DAIO PAPER CORPORATION	
Audit & Supervisory Board Member (Independent)	Tetsuro Hirai		

(Notes)

1. The Company has changed the Directors' duties on January 1, 2021. Therefore, the status of the assignment of the Directors as of January 1, 2021 is presented along with the status as of December 31, 2020.
2. Ms. Mari Iizuka and Ms. Naoko Mizukoshi were newly elected and assumed office as Director at the 17th Annual General Meeting of Shareholders held on March 24, 2020.
3. Mr. Isao Shimizu was newly elected and assumed office as Audit & Supervisory Board Member at the 17th Annual General Meeting of Shareholders held on March 24, 2020.
4. Messrs. Yutaka Fujiwara, Norio Uchida, Ms. Mari Iizuka and Ms. Naoko Mizukoshi are Outside Directors.
5. Messrs. Zenzo Sasaki, Takemi Nagasaka and Tetsuro Hirai are Audit & Supervisory Board Members (Independent).
6. There is no special relationship between the Company and any of the companies at which Outside Directors and Audit & Supervisory Board Members (Independent) of the Company concurrently hold managerial positions including that of officer.
7. Mr. Takemi Nagasaka, Audit & Supervisory Board Member, is a certified public accountant who additionally has a considerable length of experience in corporate finance and accounting sectors and broad insight in the fields of finance and accounting.
8. The Company designates Outside Directors Messrs. Yutaka Fujiwara, Norio Uchida, Ms. Mari Iizuka and Ms. Naoko Mizukoshi, and Audit & Supervisory Board Members (Independent) Messrs. Zenzo Sasaki, Takemi Nagasaka and Tetsuro Hirai, as independent directors/auditors under the provisions set forth by the Tokyo Stock Exchange.

(P38)

(2) Outline of limited liability agreement

As the Company stipulates in the Articles of Incorporation provisions to enable the conclusion of limited liability agreements with Outside Directors and Audit & Supervisory Board Members (Independent), a limited liability agreement has been concluded with Outside Directors Messrs. Yutaka Fujiwara, Norio Uchida, Ms. Mari Iizuka and Ms. Naoko Mizukoshi, and Audit & Supervisory Board Members (Independent) Messrs. Zenzo Sasaki, Takemi Nagasaka and Tetsuro Hirai.

The details of the agreement are as follows.

- Liability for damages under the agreement will be limited to 10 million yen or the amount set forth by laws and regulations, whichever is higher.
- The limitation of liability mentioned above applies only if the Outside Director or Audit & Supervisory Board Member (Independent) acts in good faith and without gross negligence when performing their duties.

(3) Matters concerning Directors and Officers liability insurance contract

The Company has a Directors and Officers liability insurance contract (management risk protection insurance contract) in effect, as stipulated in Article 430-3 of the Amendment of the Companies Act (to be enforced on March 1, 2021), covering all Directors, Audit & Supervisory Board Members and Executive Officers of the Company and all its subsidiaries.

An overview of the said contract is as follows.

- The contract covers the liability of the insured for legal dispute fees and compensation for damages, etc. arising from company lawsuits, third-party lawsuits, shareholder's derivative suits, etc.
- Damages, etc. arising from criminal acts, etc. by the insured are not covered as a measure to prevent the impairment of the appropriateness of execution of duties by the insured.
- The Company is fully responsible for insurance fees under the said contract.

(4) Total amount of compensation paid to Directors and Audit & Supervisory Board Members

(i) 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 yen)	Types of compensation (million yen)				Number of Directors and Audit & Supervisory Board Members	
		Fixed compensation	Performance-linked compensation		Board Benefit Trust (BBT)		
			Monthly compensation		Tenure grant		Retirement grant
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 (of which, one is an Outside Director) who retired during the fiscal year under review.
The "Number of Directors and Audit & Supervisory Board Members" for Audit & Supervisory Board Members includes one 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.

(P39)

4. The upper limit on compensation as resolved at the 14th Annual General Meeting of Shareholders (March 28, 2017) is set at 400 million yen per year for Directors (of which 50 million yen is for Outside Directors), and 90 million yen 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 yen (for three business years) for the tenure grant, and 420 million yen (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).

(ii) Policy on the determination of compensation amounts of Directors and Audit & Supervisory Board Members or their calculation methods as well as determination method of the policy

■ Basic policy on compensation system

- The system shall ensure that shareholders and management share common interests by strengthening the link between compensation and the Company's performance and share value.
- The system shall function as an incentive to improve the medium- to long-term performance of the Group.
- The process of determining the compensation system shall be highly objective and transparent.

■ Structure of the compensation system

- 1) Compensation to Directors is composed of monthly compensation, comprising fixed basic compensation and short-term performance-linked compensation, and the Board Benefit Trust (BBT), which is stock compensation based on the degree of achievement of the Medium-term Management Plan as well as share value.
- 2) Basic compensation is fixed compensation according to the position of each Director, and is paid as monthly compensation.
- 3) 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]

$$\text{Short-term performance-linked compensation} = \text{Standard payment amount by position} \times \text{Performance evaluation coefficient}$$

* 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.

- 4) 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]

$$\text{Tenure grant-type stock compensation} = \text{Share grant points by position} \times \text{Performance evaluation coefficient} \times \text{Medium-term Management Plan achievement coefficient}$$

* 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.

(P40)

5) The composition of Directors' compensation emphasizes the link with performance and shareholder value.

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%

* The above table shows model compositions, where the figures are the median by position with the target achievement rate for performance-linked compensation set at 100%.

6) 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.

7) As a result of having to revise the financial results of past fiscal years due to inappropriate accounting, etc., the Company has set 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.

■ 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 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 emission was 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.

[Actual performance of principal indicators related to performance-linked compensation]

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

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

■ Method, etc. for determining compensation

The Board of Directors determines the policy regarding compensation, etc., of Directors, compensation system, level, and amount paid to each Director, based on the deliberations and reporting of the Compensation Committee, which is composed of one internal Director and two Independent Outside Directors/Audit & Supervisory Board Members (Independent).

Compensation, etc. of Audit & Supervisory Board Members is decided upon consultation with Audit & Supervisory Board Members.

The activities of the Committee, etc. during the fiscal year under review that deliberated and determined compensation, etc. of Directors are as follows.

[Number of meetings of the Committee, etc. (January 2020 to December 2020)]

Committee, etc.	Number of meetings
Remuneration Committee	2
Board of Directors	2

(P41)

(5) Outside Directors and Audit & Supervisory Board Members (Independent)

(i) Relation between an entity, for which the Company's officers hold significant concurrent positions, and the Company

As stated in "(1) Directors and Audit & Supervisory Board Members," there is no special relationship between the Company and any of the companies at which Outside Directors and Audit & Supervisory Board Members (Independent) of the Company concurrently hold managerial positions including that of officer.

(ii) Main activities during the fiscal year

Directors/ Audit & Supervisory Board Members	Name	Attendance rate at the Board of Directors meetings	Attendance rate at the Audit & Supervisory Board meetings	Main activities
Director	Yutaka Fujiwara	100%	—	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight in global business.
Director	Norio Uchida	100%	—	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight as a corporate manager.
Director	Mari Iizuka	100%	—	She posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on her deep expertise in the fields of global management human resources and international management strategies.
Director	Naoko Mizukoshi	100%	—	She posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on her rich experience and deep insight as an attorney-at-law.
Audit & Supervisory Board Member	Zenzo Sasaki	100%	100%	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight as an attorney-at-law.
Audit & Supervisory Board Member	Takemi Nagasaka	100%	100%	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight in accounting and finance.
Audit & Supervisory Board Member	Tetsuro Hirai	100%	90%	He posed questions and expressed opinions in an appropriate manner, and otherwise made proactive statements based mainly on his rich experience and deep insight in manufacturing.

(Notes)

1. The number of Board of Directors meetings and number of Audit & Supervisory Board meetings held in the fiscal year were 15 and 10, respectively.
2. Since Ms. Mari Iizuka and Ms. Naoko Mizukoshi assumed office as Outside Directors on March 24, 2020, the number of Board of Directors meetings to be attended on and after that day was 11.

(P42)

4. Financial Auditor

(1) Name of the Financial Auditor

KPMG AZSA LLC

(2) Remuneration paid or payable to the Financial Auditor

Category	Remuneration paid for works concerning audit certification (million yen)	Remuneration paid for non-auditing works
The Company	94	—
Subsidiaries	16	—
Total	110	—

(Notes)

1. The audit agreement between the Company and the Financial Auditor does not separate remuneration concerning the audit under the Companies Act from remuneration concerning the audit under the Financial Instruments and Exchange Act, and such separation would be impossible to manage in practical terms. Accordingly, the amount described above represents the total amount of these remunerations.
2. The Audit & Supervisory Board checked and reviewed whether the details of the audit results and audit plans for the previous fiscal year, the performance of duties for the accounting audit, and the basis for calculating the estimated remuneration were appropriate, based on the “Practical Guidance for Cooperation with Accounting Auditor” announced by the Japan Audit & Supervisory Board Members Association. As a result, the Audit & Supervisory Board agreed on the remuneration paid to the Financial Auditor pursuant to Article 399, Paragraph 1 of the Companies Act.
3. From among major subsidiaries of the Company, NABCO SYSTEMS Co., Ltd., Gilgen Door Systems AG, Nabtesco Precision Europe GmbH, Nabtesco Aerospace, Inc., NABCO Entrances, Inc., Shanghai Nabtesco Hydraulic Co., Ltd., Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd., Jiangsu Nabtesco KTK Railroad Products Co., Ltd., Nabtesco Power Control (Thailand) Co., Ltd., and Nabtesco (China) Precision Equipment Co., Ltd. are audited by audit corporations other than the Financial Auditor of the Company.

(3) Policy for determining the dismissal or non-reappointment of the Financial Auditor

If the Audit & Supervisory Board recognizes any problems with the performance of duties by the Financial Auditor or otherwise judges it to be necessary, the Audit & Supervisory Board will propose the dismissal or non-reappointment of the Financial Auditor as an agenda item at the general meeting of shareholders.

In addition, if the Financial Auditor is deemed to fall under any of the items of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board will dismiss the Financial Auditor subject to the unanimous approval of the Audit & Supervisory Board Members. In this case, an Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the fact of dismissal of the Financial Auditor and the reasons thereof at the first general meeting of shareholders convened after the dismissal.

(P43)

5. Outline of the Operational Status of the Systems to Ensure the Appropriateness of the Business

Details of the matters resolved at the Board of Directors regarding the system to ensure the appropriateness of the business of the Company (Basic Policy on Establishment of Internal Control System) are posted on the Company's website (https://www.nabtesco.com/en/ir/stock/shareholders_meeting.html) in accordance with provisions of laws and regulations as well as Article 16 of the Articles of Incorporation.

Following is an outline of the operational status of the systems to ensure the appropriateness of the business for the current fiscal year.

(1) Compliance system

- i) The Company strives to communicate the importance of compliance and ensure its thorough implementation within the Group, based on the Nabtesco Group Code of Ethics that was established by a resolution of the Company's Board of Directors.
- ii) The Company assigns a Chief Compliance Officer and a Compliance Officer at our in-house companies, Corporate Headquarters, and domestic and overseas subsidiaries. In addition, the Compliance Committee, an advisory body of the Board of Directors, met three times during the fiscal year under review to deliberate important matters concerning compliance. Furthermore, Compliance Liaison Meetings were held in Japan and all overseas areas (China, Asia, North America, Europe) where the Company operates with the aim to disseminate compliance-related measures throughout the Group. During the fiscal year under review, due to the global COVID-19 pandemic, the meetings were not held in person but online.
- iii) The Company continuously provides various training and awareness activities on compliance for officers and employees of the Group both in Japan and overseas. During the fiscal year under review, in principle, all training was conducted online amid the global COVID-19 pandemic. The Company held e-learning sessions to prevent misconduct including cartel and bribery at all overseas Group companies.
- iv) In order to raise employees' awareness of compliance, the Company sets October as the corporate ethics month, and delivers a video message on compliance from the Company's CEO to officers and employees of the Group in Japan and overseas. The Company also conducted compliance awareness surveys among employees of the Group in Japan and China.
- v) The Company has established, for the Company as well as its domestic and overseas subsidiaries, points of contact of a whistleblower system both inside and outside the Company and appropriately operates the hotline, and ensures that employees are aware of the hotline, with the main aim of preventing and discovering violations of laws and regulations and misconduct at an early stage. We also ensure that employees are aware of the Audit & Supervisory Board Member's Hotline established by the Audit & Supervisory Board.

(P44)

(2) Risk management system

- i) For the purpose of grasping and managing various risks in connection with business activities of the Group and limiting losses incurred to a minimum when they occur, we are endeavoring to strengthen the Group's risk management system by formulating internal regulations, including risk management regulations.
- ii) The Company has established cross-company organizations such as the Risk Management Committee, the Group Quality & PL (Product Liability) Committee and the Group ESH (Environment, Safety and Health) Committee, and deliberates measures concerning material risks.
During the fiscal year under review, the Risk Management Committee met three times and risk assessment of the Company and its domestic and overseas subsidiaries was implemented. Furthermore, the Group Quality & PL (Product Liability) Committee and the Group ESH (Environment, Safety and Health) Committee met once each during the fiscal year.
- iii) The Group is promoting the development and enhancement of an effective BCP (business continuity plan at the time of a critical accident and disaster), and ten of its main business bases have acquired the certification for organizations contributing to national resilience (Resilience Certification). (Note)
- iv) Expert staff members of the Head Office mainly from within the Business Auditing Department conduct internal audits to give appropriate guidance toward operational improvement, etc.

(3) Execution of duties by Directors

Fifteen meetings of the Board of Directors of the Company were held in the fiscal year under review to deliberate and determine important matters relating to the execution of business operations and to supervise the execution of duties by Directors and Executive Officers. The minutes of the Board of Directors meetings and other important documents and materials relating to the execution of duties by Directors are appropriately prepared, stored, and managed.

(4) Execution of duties by Audit & Supervisory Board Members

Ten meetings of the Audit & Supervisory Board were held in the fiscal year under review to report, discuss and resolve important matters relating to audits. In addition, the Audit & Supervisory Board Members attend the Board of Directors meetings, the Management Committee meetings, the Executive Officers Committee meetings and other important conferences, and hold meetings to exchange opinions with Representative Directors, meetings to exchange opinions with the Financial Auditor, the Audit Council meetings with the Business Auditing Department, and meetings of the Group Audit & Supervisory Board attended by Audit & Supervisory Board Members of the Company's subsidiaries, and thereby rigorously monitor the execution of duties by Directors, Executive Officers, and employees. Moreover, to ensure the effectiveness of the audits by the Audit & Supervisory Board Members, the Company grants the Audit & Supervisory Board Members the right to access all of the management information databases and assigns two support personnel to the Audit & Supervisory Board Members at their request. In addition, the Audit & Supervisory Board Member's Hotline, an internal reporting system with Audit & Supervisory Board Members serving as a point of contact, was established and is being appropriately operated.

(Note) Resilience Certification is a system established in February 2016 by the National Resilience Promotion Office, Cabinet Secretariat of Japan, based on the Guidelines for the Certification for Organizations Contributing to National Resilience. Under the system, the Association for Resilience Japan certifies various organizations including companies, local governments, schools, and hospitals that support the objectives of national resilience with a concept of building a country resilient to disasters or critical events and are actively engaged in initiatives toward business continuity, as an Organization Contributing to National Resilience.

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(Note) In the amount, ratios and other figures stated in the Business Report, all fractions are rounded off to the nearest units, unless otherwise noted.

Consolidated Financial Statements

Consolidated Statement of Financial Position

(Million yen)

Description	(Reference) The 17th Fiscal Year (As of December 31, 2019)	The 18th Fiscal Year (As of December 31, 2020)
(Assets)		
Current assets	179,154	183,110
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
Non-current assets	165,404	168,614
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 assets	344,558	351,723

(Million yen)

Description	(Reference) The 17th Fiscal Year (As of December 31, 2019)	The 18th Fiscal Year (As of December 31, 2020)
(Liabilities)		
Current liabilities	109,614	113,662
Trade payables	45,021	44,838
Contracts liabilities	5,579	5,763
Bonds and borrowings	30,719	37,001
Other payables	14,405	9,723
Income tax payables	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
Non-current liabilities	35,810	26,421
Bonds and borrowings	13,217	2,865
Lease liabilities	6,568	6,291
Liabilities for retirement benefit	9,569	10,211
Deferred tax liabilities	4,540	4,949
Other financial liabilities	—	69
Other non-current liabilities	1,916	2,035
Total liabilities	145,424	140,083
(Equities)		
Equity attributable to owners of the parent	187,398	198,031
Share capital	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 equities	1,208	1,515
Non-controlling interests	11,735	13,610
Total equities	199,133	211,641
Total liabilities and equities	344,558	351,723

Consolidated Statement of Income

(Million yen)

Description	(Reference) The 17th Fiscal Year (From January 1, 2019 to December 31, 2019)	The 18th Fiscal Year (From January 1, 2020 to December 31, 2020)
Net sales	289,808	279,358
Cost of sales	(212,105)	(206,166)
Gross profit	77,703	73,192
Other operating 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
Financial income	766	2,291
Financial costs	(971)	(573)
Equity in earnings of affiliates	2,864	3,467
Profit before taxes	27,979	33,718
Income tax expenses	(8,028)	(10,206)
Profit	19,951	23,512

Profit attributable to:		
Owners of the parent	17,931	20,505
Non-controlling interests	2,020	3,008
Profit	19,951	23,512

Non-consolidated Financial Statements

Non-consolidated Balance Sheet

(Million yen)

Description	(Reference) The 17th Fiscal Year (As of December 31, 2019)	The 18th Fiscal Year (As of December 31, 2020)
(Assets)		
Current assets	100,506	99,048
Cash and time deposits	14,725	9,892
Notes receivable	2,996	2,765
Trade accounts receivable	40,537	45,054
Marketable securities	16,000	18,999
Goods and products	2,488	2,217
Products in progress	6,995	5,847
Raw materials and stored goods	6,815	6,821
Other accounts receivable	1,714	1,162
Advances paid	5,920	4,654
Other current assets	2,316	1,638
Fixed assets	122,781	123,894
Tangible fixed assets	59,461	63,399
Buildings	17,884	21,456
Structures	714	976
Machinery and equipment	20,933	19,674
Vehicles and transport equipment	75	83
Tools, apparatus and furniture	2,830	2,709
Land	9,103	14,359
Construction in progress	7,920	4,143
Intangible fixed assets	2,997	3,090
Software	1,470	1,833
Goodwill	1,157	801
Other intangible fixed assets	370	456
Investments and other assets	60,324	57,405
Investments in securities	5,786	4,683
Shares of subsidiaries and associates	33,842	33,836
Investments in capital of subsidiaries and associates	15,718	13,371
Long-term loans receivable from subsidiaries and associates	2,713	2,670
Long-term prepaid expenses	192	150
Deferred tax assets	1,338	1,715
Other investments and other assets	760	1,046
Allowance for doubtful accounts	(24)	(67)
Total assets	223,288	222,942

(Million yen)

Description	(Reference) The 17th Fiscal Year (As of December 31, 2019)	The 18th Fiscal Year (As of December 31, 2020)
(Liabilities)		
Current liabilities	86,948	94,598
Trade accounts payable	8,163	8,966
Electronically recorded obligations - trade	28,668	27,337
Short-term loans payable	22,198	22,198
Current portion of bonds payable	—	10,000
Other accounts payable	8,719	4,342
Income taxes payable	1,605	3,606
Accrued expenses	2,610	2,396
Advances received	92	147
Deposits received	14,294	15,120
Allowance for product warranty	539	472
Provision for loss on order received	33	12
Other current liabilities	26	1
Long-term liabilities	19,234	9,588
Long-term loans payable	2,191	2,070
Bonds payable	10,000	—
Provision for retirement bonus	6,083	6,384
Other long-term liabilities	960	1,134
Total liabilities	106,182	104,187
(Net assets)		
Shareholders' equity	115,233	117,670
Capital stock	10,000	10,000
Capital surplus	26,274	26,278
Legal capital surplus	26,274	26,274
Other capital surplus	—	4
Earned surplus	81,495	83,863
Legal earned surplus	1,077	1,077
Other earned surplus	80,418	82,786
Reserve for advanced depreciation of assets	207	204
Earned surplus brought forward	80,211	82,582
Treasury stock	(2,536)	(2,471)
Valuation and translation adjustments	1,714	952
Valuation difference on other securities	1,714	952
Subscription rights to shares	159	134
Total net assets	117,106	118,755
Total liabilities and net assets	223,288	222,942

Non-consolidated Statement of Income

(Million yen)

Description	(Reference) The 17th Fiscal Year (From January 1, 2019 to December 31, 2019)	The 18th Fiscal Year (From January 1, 2020 to December 31, 2020)
Net sales	159,180	150,145
Cost of sales	128,331	120,705
Gross profit	30,849	29,440
Selling, general and administrative expenses	20,450	19,906
Operating income	10,399	9,535
Non-operating income	5,585	6,547
Interest income	105	89
Dividend income	4,913	5,776
Rent income	478	369
Other non-operating income	89	313
Non-operating expenses	1,011	596
Interest expenses	81	76
Loss on partnerships	218	231
Foreign exchange losses	478	119
Rent property expenses	163	114
Other non-operating expenses	71	56
Ordinary income	14,973	15,486
Extraordinary gains	56	6,566
Subsidy income	—	439
Insurance income	47	—
Gain on sales of fixed assets	8	6,127
Extraordinary losses	7,764	5,122
Loss on sales and retirement of non-current assets	174	100
Loss on valuation of investments in capital of subsidiaries and associates	7,591	5,022
Income before income taxes and adjustments	7,264	16,930
Income taxes - current	3,218	4,902
Income taxes - deferred	(327)	(40)
Net income	4,373	12,068