

Subscription Rights to Shares

(1) Subscription rights to shares held by Directors of the Company as of the closing date of the fiscal year
Subscription rights to shares as stock compensation-type stock options

(i) Number of subscription rights to shares: 1,067

(ii) Type and number of shares to be issued upon exercise: 106,700 shares of common stock (100 shares per subscription right to shares)

(iii) Details of subscription rights to shares:

Order	Exercise price	Exercise period	Classification	Number of persons holding subscription rights to shares	Number of subscription rights to shares held
No. 1 Subscription Right to Shares as Stock-based Compensation (FY 2009) *1	¥1	From August 22, 2009 to August 21, 2034	Director	1	40
No. 2 Subscription Right to Shares as Stock-based Compensation (FY 2010) *1	¥1	From August 21, 2010 to August 20, 2035	Director	1	30
No. 3 Subscription Right to Shares as Stock-based Compensation (FY 2011) *1	¥1	From August 20, 2011 to August 19, 2036	Director	3	144
No. 4 Subscription Rights to Shares as Stock-based Compensation (FY 2012) *1	¥1	From August 21, 2012 to August 20, 2037	Director	3	151
No. 5 Subscription Right to Shares as Stock-based Compensation (FY 2013) *1	¥1	From August 21, 2013 to August 20, 2038	Director	5	177
No. 6 Subscription Right to Shares as Stock-based Compensation (FY 2014) *1	¥1	From August 21, 2014 to August 20, 2039	Director	5	156
No. 7 Subscription Right to Shares as Stock-based Compensation (FY 2015) *2	¥1	From June 15, 2018 to June 14, 2025	Director	0	0
No. 8 Subscription Right to Shares as Stock-based Compensation (FY 2015) *1	¥1	From August 21, 2015 to August 20, 2040	Director	7	118
No. 9 Subscription Right to Shares as Stock-based Compensation (FY 2016) *1	¥1	From May 21, 2016 to May 20, 2041	Director	7	225
No. 10 Subscription Right to Shares as Stock-based Compensation (FY 2017) *2	¥1	From February 27, 2020 to February 26, 2030	Director	7	26

(Notes)

- *1: Subscription rights to shares issued based on the long-term performance-linked stock compensation-type stock option compensation (as resolved at the 6th Annual General Meeting of Shareholders held on June 24, 2009) (hereinafter “Long-term performance-linked stock compensation-type stock options”).

*2: Subscription rights to shares issued based on the medium-term performance-linked stock compensation-type stock option compensation (as resolved at the 11th Annual General Meeting of Shareholders held on June 24, 2014) (hereinafter “Medium-term performance-linked stock compensation-type stock options”).
- No subscription rights to shares were granted to Outside Directors or Statutory Auditors.
- Since the number of shares constituting one share unit was changed from 1,000 shares to 100 shares effective October 1, 2010, the number of shares issued per Subscription Right to Shares as Stock-based Compensation after the change (No. 3 and later) is 100 shares instead of 1,000 shares. For the purpose of aligning the unit of representation with the No. 3 Subscription Right to Shares as Stock-based Compensation and those issued thereafter, the number of shares per subscription right to shares used for calculating the number of shares of No.1 and No. 2 Subscription Right to Shares as Stock-based Compensation is 100 shares instead of 1,000 shares.

(iv) Conditions for the exercise of subscription rights to shares

1. The holder of subscription rights to shares of the long-term performance-linked stock compensation-type stock options shall exercise the subscription rights to shares not later than ten (10) calendar days beginning from the day following the date of loss of all of positions as Director or Executive Officer of the Company (if the tenth date falls on a holiday, then the next business day will be the last day).
Furthermore, the holder of subscription rights to shares of the medium-term performance-linked stock compensation-type stock options shall be a person who is in the position of Director or Executive Officer of the Company at the time of exercise of the subscription rights to shares. However, if a Director or an Executive Officer of the Company retires as a result of the expiry of his or her term of office, or assumes the position of Director or Executive Officer of a subsidiary of the Company, he or she shall be able to exercise the subscription rights to shares.
2. The holder of subscription rights to shares shall collectively exercise all of the subscription rights to shares allotted.
3. If the holder of subscription rights to shares passes away, the rights of the holder may be succeeded by a single direct legal successor of the holder.
4. Other conditions for the exercise of subscription rights to shares shall be set forth in the Subscription Rights to Shares Allotment Agreement to be concluded between the Company and the holder of subscription rights to shares, by resolution at the Board of Directors meeting for the issuance of the subscription rights to shares.

(2) Subscription rights to shares granted during the fiscal year

Not applicable

Following the introduction of the new Board Benefit Trust (BBT) as approved at the 14th Annual General Meeting of Shareholders held on March 28, 2017, the Company abolished both the long-term performance-linked stock compensation-type stock options and the medium-term performance-linked stock compensation-type stock options. However, the unexercised subscription rights to shares as stock compensation-type stock options already granted to the Directors, etc. shall remain.

(3) Other important matters relating to subscription rights to shares

Not applicable

(P3)

The System 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 are as follows.

The Basic Policy on Establishment of Internal Control System for the Nabtesco Group shall be stipulated as follows.

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

1. The System to ensure that Directors and employees perform their duties in compliance with laws and the Articles of Incorporation

- (i) Directors and employees shall comply with the Nabtesco Way and the Nabtesco Group Code of Ethics as the basis of appropriate and fair business activities, shall behave in accordance with social norms/ethics as members of society, and shall endeavor to establish and maintain a sound corporate culture.
- (ii) (The Board of) Directors shall make proper decisions on important management matters stipulated in laws and regulations, the Articles of Incorporation, the Board of Directors' rules, the Responsibility and Authority Regulations, etc.
- (iii) Directors shall perform their respectively delegated duties in accordance with proper decisions by the Board of Directors, and shall report on the execution of their duties to the Board of Directors. Should a Director have any doubts on whether the execution of the duties by himself or herself or other Directors are in compliance with laws and regulations and the Articles of Incorporation, the Director shall report these doubts to the Board of Directors and Statutory Auditors (or the Audit & Supervisory Board).
- (iv) Directors and employees shall ensure the rationality, adequacy and legality of their decisions by actively and thoroughly hearing the expert opinions of expert staff members of the Head Office and/or outside experts during decision-making and performance of duties.
- (v) The Board of Directors shall make use of the multifaceted and impartial advice provided by Outside Directors and Statutory Auditors (Independent) to make appropriate decisions.
- (vi) In order to promote the compliance of the Group, the Compliance Committee shall be set up as an advisory body of the Board of Directors. The Committee shall deliberate important matters, etc. concerning compliance and report to the Board of Directors.
- (vii) To assist the CEO in promoting compliance, organizations responsible for promoting compliance shall be set up to review compliance systems in accordance with social conditions, revision of laws, etc., and to provide training on compliance to Directors and employees.
- (viii) Directors and employees shall be obliged to report any misconduct within the Group, and a corporate ethics hotline shall be established and operated as one of the methods to achieve this. The person who used this corporate ethics hotline will not be treated unfavorably on the grounds of having made such reports.
- (ix) To ensure the adequacy of financial reports, an internal control system over financial reports and a system to evaluate its validity shall be developed and operated.

2. The System for storing and managing information on the performance of duties by Directors

- (i) Directors shall properly prepare, store and manage the following information (in written form or on electromagnetic record; the same applies hereinafter) on the performance of their duties in keeping with their respective duties and in accordance with laws and company regulations.
 - (a) Minutes of general shareholders' meetings and related documentation
 - (b) Minutes of Board of Directors' meetings and related documentation
 - (c) Records of the proceedings at other important meetings hosted by Directors (e.g., Management Committee meetings) and related documentation
 - (d) Notices of decisions made by Directors and appended documentation
 - (e) Other important documentation related to Directors' performance of their duties
- (ii) The parties responsible for the preparation, storage and management of the information set forth in (i) above shall be the chairmen of the respective meetings or a separately assigned Director, decision-maker, or the Director responsible for performing the duties in question.

- (iii) Efforts shall be made to establish and continually strengthen and improve adequate security for electromagnetic records to combat the risks of unauthorized disclosure posed by the increasing sophistication of information technology.

3. The Regulations and other systems for managing the risk of loss.

- (i) The system shall be developed so that a scheme shall be put in place to ensure that profits and losses, asset efficiency, quality issues, accidents, and other matters concerning the execution of operations are reported to the Board of Directors in a suitable and timely fashion, and to ensure that Directors and employees who became aware of matters that could have a seriously adverse impact on Nabtesco and its Group report these promptly and precisely to (the Board of) Directors, and efforts shall be made to discover risks early so as to minimize losses.
- (ii) To manage various risks and prevent losses with regard to business activities of Nabtesco and its Group, the Risk Management Committee, Group Quality & PL (Product Liability) Committee, Group ESH (Environment, Safety and Health) Committee, etc., shall be established as cross-group organizations, and the rules for information security and business continuity plan at the time of a critical accident and disaster, and other relevant company regulations shall be established.
- (iii) Risk management shall be conducted while ensuring rationality, adequacy and legality of decision-making through deliberation on the performance of important matters concerning the execution of operations by the Board of Directors and Management Committee and compliance with, and thoroughgoing implementation of, the Responsibility and Authority Regulations.
- (iv) Reporting requirements in the event of accidents, disasters or critical quality problems and other events that may have serious adverse effects on the Group's business performance, financial condition and credibility shall be set forth within company regulations, and steps shall be taken to ensure that information is promptly and suitably conveyed and that contingency measures are implemented during emergencies in accordance with these regulations.
- (v) Expert members of the Head Office, particularly in the Business Auditing Department, shall conduct cross-organizational audits of operational risk management, and shall offer necessary and appropriate advice with regard to operational improvements.

4. The System to ensure that Directors perform their duties efficiently

- (i) The necessary organizations shall be formed to ensure that Directors perform their duties efficiently, and the respective responsibilities of these organizations shall be stipulated. Responsibility for operations shall be divided among Directors in accordance with Board of Directors' resolutions, and Directors shall perform their duties in keeping with these divisions of responsibility.
- (ii) An Executive Officer system and a company system shall be adopted in view of the nature and characteristics of the Nabtesco's business.
 - (a) Executive Officers shall perform the duties delegated by the Board of Directors and shall report on the same.
 - (b) A company shall be established as a strategic business unit. Each company shall perform operations in accordance with the Responsibility and Authority Regulations and report on the same.
- (iii) Efforts shall be made to ensure the suitability and efficiency of decision-making by the Board of Directors with regard to the performance of operations to be submitted for consideration to the Board of Directors by having the Management Committee conduct preliminary examinations to clarify the points of issue before passing the matter on to the Board of Directors.

5. The System to ensure the suitability of operations by the Company and the Group

- (i) All principles and policies for internal control shall be applied to the whole Nabtesco Group, and efforts shall be made to disseminate and standardize these throughout the Group as a whole.
- (ii) Group Companies Management Regulations shall be established to stipulate management classifications and management items for subsidiaries, and the Responsibility and Authority Regulations shall be set up, taking into account the scale and importance (impact onto the Group) of subsidiaries as well as their autonomy. Furthermore, a system shall be developed so that subsidiaries shall report their important matters with regard to the performance of operations to the Company.
- (iii) Efforts shall be made to improve the suitability and efficiency of business operations at subsidiaries as well as to make qualitative improvements to financial reports by adopting a fully-consolidated basis and appropriately reflecting the performance of all subsidiaries into the consolidated performance of the company and by conducting performance assessment of the management of companies on a consolidated basis.

- (iv) Efforts shall be made to dispatch its personnel as Directors and Statutory Auditors to subsidiaries from the Company to ensure more suitable decision-making and performance of operations and to homogenize and improve audits of subsidiaries through the Group Audit & Supervisory Board.
- (v) Internal audits of subsidiaries shall be performed by our Business Auditing Department. Advice regarding improvements shall be provided as necessary and appropriate as part of these audits.
- (vi) Efforts shall be made to thoroughly communicate the Nabtesco Group Code of Ethics to subsidiaries and to develop and strengthen compliance systems at subsidiaries by means of training on compliance and information sharing.

6. Items on employees to support Statutory Auditor (“support personnel”), when Statutory Auditors requested to assign employees to support Statutory Auditors

- (i) Should Statutory Auditors (or Audit & Supervisory Board) request that support personnel be assigned, the appropriate personnel shall be promptly secured after preliminary discussions with Statutory Auditor (or Audit & Supervisory Board).
- (ii) To ensure the independence of support personnel from Directors, reassignments and evaluations of these support personnel shall be made only after prior consultation with Statutory Auditor (or Audit & Supervisory Board).
- (iii) Support personnel shall be subject to the instructions and orders of Statutory Auditor (or Audit & Supervisory Board) in engaging in such support tasks.

7. The System enabling Directors and employees to report to Statutory Auditor; other systems for reporting to Statutory Auditor

- (i) Directors aware of matters that could have a seriously adverse impact on the Company and its Group shall immediately report these to Statutory Auditor (or Audit & Supervisory Board).
- (ii) Directors and employees shall respond promptly and appropriately to requests by Statutory Auditor for reports on the Company’s business or for cooperation in investigating the status of the Company’s operations and assets.
- (iii) With the aim of enhancing cooperation between Statutory Auditors and the Business Auditing Department, consultations and exchange of information and views concerning audits shall be carried out through the Audit Council, etc. Furthermore, Group Audit & Supervisory Board shall conduct consultations and report and exchange views with Statutory Auditors and Statutory Auditors of subsidiaries with regard to audits.
- (iv) The departments associated with internal control shall periodically report on the development and operation status of the internal control system (including reports from Directors and employees, etc. of subsidiaries to the relevant departments) to Statutory Auditors.
- (v) Information on “Statutory Auditor’s Hotline” established by Audit & Supervisory Board shall be noticed to Directors and employees.
- (vi) The person who reported the relevant matter to a Statutory Auditor (including those who reported the same to “Statutory Auditor’s Hotline”) will not be treated unfavorably on the grounds of having made such reports.

8. The Systems to ensure that audits by Statutory Auditors are carried out effectively

- (i) A certain amount of the budget shall be set yearly for paying expenses, etc., with respect to the performance of duties of the Statutory Auditors. In the event that a Statutory Auditor requests from the Company advance payment of expenses associated with the performance of their duties, the Company shall account for such expenses, etc., immediately according to laws and regulations, regardless of whether or not the expenses requested are within the budget.
- (ii) Statutory Auditors shall be permitted to attend Management Committee meetings and all other important meetings and to view all management information, to enable themselves to implement audits and check the decision-making process on the important matters in the performance of operations, based on the information equivalent to information available to Directors.
- (iii) Statutory Auditors may hold regular meetings to exchange views with CEO and the Representative Directors.
- (iv) Statutory Auditors may request Executive Officers and other important employees to report on the performance of duties.
- (v) A system shall be ensured to enable Statutory Auditors to exchange views with financial auditor and the Accounting & Finance Department regularly and confirm the adequacy of financial reports.

(Note) The Company has revised the Basic Policy on Establishment of Internal Control System as of December 26, 2018, as above.

Consolidated Statement of Changes in Equity

(From January 1, 2018 to December 31, 2018)

(Million yen)

	Equity attributable to owners of the parent			
	Share capital	Share premium	Retained earnings	Treasury shares
Balance as of January 1, 2018	10,000	14,956	143,349	(3,600)
Profit			21,029	
Other comprehensive income				
Total comprehensive income			21,029	–
Acquisitions, sales, etc. of treasury shares			(30)	200
Dividends			(9,193)	–
Transfer from other components of equities to retained earnings			(23)	–
Stock compensation transactions		140		
Others				496
Total transactions with owners, etc.	–	140	(9,246)	697
Balance as of December 31, 2018	10,000	15,096	155,133	(2,903)

	Equity attributable to owners of the parent					Non-controlling interests	Total equities
	Other components of equities				Total equity attributable to owners of the parent		
	Exchange differences on foreign operations	Valuation difference due to change in fair value	Remeasurements of net defined benefit liability (asset)	Total			
Balance as of January 1, 2018	(773)	3,604	—	2,831	167,537	9,465	177,002
Profit	—	—	—	—	21,029	1,935	22,965
Other comprehensive income	(2,114)	640	(3)	(1,477)	(1,477)	(507)	(1,984)
Total comprehensive income	(2,114)	640	(3)	(1,477)	19,552	1,428	20,980
Acquisitions, sales, etc. of treasury shares					170	—	170
Dividends					(9,193)	(340)	(9,533)
Transfer from other components of equities to retained earnings	—	20	3	23	—		—
Stock compensation transactions					140		140
Others					496		496
Total transactions with owners, etc.	—	20	3	23	(8,387)	(340)	(8,727)
Balance as of December 31, 2018	(2,887)	4,264	—	1,377	178,702	10,553	189,255

Non-consolidated Statement of Changes in Equity

(From January 1, 2018 to December 31, 2018)

(Million yen)

	Shareholders' equity		
	Capital stock	Capital surplus	
		Legal capital surplus	Total capital surplus
Balance as of January 1, 2018	10,000	26,274	26,274
Changes of items during the period			
Dividends from surplus			
Reversal of reserve for reduction entry of assets			
Net income			
Purchase of treasury stock			
Disposal of treasury stock			
Net changes of items other than shareholders' equity			
Total changes of items during the period	–	–	–
Balance as of December 31, 2018	10,000	26,274	26,274

	Shareholders' equity					
	Earned surplus				Treasury stock	Total shareholders' equity
	Legal earned surplus	Other earned surplus		Total earned surplus		
		Reserve for advanced depreciation of assets	Earned surplus brought forward			
Balance as of January 1, 2018	1,077	424	78,102	79,603	(3,103)	112,773
Changes of items during the period						
Dividends from surplus			(9,193)	(9,193)		(9,193)
Reversal of reserve for reduction entry of assets		(213)	213	—		—
Net income			15,852	15,852		15,852
Purchase of treasury stock					(3)	(3)
Disposal of treasury stock			(30)	(30)	203	173
Net changes of items other than shareholders' equity						
Total changes of items during the period	—	(213)	6,842	6,629	200	6,829
Balance as of December 31, 2018	1,077	211	84,944	86,231	(2,903)	119,602

(Million yen)

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on other securities	Total valuation and translation adjustments		
Balance as of January 1, 2018	1,768	1,768	450	114,992
Changes of items during the period				
Dividends from surplus				(9,193)
Reversal of reserve for reduction entry of assets				—
Net income				15,852
Purchase of treasury stock				(3)
Disposal of treasury stock				173
Net changes of items other than shareholders' equity	(104)	(104)	(110)	(214)
Total changes of items during the period	(104)	(104)	(110)	6,615
Balance as of December 31, 2018	1,665	1,665	340	121,607