

Interview with NSK's Outside Directors



Yoshitaka Fujita

Appointed as a director at NSK in June 2019, after serving as representative director and executive deputy president of Murata Manufacturing Co., Ltd. He serves as Chair of the Nomination Committee and a member of the Audit Committee.



Mitsuhiro Nagahama

Appointed as a director of NSK in June 2020, after serving as deputy president of Mizuho Corporate Bank, Ltd. (now Mizuho Bank, Ltd.). He serves as Chair of the Compensation Committee and a member of the Audit Committee.



Koichi Obara

Appointed as a director at NSK in June 2021, after serving as deputy and representative director of Maeda Corporation. He serves as a member of the Compensation Committee.

NSK strives to improve its corporate governance system to achieve sustainable growth and increase corporate value in the mid- to long-term. We asked three outside directors to give us their assessment of NSK's governance, with a primary focus on discussions during the formulation of the new Mid-Term Management Plan (MTP2026).

Q1

Mr. Obara, it has been one year since you were appointed as a director. How do you feel about the atmosphere of NSK's Board of Directors?

Mr. Obara

I was appointed as an outside director of NSK last year, and what I feel about NSK is that it is a sincere, serious, and stable company. There is an atmosphere of working to score 100 points in everything we do and then go above and beyond—of wanting to lead the bearing industry forward as an industry leader.

The Board of Directors makes resolutions on various matters to be resolved, after prior discussion of the details. I feel that that we have good debates and discussions, with all Board members expressing their opinions actively and unreservedly.

Q2

How effective is the Board of Directors? Please let us hear your thoughts on how discussions should be conducted and how progress should be monitored during the formulation of MTP2026.

Mr. Fujita

There is a debate on the question of whether the Board of Directors should be a management board or a monitoring board, but I think that both functions are necessary. Corporate value will not improve with monitoring alone. It is important for us to discuss the overall framework of our strategies and the direction in which we should be heading, together, with the inclusion of outside directors. Outside directors currently hold a majority on the Board of Directors, with the Board comprising nine directors overall: two executive directors and seven non-executive directors. This has led to a shift toward the monitoring function, but in addition to matters normally resolved at Board meetings we are discussing current key issues such as mid- to long-term themes from the draft stages, including MTP2026.

Four of the five outside directors are also top-level corporate executives, all coming from different industries, enabling them to express opinions from various different perspectives at Board meetings. To evaluate the effectiveness of the Board of Directors, we appoint external consultants to conduct questionnaire-based surveys and interviews every year. Results are discussed at Board of Directors meetings and utilized to make improvements. I believe, for these reasons, that NSK's Board of Directors is highly effective.

For MTP2026, there are three major management issues: growth with profitability, enhancement of managerial resources, and ESG management. In this regard, we have carried over the major issues from the 6th Mid-Term Management Plan. With the 6th Mid-Term Management Plan, we fell far short of our targets so we began by reflecting on them. For MTP2026, outside directors were brought in from the drafting stages, so we were able to have in-depth discussions on each aspect of the plan, including the restructuring of NSK's business portfolio, structural reforms of the steering business, carbon neutrality, and digital transformation (DX). I believe that the complete Mid-Term Management Plan summarizes clearly what needs to be done in the future. At the same time, I believe that the challenge for the future lies in how the Board of Directors will monitor the progress of MTP2026.

Mr. Nagahama

I think that, basically, the Board of Directors of a Company with Three Committees is a monitoring-type Board. From an external standpoint, the system is centered on outside directors. But as Mr. Fujita said, this alone will not directly lead to an increase in corporate value. When the Corporate Governance Code was enacted in 2015 there was a debate as to whether corporate value could really be improved simply by improving governance as a defense, which I think is exactly right. I think the problem is how to make a profit. Recently, we have heard people using the term "Board 3.0" regarding this.

The majority of NSK's outside directors are former top-level corporate executives. For our discussions on mid- to long-term themes, we are close to a Board 3.0 model. I would say that we are kind of a Board 2.5. As corporate executives, Mr. Fujita and Mr. Obara talk about extremely practical and strategic matters. In that sense, I believe that the effectiveness of NSK's Board of Directors is high.

In discussions on MTP2026, given that I am from a finance background, I am mindful of making comments to ensure that discussions are held not only on strategy but also frameworks. Mr. Bada* and Mr. Fujita offer in-depth opinions when we are discussing sales and production issues, and because they speak with experience and insights from other manufacturing industries, I feel that we can have discussions with high added value.

As a Company with Three Committees, we delegate those matters that should be delegated to the executive side. I feel that we have been able to hold such in-depth discussions because of the time saved by doing so, and I hope that we can deepen the level of our discussions even further.

Mr. Obara

Regarding MTP2026, the general managers of each business division and functional division also attended Board of Directors meetings, where they explained the current situation and engaged in considerable discussions on how the Company should approach the mid-term management plan this time. I think we have covered all the content needed for NSK to evolve. One thing I am particularly worried about,

though, is horizontal cooperation in vertically arranged organizational units. Developing technologies requires cross-divisional cooperation, and the reason why other businesses cannot incorporate new technologies even if they want to is the lack of such cross-divisional functionality.

Another issue is that, in the age of AI and IoT, technological development will be transforming at a fast speed, so it is important to be able to incorporate those technologies. When we are implementing our own strategies, our field of view narrows and we can find it difficult to look outside the box. For this reason, it is important to pay attention to external developments and incorporate them into our strategies. When considering a five-year mid-term management plan, it is also necessary to monitor waypoints, or milestones, and ensure agile development on the way to achieving our goals. In particular, it is important whether the image of achieving each milestone is in the minds of those who will actually implement these strategies. As outside directors we would like to know the progress of this process, and I think that we can give advice as to whether the strategies have a logical basis, with a reasonable probability of reaching the final stage.

Q3

What kind of discussions has the Nomination Committee had over the past year? Please also tell us about your discussions on developing the next generation of leaders.

Mr. Fujita

Since there was a change of CEO last fiscal year, the Nomination Committee has mainly been discussing the composition of membership of the Board of Directors, a skills matrix focused primarily on outside directors, and the selection of candidates for outside directors as part of the creation of a new framework to support the new CEO.

As of this fiscal year, we would like to start training future CEOs. NSK has established an objective and transparent process for developing CEO successors. There are systems and organizational structures for the development of executives, and executive officers are selected through these systems. There is a process in which the requirements for the position of CEO are clearly defined, and candidates are selected based on them, while also factoring in evaluations by external organizations and observing them for a certain period. Based on that process, the Nomination Committee receives a report and makes a final selection.

This fiscal year we would like to start discussions on whether additional requirements will be needed in the future—including a review of the selection process and the definition of requirements for the position of CEO—and move forward with the successor development plan. We do have a sufficiently rigorous process in place already, though, so I don't think that we will be making any major changes to the current system.

Q4 What changes did you make in MTP2026 regarding the compensation system?

Mr. Nagahama

In short, it hasn't changed much. We have approached the compensation system from a pioneering standpoint. As a result, our current system is a good one. The ratio of variable compensation to basic compensation is high, and it is designed strictly, so we decided that it is better not to change it right away. Another excellent feature is that there is little discretion involved in determining the amount of short-term performance-linked compensation. It is good that the system is well-structured from the perspective of shareholders and investors: that results are everything and compensation should be determined based on results.

However, there are some aspects that we made a point of changing this time. We have adopted new evaluation criteria for technological innovation as a performance indicator for short-term performance-linked compensation, from the perspective of expanding the Company's earnings base and ensuring actual profitability in the future. This is the ratio of new product sales to overall net sales. In addition to enhancing profitability through technological innovation, the precision of bearings reduces friction, which also has a great effect on Scope 3. From that point of view as well, technological innovation is important, so we added it to the list of performance indicators. In establishing the compensation system, we included targets that are consistent with the Company's mid-term management plan in almost all the evaluation criteria for short-term performance-linked compensation, and this is where the originality lies.

Q5 How do you rate NSK's sustainability initiatives?

Mr. Obara

In terms of environmental initiatives, I think that aiming to become carbon neutral regarding Scope 1 and 2 by FY2035 is a high-level goal, and I get the impression that the Company is making considerable progress toward it.

NSK also conducts employee engagement surveys every year, and I think it is fantastic that they are handling this issue properly. With investment in human resources gaining more attention worldwide, the amount that NSK invests in human resources will also become important. At the same time, the issue is what kind of human resources we should invest in. When we consider what it means to invest in human resources, it is important to know the direction in which the Company is headed, how to orient employees in that direction, and what kind of education and investment in employees is needed with respect to that orientation. The Company needs to have a storyline.

Mr. Fujita

There is education in terms of investment in human resources, and education is certainly important for raising awareness. When it comes to actually developing human resources, though, as Mr. Obara said, the basic idea is to make them understand the Company's policies and the direction in which it is heading, to incorporate those ideas into their own mindset, to be convinced, and to grow with a sense of satisfaction and fulfillment. The Japan Management College and various in-house classroom trainings are designed to provide opportunities, but people don't actually grow and develop there. People feel satisfaction and grow through their work, as they tackle various challenges, face difficulties, and overcome them. Strategy is important, but I think it is also important for us to proceed with an emphasis on the power of the actual workplace.

Q6 Finally, please give us your comments on your expectations for NSK.

Mr. Obara

This is something that I've been thinking about since my time at a construction company. Going into the future, we won't be able to survive unless we adapt to our environment. As long as there are things that move, I don't think that the need for bearings will ever disappear. But I do think that the fields and applications in which they are used will change, and they will be used in new fields as well. If so, then I think it will be necessary to look at fields in which NSK can further evolve its already established mainstay businesses and areas where it can enter new markets. I don't think that NSK needs to worry in that respect, but please don't forget that perspective.

Also, please keep in mind that, in the words of Steve Jobs, "people don't know what they want until you show it to them." Now, we have access to various types of data. I would like you to be aware that not only listening to what customers want but also investigating customer behavior will lead to value creation.

Mr. Nagahama

It is great that NSK has increased its corporate value to such an extent over the course of its history, spanning more than a century, with bearing manufacturing as its main focus. My interpretation of the concept of Bearings & Beyond—advocated in MTP2026—is to expand, not only in the fields of industrial machinery and automotive applications but also into new fields, based on NSK's high-level engineering capabilities and accumulated skills, while retaining its core focus on bearings. This is a challenge. With developments such as the acceleration in the shift toward EVs, there is a possibility that the number of bearings used in the future will decrease. Therefore, I would like NSK to make efforts to go beyond the current status quo. NSK has an equity ratio

of 50%. I believe that we have sufficient financial strength to absorb new risks. I want the Company to take the plunge and invest in what is really needed, without fear, and take firm steps forward. NSK has strengths that it has accumulated over the course of more than 100 years. It also has a solid track record of developing people as human resources. I would like NSK to have the confidence to carve out a path to new horizons, including new business areas and new technologies, and dive deeper into its existing business of bearings.

Mr. Fujita

Three years have passed since I was appointed as a director, and I have been able to check the state of activities at plants and many other sites. I feel that NSK is a solid company and is highly capable in handling day-to-day operations. In terms of challenging and dynamic movements, though, there is little change to be seen. To achieve "Change & Go Beyond" with MTP2026, it will not be enough to do the same as we have done before. We expect to see more challenging and dynamic

movement. There are three key points, the first of which is strategy and tactics. NSK has clearly decided what it needs to do, but I would now like it to pay attention to how it can work out the specifics. The second point is workplace capabilities. In the end, the ability to persevere and follow through on strategies and tactics is the power of the workplace. The Company's sales, development, production, and management departments are all frontline workplaces, so strength in these areas will dictate whether NSK has a competitive edge. I would like us to think about how to strengthen this area over the next five years. I think that a company is stronger when it has many employees who are convinced of the company's policies and move autonomously. The third point is inter-organizational collaboration. As I mentioned in the Integrated Report two years ago, in a global corporation, management functions are assigned to bases in Japan and overseas. Under this system, it is important to operate not by individual optimization but rather by overall optimization. I would like to see us strengthen that aspect of NSK as well.

Messages from New Outside Directors

Junji Tsuda

Appointed as a director at NSK in June 2022, after serving as president and representative director of Yaskawa Electric Corporation. He serves as a member of the Nomination Committee.



At Yaskawa Electric—for which the core business is factory automation—I spent 13 years in technical sales in Japan and 13 years posted in the United States as the person in charge of U.S. operations. I then served as general manager of the inverter division, general manager of the robotics division, and president and chairman, before becoming a special advisor this spring. Yaskawa Electric is the company that coined and spread the term "mechatronics" 50 years ago and has aimed to achieve sophisticated control of mechanical devices with electronics. I have now taken this opportunity to become involved in the management of NSK, which works to increase the sophistication of mechanical systems from a mechanical perspective. When I visited the Fujisawa Technology Center, I was captivated by the beauty of the mechanical systems there.

In my role as a director, I aim to contribute to NSK's corporate governance, with a view to the long-term enhancement of social value for all stakeholders.

Sayoko Izumoto

Appointed as a director at NSK in June 2022, with extensive experience as a certified public accountant. She serves as Chair of the Audit Committee.



After working at an auditing firm for 40 years as a certified public accountant, I went on to experience auditing from a different perspective, serving as an outside officer of another company for a period of five years. We hear the term "audit" in many aspects of life, but for companies, there are CPA audits, audit board audits, and internal audits. Certified public accountants handle past information from the outside, audit committees audit management decision-making and future/forward-looking information as supervisors of the executive side of management, and internal audits handle business audits from within the organization. Audits contribute to the establishment of sound internal controls for companies, and well-established internal controls contribute to the optimization and efficiency of operations.

In line with NSK Vision 2026, Setting the Future in Motion, I will contribute to the improvement of NSK's corporate governance through audits from a new perspective and with a new sense of determination.