

To Our Stakeholders

Achieving the Goals of the Mid-Term Management Plan 2026 by Facing the Challenges to “Change & Go Beyond”



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1 Changes in the business environment surrounding NSK

Review of the past 10 years

Looking back over the last 10 years or so, since FY2010, NSK's business has grown significantly against the backdrop of changes such as the rapid economic growth of emerging economies—primarily China—and an increase in the number of automobiles being produced worldwide (from 76 million in FY2010 to 95 million in FY2017). One thing that stood out as particularly striking was the progressive adoption of our bearings and friction materials due to the diversification of technologies for improving vehicle fuel economy and the shift toward automatic, multi-stage transmissions. The global development of electric power steering (EPS) automotive parts also accelerated during this period. In terms of production bases, we established new plants in countries such as China, Mexico, South Korea, and India; expanded our plants in regions with high demand; and developed our supply network. As a result, net sales reached the ¥1 trillion mark and we achieved a double-digit operating income margin. With the expansion of the automotive industry during this period, approximately 70% of NSK's sales portfolio is now in the automotive business.

During the period of the 6th Mid-Term Management Plan (6th MTP) that followed, however, there was a slowdown in growth given the rise of U.S.-China trade friction, a shrinkage in the market due to the impact of the COVID-19 pandemic, and a 20% contraction in vehicle production following the impact of supply chain disruptions such as a shortage of semiconductors. Markets have stagnated at a similar level to that of 10 years earlier. In addition, due to the fragmentation of the global economy and global inflation, it is becoming more difficult to predict future business conditions. At the same time, environmental issues are also gaining attention rapidly; technological innovations such as vehicle electrification, automation, robotization, and digital transformation are progressing; and the environment surrounding our business is facing major changes. I believe that the time has come when we must be sensitive to grasping new values, respond flexibly to changes, and work toward new growth without being constrained by the growth patterns of the past.

▶ PP.22–23 Looking Back at the Mid-Term Management Plan

2 Review of the 6th Mid-Term Management Plan and issues that have become apparent

Evaluation of business operations and recognition of issues in terms of growth and earnings

The 6th MTP did not produce satisfactory results, due to major changes in the business environment as described above. In terms of achievements and shortcomings by business category, we were able to achieve record sales in the Industrial Machinery Business. Our capital investments in linear products and precision bearings—at which NSK excels, particularly in the areas of machine tools, semiconductor manufacturing equipment, and robotics—enabled us to seize opportunities for market recovery and growth. In FY2020, we acquired BKV (Brüel & Kjær Vibro, Germany), which is engaged in the condition monitoring business. In doing so, we were able to take a step forward in the shift from simply selling products to selling value-added services. In terms of profitability, we were able to return the income margin of our business to around 10%, and we can now see some issues that need to be addressed to further improve profitability in line with changes in the market.

As an initiative for the future, in October 2020, we launched the new Electrical & Electrification (E&E) business segment and clarified our strategy of targeting the electronics and electrification markets. For example, we will grow our business by working flexibly, enhancing our supply capabilities, and developing new technologies and products for areas where a significant increase in demand for bearings is expected—such as the expansion of demand for vehicle motors due to the electrification of automobiles; the increase in cooling fan motors used in servers and data centers, due to the spread of IoT and 5G; and the increasing sophistication of electrical appliances.

In the Automotive Business, in addition to the shrinkage of global demand due to the slump in vehicle production volumes, we saw a decrease in sales following the discontinuation of production of vehicles equipped with column-type EPS—another area in which NSK excels—due to changes in steering technology trends. This led to a second consecutive year of losses. Despite these challenging business conditions, the expansion of sales of eAxle bearings and wheel bearing units—which are new applications for hybrid vehicles and EVs—

and the progress in business development for emerging EV manufacturers were significant achievements. In the steering business, we expanded our product lineup by securing orders for single-pinion EPS systems for EV platforms in collaboration with Volkswagen and by developing rack-type EPS systems for heavy-duty vehicles. In a business environment where major changes in the demand structure are expected due to vehicle electrification, we must expand sales through technology differentiation and accelerate the introduction of new products into the market. In the steering business, improving profitability is an urgent issue, and we will be developing a collaboration strategy aimed at steadily implementing business structural reforms and achieving new growth.

▶ PP.22–23 Looking Back at the Mid-Term Management Plan

Initiatives for improving non-financial value

NSK has placed continual emphasis on non-financial targets as one indicator of management performance that indicates sustainable growth. As a result, in terms of environmental and social issues, we reduced CO₂ emissions by approximately 25% compared with FY2017 levels, through the accumulation of day-to-day activities. We also achieved a reduction of approximately 12% in emission intensity (emissions per unit production). When we formulated the 6th MTP, we set a reduction target of 60% compared with FY2017 by FY2050. To accelerate our activities in anticipation of growing social demand for carbon neutrality, last year we established the Carbon Neutrality Department as a dedicated department under my direct control as president. To respond to the demands of national and regional governments and the

requirements of customers, NSK will set overall targets for its business activities and will institute cross-functional management of issues that need to be addressed to achieve those targets.

In terms of addressing diversity and inclusion, we recognize that encouraging the active participation of female employees is a key management task. By FY2024, we will roughly double the number of female managers and female candidates for managerial positions to 100 compared with FY2018. As of the end of FY2021, we had reached 77. We will also continue to diversify our career path plans to achieve this target. As a result of these initiatives, we have been selected as a *Nadeshiko* Brand for three successive years. Moreover, because of our efforts in health and productivity management, which serves as the foundation for supporting the efforts of all employees, we have been certified as an Outstanding Health and Productivity Management Organization (White 500) for five consecutive years.

In terms of governance, to enhance the supervisory function of our Board of Directors, we have now made the majority of our Board members outside directors and welcomed female outside directors. In 2018, we appointed our first female executive officer, contributing to the globalization of management and marking a step forward in diversity and inclusion. It can be said that our company has changed greatly over the past 10 years in that regard. In terms of our compensation system, we were among the first to adopt non-financial indicators that emphasize social value in addition to more conventional economic aspects as evaluation for executives.

▶ P.40 Evolve Personnel Development

▶ PP.56–61 Corporate Governance

3 Mid-Term Management Plan 2026 (MTP2026)

Changes in the business environment and recognition of issues in the 6th Mid-Term Management Plan

In formulating the new mid-term management plan (MTP2026) for the next five years (FY2022–FY2026), as I mentioned previously, we have engaged in discussions based on changes and issues in the business environment. Regarding current business conditions, we assume that the effects of inflation, supply chain disruptions, and the COVID-19 pandemic will continue for the time being and that recovering profitability by correcting selling prices and improving productivity should be addressed as a matter of urgency. In the mid- to long-term, there are many issues that need to be addressed globally, such as responding to various market changes that are accompanying social and technological evolutionary changes, including the electrification, automation of

automobiles, robotization, and digital transformation, the worsening of global environmental problems, the low birth rate and aging population, the aging of infrastructure, national and social security issues, and threats to information security.

With this operating environment in mind, in formulating MTP2026, we placed priority on contributing to the development of a sustainable society by creating value through the fusion of tribology technologies—which are one of NSK's key strengths—and digital technologies, and aimed to build our foundation as a company that will continue to be needed, trusted, and relied upon by society, 100 or even 1,000 years into the future. We have set numerical targets of ¥1 trillion in net sales and an operating income margin of 10% and will transform our portfolio through the “Bearings & Beyond” concept, as we work to become a new type of trillion company with “Change & Go Beyond.” Because we are now in an era where we cannot easily read even our immediate business

Aiming to achieve carbon neutrality in Scope 1 + 2 by FY2035



environment, we have again considered our ideal vision of what NSK's workplace should be like, in response to various changes in society and business conditions predicted for the future, in 2030 and 2035—recognizing issues that should be addressed in the mid- to long-term toward achieving that vision, and setting goals that we should aim for with “Change & Go Beyond.”

We will share our vision and work to achieve it based on the three management issues listed below.

Three key management tasks

The first key management task is “Growth with Profitability.”

NSK's “Bearings & Beyond” concept means growing existing businesses with NSK's high quality and reliability and developing new business domains with new products and services that go beyond the category of bearings. By driving further growth with these two “wheels,” we will reform our portfolio. Portfolio reform means first expanding the Industrial Machinery Business, increasing the company-wide sales ratio of the Industrial Machinery Business—which was 30% in FY2017—to 40% in FY2026. Beyond that, we will aim for 50%, which will be the same percentage as that of the Automotive Business. Next, we will increase sales of our mainstay products—bearings and precision machinery—to ensure high profitability. We will also use NSK's core tribology technologies to respond to market changes and introduce new products to the market. Through these efforts, we will achieve growth with profitability and aim to become a new type of trillion-yen company. At the same time, we will structurally reform the steering business, increase synergies through collaboration, and improve profitability in the Automotive Business.

The second management task is “Enhancement of Managerial Resources.”

We will enhance our management resources—chiefly our manufacturing, technology, and operation capabilities—through the power of digital transformation, and work to transform our business. As an initiative to achieve ultra-stable production, in addition to the conventional methodology of *san-gen shugi* (the “three

actuals”—actual workplace, actual product, actual reality—essentially meaning that there is no substitute for direct observation), we will seek to achieve further visualization through the use of digital technologies and aim to achieve higher quality together with a 50% increase in productivity, as we continue to tackle the challenges of manufacturing in the future. In technology, we aim to enhance the appeal of our products by using digital twins to achieve unprecedented quietness, low torque, and reductions in both size and weight. We also intend to renew our core systems and reform our business processes. In preparation for these initiatives, we will be training digitally oriented human resources throughout the Company, as part of the development of human resources who will support the continuous transformation of our business.

The third management task is “ESG Management.”

ESG management is not only to comply with the four core values of our company (safety, quality, environment, and compliance) but also to think for ourselves about what is right and what is better, to work toward improvement through teamwork, and aim to be a company that continues to be needed, trusted, and relied upon by society. Safe, secure, and environmentally friendly products are created in a safe, secure, and environmentally friendly workplace. We will also continue to work toward greater diversity and inclusion, to create a free and open culture in which people can take on the challenges of “Change & Go Beyond.” I will explain these initiatives below.

▶ PP.24–35 MTP2026

▶ P.33 Enhancement of Managerial Resources—Utilize Digital Technology—

▶ P.44 Technological Foundation

Working toward sustainable growth — The road to carbon neutrality

In terms of environmental contributions, we believe that the reduction of CO₂ emissions is an urgent issue. Under the new system that I explained earlier, we brought forward our targets under MTP2026 and will now aim to reduce Scope 1 + 2 emissions by 50% (compared with FY2017) in FY2026 and aim to achieve carbon neutrality by FY2035. The core concept of our efforts is not only to reduce CO₂



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emissions from our business activities to zero but also to contribute to the reduction of customer CO₂ emissions through our products and services.

Products and services created using NSK's technologies have reduced CO₂ emissions, contributing to the preservation of the global environment and providing value by reducing friction and energy loss. For example, bearings installed in EVs reduce friction and contribute to reducing energy loss, thereby reducing power consumption and contributing to extended cruising range. In business, too, our advanced technological capabilities have led to competitiveness, as the product brand of choice for our customers. Unfortunately, however, I think that we have not been able to effectively convey to our stakeholders that NSK bearings contribute greatly to the preservation of the global environment. Protecting the global environment is a key part of our corporate philosophy and *raison d'être*. We will continue to distribute information so that people can understand and share the fact that our products and services are environmentally friendly and contribute greatly to the preservation of the global environment.

As part of our efforts in production processes that generate CO₂ emissions, we will make technological innovations such as the development of new heat treatment technologies and the establishment of smart factories, and work to reduce energy consumption and CO₂ emissions from each plant process by visualizing CO₂ emissions. Our major plants in Europe are already in the process of converting their electric power sources to renewable energy sources. In FY2022, we will expand these initiatives in Japan as well.

▶ PP.14–15 NSK Corporate Philosophy & Vision

▶ PP.34–35 ESG Management —Promote Carbon Neutrality—

▶ P.41 Environmental Management

Working toward sustainable growth — Human capital initiatives

I believe that for the Company to continue to grow and transform, it is important to create an environment where diverse human resources can gather and work with

energy and enthusiasm, even as the social and business environment continues to change. To achieve this, it is important to promote diversity and inclusion, with diverse work styles, career plans, and HR development plans, and create a free and open culture.

We have always valued our employees, increased time spent on education and the cost of training per person, and made efforts to change the curriculum of the Japan Management College in accordance with contemporary needs. We have also made efforts to constantly improve and provide educational programs to our employees, such as by enhancing the activities of the Manufacturing Education and Training Center. However, I think that we can evolve even further. For example, we will integrate individual training programs that make it possible to learn production, design, and development technologies in a cross-functional manner, and change them into new educational programs that are not constrained by existing formats.

I believe that it is also important to acquire abilities with long-term value so that employees can continue to play active roles in society even if they choose to leave the Company. Human capital—which is currently attracting attention worldwide—should not only be of value to companies that invest in it but also of value to individuals, who should be recognized by society.

MTP2026 outlines a policy of investing in intangible assets—specifically of developing new technologies and training and developing human resources. In terms of digital HR development, in FY2022—the first year of the plan—we will educate 5,000 employees and eventually have all employees undergo training. We would also like to strengthen our capabilities in the workplace by creating a new system that includes manufacturing, utilizing the NSK Institute of Technology (NIT) as a place to improve the skills of technical personnel.

We will consider the kind of human resources that will be needed for manufacturing, sales, engineering, design, product development, and production 5–10 years from now; train and utilize these human resources; and invest in them and visualize their achievements.

▶ PP.6–7 History of NSK – NSK's Human Resource Development –

▶ P.33 Enhancement of Managerial Resources —Utilize Digital Technology—

▶ P.40 Evolve Personnel Development

▶ P.45 Development of Highly Skilled Human Resources

Working toward sustainable growth — Engagement

As CEO, I also consider engagement scores to be important indicators. We started conducting compliance awareness surveys in 2014. Since then, we have decided to take them a step further, as employee awareness surveys, and incorporate items that allow us to measure and evaluate employee engagement. We are also working to unify what we have been doing individually globally and improve the system so that the results can be viewed as numerical data for the entire Group.

As part of my efforts to increase engagement, since I became president, I have tried to speak as clearly and understandably as possible. I try to keep my comments short and concise and use not only words but also pictures and diagrams to convey important points, and communicate the same content repeatedly. Little by little, I feel that my message is being conveyed to all NSK employees.

With the ongoing COVID-19 pandemic, I continue to communicate directly with employees through a mixture of both online and face-to-face approaches. I engage in regular dialogues with our Japanese locations, explaining business results and management issues to employees, and make deliberate efforts to create opportunities for direct dialogue with management personnel at overseas

bases as much as possible. I value all these opportunities. I especially value opportunities to share our vision because I believe that it will create an environment for employees to understand “what the president is saying” and allow employees to get to know me. This is because I believe that it is important for everyone to be convinced of the vision and be able to address, understand, and get a real feel for the issues involved. Sharing the vision with the workplace and addressing each issue will lead to the achievement of the NSK Vision under the Mid-Term Management Plan, which in turn will lead to employee engagement, motivation, and a sense of achievement. Awareness of improving productivity, safety, quality, and accuracy of delivery dates will ultimately change the way we work. We believe that it is also necessary to share information across workplaces.

It is also important for us to share our vision with our stakeholders—especially our agents, distributors, and suppliers—and work together with them, and I will continue to place importance on them going forward.

▶ P.40 Evolve Personnel Development

4 “Change & Go Beyond” as president

Finally, looking back on my past year as president, I feel that many risks—which had been overlooked—have become apparent due to the impact of the COVID-19 pandemic, and I find it somewhat amazing that so many unpredictable events can occur. I am pleased that even under such circumstances, we were able to utilize remote solutions, and each global region demonstrated operational excellence and worked to ensure business continuity. I think it also led to a sense of greater confidence for each region. While there is the positive aspect that communication has increased through web conferencing, including overseas locations, it has also made me recognize the importance of face-to-face, two-way communication.

This time, I was able to work together with employees to create MTP2026. I think that it would take more than 100 pages in writing to cover all the content that was discussed at each workplace to overcome the three management issues. The plan describes the vision of what we want to aim for 10 years from now, as well as many initiatives and goals to achieve that. We will complete MTP2026 by taking on challenges to “Change & Go Beyond.” Sharing our vision and working closely with employees in the workplace with the proper motivation to address the many issues that face us in achieving that vision will be one of my major assignments from now on, and I must work hard to get it done.

NSK's bearings and bearing technologies have evolved together with the development of our mobility-oriented society, with higher railway speeds and better fuel economy of road vehicles, production facilities that enable more stable and precise processing, and improved energy saving, quality, and reliability of home appliances such as vacuum cleaners and washing machines. We will continue to pursue tribology, in other words, tackling friction through science (investigating phenomena from a theoretical perspective) and engineering (giving shape to solutions through practical approaches)—specifically, the realization of smoother power transmission with less energy loss, and the realization of new forms of motion—and leverage those technologies to deliver new products and expand our business domains, without being constrained by conventional frameworks.

“Change & Go Beyond” means broadening the scope of our activities and stepping up to achieve our ambitious goals and make NSK a company that continues to be needed and trusted, even as technology and society change. We will share our vision for 10–20 years from now with our stakeholders and continue to tackle the challenges of co-creating new value. Thank you in advance for your continued support.

▶ PP.14–21 NSK's Collaborative Value Creation Process