To Our Stakeholders

At NSK we will continue to provide “value” through collaborative creation with all of our stakeholders, by positioning social development and NSK’s growth on the same vector.

President and Chief Executive Officer
Looking Back on the 5th Mid-Term Management Plan and Ahead to Our Next Plan

Looking back over the three years of the 5th Mid-Term Management Plan (MTP), the first year, 2016, saw many defining events such as Brexit and the arrival of the Trump administration. These two events led to changes all over the world and continue to do so even now. China, which had seen immense growth, made its presence even clearer by announcing its “Belt and Road Initiative” and “Made in China 2025.” The trade friction that arose between the US and China drastically worsened the business environment. At the same time, technological innovation also accelerated. In the Automotive Business, the Big Four Tech Companies (i.e. Google, Amazon, Facebook, and Apple or “GAFA”), have arrived on the scene, and a new business model, which adds environmental awareness to the trends of CASE will greatly alter technology in the future as well as the role of automobiles in our society. In the Industrial Machinery Business, to counter the declining labor force in developed countries we have seen an evolution in factory automation (FA) and labor-saving, supported by technological advances such as Internet of Things (IoT) technology, Artificial Intelligence (AI), robots, and 5G communications. We have also seen an increase of investment aiming for the urbanization of developing countries, as well as advancement of environmental countermeasures spurring on electrification.

Looking at NSK’s business results, amid strong demand in 2017, the second year of the MTP, we managed to achieve our goal of one trillion yen in sales one year early by focusing on maximizing our output. We also set a new record high for operating income and net income. However, in the final year, the effect of the US-China trade friction became apparent, and we saw a worsening environment for the Industrial Machinery Business and Automotive Business. There were decreases in sales and profits, and the final year of the plan ended in a year-on-year decrease in our consolidated business results.

A future issue based on reviewing the 5th MTP is the regeneration of the steering business. In next-generation product development, we have now achieved the technical performance levels we targeted, and we will secure official orders as soon as possible to ensure our re-growth scenario. Although we made significant investment in automotive bearings, the fixed cost burden is somewhat large amid the current situation where global automobile production is at a standstill. Although the market is expected to grow in the mid- to long-term, we aim to establish a lean cost structure while paying close attention to the current trends in the vehicle production numbers. There was a very strong demand in the Industrial Machinery Business from early 2017. We put all our efforts into securing output to maximize our sales opportunities. Although these efforts resulted in a significant increase in sales and profits, our production capacity could not keep up with the increase in demand, which led to a reliance on extra staff to meet production output. After identifying mid- to long-term trends in demand during the 6th MTP, we will aim to optimize the business structure, including our sector and customer portfolio with an emphasis on growth fields, and organization of production capacity. In addition, while NSK as a whole has been continuously working to improve operational efficiency and systematization, it is necessary to further prepare for the new era of AI.

Based on these reflections and issues, the 6th MTP, which was established in line with vision for 2026, marking the 110th anniversary of NSK’s founding, is now being continuously pursued by the two pillars set forth in the 5th MTP. We will further evolve NSK by strengthening our competitiveness through “Operational Excellence” and continuing our policy of investing for the future through “Challenging Innovation.” Positioning these three years as a period of strengthening our business base and resources for the next growth phase, our focus is on measures in the short-term to achieve “new initiatives targeting growth,” to “enhance managerial resources,” and to “contribute to the environment and society.”

The business and management environments are very uncertain and unpredictable at the moment. Not only is the conventional autonomous cycle of the economy changing, but political trends which have a major impact on the economy are also altering the current situation. In such an environment, expressing goals in absolute terms of sales and profits can serve to mislead markets, and it would be irresponsible of us to do so. A key focus NSK set for 2026 is to establish a corporate foundation for sustainable growth. This does not mean simply seeking sustainable growth itself, but rather achieving growth while reducing the burden on society as a whole, as well as on employees and suppliers. This is what I mean when we use the word “sustainable.” Sustainability is formed by the strength of managerial resources such as people, technical capabilities, organizational structure, and the information that flows within this structure. Without this, businesses cannot grow or produce profitability. We will work to strengthen our managerial resources with a heightened awareness of “sustainable” perspective. It is important that in the 6th MTP we show the extent that NSK will increase its market position and profitability, and how much we will return to shareholders in the context of overall economic growth and compared with our competitors. We must then make efforts to produce results in line with this.
Mid- to Long-Term Risks to NSK and Countermeasures

Amid the current rapidly changing global situation, looking at NSK’s current business scale and regional portfolio, the weight of China stands out. This is the result of our success in leveraging the high growth of the Chinese economy, but at the same time it is also becoming important that we manage country risk soundly. In response to this, NSK has been focusing on internalization in China for the past 10 years. Internally, we have localized the top management of business divisions and those responsible for functional divisions, and from an external perspective, we invited Chinese corporate management experts and university professors to serve on an advisory board. With this, we have incorporated views and opinions on society, politics and the economy that are not bound by the boundaries of companies and industries. Ultimately, we will aim for a system in which our Chinese operations are fully run by Chinese personnel.

We will also work to further improve our presence in regions other than China. ASEAN is a region with many Japanese companies as well as strong political and economic connections. Another strategically critical region is Europe. Europe is an important region because it has very unique production facilities and industrial machinery, as it focuses on the machine field and machine parts. I would like to take steps to improve our presence in Europe.

The second relates to automobiles, where EV and autonomous driving stand at the forefront of technological innovation, as well as the expanding area of carsharing. The number of electric-powered vehicles such as EVs and HEVs is sure to increase over the mid-to long-term. For pure EVs, which do not contain an internal combustion engine, the number of bearings used per unit will likely decrease. On the other hand, demand for in-vehicle motors will expand dramatically in the continuing pursuit of safety, comfort, and convenience. As the use of bearings will become more sophisticated and performance requirements will increase, I believe that NSK will be able to attain a dominant position in this field in terms of value and quality by utilizing the technological prowess we have developed over the years. Furthermore, outside the field of bearings we are working to develop new products for improving EV functionality that incorporate NSK’s core technology. With products that make use of NSK’s strengths, we will connect new needs generated by technological innovation to business opportunities.

In addition, if society changes in such a way that car sharing becomes the norm, then the scale of the automobile industry will be greatly affected. We will see a completely new way of mobility in cities, and everyone will share cars with simple mechanisms such as EVs. On the other hand, when it comes to long-distance travel, drivers will want a car that they enjoy driving, and one that is functional as well as appealing. In other words, we may see the market diverge. NSK must take advantage of having contact points with customers in all directions and proceed with technological development and technical proposals while fully understanding how the automotive industry is changing. The risk is with our relationship with players in the automotive industry, such as GAFA, Uber, Didi Chuxing, which are strengthening their position in automotive circles. We must think about how we can consciously form points of contact with these companies. Looking at the current world of cyber technologies, which are becoming ever more sophisticated with the evolution of IoT, AI, and 5G communication, if these technologies become the defining factors, then I believe this could be a weakness in NSK’s business. However, in order to realize the merits of cyber technology, the importance of physical parts and their motion will no doubt come under the spotlight. NSK’s core technology is used to give things efficient and effective motion. Regardless of how good the information and data are, if the mechanism of the object that moves in response to the signal is remiss, the level of satisfaction obtained from it will be low. Rather than simply seeing this as a risk, from the perspective of how to utilize various information and data for movement, and how to make the movement more satisfying, I think there is value in developing and refining NSK’s core technology once again.

Looking at the competitive environment, Chinese manufacturers have gone from strength to strength, and Japanese companies as well as Western companies in China have begun making use of such manufacturers. The challenge for NSK, a company that is highly regarded for its outstanding functionality and high quality, will be a tough one. However, even if Chinese manufacturers’ product quality improves, there is still a large difference in terms of the accumulated analytical power and expertise to derive causes and solutions when problems occur in the market. NSK has the ability to solve problems and provide technical proposals based on the experience accumulated over our 103 years of history. It will be difficult for competitors to emulate this. On the other hand, NSK also has a chance to work and partner with these companies.

Finally, the risk of a shrinking workforce due to the declining birthrate and aging population will be particularly noticeable in Japan and China. Even if there are workers, there will be fewer people willing to work in the machine component manufacturing industry. The key within the next five to ten years will be our ability to create production facilities, production processes and
plants that do not rely on people. In the 5th MTP, we worked on introducing NSK’s Smart Factories, and set up model lines for both small-lot large variety large-sized bearings, and mass-produced small-sized bearings. In the future, we intend to work on developing these lines into 2nd and 3rd generations, expand the number of lines this technology is used in, and expand this technology overseas.

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NSSK’s Strengths and Their Further Evolution

One of NSK’s strengths lies in its intangible assets—in particular its people. The quality of our people will be essential in order to respond to requests from customers and the market. Not only in Japan, but also in Europe, the United States, and China, people working under the NSK brand are serious and are particular about monozukuri. I know our employees take pride in working for a world-leading manufacturer. Another strength is our strong relationships with business partners, such as customers, suppliers and distributors. It is this relationship of trust that allows us to embark on new challenges together in addition to profit-driven initiatives such as cost or pricing. I think that this has been cultivated across our history of more than 100 years.

NSK’s intellectual property: “Four Core Technologies plus One.” We have added manufacturing engineering to tribology, materials, numerical simulation, and mechatronics, and position these as NSK’s technical foundation. Our strengths lie in our accumulated expertise in precision grinding and assembly, heat treatment and other technologies. In mechatronics technology, over the last 20 years we have accumulated electronics technology and ECU software design technology via our electric power steering business.

Tribology is a technology that controls friction and wear, but friction itself is a complex topic. Chinese automakers are very skilled at manufacturing EVs, and have put great efforts into this area. The management of such automakers told me that looking ahead, they must now look at how to deal with friction, which is something they had not regarded up until now. It is necessary to reduce or control friction as much as possible for EVs too. If we can refine our core technologies and integrate systems that take advantage of needed digital technology such as AI and IoT, we can raise expectations for NSK as the industry undergoes rapid technological changes.

Under Vision 2026, which we established on the occasion of our 100th anniversary, we declared our intent to set the future in motion. Looking back on the 100-year history of NSK, I believe we have undertaken many ambitious initiatives and challenges in the past. In becoming the first company to manufacture bearings in Japan, we overcame one challenge after another. Additionally, in the post-war economic development of Japan, for example, we gave rise to a new era in motion by developing bearings for the Shinkansen, which need to withstand operating at speeds of over 300 km per hour and bearings for VTRs requiring smooth rotation to the utmost limit.

However, over the past 30 years or so, we have become passive in our approach, and have not tried to actively drive change. We need to have a strong awareness of our new role in providing comprehensive solutions that utilize Motion & Control™, the concept of our business, to society.

As the speed of technological evolution accelerates, we need to challenge ourselves in new fields with innovative ideas, ask ourselves whether we can form these ideas into a product, and speed up this process. To that end, we are creating and working on a development organization for new business areas that is not bound by existing frameworks. In this context, we value the attitude of challenging everything. In “NSK: 100 Years of Progress” published earlier this year, there is a story from 1961, when NSK’s Fujisawa Technology Center was established. The Company used the motto “It doesn’t matter if you strike out. Challenge the unknown without fear of failure.” to encourage the development of new products. We need to reestablish this spirit and tackle a range of new challenges. In terms of NSK’s management stance, I believe we need to encourage employees to step into the batter box, and not get angry or be critical even if they “strike out.”

Our strong relationships with business partners, such as customers, suppliers and distributors
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To Our Stakeholders

NSK’s Stance on ESG

NSK has put “protection of the global environment through Motion & Control™” as part of its mission statement, and has released many environmentally friendly products that make full use of Four Core Technologies plus One. On the other hand, natural disasters caused by climate change are a frequent occurrence across the world, and air, soil, and water pollution problems are becoming more serious. Environmental issues such as CO₂ emissions and plastic waste are also being put in the spotlight more and more. Various regulations to ensure global environmental conservation have been strengthened, and societal demands that encourage companies to expand their environmental efforts are increasing. Starting this year, NSK has set the environment as a core value in addition to safety, quality and compliance. In addition to contributions through our products, we are also implementing concrete measures to reduce the amount of CO₂ emissions caused by our manufacturing. Up until now, we have focused on reducing the emissions per production unit, but we have also declared that we will work to reduce the absolute amount, and our goal is to reduce current emissions by 60% by 2050. If we focus on contributing to social value in the future, there will be many areas that will incur costs. It is necessary to prioritize such decisions from the top down, and to proceed with a sense of urgency. Therefore, the organizations responsible for environmental measures are now under the direct control of the president.

Since 2014, we have been conducting an awareness survey of our people—our most important assets—in particular surveying the level of employee satisfaction. Originally, it started as a compliance awareness survey, but now the focus has shifted to employee engagement. We aim to listen to the frank opinions of employees, understand their awareness of our Mission Statement and how much they empathize with Vision 2026. The results of the survey are not only compared with previous years, but also between organizations and job types, as well as other group companies. For groups that are found to have a large gap from where they want to be or from the average, we will firstly work to improve the quality and amount of communication, in conjunction with the head of the organization. In addition, we believe that understanding the actual conditions and direction of the Company is what underpins employee satisfaction, so we have increased the number of opportunities to explain the MTP and business results to employees. We obviously take safety very seriously too. A place where employees can work safely and with peace of mind is an important foundation.

We are also promoting diversity and inclusion. Empowering women is one topic at the forefront of current management issues. One of our KPIs is to increase the ratio of female managers and candidates. We are continuing to implement measures such as training to achieve this, and we do not make adjustments simply to meet our targets. It is critical that we provide support for balancing work with childcare and nursing care. Particularly when looking at the distribution of our employees’ ages, we see that family care is an issue that cannot be overlooked. We will provide necessary support and measures so that employees can continue working while being in a position to provide nursing care. Furthermore, we live in an age where acceptance of members of the LGBT (SOGI) community at workplaces overseas is commonplace. As a global company, NSK must work to catch up and work on developing our awareness, culture, and environment to be more accepting of diverse members of society in Japan too. We will tackle the issues one by one, such as those disadvantaged in the past by not being aware of welfare systems and workplace facilities. Moving on to persons with disabilities, further innovation is necessary to provide more compatible workplaces.

I believe that our level of governance has reached a certain level of functionality under the Company with Three Committees framework. We conduct evaluations to check whether our Board of Directors is functioning properly. To enhance the effectiveness of the Board of Directors, a panel of external experts has conducted a Board of Directors evaluation since 2015. In the 2018 results, we received an evaluation stating that the Board of Directors had maintained a high level of effectiveness. We have also made proactive efforts to respond to
Japan’s Corporate Governance Code. In the future I think it is necessary to consider forming a Board of Directors with a majority of outside directors and changing the chairperson of the Board of Directors to a non-executive director or an outside director. **What is more important than the format is how we go about building a healthy and cooperative relationship between outside directors and internal directors.** Lately outside directors have actively participated in site visits and executive meetings, and employees are more aware of the presence of outside directors at NSK. This has led to the establishment of business plans and management that take into account the presence of outside directors. For example, we are building a framework for accountability to aid directors with regard to matters such as budget fidelity and operational risk management. I think it is very important to manage from the perspective of stakeholders, especially shareholders and investors, rather than inward-looking discussion based on ways of thinking ingrained in our own company or industry.

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**Role of a Company President**

It is the president’s role to set the direction of the company, to determine strategies and plans as well as their execution, and to take responsibility for the results of these actions. There are no limits to the scope of duties. The president needs to be the ultimate decision maker for everything in the company and take full responsibility for the results. There is no clear boundary showing where a president’s responsibilities fall. I have been the president of NSK for four years. As time goes on, I feel the weight of my responsibility more and more. **One matter I find myself thinking a lot lately is the importance of making my presence known both inside and outside NSK.** In a sense, I think that a company president is a symbolic figure. Being the president is no longer about sitting in the president’s office and giving orders. I believe it is necessary to be on the shop floor with everyone engaged in business, production, sales, and design and development. It is important to show everyone what the head of NSK looks like and what he believes. In other words, to give the name a meaning, employees have to recognize the company president as a person. For example, a mere slogan such as that of NSK’s core values, “Safety, Quality, Compliance, Environment,” or Setting the Future in Motion as part of Vision 2026, is not enough to keep a large organization like NSK going—the president needs to convey the thoughts and feelings behind it. It is important to listen intently to the opinions of those who cannot honestly agree with your idea or direction, and to address these sincerely. However in reality, when you try doing this you might find you cannot arrive at an answer immediately and are at a loss on how to react. Despite these concerns, I believe it is important to step forward and engage in dialog. Even if I have to admit that I was wrong or that something I said was a mistake, I still think this would be a good opportunity to show that it is okay to make mistakes. Also, as the president, I have the opportunity to communicate with a range of people outside of NSK. I think that it is the president’s responsibility to bring back the information and hints that I have obtained and share these within the company—in other words, to strengthen the connection between the outside and inside.

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**Toward Sustainable Development**

We have begun our 6th MTP. As a stepping stone to our 2026 Vision, we decided to create the plan based on the changes likely to occur in society from a mid- to long-term perspective and aim to establish a corporate foundation that will enable sustainable growth. We will set the next three years as a period of strengthening our business base, under the two key policies of Operational Excellence (constant pursuit of competitiveness) and Challenging Innovation (creation of new value), focusing on the three measures I outlined previously.

**Right now there are numerous various social issues around the world that need to be resolved.** Furthermore we are seeing major technological innovations with digitization, AI, and CASE at the forefront. At NSK we contribute to “sustainable” development of society by providing “value” through collaborative creation with all of our stakeholders, and positioning social development and NSK’s growth on the same vector.

We thank you for your continuing support.