

# Outside Director Dialogue



## Sayoko Izumoto

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

## Koichi Obara

Appointed as a director at NSK in June 2021 after serving as President and Representative Director of Maeda Corporation. He serves as a member of the Compensation Committee and the Audit Committee.

## 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 Chair of the Nomination Committee.

## Mikio Fujitsuka

Appointed as a director at NSK in June 2023 after serving as vice-president and representative director of Komatsu Ltd. He serves as a member of the Nomination Committee.

NSK is working diligently to enhance its corporate governance structure and systems to ensure its sustainable growth and increase its corporate value. Taking the initiative, the Company invited 10 representatives from 10 institutional investor companies to meet with its outside directors on May 22, 2024. Two of the outside directors, Mr. Nagahama (who retired in June 2024) and Mr. Fujitsuka, represented NSK at this small meeting. In this dialogue, the outside directors provided their thoughts on a variety of topics, including the feedback received from institutional investors.

## 01 The status of and changes in NSK's Board of Directors

### Mr. Obara

Since my appointment as an outside director of NSK in June 2021, I have noticed a significant increase in the time spent by the Board deliberating on strategic agenda items. Recent global trends showcase the growing focus on such issues as employee engagement, diversity, and well-being and their increasing links to sustainable corporate growth. The expanding importance that these topics play in discussions by the Board mirrors this movement, making me confident in NSK's ability to grasp and address global trends.

### Mr. Tsuda

While some things change, others remain the same. I was appointed an outside director of NSK in June 2022 and over the ensuing period, a non-executive director has continued to chair NSK's Board of Directors. Mr. Nogami retired as an executive officer and succeeded Mr. Uchiyama as Board Chair in June 2023. I am very much in favor of a non-executive director chairing the Board of Directors and believe that the Board is operating effectively. Prior to taking up a position at NSK, my experience was limited to companies with an Audit and Supervisory Committee. Looking back over my period at NSK, I can see that the Company is well served by its Company with Three Committees structure that separates the executive and supervisory functions.



**The time spent by the Board deliberating on strategic agenda items continues to significantly increase.**

— Mr. Obara

### Ms. Izumoto

I was also appointed an outside director in the same month as Mr. Tsuda in June 2022. Each year, the schedule and agenda for Board of Directors' meetings are set for the year ahead following the Ordinary General Meeting of Shareholders held in June. Operating in line with this agenda, meetings provide the forum for vigorous discussion and the exchange of various opinions and proposals. Meetings of outside directors were also held once or twice a year until 2023. In lieu of these meetings, the outside directors have been meeting with the Board chair for about an hour over lunch after each Board of Directors' meeting since May this year. These meetings allow us to comment on issues that we were unable to discuss at the Board level.

## 02 Dialogue between institutional investors and outside directors in May 2024

### Mr. Fujitsuka

We received extremely harsh feedback in our dialogue with institutional investors. NSK's ROE, which has lingered below 3% for the past five years, and the prolonged period of little or no improvement have created the impression that the Company's interest in this key indicator is severely lacking. With this in mind, NSK must remain acutely aware of the need to take action and clearly communicate the Company's overall direction and ROE improvement initiatives to the stock market. Institutional investors also commented on the grounds for the CEO continuing in his position as well as the Company's CEO succession plan. These comments reinforced the critical need to play an active role both as outside directors and members of the Nomination Committee to meet the expectations held by external stakeholders.

### Mr. Tsuda

Talking about the views of institutional investors toward the Company's CEO succession plan, NSK is strictly adhering to its established succession

planning process. In specific terms, we are defining the attributes required of a CEO, including strategic planning ability, the ability to execute those plans, and organizational leadership. We then select certain candidates in accordance with these requirements and conduct evaluations both in-house and by external organizations. Each candidate is then provided with the necessary training and opportunities to gain practical experience.

We must also carefully consider what the future Board should look like. This includes the Board's composition and size, the distribution of skills among its members, and the role and position of the CEO. In clarifying our vision of the Board going forward, we should then initiate steps to narrow down CEO candidates to the most appropriate option. As we advance this process to select a final candidate based on the Company's corporate strategy, rather than rely on an average score, it is important that we focus on and select a candidate who we believe is the best person to lead NSK in its next step going forward.

## 03 Monitoring progress of the new targets set under MTP2026

### Mr. Obara

In light of changes in the market environment and the decision to shift its steering business to a joint-venture structure, NSK reviewed its MTP2026 numerical targets. While I recognize that an important function of the Board of Directors is to oversee whether the revised targets can be achieved, on a personal note, I would like to focus on the underlying process of achieving those targets. The efficacy of any PDCA cycle is solely dependent on the integrity of the underlying process. While NSK has a clear understanding of what it wants to do, I feel that the ways and means of achieving those things are not adequately communicated to outside directors. I would therefore hope that the Board will deliberate on process-related issues.

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### Mr. Tsuda

Limited to the Group's numerical targets, NSK's MTP2026 review in this instance did not extend to policies and strategies. While the Group's overall direction remains unchanged, numerical targets were revised to reflect changes in the business environment. Against this backdrop, however, the Company's behavior is unlikely to change simply by revising its targets. As Mr. Obara quite rightly points out, I would expect the Board to also closely monitor what strategies are being implemented to achieve the KPIs. I would argue that the steps currently being taken to monitor numerical targets are inadequate. I therefore believe we must closely monitor the status of implementing strategies to ascertain the degree to which the KPIs are being achieved. In short, we must engage in more detailed monitoring. If the Board's monitoring function is restricted to major measures and broad targets, it runs the risk of losing sight of important details, including the status of progress. With this in mind, I would hope that the Board modifies the way it monitors each initiative to include the manner of implementation.

### Mr. Fujitsuka

Even though NSK has refrained from revising its MTP2026 strategies, steps have been taken to revise numerical targets. Taking into consideration the downward revision, external stakeholders will undoubtedly expect the Company to succeed. As outside directors, we must closely monitor the executive function to confirm that strategies to achieve targets are proceeding in accordance with plans. In the event that there are areas where the Company is falling short, we must review the need to implement additional measures. We then must deliberate on all of these issues with the Board. I also recognize that executives have a great deal on their plates, and that certain issues will take time while others can be tackled

immediately. Those issues that can be addressed in the short term must be dealt with in a timely manner. This includes, for example, the reduction of cross-shareholdings.

## 04 NSK's Enterprise Risk Management (ERM) system

### Ms. Izumoto

As far as the Company's risk management is concerned, the Internal Audit Department has historically organized and summarized the numerous risks identified by frontline divisions through a process that we have dubbed the risk identification and assessment process. For all intents and purposes, executive divisions have therefore played no role in the supervision of risks. Put another way, the department in charge of internal audits has organized and classified risks while also formulating audit plans. This runs the very real prospect of employing an insular self-contained approach toward risk awareness and risk treatment. Moreover, top management and the Internal Audit Department have received reports for all incidents that arise irrespective of their importance. Given the premium placed on time, this highlighted the critical need to fine-tune the reporting process. As a case study in point, if safety or environmental issues occurred at a plant related to the automotive business, the Automotive Business Division Headquarters and production divisions would get involved, but there could be considerable uncertainty surrounding the extent to which the functional division headquarters of the second defense line that is responsible for these issues should take and horizontally deploy action.

As a result of fine-tuning this reporting process, NSK clarified the role and responsibility of the functional division headquarters as the second defense line.

**I will monitor the degree to which the Enterprise Risk Management system based on a clear-cut three line defense mechanism has taken root as well as its efficacy .**

— Ms. Izumoto







**It is vital that we heighten our sense of crisis with respect to our own actions and step up our awareness of the need to fulfill our commitments.**

— Mr. Tsuda

The Company also threw a light on other aspects of the risk management function, including the role of the Corporate Planning Division Headquarters as the division overseeing risk management under a so-called Three Lines of Defense structure. Under this structure, each division takes specific actions based on the responsibilities attributed to them by their position within the structure. The first line of defense is each business site, which is responsible for advancing specific treatment and countermeasures aimed at addressing risks and incidents. The second line is the functional division headquarters, which is charged with the responsibility of managing risks from the specialized perspective of its respective functions, as well as the Corporate Planning Division Headquarters, the division overseeing the risk management process. Finally, the third line is the Internal Audit Department.

After defining this Three Lines of Defense structure, the decision was made to determine and monitor the progress of treatment and countermeasures designed to reduce those risks that were identified through the risk assessment process that are yet to materialize. In short, looking beyond the management of incidents that have already occurred, the Company decided to put in place a mechanism to manage the efforts being made to reduce risks that have not yet materialized. Furthermore, NSK has introduced external software to ensure the comprehensive management of risk, encompassing everything from the risk assessment process to reporting functions. In addition, the new Enterprise Risk Management system has been incorporated as an audit item for review by the Audit Committee this fiscal year to ensure that it is firmly in place and is functioning effectively.

#### Mr. Fujitsuka

From experience, risks are frequently hidden in remote and overlooked places. This is especially the case with affiliated companies where the equity stake is small and involvement is limited. Compared to subsidiaries, control is limited. As a result, risks might often appear upon examination. For this reason, steps were taken to closely examine these remote and overlooked areas where the Company's interest was limited to a minority stake.

## 05 NSK's corporate culture

### Mr. Tsuda

Formed at the time of establishment, the essence of a company's corporate culture does not easily deteriorate. Considerable time and effort are therefore required to bring about a change. When formulating a mid- to long-term management plan there is often the need to change the way employees think. Accordingly, top management must take considerable action to achieve this end. In NSK's case, however, there was no such need to substantially change the essence of its corporate culture with MTP2026. MTP2026 is in fact grounded in the Company's tradition, and its strategies built on NSK's existing identity.

NSK's review of MTP2026 was limited to numerical targets. As such, the Company's strategies and corporate culture remain unchanged. Having said this, it is crucial that the Company maintains an acute sense of crisis given the downward revision in this instance. Disparate from the overall vision of the company NSK wants to become, its activities, and its presence within the community, it is important that NSK adopt a greater sense of urgency toward its management and actions. The Company must become increasingly conscious of its need to fulfill its commitments as an organization. While not quite extending as far as a change in NSK's corporate culture, the downward revision of numerical targets dictates the need for a major change in mindset.

### Mr. Obara

Rallying to the slogans MOTION & CONTROL™, Change & Go Beyond, and Bearings & Beyond, NSK has declared its commitment to contribute to society. I have been greatly impressed over the past three years by the Company's outstanding technological capabilities and its stance toward ensuring the continued development of these capabilities in its bid to fulfill this commitment. I would offer that this is an

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absolute imperative for NSK to remain a leader in its industry. The concept of ambidextrous management has attracted growing interest of late. This concept recognizes the need for mature companies to explore new areas of business while simultaneously deepening established mainstay operations. Applying the concept of ambidextrous management to NSK, I am aware that the Company has done an amazing job in deepening its mainstay businesses. I would, however, argue that the ability to identify new areas of opportunity, and to then use these areas as a base to take on the challenge of exploring new avenues is of equal importance. Moreover, the open disclosure of information and open innovation are also playing an increasingly prominent role in society. Against this backdrop, it is becoming more and more difficult for a single company to achieve sustainable growth on its own. One means of overcoming this challenge is to think of different ways to collaborate with other companies. In doing so, I believe NSK must cultivate the ability to address new combinations of markets and customers.

### Mr. Fujitsuka

While going back a number of years, I do have first-hand experience working for a company that suffered a dramatic deterioration in its performance. Among a host of initiatives, steps were taken to review domestic affiliates as well as the personnel structure. In addition to instilling among employees a keen sense of crisis, these initiatives helped transform the company into a completely different entity. Clear decisions were made to withdraw from unprofitable businesses and to expand businesses with the potential for growth. I recall that these efforts helped to clarify important issues. Bringing this experience to NSK, it is evident that the Company is facing issues with respect to its ROE, which has continued to trend between 2% and 3% for the past several years. Listening to deliberations by the Company's Board, directors often comment that employees have voiced the view that they believe

NSK is an earnest company. While engaging in earnest discussions and activities is indeed important, I believe that taking increasingly bold and speedy action is also of importance. This belief reflects the understanding that bold and speedy actions that are conducted in earnest will not be outdone.

### Mr. Tsuda

As a manufacturing company that has operated for more than a century, NSK's first priority is to operate its plants. Then, the Company determines the selling price of its products based on manufacturing cost. Having said this, I feel that NSK has yet to fully embrace the concept of sales based on the value of products. A shift in the Company's mindset is therefore required. I get the feeling that there is a gap between the value that customers sense is being delivered and the actual value of the product. In a BtoB business where the price of a product is increasingly determined by its value as opposed to cost, NSK must work to enhance customers' understanding toward the value of its products and services.

### Mr. Obara

Assembled product manufacturers that are responsible for assembling end products are also a part of the BtoB business. Assembled product manufacturers field a variety of issues and concerns from end-users and accordingly convey to component suppliers how to address and resolve these issues. Recognizing that they are not always privy to the wide-ranging deliberations within assembled product manufacturers, suppliers now join in discussions and work together with them to collaboratively create solutions. It is therefore imperative that suppliers build this type of collaborative relationship with assembled product manufacturers. In the bearing industry, too, it is important for suppliers to create a system that allows for collaborative creation between suppliers and assembled product manufacturers.

**Development, manufacturing, and sales are the source of competitiveness in the manufacturing industry. Strengthening and turning each into the power that drives NSK forward is of the utmost importance.**

— Mr. Fujitsuka



## 06 NSK's vision and challenges for enhancing its corporate value over the long term

### Mr. Obara

As I mentioned a moment ago, NSK's ability to build and engage in relationships of co-creation with a variety of other industries is extremely important. I also believe that NSK should pay a little more attention to marketing. To engage in co-creation, the Company must understand the markets in which it hopes to operate. In this context, I believe NSK should market how its business will develop going forward and then apply its technologies accordingly.

### Mr. Tsuda

The fact that NSK's ROE and profitability are low is a major issue. I do feel that the Company is aware of the big picture of how it can best address this issue. However, the Company is weak when it comes to maintaining a keen eye on pricing and generating profit. Elaborating a little further, I believe the Company's broad strategy lays out the correct path for the future. As long as NSK moves steadily forward with this strategy while skillfully incorporating measures to improve profitability, I am confident it will succeed from a long-term strategic perspective. Once again, as I commented earlier, I would hope that as a part of its corporate culture and approach, NSK better highlights its value to society.

### Ms. Izumoto

Extending well beyond just bearings, the fact that there is an excessive number of companies in absolute terms is a major reason for the large number of companies with low profitability relative to the shortage of labor in Japan. Looking at the logistics industry as an example, despite the substantial number of trucking companies, signs of restructuring are beginning to emerge in response to the so-called 2024 problem, in which regulations that put restrictions on driver overtime

hours will go into effect amid a driver shortage. Against this backdrop, I suspect that this need for increased efficiency will quickly spread to other industries. In my opinion, I would hope that the bearing industry too will follow suit.

### Mr. Fujitsuka

Looking two to three years into the future, NSK's first priority must be to achieve MTP2026. Casting an eye even further ahead, and I suspect Mr. Tsuda would also agree, it is vital that the Company strengthens its development, manufacturing, and sales capabilities, which constitute the source of competitiveness in the manufacturing industry. NSK should then leverage these capabilities as the power that drives NSK forward.

Meanwhile, it is important that the Company increases the efficiency of other areas of its operations to streamline its operating structure. As a manufacturing company, NSK must in particular develop outstanding products that satisfy customers' needs at prices that are commensurate with their value. The Company must continue to engage in business with the confidence that it has the capabilities to more than compete. NSK is a leader in its field, and I am confident that the foundations are there. Being conscious of its standing as a market leader, the Company must develop products that customers will purchase at prices commensurate with their value. Only in doing so will it hope to move the world.

## Message from NSK's New Outside Director

After engaging in frontline activities at a financial institution, I have served as an outside director at several companies over the past seven years. In the more than 10 years since drastic governance reform was proposed as a part of the Japan Revitalization Strategy, the concept and approach toward governance adopted by Japan's corporate sector has changed dramatically. With strong calls by the Tokyo Stock Exchange for companies to engage in management that is conscious of the cost of capital and stock price, domestic and foreign investors' views of the Japanese stock market are also undergoing significant change. NSK's corporate philosophy and slogan, MOTION & CONTROL™, are wonderful expressions of the Company's commitment to supporting the evolution of technologies and the development of a prosperous society as a machine component manufacturer. Regrettably, NSK's recent weak performance and an inability to properly visualize its growth strategy have led to a slump in the Company's share price, in turn blurring any recognition of its true value. As an independent outside director, I would like to help improve the Company's corporate value and strengthen internal controls by frankly raising issues and engaging in dialogue from the perspective of external stakeholders at Board of Directors' and other meetings.



### Nobuhide Hayashi

After serving in a variety of positions, including President & CEO of Mizuho Bank, Ltd., appointed a director of NSK in June 2024. Chair of the Compensation Committee.