

# Internal Controls, Reduction of Cross-Shareholdings, Executive Officers' Compensation

## Internal Control

Having stipulated its basic policy on the establishment of internal control systems, which forms its basic policy for the appropriate and effective functioning of global Group management and internal control functions, NSK is working to strengthen its Group-wide internal control systems. This basic policy consists of matters relating to the development of the systems necessary for ensuring that the NSK Group's operations are conducted in an appropriate manner and that executive officers comply with laws, regulations, and the Articles of Incorporation when performing their duties and matters necessary for the Audit Committee in the performance of its duties.

Based on this policy, executive officers establish the specific systems (covering the organization, personnel, decision-making, reporting, and auditing, as well as the internal rules and regulations that support them) while reporting on the status of those operations to the Board of Directors. Reporting directly to the CEO, the Internal Audit Department is responsible for conducting audits to determine the legality, adequacy, and efficiency, of operations and for the monitoring of business execution from a standpoint independent from the auditees.

The Audit Committee utilizes the internal control system to audit the performance of operations and conducts audits to ensure that the internal control system is constructed and operated in a satisfactory manner. The Internal Audit Department shall collaborate with the Audit Committee and provide support to audits conducted by the Audit Committee.

## Response to Japan's Corporate Governance Code

NSK complies with all principles of the Corporate Governance Code and outlines its policies in the Corporate

Governance Report that it submits to Tokyo Stock Exchange, Inc. Please access the website below for NSK's corporate governance reports in English.



## Cross-Shareholdings

### Policy on Cross-Shareholdings

NSK aims to reduce the cross-holding of shares deemed to have little benefit in increasing mid- to long-term corporate value. Conversely, if we believe that there is a valid rationale for holding such shares, we will continue to do so. Regarding the appropriateness of cross-shareholdings, our executive organizations conduct quantitative and qualitative evaluations on an annual basis to determine whether each individual shareholding is delivering acceptable benefits in relation to our capital cost. The Board of Directors receives regular reports from the aforementioned executive organizations and studies the matter accordingly. We will sell any shareholdings for which we believe possession cannot be justified, taking into account stock prices and market trends.

### Criteria for the Exercise of Voting Rights Concerning Cross-Shareholdings

NSK has defined specific criteria for the exercise of voting rights concerning cross-shareholdings. When exercising voting rights, we confirm that the proposal in question does not damage shareholder value and that it serves to improve the mid- to long-term corporate value of both NSK and the company in which the stake is held.

## Number and Balance Sheet Amount of Shareholdings

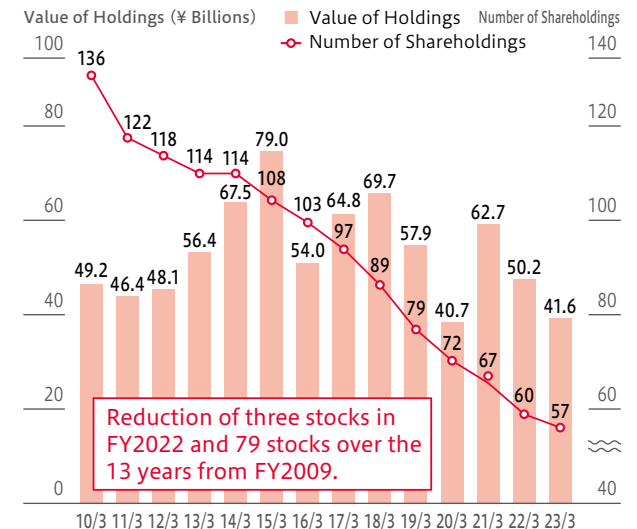
Type	As of March 31, 2022		As of March 31, 2023	
	Number of Holdings (Stocks)	Total Amount Recorded on the Balance Sheet (¥ Billions)	Number of Holdings (Stocks)	Total Amount Recorded on the Balance Sheet (¥ Billions)
Unlisted stocks	33	1.0	34	1.0
Stocks other than unlisted stocks	27	49.2	23	40.6
Total holdings	60	50.2	57	41.6
Holdings in NSK's retirement benefit trust	1	128.3	1	54.3
Total consolidated capital		637.5		634.7

## Proportion of Cross-Shareholdings in Total Consolidated Capital

Excluding retirement benefit trust	7.9%	6.6%
Including retirement benefit trust	28.0%	15.1%

As a result of the steady reduction of cross-shareholdings and the sale of a portion of holdings in NSK's retirement benefit trust, the proportion of cross-shareholdings to total consolidated capital as of March 31, 2023, decreased to 6.6% excluding holdings in NSK's retirement benefit trust and to 15.1% including holdings in NSK's retirement benefit trust.

## Trends in Cross-Shareholdings (Excluding Retirement Benefit Trust)



## Directors/Officers' Compensation

### ■ Compensation for Directors and Executive Officers, Policy on Determining Compensation Amounts and Calculation Methods

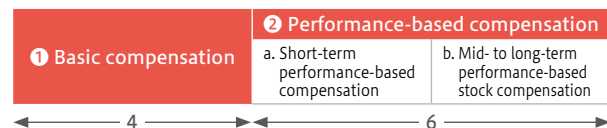
As a Company with Three Committees (Nomination, Audit, and Compensation), NSK makes decisions on the structure of executive compensation, compensation levels, and individual compensation, etc., at meetings of the Compensation Committee chaired by an outside director, and based on advice from external consultants as well as objective information on compensation levels and trends at other companies.

The Company will determine compensation for director and executive officer positions separately. When a director also serves as an executive officer, the total of each respective compensation amount shall be paid. For directors who also serve as executive officers, stock-based compensation will not be provided for the director position.

#### 1. Executive Officers' Compensation

The compensation package for executive officers consists of fixed basic compensation and performance-based compensation that fluctuates with performance. The Company generally sets a compensation ratio of roughly 4:6 of fixed compensation to performance-based compensation.

##### ■ Executive Officer Compensation Package



##### ① Basic compensation

The amount of basic compensation is determined according to the title of the executive officer. Moreover, an additional amount will be paid to executive officers with representative rights.

##### ② Performance-based compensation

Performance-based compensation consists of short-term performance-based compensation and mid- to long-term performance-based stock compensation.

###### a. Short-term performance-based compensation

Short-term performance-based compensation is determined based on metrics consistent with management goals to increase profitability, raise the efficiency of shareholders' equity, and improve corporate value: metrics related to the operating income margin, ROE, cash flow, and ratio of new product sales to total sales, as well as an achievement target for ESG goals for CO<sub>2</sub> emission

reductions and safety and quality improvement. The individual's level of achievement in their designated job duties is also evaluated when determining the amount of compensation paid to each executive officer.

###### b. Mid- to long-term performance-based stock compensation

To further incentivize contributions to the sustainable improvement of corporate value, to ensure that executive officers share the interests of shareholders, and to further reinforce the link between executive officer compensation and the mid- to long-term stock price, the Company has introduced a performance-based stock compensation program using the Board Benefit Trust system. Through the system, points are fixed after three years based on a relative evaluation of the Company's total shareholder return (TSR) through a comparison with the TOPIX growth rate, the equivalent for which Company shares are then distributed upon retirement. However, for a certain portion of the above, NSK will compensate executive officers with the equivalent amount acquired by converting shares into cash.

#### 2. Directors' Compensation

The compensation package for directors consists of fixed basic compensation and stock compensation that is variable compensation.

##### ① Basic compensation

Basic compensation is determined based on whether the director is an outside director or an internal director in addition to the director's role on the Board of Directors and the committees to which the director belongs.

##### ② Stock compensation

To further incentivize contributions to the sustainable improvement of corporate value and to ensure that directors share the interests of shareholders, the Company has introduced a stock compensation program using a Board Benefit Trust system. The system distributes Company shares upon retirement based on points allocated each fiscal year, of which separate amounts are given for outside and internal directors. However, for a certain portion of the above, the Company will compensate directors with the equivalent amount acquired by converting shares into cash.

For directors who also serve as executive officers, stock-based compensation will not be provided for the director position.

#### 3. Other

In addition, in the event a member of the management team

of another company such as a subsidiary or an affiliate, etc., assumes an executive officer position, compensation will be determined separately.

##### ■ Compensation Total by Classification of Directors/Officers and Compensation Type and Number of Directors/Officers

Classification	Compensation, etc., Total (¥ Millions)	Basic Compensation		Short-Term Performance-Based Compensation		Stock Compensation	
		No. of Directors/Officers	Amount (¥ Millions)	No. of Directors/Officers	Amount (¥ Millions)	No. of Directors/Officers	Amount (¥ Millions)
Directors (internal)	143	4	121	–	–	2	22
Directors (outside)	86	7	72	–	–	7	14
Executive Officers	921	19	533	17	77	32	310

Notes: 1. The amount of compensation for directors and executive officers between April 1, 2022, and March 31, 2023. 2. Compensation (excluding stock compensation) for directors (internal) includes compensation for directors who also serve as executive officers. 3. The amount of performance-based salary is the planned amount to be paid on July 3, 2023, based on the results for the fiscal year ended March 31, 2023. For reference, the amount paid on July 1, 2022, based on the results for the fiscal year ended March 31, 2022, was ¥108 million. 4. The amount of stock compensation is the amount recorded as expenses for the current fiscal year. 5. Figures listed above are rounded down to the nearest one million yen.

##### ■ Directors and Officers Receiving a Total of ¥100 Million or More in Consolidated Compensation

Name	Consolidated Compensation, etc., Total (¥ Millions)	Title	Company	Amount for Each Item of Consolidated Compensation, etc. (¥ Millions)			
				Basic Compensation	Short-Term Performance-Based Compensation	Stock Compensation	Retirement Benefit
Akitoshi Ichii	117	Director	NSK	8	–	–	–
		Executive officer	NSK	50	10	47	–
Guoping Yu	101	President	Consolidated Subsidiary NSK (CHINA) INVESTMENT CO., LTD.	82	16	2	–
Ulrich Nass	115	President	Consolidated Subsidiary NSK EUROPE LTD.	70	39	2	3
Brian Parsons	240	CEO	Consolidated subsidiary NSK Americas, Inc.	88	117	2	32

Notes: 1. The amount of compensation for directors and executive officers between April 1, 2022, and March 31, 2023. 2. Only individuals receiving ¥100 million or more in total compensation are listed.