Outside Director Dialogue

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.

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.

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.

Nobuhide Hayashi
Appointed as a director at NSK in June 2024 after serving as President & CEO of Mizuho Bank, Ltd.
He serves as Chair of the Compensation Committee.

Satoshi Ogoe
Associate Professor, Graduate School of Management, Kyoto University. Engaged in stewardship activities at BlackRock Japan Co., Ltd., with a focus on dialogue with corporations and exercising shareholder voting rights. He has served in his current position since June 2024.

This year we welcomed Satoshi Ogoe as our interviewer. Mr. Ogoe is an Associate Professor at the Graduate School of Management at Kyoto University and formerly served as Director at BlackRock Japan Co., Ltd. We asked Mr. Ogoe to speak with four of our outside directors, mainly about the topics discussed by the Board of Directors, the agenda items, and topics taken up by the Nomination, Compensation, and Audit committees, as well as those issues they would like our investors to pay attention to in the future.

01 Key Points and Primary Discussion Topics of the FY2024 Board of Directors

Mr. Ogoe

I would like to begin by asking about your impressions and any changes that you have noticed regarding the discussions held by the Board of Directors over the past year.

Mr. Tsuda

As someone who has managed operating companies, I have personally addressed the Board with a clear understanding of the importance of engaging with NSK's operating divisions. I recognized at a fairly early stage that NSK would struggle to achieve the level of performance for which it had initially planned in FY2024. Recognizing that numerical targets would not be met, I felt the need to check the progress of KPIs in a little more depth. Which is why I asked that NSK revise its KPIs in a way that would better clarify the current situation, and why the Board repeatedly debated whether there were issues with the target-setting process. NSK also provided us with opportunities to visit its frontline sites in person and directly observe the

status of initiatives with our own eyes. This allowed us to confirm that policy management was functioning on the front line to ensure measures stay on track to achieve targets. With a clear grasp of the situation going into the Board meetings, I felt the Board of Directors was able to engage in highly active discussions.

Mr. Fujitsuka

My impression was that the executive team's commitment to numerical targets seemed too weak. NSK announced in May of this year that it would struggle to achieve an ROE of 8% in FY2026, the final fiscal year of the current Mid-Term Management Plan. Although the Company had made headway on each measure in the Plan, it was struggling to achieve the target figures because of changes in its business environment. While NSK's shareholders and investors do value progress on these measures, they are more interested in numerical results. Therefore, I feel that NSK needs to place greater emphasis on delivering measurable results.

Ms. Izumoto

Since July of last year, we have gathered together for lunch after every Board of Directors meeting so that the Board Chair and outside directors can freely exchange their thoughts. These get-togethers have allowed us to follow up on Board meeting discussions and deepen our understanding of the proposals made by the executive side. As another new initiative for the current fiscal year, we have begun holding what we refer to as strategy workshops. These strategy workshops help us as outside directors to strengthen our insight into the unique characteristics of NSK's business and the nature of the industry in order to enhance the effectiveness of strategy discussions and monitoring. NSK also cut back the number of times it convenes the Board of Directors each year from around 10 to eight, so we have allocated the extra time to these strategy workshops, during which we hold debates for two to three hours each time. Executive vice presidents from the executive side participate in these strategy workshops—as do certain managers depending on the topic—so that everyone can discuss the issues and challenges facing the Company together.

Mr. Hayashi

One of the strengths of NSK's Board of Directors is that the Board Chair skillfully leads the proceedings with consideration for capital market perspectives. Another is that the executive side earnestly acknowledges the questions and issues raised by the outside directors, reflecting on them from the perspective of their vision for NSK. Despite the comments I have received from investors that have questioned whether the Board of Directors holds thorough discussions, I can confidently say that NSK's Board of Directors truly does hold rigorous discussions each time it meets. On the other hand, one issue that has surfaced is that the proposals we receive from the executive side have become too detailed. Given NSK's sluggish performance in part due to the impact of today's market conditions, the executive side's proposals have tended to be overwhelmed by detailed discussions on budgets and short-term progress. Although these detailed discussions are without question important, I feel that looking solely at these details will create a gap between the executive side and the Board of Directors in how we discuss mid- to long-term growth strategies and measures to increase corporate value. Which is why I would instead like to hear the executive side provide more concrete ideas about their time frame for growth strategies and about NSK's position in the industry.

Mr. Ogoe

I would imagine that the Board of Directors would like to steer discussions toward a longer-term perspective based on the information presented by the executive side. But what do you think is necessary to further develop discussions by the Board of Directors going forward?

Mr. Tsuda

Although we must constantly think about the position NSK can take within the industry and how its position will change in the future while observing the movements of each industry player, it is surprisingly difficult to discuss this within the Board of Directors. Personally, even when I was managing a company, I found it difficult to talk to outside directors on the same level because they were not necessarily well-versed in the industry. That is why I feel the outside directors should play the critical role of stimulating the executive side, rather than holding discussions with them from the same standpoint. Specifically, there are things the executive side might not have considered, so it is our job to bring these observations to their attention. As we move forward with formulating the Company's new Mid-Term Management Plan one year ahead of schedule, discussions will take place during strategy workshops. I hope to use these discussions as opportunities to stimulate the executive side.

02 Key Points and Discussion Topics of the Three Committees in FY2024

Mr. Ogoe

As NSK has adopted a Company with Three Committees structure, I would like to ask you each about the primary discussions and key topics that the Nomination, Compensation, and Audit committees have covered over the past year. I think it would be a good idea to start with an explanation about the Nomination Committee, including the CEO succession plan given the strong investor interest in this topic.

Mr. Tsuda

The Nomination Committee is progressing with the CEO succession plan through a repeated cycle of candidate screening, assessment, and selection. After screening and evaluating a certain number of CEO candidates internally, the Committee employs a third-party organization with the ability to assess these individuals on a global basis. As this CEO candidate pool also forms the director candidate pool, the CEO candidate selection process helps us develop director candidates as we consider the skill matrix of the

Board of Directors. Although responsibility for finalizing the CEO candidate assessment ultimately lies with the Board of Directors, as far as the Nomination Committee is concerned, we feel the most important role of the CEO is to lead the Company into the future. This is why a major factor in choosing the CEO is whether he or she possesses this leadership capability. We have also debated the importance of determining the propriety of reappointing the current CEO from this standpoint.

Mr. Ogoe

The Nomination Committee now requires quite a bit more time for debate than in the past, and it seems it has attracted quite a bit of attention from investors. The Committee's approach to considering successors is an extremely important point, so I would imagine this topic will likely continue to attract interest. I would next like to ask you about the Compensation Committee.

Mr. Hayashi

The Compensation Committee has debated the issues facing the compensation package under the Mid-Term Management Plan, as well as how these issues should be addressed in working toward the next Plan. NSK was a forerunner in transitioning to a Company with Three Committees (Nomination, Audit, and Compensation) structure, which is why it was well ahead of its competitors in establishing a framework that links the compensation package to performance. Specifically, NSK's executive officer compensation package comprises a fixed compensation component according to the roles and responsibilities of each officer and a performance-based compensation component linked to short-term as well as mid- to long-term results.

Although short-term performance-based compensation encourages executive officers to take risks as part of management decision-making, one of the issues here is that the resulting compensation is not always seen as sufficiently reflecting the outcomes commensurate with the weight of this responsibility. This is why we debated more fully reflecting the degree of contribution to achieving the targets in the Mid-Term Management Plan as part of executive officer assessments in FY2024. In this respect, I intend to recommend a framework that properly assesses and compensates those individuals who engage in their duties while illustrating their vision for NSK in a way that goes beyond their area of responsibility. Other issues that we considered included revising the performance assessment metrics in general and introducing parameters related to employee engagement and other aspects related to human capital. We also spent a fair amount of debate on a compensation design that would properly ensure executive officers are aware of the importance of enhancing corporate value. One of the specific measures NSK implemented for this purpose in FY2024 was the introduction of a clawback clause. Although NSK had already included a malus clause as part of its mid- to long-term performance-based compensation, it updated this clause by introducing a clawback provision for performance-based compensation. This clause requires executive officers to return compensation they have already received if a compliance-related issue arises or corrections are made to financial metrics.

The compensation package is designed to link with the Mid-Term Management Plan. As we prepare for the next Plan, we intend to review the compensation package to ensure it is appropriate for NSK. We also intend to revise the compensation package in line with the new Mid-Term Management Plan, including addressing the issues I just mentioned.

Mr. Ogoe

I understand from your explanation that the Compensation Committee also prioritizes assessments that go beyond simple numerical performance metrics. I believe that how a company assesses efforts to improve performance is linked to its corporate culture.

Finally, I would like to ask Ms. Izumoto about the Audit Committee.

Ms. Izumoto

The priority audits for FY2024 focused on two aspects, namely whether the new risk management system is functioning properly and whether the three-dimensional global management framework is effective. The three-dimensional global management framework is composed of the business division headquarters as the primary axis, and the regional headquarters and functional division headquarters as the other two axes. Some 20 years have now passed since NSK originally organized this global management framework in 2005. We therefore spent a year interviewing the functional division headquarters and regional headquarters to confirm whether the global management framework is functioning properly amid growing geopolitical risks, trends in DX, and other changes in the environment. As a result, we discovered that decision-making and the execution of business operations lacked a sense of speed in part due to the somewhat vague nature of the allocation of roles, responsibilities, and authority that arises specifically from the organization's three-dimensional structure. In response, the Audit Committee suggested that NSK should design a mechanism that increases the speed of decision-making and the execution of business operations with respect to matters of strategic importance.

03 Steering Business

Mr. Ogoe

In May of this year NSK announced that it would dissolve its steering business joint venture. I would imagine that

investors have a vested interest in the reasons behind this move, so I would ask that you elaborate on this decision and provide background details.

Mr. Tsuda

Recognizing the difficulties in managing the steering business on its own given the business environment and technical factors, NSK established a joint venture with JIS in August 2023. At the same time, it designed a management structure for the joint venture that allowed it to operate as an independent enterprise and advanced structural reforms, which ultimately enabled the venture to achieve profitability. As a next step, NSK has been intending to form a partnership with a company that possesses both the necessary business and technical acumen but parts manufacturers around the world began to struggle owing to the deteriorating business environment the automotive industry has faced in recent years, and as a result, the search is taking longer than expected. Being in such an environment, NSK recognized the need to take an approach that would allow it to move quickly and easily when a partnership opportunity comes along, and therefore decided to dissolve the joint venture and restore the steering business to a fully owned NSK subsidiary as it continues to search for a new partner.

Mr. Ogoe

So, it seems NSK decided that given the current situation it was best to maintain its basic trajectory and take this action in consideration of external factors.

04 Perspectives for Future Advice

Mr. Ogoe

Although each of you has already commented on this to some degree, as NSK has announced it will move up the schedule for the next Mid-Term Management Plan, I would like to hear each of your thoughts on the advice you will give during the upcoming formulation process, which is being led by the executive side.

Mr. Fujitsuka

First, I have asked the executive side to offer a clear policy when formulating the Mid-Term Management Plan. Second, I hope to see a stronger commitment to numerical targets when executing the Plan. There is no question that the external environment is constantly changing, which will in turn lead to the occurrence of unexpected events. Ideally, we should have the next steps prepared for such instances. However, even if measures are not in place in the initial Mid-Term Management Plan, circumstances will necessarily arise that demand the implementation of additional measures. I therefore hope to see the executive side engage in more rapid decision-making and be more persistent in their efforts to achieve numerical targets.

Mr. Ogoe

Becoming more sensitive and revising the Plan on the fly are extremely important aspects of management, so I would imagine that investors are also interested in how the Board of Directors monitors this. Mr. Tsuda, Mr. Hayashi, what are your thoughts on this issue?

Mr. Tsuda

When looking at the current state of NSK and society, I feel there is a slight mismatch between the two. We can broadly categorize today's markets into growth markets, evolving markets, and contracting markets. NSK's Mid-Term Management Plan seems to be a bit taken with the idea that it is the growth markets that offer earnings opportunities. However, I think that NSK holds the potential to evolve into a company that can achieve significant growth as long as it engages in business management that places profitability above all else, rather than starting with the assumption that these growth markets are the priority. NSK must abandon the idea that volume will lead to profit and shift to the idea of selling at higher prices. For example, the Company seems convinced that the Automotive Business is unlikely to produce significant earnings, but I would like to see it rethink this stance. NSK holds potential because it can offer new products and maintains a high market share, so it must change its

thinking to focus instead on how to profit under these circumstances. I intend to offer this kind of opinion so that this approach is included when formulating the Mid-Term Management Plan. NSK is also engaged in operations across the globe, so if it focuses its efforts on skillfully combining these global operations, I believe it can produce a fair amount of synergy.

Mr. Hayashi

NSK must thoroughly discuss how to utilize capital in the new Plan. Without a clear investment plan for future growth, investors will shift the debate to shareholder returns. Yet simply making half-hearted share buybacks as a form of shareholder return will not necessarily lead to sustainable stock price growth. Therefore, as part of managing the Company with an awareness of the cost of capital and the stock price, NSK must discuss how it will allocate cash, whether it be for M&As as a growth strategy or internal investments. Two of the areas NSK should discuss for the next Mid-Term Management Plan are strengthening the Company's foundation to ensure it can generate some degree of profit under any environment and optimizing the global production structure. I also feel that NSK must thoroughly discuss its future position within the industry.

05 Risk Management System

Mr. Ogoe

Ms. Izumoto, please tell us about NSK's approach to risk management. If I am correct, NSK updated its risk management system and set it in motion roughly a year ago. What is your assessment now that you have seen it in action?

Ms. Izumoto

The new risk management system actually went into operation during the second half of last year. Until that point, the Internal Audit Department organized and classified the risks raised by frontline sites to manage risk awareness and risk treatment. Under this new risk management system, NSK has more clearly defined the roles and responsibilities of the functional division headquarters as the second line of defense, and the Corporate Planning Division Headquarters has been clearly tasked with overseeing the risk management process itself. In this way, the new system clearly outlines three lines of defense. NSK also implemented software that enables employees to report when an incident occurs to create a structure that allows for it to monitor risks at an early stage. In the system, the first defense line submits a report, and the second defense line takes action while the Internal Audit Department ultimately plays an observation role as the third line of defense. Previously, responsibilities and reportable incidents were ambiguous on occasion. Following clarification, the system has functioned well since the second half of last year.

Another aspect that has proceeded smoothly is NSK's effort to establish a system by which the countless risks that are raised by the front line are assessed and reported by the first and second lines of defense. Since the second half of last year, NSK has also held monthly risk report meetings. Looking at the minutes of these meetings, important Group-wide risks are being actively discussed. For example, when quality issues arise, how they were handled is thoroughly examined. Previously, each risk was reported directly to the president. Now, risks are observed by the first line of defense with the second line deciding who will take action in what way. With this flow firmly in place, it seems to me that this new risk management system has gotten off to a strong start.

06 Key Points in Which Investors Should Take an Interest

Mr. Ogoe

Finally, it seems that various opinions and comments about NSK have been raised during dialogue with institutional investors, including talks between outside directors and institutional investors held in May of this year. If you have any candid thoughts on these talks or if there are aspects of the Company in which you would like investors to take an interest going forward, please provide your comments.

Mr. Fujitsuka

I personally received a variety of feedback when I participated in the dialogue with institutional investors in May of last year. NSK is the first company that has appointed me to its Nomination Committee, so I gained a stronger awareness of the extremely important responsibility of this position through talking with these investors. Since then, discussions at the Nomination Committee have turned largely to clarifying the CEO succession plan and the approach to CEO reappointment, and I was able to engage with the Nomination Committee with this renewed awareness of my responsibility. One of the areas I would like investors to pay attention to is that there is a sufficient foundation in place for the NSK management team and executive side to change their mindset and respond more swiftly to the various challenges facing the Company. If NSK formulates its new Mid-Term Management Plan with a fresh perspective and implements it accordingly, I feel that we will see a noticeable change in the attitude and focus of the executive side. In this sense, I would hope investors observe the seriousness and commitment of the management team.

Mr. Tsuda

My comment is more of a request to NSK. I would ask that the Company demonstrate how it expects to grow going forward under the next Mid-Term Management Plan. While the degree to which we can convince shareholders and investors of the Plan is important, the question is ultimately whether we can also convince employees. As such, when formulating the Mid-Term Management Plan, I would like to see NSK involve employees in addition to shareholders and investors to ensure that all stakeholders can fully share the Company's sense of urgency. This is another aspect that I would like investors to observe.

Ms. Izumoto

NSK has extensive technological capabilities and possesses potential for further technical development, so I would ask investors to believe in NSK and observe it from a long-term standpoint. Recently, we have seen a growing tendency to question the CEO's qualifications when performance deteriorates. Yet the CEO, along with corporate leaders in general, has in-depth knowledge about the Company's history, culture, and the industry as a whole and takes responsibility for all aspects of the business. This is why I have to wonder if having discussions about replacing the CEO based entirely on unfavorable performance is the right approach. Although some aspects of NSK's business operations are affected by market conditions, the Company also possesses high technological capabilities, and I feel that new products will grow significantly from that base, so I would like to see investors wait a little longer on changing the CEO.

Mr. Hayashi

One of the things I have recognized over the past year since I was appointed as an outside director in June 2024 is that the CEO and the rest of the management team earnestly acknowledge our opinions and comments. When looking across the industry, I feel there are few other boards of directors that debate their concerns to the same extent. NSK is expanding the involvement of outside directors more than ever before and is actively holding discussions over formulating the Mid-Term Management Plan ahead of schedule to make major changes. This is something I would like investors to understand. As we continue engaging in dialogue with the capital markets, I believe that if investors can sense the tangible signs that NSK is changing, they will develop confidence in the Company's ability to evolve. For this reason, I believe we must also convey this message through various means including the integrated report, as well as IR activities and dialogue with stakeholders. I know that things will not change overnight, but NSK is working in a unified manner toward reform, and I intend to involve stakeholders in this effort.

Mr. Ogoe

Based on your comments today, I have gained a strong sense of just how earnest and rigorous the discussions of NSK's Board of Directors are. In particular, the wide-ranging debates regarding the views of the Board of Directors on performance, the reflection of industry changes in strategy, and succession planning demonstrate not only the Board's commitment to increasing corporate value but also the palpable intensity of the dialogue itself. I sincerely hope that transparency will improve by conveying this intensity and your messages as outside directors to investors. Thank you for taking time out of your busy schedules to participate in this discussion today.

A Message from NSK's New Outside Director

Over the past 30 years, I have helped to build management, financial, and internal control systems for the global and group operations of many Japanese companies as a consultant in the accounting services field. In addition, as part of the management team at a global professional services firm, I have observed digital transformation (DX) and other advanced initiatives implemented by U.S., European, and Japanese companies. Through these experiences, I have come to recognize the differences between Western and Japanese companies in terms of the level of standardization across group-wide operations and IT systems, as well as the governance and speed with which these initiatives are implemented. I have also engaged in various initiatives related to human resources at a professional services firm that positions their people where talent is a core management resource.

Leveraging my past experience, I hope to contribute to enhancing corporate value at NSK by providing a fresh viewpoint during Board of Directors meetings.

Akira Kashima

Mr. Kashima was appointed as a director at NSK in June 2025 after serving in various positions, including Representative Officer and Chairman of PwC Consulting LLC.
Compensation Committee
Audit Committee