NSK Ltd. Dialogue Between Outside Director and Institutional Investors
Q&A Summary

Date : May 28, 2026 (Thu.) 13:00-14:00
Speaker : Mikio Fujitsuka (Outside Director)
Facilitator : Satoshi Ogoe (Associate Professor, Graduate School of Business, Osaka Metropolitan University)

At our headquarters, we held a discussion forum with outside director Mikio Fujitsuka, attended by 10 institutional investors representing 10 firms. Participants considered the challenges facing our company and its future outlook. As an outside director, Mr. Fujitsuka shared his perspectives on the current situation as well as the Board of Directors and its committee.

Q&A

Q1

Given that there are likely to be a number of topics of interest to participants on this occasion — such as the proposed business integration with NTN Corporation and the new Mid-Term Management Plan (MTP2028) — I would like to ask, from the perspective of an outside director, how the proposed integration was discussed and evaluated at the Board of Directors' meetings. In addition, I would appreciate hearing about the discussions held by the Board regarding MTP2028.

Mr. Fujitsuka

I recall that I also participated in a similar forum two years ago, during which a question was raised regarding how to approach industry consolidation. At that time, there were no concrete developments such as the proposed business integration with NTN, and it was difficult to provide a clear answer; however, management had already been acutely aware of the challenges related to industry consolidation. With respect to business integration, progress updates began to be shared with the Board of Directors from last year. Ultimately, the Board concluded that the proposal was highly favorable and expressed its support. Across the industry as a whole, concerns have been mounting due to the continued slowdown in revenue growth and the persistence of low profitability. Our business is broadly divided into the automotive and industrial machinery segments. While revenue visibility is relatively high in the automotive business, profitability remains a key challenge. In contrast, the industrial machinery business encompasses a wide range of applications, resulting in varying levels of profitability across product lines. Against this backdrop, business integration represents a rational strategic choice. That said, this decision merely marks the starting point; what will be executed following the integration is of critical importance. Rather than focusing on which party will take the lead, it is essential to focus on what the integrated company aims to achieve. MTP2028 was developed on a standalone basis, without considering integration with another company. Initiatives such as structural reforms in Europe and within Japan were imperative regardless of whether business integration might occur. We believe that such structural reforms will be accelerated by the business integration initiative, rather than delayed. In formulating MTP2028, a different approach was taken compared with previous plans. Over the course of approximately one year, discussions were conducted in a workshop format involving both the executive team and the Board of Directors. Outside directors were actively engaged in these discussions, deepening mutual understanding with the executive side and resulting in a plan that reflects a high level of alignment and conviction.

Q2

While there has been a shared recognition of the issues, we have at times felt that the pace of implementing measures has been insufficient. Do you expect this to be improved under MTP2028?

Mr. Fujitsuka

I believe the role of management is fundamentally simple: to make decisions and to take full responsibility for their outcomes. In the case of NSK, while decision-making itself has been functioning, there is a perception that execution has been slow. For example, the aftermarket business had been positioned for expansion under the previous Mid-Term Management Plan (MTP2026); however, progress has been slower than expected. In other words, the PDCA cycle has not been sufficiently effective, which represents a significant challenge. Management has a responsibility not only to make decisions but to ensure that what has been decided is fully executed within the intended timeframe. I recall having commented in a previous outside directors' roundtable discussion in the NSK Report that the current approach might have been "somewhat lenient." That said, I believe that management's mindset has evolved more recently.

Q3

While front-line operations are highly capable, the existence of multiple layers and roles in middle management is a challenge commonly observed across many companies. In addition, there may be issues with how KPI are set. At Komatsu Ltd, where I previously served as a director, for example, individual responsibilities were clearly defined, and cost management was rigorously controlled at the departmental level. In contrast, there is a perception that such discipline may be less robust at NSK. Could you share your views on this point?

Mr. Fujitsuka

One possible factor is the organizational structure. While multiple products are manufactured within each plant, from my perspective, they appear to be somewhat forcibly aligned under either the automotive or industrial machinery segments. This may allow for optimization at the individual business unit level, but could weaken overall optimization across the Company. That said, there have recently been some decisions to consolidate authority within the production division, and we are beginning to see signs of improvement. During periods when both the automotive and industrial machinery businesses are experiencing steady growth, this structure may not present significant issues. However, given the current environment, it is possible that the existing organizational and decision-making hierarchy has at times impeded speed. From my standpoint, it would be more straightforward if the production function were fully accountable for manufacturing, making decisions on what should be produced and where, based on what would deliver the greatest benefit to the Company as a whole.

Q4

There is a perception that NSK may not have a sufficiently clear understanding of where production can be carried out most cost-effectively. Could this reflect a lack of adequate data to support decision-making?

Mr. Fujitsuka

While I have not reviewed NSK's cost accounting in detail, I assume that a company of this scale is capable of conducting cost comparisons at the individual part number level. The key issue, however, is whether decision-making is actually being carried out based on such data.

Q5

While we recognize that execution of MTP2028 is the responsibility of the executive side, we would expect outside directors to exercise stronger oversight and challenge management more rigorously when the business environment changes or when progress falls behind plan. Could you share your views on how to enhance the effectiveness of the monitoring function of outside directors?

Mr. Fujitsuka

Outside directors are, by nature, expected to play a role in applying pressure. However, as we are not involved in execution, while we can challenge management when KPIs are not met, there are limits to how far we can go in proposing specific operational measures. What is critical, in my view, is the extent to which the executive side is prepared with contingency measures when underlying assumptions change, its ability to adapt to shifts in the business environment, and a strong commitment to achieving financial targets, such as ROE.

Q6

The key issue, in my view, is whether the Company has been able to respond appropriately to changes in the business environment. Is this not being achieved, or are appropriate measures being taken but not translating into tangible results?

Mr. Fujitsuka

As management, we are committed to achieving certain financial targets. Even if the underlying business environment and assumptions change, that commitment itself should not be altered. I have repeatedly emphasized the importance of maintaining a strong commitment to those targets, and I believe that management's mindset has been evolving in this regard.

Q7

In light of accountability for outcomes, including the failure to achieve MTP2026 goals, could you explain the basis on which the Nomination Committee made its decision regarding the reappointment of the CEO last year?

Mr. Fujitsuka

The role of the Nomination Committee is not to determine the appointment of top management solely based on past performance. While the Compensation Committee evaluates performance and determines remuneration based on past results, the Nomination Committee makes its decisions by taking into account not only past performance but also future leadership capabilities. In other words, it assesses what has been achieved to date, as well as whether the candidate has the ability to enhance corporate value going forward. Although MTP2026 goals were not achieved, the Company commenced MTP2028 one year ahead of schedule. In addition, discussions to accelerate structural reforms in Europe and Japan have been initiated in earnest, and there has been a noticeable shift in management's commitment to these initiatives. Based on these factors, the Nomination Committee determined that reappointment was appropriate and referred the matter to the Board of Directors.

Q8

In the absence of a major shock such as a significant loss, to what extent has a sense of urgency taken root throughout NSK?

Mr. Fujitsuka

There is a shared recognition within management that, even if the Company is reporting accounting profits, it is not necessarily creating value when the cost of capital is taken into account. While there has been no obvious crisis such as a significant loss, a strong sense of urgency has been building among management, driven by persistently low profitability and structural challenges within the industry. The proposed business integration with NTN should also be viewed as an extension of this recognition of the need for change.

Q9

Is the development of the next generation of management progressing sufficiently?

Mr. Fujitsuka

A succession plan under normal operating conditions has been established. A long list of candidates is maintained, supported by external advisory firms, and structured processes — including 360-degree evaluations, leadership development programs, and ongoing identification and development — are in place. Through these initiatives, CEO candidates are being steadily developed.

At the same time, separate contingency plans are in place to ensure emergency succession in the event of unforeseen circumstances, such as accidents. Under normal conditions, it is not practical to make immediate leadership changes solely based on a single year of underperformance. Rather, decisions are made on a comprehensive basis, taking into account the situation and appropriate timing.

Q10

We would like to ensure that, following the business integration, internal harmonization is not prioritized at the expense of overall optimization across the Company.

Mr. Fujitsuka

I believe that the role expected of the Board of Directors of the holding company following the business integration is clear: to prioritize the maximization of corporate value for the Group as a whole, regardless of their pre-integration affiliation. Strengths should be further enhanced, while overlapping areas need to be rationalized. Decisions should be made on a rational basis from the perspective of enhancing corporate value, including considerations related to the integration of employees.

Q11

From an investor's perspective, how should the effectiveness of management be evaluated?

Mr. Fujitsuka

MTP2028 is, by nature, a series of short-term initiatives designed to achieve long-term objectives. Accordingly, the first priority should be the reliable execution of the annual plan. MTP2028 places less emphasis on top-line growth and instead focuses on structural reforms, with profitability improvement driven by initiatives in Europe and Japan as its central objective. Therefore, it is essential to continuously monitor the progress of these structural reforms and the improvement in profit margins.

Q12

We would expect the establishment of appropriate KPIs to measure progress in areas such as new business initiatives.

Mr. Fujitsuka

The Board of Directors has been strongly calling for improvements in this area, and has requested that progress in the three strategic focus areas identified from a long-term perspective (NSK Vision 2036) be reported in a trackable and measurable manner.
While there are limitations on external disclosure, at a minimum, the Board is conducting detailed monitoring of these initiatives.

Q13

Could you share your expectations of top management in ensuring the success of the business integration?

Mr. Fujitsuka

There are two key expectations. First, management must ensure the steady and timely execution of the proposed business integration on schedule in October 2027. Second, as part of advance preparations for the post-integration phase, collaboration at the operational level should commence at an early stage. In other words, it is essential to design operations that can function effectively from Day 1. Drawing on my experience at Komatsu, the early preparation for back-office integration prior to the transaction, as well as the implementation of a shared services model from Day 1, proved to be highly effective.

Q14

With respect to business integration, we believe that the integration of indirect functions and procurement should be pursued with a strong emphasis on speed. On the other hand, integration in manufacturing is likely to take more time, and there is a risk that prematurely integrating brands could undermine the respective strengths of each entity. How do you believe the integration should be managed operationally in these areas?

Mr. Fujitsuka

I believe that integration should be managed on a domain-specific basis. Brand and customer relationships should be handled carefully over an appropriate timeframe, while manufacturing and back-office functions are areas where early integration is achievable. In particular, where similar products are being manufactured, it is important to assess capacity and move quickly to optimize operations.

Note: This document is an English translation of material written initially in Japanese. The Japanese original should be considered the primary version.