

Basic Philosophy

NSK believes it is essential to have systems that ensure transparent, fair and timely decision making to raise our corporate value in a sustainable manner over the long term. To realize this objective, the Company is constructing its corporate governance systems based on the following four guiding principles.

Policy on Creating a Corporate Governance Structure

- 1) To increase the efficiency and agility of management by proactively delegating decision-making authority regarding the execution of operations from the Board of Directors to the Company's executive organizations.
- 2) To establish oversight of the executive organizations by supervisory organizations through the separation of the former and the latter.
- 3) To strengthen supervisory organizations' oversight of the executive organizations through cooperation between the former and the latter.
- 4) To improve the fairness of management by strengthening compliance systems.

Corporate Governance Structure

Current Structure and Operating Status

(1) Structure

NSK has adopted a Company with Three Committees system as its form of corporate organization to better achieve the aforementioned basic philosophy. As the business execution entity, the CEO has the ultimate authority and responsibility for all operational executive functions and makes decisions concerning the execution of business by the executive officers appointed by directors. In line with that guidance, the executive officers execute business based on a division of responsibilities and duties. The Board of Directors determines fundamental management policies that aim to contribute to the sustained mid- and long-term improvement of corporate value, while properly supervising the state of operational executive functions as a supervisory organization.

(2) Composition of the Board of Directors

The Board of Directors comprises internal directors with insight into business and industry and outside directors who provide supervisory functions and advice from an objective standpoint,

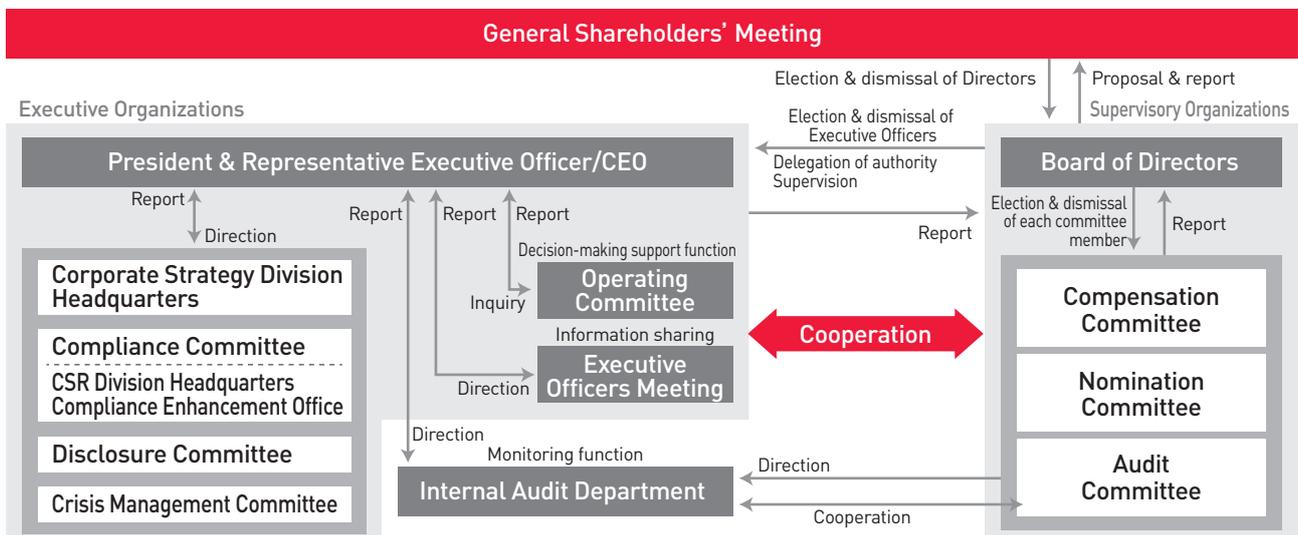
taking the perspective of outside stakeholders. In principle, the ratio of outside to internal directors is at least one to three.

As of August 2018, NSK's Board of Directors consisted of 12 directors, of which five were outside directors (four men, one woman) and seven internal directors (including one non-executive director). This composition enables the Board to make appropriate decisions and implement effective oversight by striking a balance between internal directors' business expertise and outside directors' broad insight.

(3) A Company with Three Committees (Nomination, Audit and Compensation) system

The majority of Nomination, Audit and Compensation committee members, including all three chairs, are outside directors, with the remainder being internal directors. In the fiscal year ended March 31, 2018, the Nomination, Audit and Compensation committees convened meetings six times, 14 times and four times, respectively, fulfilling their critical roles to ensure transparent and sound management decision making.

NSK's Corporate Governance Structure



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Corporate Governance

Outside Directors

(1) The Effective Use of Outside Directors

NSK has appointed five outside directors who have beneficial expertise for NSK, excellent personalities and wide knowledge, as well as the ability to fulfill their roles and responsibilities with the aim of contributing to the sustainable growth of the Company and increasing corporate value over the medium to long term. In principle, the ratio of outside to internal directors is at least one to three.

Based on efforts to further enhance the effectiveness and oversight functions of the Board of Directors, outside directors have a wide range of duties that include tight-knit information sharing with executive departments. Accordingly, NSK maintains a sufficient number of outside directors to fulfill these duties.

Meetings consisting of only outside directors are held periodically to facilitate the open exchange of opinions and sharing of knowledge.

(2) Independence of Outside Directors

NSK has set specific standards for independence, which are applied when appointing outside directors. By applying these standards, NSK mitigates the risk that a candidate might have a special relationship with the Company's management or its principal shareholders, or a conflict of interest with general shareholders. All outside directors of NSK have fulfilled these standards for independence, the Company has reported all five outside directors as independent directors to the Tokyo Stock Exchange.

The Company's outside directors, who possess a wide range of experience and deep insight in business, management and specialty fields, offer their advice while supervising management from an independent standpoint, thereby enhancing the validity of decision making by the Board of Directors.

Initiatives Geared toward Further Enhancements

(1) Training of Directors and Officers

The Company provides training as necessary to directors and officers when they are appointed on business/financial positions, corporate governance and relevant laws and regulations including Japan's Companies Act. In particular, the Company sends its outside directors on tours of business sites in various regions to deepen their knowledge of matters distinct to the NSK Group.

(2) Evaluations of the Board of Directors' Effectiveness

The Company verifies whether the functions of the Board of Directors are being properly fulfilled and, to further strengthen its effectiveness, evaluations of the Board of Directors have been carried out every year since fiscal 2015 through questionnaires and interviews by outside experts in order to maintain objectivity.

As a result, it has been confirmed that these evaluations have invigorated the Board of Directors by improving its operational processes/status mainly involving revising agenda items discussed by the Board, lengthening discussion time and providing prior explanations to the Board. The Company will take steps to improve the effectiveness of the Board of Directors to help further improve corporate value, including enhancing the Board's long-term-oriented and strategic discussions.

Enhancing and Invigorating Board of Director Discussions

Engaging in lively discussions, NSK's Board of Directors is required to hold meetings that are around three hours long (meetings normally held 10 times a year).

NSK believes that having access to information in advance is essential for invigorating Board of Director discussions. Board meetings are held based on the Board of Directors secretariat and the executive in charge of the Corporate Planning Division providing appropriate information that includes explaining agenda items and distributing documents in advance to both outside and internal directors.

Internal Control System

NSK works to improve its Groupwide internal control system by clearly stipulating fundamental principles aimed at effectively enabling global Group management and internal control functions.

The Internal Audit Department monitors Groupwide internal control system development and operational status by coordinating with the Audit Committee from a position that is independent from operating divisions.

In fiscal 2016, NSK commissioned an external international auditing agency, The Institute of International Auditors (IIA), to evaluate the quality of NSK's internal audits, which the IIA deemed as "generally conforms" to standards set by the IIA. In fiscal 2017, the Internal Audit Department undertook the development of an internal audit quality assessment structure and published an internal audit quality report for that year. In addition, the Internal Audit Department is conducting audits using data analysis in an effort to improve audit effectiveness. NSK also has worked to strengthen the personnel base at regional headquarters' internal audit offices, which oversee regional entities, in order to establish a global internal auditing foundation and strengthen auditing structures.

In addition, the Internal Audit Department continues to undertake initiatives to address the four key mid-term objectives: 1) enhance compliance, 2) strengthen risk monitoring, 3) increase audit effectiveness and 4) promote the improvement of operational efficiency.

► Strengthening NSK's Corporate Governance Structure

(Year to March 31)

| | |
|------|--|
| 2000 | <ul style="list-style-type: none"> Adopted an executive officer system and subsequently appointed independent directors to the Company's Board of Directors Established the Voluntary Compensation Committee |
| 2003 | <ul style="list-style-type: none"> Established the Crisis Management Committee |
| 2004 | <ul style="list-style-type: none"> Established the Voluntary Audit Committee |
| 2005 | <ul style="list-style-type: none"> Established the Nominating Committee Adopted a company with committees system Established the Management Monitoring Office (current Internal Audit Department) to undertake auditing functions and monitor the operations of the Company |
| 2006 | <ul style="list-style-type: none"> Established the Information Disclosure Team (current Disclosure Committee) |
| 2007 | <ul style="list-style-type: none"> Became a company with committees pursuant to Japan's Companies Act Established the Internal Control Project Team (later merged into the current Internal Audit Department) |
| 2011 | <ul style="list-style-type: none"> Submitted a notification to the Tokyo Stock Exchange to confirm the independence of all four outside directors Established independence criteria for the Company's outside directors |
| 2013 | <ul style="list-style-type: none"> Established the Compliance Committee |
| 2016 | <ul style="list-style-type: none"> NSK became a Company with Three Committees (Nomination, Audit and Compensation) system based on the revised Companies Act |
| 2018 | <ul style="list-style-type: none"> The three committee chairs were all outside directors |
| 2019 | <ul style="list-style-type: none"> NSK appoints five outside directors (four men, one woman) |

Directors/Officers' Compensation

1. Policy for Directors/Officers' Compensation

The compensation package for NSK's Officers consists of basic compensation, which includes fixed compensation, a performance-based salary that fluctuates and stock compensation, whereas "directors' compensation" and "executive officers' compensation" are separately determined. When a director also serves as an executive officer, the total of each compensation amount shall be paid.

2. Decision-Making Process for Directors/Officers' Compensation

[Directors' Compensation]

The directors' compensation package consists of basic compensation and stock 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 committees to which the director belongs and the Board of Directors.

(2) Stock compensation

To further enhance the commitment of directors to a sustainable increase in corporate value, NSK introduced a stock compensation program using a Board Benefit Trust system. Under the program, NSK grants directors shares of NSK stock at retirement based on a point system whereby points are awarded depending on whether the director is outside or internal and according to the value of the stock. However, NSK will compensate directors with money acquired by converting a certain portion of NSK's shares into cash. For directors who also serve as executive officers, performance shares as directors will not be provided.

[Executive Officers' Compensation]

The executive officer compensation package consists of basic compensation, a performance-based salary and stock compensation.

(1) Basic compensation

For basic compensation, the amount is determined according to the

title of the executive officer. Moreover, an additional amount will be paid to executive officers with representation rights.

(2) Performance-based salary

Using the consolidated sales operating income margin and the consolidated ROE targeted in the Company's mid-term management plan and the operating income margin and cash flow as numerical targets for a single fiscal year and an index to evaluate quality-contributing activity as criteria, the total amount of performance-based salary is calculated. For the compensation amount for the respective executive officers, the title and achievement level in the performance of job duties are evaluated for payment.

(3) Stock compensation

To further enhance the commitment of executive officers to a sustainable increase in corporate value, NSK introduced a stock compensation program using a Board Benefit Trust system. Under the program, NSK grants executive officers shares of NSK stock at retirement based on a point system whereby points are awarded depending on the title of the executive officer and according to the value of the stock. However, NSK will compensate executive officers with money acquired by converting a certain portion of NSK's shares into cash.

In addition, in the event a member of a management team of another company such as a subsidiary or an affiliate, etc., assumes an executive officer position, compensation will be determined separately.

3. Directors/Officers' Compensation, etc.

The amount of compensation for directors and executive officers between April 1, 2017, and March 31, 2018, was as follows.

■ Compensation Total by Classification of Directors/Officers and Compensation Type and No. of Directors/Officers

| Classification | Compensation, etc., Total (¥ Millions) | Basic Compensation | | Performance-Based Salary | | Stock Compensation | | Stock Options | |
|----------------------|--|---------------------------|---------------------|---------------------------|---------------------|---------------------------|---------------------|---------------------------|---------------------|
| | | No. of Directors/Officers | Amount (¥ Millions) |
| Directors (internal) | 104 | 9 | 83 | — | — | 2 | 16 | 5 | 4 |
| Directors (outside) | 63 | 4 | 45 | — | — | 4 | 14 | 4 | 3 |
| Executive Officers | 2,486 | 32 | 848 | 30 | 806 | 35 | 796 | 26 | 34 |

- Notes: 1. Compensation (excluding stock compensation and retirement benefits) for directors (internal) includes compensation for directors who also serve as executive officers.
2. The amount of performance-based salary is the planned payment amount as of July 2, 2018, based on the results for the year ended March 31, 2018. The amount of performance-based salary as of July 3, 2017, based on the results for the year ended March 31, 2017, was ¥594 million.
3. In the Board Benefit Trust system, the amount of stock compensation is commensurate with the number of points awarded for the fiscal year and booked as costs.
4. At the Compensation Committee meeting held on May 16, 2016, the decision was made to end the stock option programs. The amount of stock options is equivalent to the cost recognized during the fiscal year within compensation related to share subscription rights that were allocated as stock options on August 21, 2015.
5. Figures listed above are rounded down to one million yen.

■ Directors/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. | | | | |
|--------------------|---|-------------------|--------------------|---|---------------------------------------|---------------------------------|----------------------------|---------------------------------|
| | | | | Basic Compensation (¥ Millions) | Performance-Based Salary (¥ Millions) | Stock Compensation (¥ Millions) | Stock Options (¥ Millions) | Retirement Benefit (¥ Millions) |
| Toshihiro Uchiyama | 203 | Director | NSK Ltd. | 7 | — | — | 0 | — |
| | | Executive Officer | NSK Ltd. | 43 | 64 | 84 | 4 | — |
| Saimon Nogami | 105 | Director | NSK Ltd. | 5 | — | — | 0 | — |
| | | Executive Officer | NSK Ltd. | 28 | 34 | 34 | 1 | — |
| Shigeyuki Suzuki | 104 | Director | NSK Ltd. | 4 | — | — | 0 | — |
| | | Executive Officer | NSK Ltd. | 28 | 34 | 34 | 1 | — |
| Yasuhiro Kamio | 104 | Director | NSK Ltd. | 4 | — | — | — | — |
| | | Executive Officer | NSK Ltd. | 28 | 34 | 34 | 1 | — |
| Hirotohi Aramaki | 102 | Director | NSK Ltd. | 4 | — | — | — | — |
| | | Executive Officer | NSK Ltd. | 27 | 33 | 34 | 1 | — |
| Adrian Browne | 155 | Executive Officer | NSK Ltd. | 89 | 59 | 5 | 1 | — |
| Jürgen Ackermann | 185 | CEO | NSK Europe Ltd. | 60 | 54 | 6 | — | 63 |
| Steven Beckman | 146 | CEO | NSK Americas, Inc. | 60 | 78 | 5 | — | 2 |

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Actions for Japan's Corporate Governance Code

NSK shall adhere to each principle of the Corporate Governance Code.

Based on Japan's revised Corporate Governance Code announced on June 1, 2018, NSK will update and publish the "NSK Corporate Governance Report" through the end of December 2018.

For details on the NSK Corporate Governance Report (in Japanese only), please refer to the following NSK website.

<http://www.nsk.com/jp/company/governance/index.html>

Takeover Defense

NSK introduced response measures to Large-scale Purchases of NSK shares ("Takeover Defenses") at the annual general meeting of shareholders held in June 2008, and subsequently renewed these Takeover Defenses with the approval of shareholders at the annual general meetings of shareholders held in June 2011, June 2014, and June 2017.

NSK is a stock company, the shares of which are traded on capital markets, and the free trading of its stock by all shareholders and investors is permitted. The Company believes that, in the case of a large-scale purchase of NSK shares, the decision whether to accept such a purchase should ultimately be left to the shareholders.

However, taking into account such factors as social and economic changes and recent capital market conditions, there is a possibility that a sudden and unsolicited large-scale purchase of the Company's shares could occur without necessary and sufficient information being disclosed, and without an opportunity to consider the proposal being given to the shareholders and investors of the target company, or without the target company's board of directors being provided with information and time to express its opinion and prepare an alternative proposal. Such large-scale purchases of shares could damage NSK's corporate value and the common interests of its shareholders, such as cases in which the purchaser does not intend to manage the Company reasonably or in good faith.

Therefore, NSK decided to introduce and subsequently renew the Takeover Defenses for the purpose of (i) allowing NSK's shareholders, who will make the final decision, to sufficiently understand the specifics of such a proposal by any person attempting a large-scale purchase of shares and to make an appropriate decision, and (ii) securing and increasing NSK's corporate value or the common interests of the Company's shareholders. Details of the Company's Takeover Defenses are published on our website. Please refer to "Continuation of the Response Measures to Large-scale Purchases of the Company Shares (Takeover Defenses)" as of May 23, 2017.

<http://www.nsk.com/company/governance/index.html#tab4>