

CSR/ESG Management

Dialogue with Shareholders and Investors

1 Basic Philosophy and Structure

In addition to disclosing management information in a fair and rapid manner, NSK is actively engaged in dialogue with shareholders and investors. In line with our aim to achieve sustainable mid- to long-term growth and the stable return of profits, we will continue to be a company that meets the expectations of our stakeholders, including investors and shareholders.

NSK positions IR activities as an important subject for management and organizes its IR office as a dedicated division under the direct control of the CEO and supervised by an executive officer responsible for IR. In cooperation with relevant divisions, the IR office discloses information on business, financial and non-financial (including ESG) matters in an easily understood, fair and appropriate manner.

2 Ordinary General Meeting of Shareholders

We recognize the Ordinary General Meeting of Shareholders as a place to engage in active dialogue with shareholders, particularly individual investors, and accordingly set the date to avoid days crowded with other companies' meetings (in 2018, we held the meeting four business days prior to the day that was crowded with other companies' meetings). We also work to provide an accommodating environment, including by promptly disclosing and sending convocation notices and reports (we post convocation notices to our website 28 days prior to the date of the Ordinary General Meeting of Shareholders).

The shareholding ratio of foreign investors is approximately 25%. In light of this, in addition to the posting of the convocation notice in English on our website, we have since 2008 participated on a platform that enables the electronic exercise of voting rights.

▶ The 157th Ordinary General Meeting of Shareholders (June 22, 2018)

Number of shareholders present: 161

Ratio of shareholder voting rights exercised: 84.1%

3 Dialogue with Investors

Dialogue with institutional investors

NSK holds financial conferences for analysts and institutional investors in which the mid-term management plans and earnings results are presented by the president. Moreover, the Company holds a variety of IR events including individual interviews by analysts and institutional investors and small meetings, while also visiting investors outside Japan, participating in conferences sponsored by securities firms and convening business briefings.



Total number of dialogue opportunities in fiscal 2017: 555 companies

Dialogue with individual investors

NSK is promoting the proactive disclosure of information. In addition to holding briefings for individual investors several times a year, we have set up a website specifically for individual investors in order to give them a better understanding of the Company. Through the briefings and website, NSK is also available to answer questions.

Total number of individual investors participating in fiscal 2017: 513 in 9 briefings

Website for individual investors (Japanese only)
<http://www.nsk.com/jp/investors/individual.html>

At NSK, having determined our "Disclosure Policy," we strive to conduct the disclosure of information in a fair manner that does not give rise to discrepancies in information among market participants.

For further information on our Disclosure Policy, please access the link below to our website.
<http://www.nsk.com/investors/management/disclosurepolicy.html>

4 Feedback to Management

We have created a system in which opinions and comments obtained through IR activity and shareholders' meetings are communicated to the Board of Directors, senior executives and the relevant internal departments.

The main information reported at the Board of Directors meetings is the 1) Summary of the Ordinary General Meeting of Shareholders (analysis of voting rights executed, effectiveness of dialogue with institutional investors), and 2) reports on visits to overseas investors (investors' assessments of medium- and long-term policies, as well as their opinions and interests, and other items).

Key Questions and Answers at Recent Meetings

1 The state of competition and the Company's position in the industry

NSK maintains the leading market share for bearings in Japan and the third largest market share in the world. Among other leading products, the Company has the largest global market share for ball screws and the third largest global market share for electric power steering (EPS). Despite increased competition in each product, NSK is ensuring its competitive advantages through its ability to offer solutions to a wide range of close customers, a global operating base and its technological strengths based on four core technologies.

2 The Company's view on overseas plant conditions and development

NSK currently has 64 production plants around the world: 20 in Japan, 10 in the Americas, nine in Europe, 12 in China and 13 in Other Asia, giving a total of 44 plants outside Japan. In the Automotive Business, the Company's basic policy is to respond to the local procurement needs of customers through local production and local supply. Under this policy, NSK has been working on local plant development, while taking into consideration an appropriate volume balance. In the Industrial Machinery Business, which has multi-product, small-lot businesses, we are focused on prioritizing efficiency through bulk production, with optimized supply realized amid the use of some export products.

3 The Company's view on M&A

One of the most important management issues concerns the option of M&A when such an action could bolster the Company's technological edge and expand its business. We nevertheless believe it is important to maximize any potential effects of M&A by carefully conducting two PMIs: the Pre-Merger Investigation and the Post-Merger Integration (integration process of management, operations and mind-set). M&A activity in the past has included the U.K. bearing manufacturer UPI in 1990, the Polish state-owned company FLT Iskra in 1998 and making Amatsuji Steel Ball Mfg. a wholly owned subsidiary in 2006.

4 Medium term growth strategies in the Automotive Business

Amid rising demand for automatic transmissions (step ATs) in emerging markets and trends toward multistep AT, we have positioned the AT-related business as one of the drivers for growth in the Automotive Business. We will seek to secure global supply capabilities and address our customers' expansion of production.

With electric vehicles (EVs), there is some variation according to either drive unit type or deceleration mechanism type, and although it is difficult to calculate the actual number of bearings to be used, demand for bearings is in general expected to decline. Meanwhile, we believe that demand will arise as a result of the electrification of component units that have conventionally derived their power from the engine as well as the emphasis on efficiency-oriented bearings to enhance the conservation of energy. This is in turn expected to fuel new business opportunities where advanced technological capabilities are required. Moreover, we are focused on expanding our business in new products and areas by making good use of NSK's technologies, including ball screws for use in electric brake systems, which are exhibiting a rapid rise in the rate of installation; components for wheel hub motors that drive the motor part of the wheel; and EV drive units, which show promise as a deceleration mechanism necessary in the use of compact high-speed motors as a power source. (Please see PP. 16-19 for Feature 1.)

5 NSK's focus on expanding the steering business

Electric power steering (EPS) has been widely installed due to the ease of assembly and fuel-saving attributes. Today, computerized steering control is increasingly important as Advanced Driver Assistance Systems (ADAS) and autonomous driving continue to evolve, and accordingly EPS is now considered essential. Moreover, EPS demand appears likely to expand further due to an increase in automobile demand in emerging markets and a pickup in utilization rates in larger vehicles. NSK's steering business has continued to grow in line with its strength in column-type EPS. However, given the impact of a shift to lower-assist EPS timed to the change in delivered models,

we are moving into an adjustment phase. We will work to realize a return to growth by expanding new projects for column-type EPS and capturing new business for rack-type EPS that leverages our ball screw technology. In addition, over the medium to long term, we will be striving to develop next-generation technologies including steering systems based on steer-by-wire (force feedback actuator, road wheel actuator) and Parallel Link type Active Suspension. (Please see PP. 18-19 for Feature 1.)

6 Strategies and Priorities for the Industrial Machinery Business

Operational excellence is one of the two main pillars in our Fifth Mid-Term Management Plan. As one of the measures of this pillar, NSK is improving profitability by enhancing production capacity at the Shenyang plant in China and improving productivity by introducing new manufacturing methods and newly constructed building at the Kirihara, Fujisawa plant in Japan. In addition, the Company is focused on ensuring sustainable growth by expanding its presence in focus sectors. Specifically, this refers to infrastructure-related fields such as wind power generation and railway, where demand appears likely to expand over the medium to long term; expansion in such capital goods areas as machine tools in which NSK shows particular strength; the robotics and medical fields, which are expected to demonstrate further growth in the future; and aftermarket sales, where we are taking measures to strengthen our efforts overseas. Moreover, there is the possibility that advances in IoT, AI and other technologies will transform the structures, systems and ways of using industrial machinery. We will take a proactive stance and seize on developments and needs in the market, while searching for business opportunities in new fields.

7 The state of competition and differentiation in the Industrial Machinery Business outside Japan, particularly in China

It has been said that there are more than 1,000 bearing manufacturers in China and that the leaders are improving their technical capabilities and quality in the standard products. NSK is focused on avoiding price competition in low-end areas of demand and in standard products where differentiation is somewhat difficult. Rather, our basic strategy is to focus on growth in fields where we are able to utilize advanced product and production technologies based on our four core technologies. We will secure competitive advantage through the stable and continuous supply of high-quality products in these fields. In addition to promoting the local procurement of parts and materials meeting NSK quality standards, we are focused on improving competitiveness by strengthening local production capacity, largely by making good use of the know-how we have accumulated over the years.

8 The status of capital expenditure and R&D expenses

We have revised upward expectations for both the amount of capital expenditures and R&D expenses, compared to our outlook at the start of our Fifth Mid-Term Management Plan. Investments to improve productivity (equipment upgrades, labor-saving measures) so as to raise competitiveness and R&D investments into new products and new technologies have increased. (Please see P. 28 for Progress of the Mid-Term Management Plan.)

9 Stance on shareholder returns

In our Fifth Mid-Term Management Plan, we stipulated our policy with regard to the return of profits to shareholders. While placing an emphasis on stable dividends, the Company is targeting a payout ratio of 30%. In addition, as a flexible way to return profits to shareholders, we are acquiring treasury shares. (Please see PP. 38-39 for Financial Strategy / Policy on Shareholder Returns.)

10 Stance on CSR/ESG, initiatives with regard to SDGs

We are advancing CSR/ESG management based on our corporate philosophy. We have set initiative goals specifically for the CSR/ESG field, and by advancing these goals we strive to realize a sustainable society and raise corporate value. (Please see PP. 46-47 for NSK's View of CSR in Corporate Value Creation.)