

To Our Stakeholders



Akitoshi Ichii
President and Chief Executive Officer

A. Ichii

As communicated by our vision of “Change & Go Beyond to Set the Future in Motion,” NSK is committed to continuously creating new value proposals.

At the time of my appointment as president and CEO in April of this year, I set “Change & Go Beyond to Set the Future in Motion” as my vision as president and as a new Companywide initiative. I envision NSK as a company that keeps society in motion 100 or even 1,000 years into the future, a company that is needed, trusted, and relied upon by society, and a company that is vibrant, energetic, and engaging as it works toward high future-oriented goals while continuing to take on new challenges and moving forward. Through a process of ongoing evolution, I would like to firmly pass the baton that has been entrusted to me to the next generation.

Facing the Challenges of “Change & Go Beyond”

The world is constantly moving to the tune of such key themes as decarbonization, electrification, digital transformation, remote work, and AI, as well as falling birthrates and aging populations. A passive response to these changes and advancements will result in our falling behind the times and a loss of competitiveness in the marketplace. Maintaining a sense of crisis is both healthy and important. While the experience and knowledge we have cultivated over our 100-year history is irreplaceable, our traditional growth strategies, way of dealing with customers, and services will gradually become obsolete or impractical. Instead of considering things as an extension of conventional thought, there is a need to imagine the world 10 or 20 years down the line and to carefully consider what we need to do now to adapt accordingly. As we move forward, we must continue to set high goals for the future, take on new challenges, and go beyond what we have built in the past. I would like us to continue proposing new value to society by means of the concept of “Change & Go Beyond” and build the competitiveness necessary to survive in this era of change.

It is important to have a concrete image of the form and vision of what we hope to achieve by “Change & Go Beyond.” If we communicate this vision in clearer, more expressive language, it can be shared by the entire working team. Amid ongoing discussions on what form NSK should take in the next 10 to 20 years, how we should go about achieving our goals, and given our new mid-term management plan, it is important for each division and department to have a more concrete vision of their

aspirations. To realize our vision, as a company we will create a form that can be shared together with a system that enables quick and flexible decision-making and the use of cross-sectional, agile resources without being tied up by precedent.

In fiscal 2020, the year ended March 31, 2021, the Company posted net sales of ¥747.6 billion, operating income of ¥6.4 billion, and an operating income margin of 0.9%. This represented a decrease in sales and profits for a third consecutive year. Amid the ongoing business environment deterioration brought about by U.S.-China trade friction and the COVID-19 pandemic, it will remain difficult to achieve the sales and profit targets set under the 6th Mid-Term Management Plan. In the fiscal year ending March 31, 2022, the final year of the Plan, we assume that the demand environment will recover from the previous year. However, we also recognize that uncertainties surrounding such issues as the supply chain, the spread of new COVID-19 variants, and soaring material costs will remain. The important thing is to continue improving even against the backdrop of this anticipated uncertainty. We will always operate while keeping an eye on the next year, the year after that, and beyond.

Even though the business environment surrounding NSK is changing, I believe that three areas—the environment, electrification, and digital transformation—will be key for the Company to continuously collaborate with its stakeholders to create value and grow.

▶ P. 29 6th Mid-Term Management Plan
PP. 30–31 Targets and Progress

Environmentally Friendly Technologies

Conservation of the global environment is part of our corporate philosophy and one of the reasons for our existence. We also position the environment as a core value that has the highest priority in management decision-making and activities, alongside safety, quality, and compliance. The key performance required of our products is low torque, that is, reduced friction for the smooth motion of machines and vehicles. The smooth motion of machines and vehicles in such industries as automobiles, home appliances, medical equipment, machine tools and robotics, wind power generation, communications base stations, and data centers will help increase efficiency and save energy. One of our core technologies is tribology, understanding and controlling



NSK will promote further advancements in environmentally friendly technologies as an additional strength.

friction. Improving the performance of each bearing and reducing torque leads to a reduction of energy loss in customers' products and machines. Moreover, when transmitting power not only with a single bearing but also in a complex manner with multiple shafts and gears, we aim to improve our proposal capabilities and how to combine and rotate bearings to achieve the optimum design for the entire power transmission system. Even in reducing CO₂ emissions at factories, I would like us to be a company that can work with its customers to create solutions that enable energy savings by means of its products, which support the motion of machine tool manufacturers' equipment and machines. With tribology at the core of our business, we have been working on improving and evolving this branch of engineering for some time. However, the concept of product design up to now has focused on quality, weight, and cost. In addition to these, awareness of the need to reduce CO₂ emissions is now on the rise. I would like all the Company's employees to feel proud that we are earnestly addressing environmental issues and that all our daily activities are making a difference for the betterment of the environment. For this reason, we have begun to introduce and share NSK's collaborative value efforts through training, e-learning, and the use of digital signage.

NSK has announced details of two environment-related milestone targets. The first is to substantially offset CO₂ emissions (Scope 1, 2, and 3) from its business activities by helping to reduce customers' CO₂ emissions through the Company's products by 2026. The second is to reduce CO₂ emissions in business activities by 60% compared with fiscal 2017 by 2050. With global environmental trends moving ahead

of schedule, it is imperative that we accelerate our efforts. Therefore, in June 2021, the Carbon Neutrality Department was established as an organization under my direct supervision. From a Companywide as well as mid- to long-term perspective, we will promote energy-saving activities to reduce CO₂ emissions; the reform of materials, parts, and construction methods; and the procurement of renewable energy. In addition, to further deepen employee awareness, our mission is to reduce CO₂ emissions and to produce indicators that visualize the amount of contribution. I believe that in the near future NSK's products will be produced in factories with zero environmental impact and that NSK's products and services will contribute significantly to reducing CO₂ emissions, which will enhance our competitiveness in the market. We will continue to promote further advancements in environmentally friendly technologies through our efforts toward carbon neutrality as an additional NSK strength.

▶ PP. 21–23 NSK's Environmental Contributions
P. 37 Environmental Management

Growth Strategy in the Era of Electrification

The trend toward electrification is closely related to our business. In our Automotive Business, the shift from gasoline-powered vehicles to hybrid electric vehicles (HEVs) and battery electric vehicles (BEVs), as well as hydrogen and biofuel vehicles, is accelerating. Due to this change, the technical requirements for automotive parts are becoming higher in terms of their high-speed rotation, the need for compactness and lighter weight,

low noise, and durability. NSK will respond to these technical demands and contribute to the development and widespread use of environmentally friendly vehicles. Recognizing that the replacement by vehicles that contribute to the environment and that suit the characteristics of each region will spread globally, we currently expect the market share of both HEVs and BEVs to grow significantly by 2030. Depending on the design, the number of bearings used per unit in HEVs is generally expected to increase, whereas in the case of BEVs it is expected to decrease. In contrast, demand for small motors will increase due to electrification. Demand for bearings is expected to increase moderately over the next 10 years due to the growth of HEVs. Assuming, however, that bearing demand will decrease due to the further expansion of the BEV market thereafter, we are working on a strategy and will accelerate the development of new technologies and new products suitable for electric vehicles.

In our Industrial Machinery Business, bearing demand for use in small motors will continue to grow significantly due to increased connectivity as well as the accelerating need for electrification and automation as 5G and IoT become more widespread. Examples of this include the small motors for cooling fans in data center servers and communications base stations as well as industrial robots in the bid to save labor. In addition, the electrification of various functions in automobiles will dramatically increase the demand for in-vehicle motors, and the market for small ball bearings that support the rotation of motors will expand. In October 2020, we established the Electrical & Electrification (E&E) Headquarters within the Industrial Machinery Business Division Headquarters with the aim of expanding our business to meet this demand. In the past, we had dealt with each business segment for automobiles and industrial machinery separately. From now, we will unify technical development, production system, sales, and other departments and respond more flexibly to improve product capabilities, cost competitiveness, and quality.

Contributing to Technological Innovation
Aiming for Sustainable Growth
▶ PP. 24–25 Further Growth via “Electrification,”
“Automation, Labor-saving,” and “Environment”
PP. 26–27 Toward the Era of Auto Electrification

Aiming for Optimal Proposals by Utilizing Digital Twin Technology

Another of the key themes is digital transformation. NSK has been digitizing its business systems since the 1970s. We have created and utilized our own systems while improving them and making them compatible with external systems. First, by migrating the platforms of those systems to open software, we will proceed with system reconstruction and the inspection and standardization of business processes.

NSK is currently focusing on digital twin technology in its application of digital technology. Until now, it could be said that know-how accumulated through empirical engineering was for the most part responsible for the advances in the field of development and design. By further deepening the process

of digitization, I believe that it will be possible to analyze the phenomenon caused by friction more theoretically, shorten development lead times, and make more appropriate proposals. For example, we have been optimizing grease composition for use in rotating components mainly through real-world experiments. With the evolution of digital visualization technology, however, grease behavior can be theorized, regulated, and verified in a simulation. The torque of a single bearing varies depending on its size and specifications, and the efficiency of energy transmission and rotational precision vary depending on the combination of the two. Therefore, digital twin technology enables us to make proposals on how to best match bearings with specifications for an application or an overall system. We are aiming to create new value that leads to safer, more secure proposals that are better for the global environment.

It is also important to be able to properly explain the basis for NSK product designs. The fact that these can be explained makes it easy to propose that changing something in the design would be better even in cases where the customer's parts and usage conditions change. I believe that digital twins will also make it possible to further refine this strength.

Contributing to Technological Innovation
Aiming for Sustainable Growth
▶ P. 27 Application of Digital Technology

No. 1 in Quality and Trust

Quality and reliability are essential for a company to be needed and selected by its customers and society. Quality and reliability are not just about the form and performance of the products and services we offer. Honest and sincere sales support, solid technical proposals, and on-site capabilities such as manufacturing know-how also require quality and reliability that are supported by all stakeholders involved in the supply chain and our employees. The important thing is to accurately understand and meet customers' evaluations and expectations. I am now telling employees to take a closer look and to reaffirm this. Our strength lies in our precision processing technology and on-site engineering capabilities that enable us to continue to manufacture products, from high-mix, low-volume production to mass production, in a stable manner and to guarantee their quality. But of course, our competitors are also working to produce good products. In fact, these competitors might be responding more quickly than NSK. The quality and accuracy levels required by customers are increasing, and in the competitive environment of our business, competitors in China are gradually building up their capabilities. Previously, customers who have had a long relationship with us might have forgiven us even if our response was somewhat tardy, but that should not be the case. As our competitors will probably continue to raise the bar, if there are parts for which another company is superior or if there are parts that are inferior with respect to the demands of the market, we will dutifully admit that we are losing the game and will have to work hard to become even better. At such times, it is easy for precedents and successful experiences of the past

NSK's Collaborative Value Creation Process To Our Stakeholders

to get in the way. Rather than stagnate, we must accept what is in front of us and be prepared to start over and further refine our strengths, especially the strengths of quality and reliability. I want there to be a healthy sense of urgency throughout the Company and an understanding that our competitors will catch up with and overtake us in 5–10 years. In addition, quality and reliability that support the brand power of NSK are important assets that form the pillars of our business domains. For the very reason that our reliability is backed by quality, we can face the challenges of new things and keep changing. It is important that this pride and self-confidence is resolutely passed on to the next generation. To that end, we will again pursue quality and reliability while daring to stick to the goal of remaining No. 1.

▶ P. 31 6th Mid-Term Management Plan Targets and Progress
P. 39 Quality Management

Being a “Fulfilling Company to Be a Part Of”

One of my missions as president is to ensure that NSK is a “fulfilling company to be a part of.” It is important for NSK to be a company where employees find value in the work they do and the people they meet, a company where the experience of working at NSK becomes a learning experience, and a company where employees find it interesting to work. This applies not only to employees but also to customers, distributors, and suppliers. It is vital that all stakeholders are happy to work with NSK and that the Company is respected by local communities.

To that end, I will work to create a culture where we can accept diversity while mutually respecting and being considerate of each other. I consider it my duty to nurture a culture in which people can freely discuss various ideas and thoughts with peace of mind, and to create an environment where we can take on challenges. In addition, the fact that the experience of working at NSK is valuable to a person means that his or her career will be recognized by society. Whether a salesperson or an engineer, working at NSK is credible and worthwhile. There are opportunities to build a lot of experience and to receive education in the Company. This education is not just a case of completing a program, as the skills gained can also be applied to the outside world. For example, this can take the form of a qualification and an asset that is considered to have value. In terms of experience, it is important for the Company to firmly establish and implement systems, such as job rotations. There are also those who study at NSK and seek opportunities to play active roles elsewhere. I am delighted to hear what they are doing outside NSK. On the other hand, if working at NSK increases people's value, good people will gather at NSK. Increasing the value of human resources is essential for NSK to continuously create value, and I will continue to focus on this aspect in the years to come.

In terms of human resources, we have been selected as a *Nadeshiko* Brand for the second consecutive year. Recognizing the promotion of career advancement for women as one of its management issues, NSK is advancing initiatives across all levels, including recruitment and training as well as promotion. In addition to gender, I believe that we have promoted diversity and inclusion in a wide range of areas, such as nationality, LGBTQ+, career recruitment, and support for work-life balance, as well as promoting work-style reforms such as remote working.

Historically, NSK has had a small number of female employees, so the number of female managers remains small. However, our many talented women are playing active roles. It might take a little longer, but the number of female managers will steadily increase. As role models, our current female managers will serve as a goal and encouragement for the younger employees who will follow. In the meantime, as far as support for work-life balance is concerned, it is becoming more natural for male employees, as well as female employees, to take childcare leave. Childcare leave for men not only is about supporting a work-life balance but also serves as a touchstone for a culture that expands work-style options and accepts diverse values as a matter of course. In terms of employee health, our efforts regarding both mind and body have been highly evaluated. NSK has been certified as a White 500 company, which is in recognition of our outstanding health and productivity management organization, for the fourth consecutive year.

As president, I think the most important thing I can do when interacting with employees is engage in direct communication. Considering the COVID-19 pandemic, business trips in Japan and overseas have unfortunately been beyond our control, with communications with overseas employees in particular limited to video messages. In the months ahead, as restrictions on travel are eased, I would like to take as much time as possible and put more effort into dialogue with employees. I also believe it is important to take seriously the questions and problems received through communications and how we respond to them.

▶ P. 30 6th Mid-Term Management Plan Targets and Progress
P. 36 Evolve Personnel Development

Deepening of Corporate Governance

Last year, the Board of Directors consisted of five outside directors and four internal directors. With the outside directors thus forming the majority, we have been further strengthening the monitoring functions of the Board. In addition, we are discussing NSK's mid- to long-term management and direction while also making efforts to utilize those discussions in execution. At about half of the year's Board of Directors' meetings a time frame is set for discussing mid- to long-term themes and to actively exchange opinions. The outside directors are structured in accordance with their experience, knowledge, and diversity, such as corporate managers with expertise in finance or accounting and are not bound by accepted and customary practices within the Company. With a variety of opinions exchanged from logical and objective points of view, I think this will lead to the improvement of NSK's mid- to long-term corporate value.

Among the things that have become more and more talked about in discussions with institutional investors are the evaluation metrics regarding executive compensation and ESG. Compensation for the Company's executives is determined by the Compensation Committee, which is chaired by an outside director. The compensation package for executive officers consists of fixed basic compensation and performance-based compensation that fluctuates depending on business performance. The compensation ratio is approximately 4:6, with ESG evaluation metrics also incorporated into performance-based compensation. For a company to continue to be needed

and trusted by society, not only financial sustainability but also non-financial strength is important. We have therefore set targets for safety, quality, compliance, and the environment, which are our core values, and are working on them as the evaluation metrics of executive officer compensation. Moving forward, we will continue to set goals and evaluate such non-financial value in the years to come.

▶ PP. 60–63 Corporate Governance

Mission Statement and SDGs

Our mission statement is to contribute to the realization of a safer, smoother society, which is a social issue, and to help protect the global environment through Motion & Control™. Under this mission statement, the SDGs Declaration stipulates that we respect all 17 goals of the SDGs, select seven business-related goals as important issues, and actively promote related initiatives. Our tribology technology contributes to the reduction of CO₂ emissions and the development of the industrial society. I also believe that it is necessary to openly create new value in collaboration with customers, universities, and research institutes to contribute as a company in response to the greater movements of society. For example, the wording adopted in the Declaration of NSK's Initiative 1 states that “we will contribute to a safe and resilient social infrastructure through innovation.” In addition to contributing to the mobility society and renewable energy through our products, we are participating in a research project (open innovation) that enhances the convenience of electric vehicles by enabling wireless power supply while the electric

vehicle is running. These efforts will lead to the achievement of Goal 11 of the SDGs, “Sustainable Cities and Communities.”

PP. 4–5 Together with NSK Corporate Philosophy – Our History –
▶ P. 20 Collaborative Value Creation and SDGs Declaration
P. 49 Collaboratively Creating Sustainable Value through Open Innovation

Toward Collaborative Creation of New Social Value

Incorporated into our customers' products, such as bearings, automotive components, and linear motion products, our tribology technology supports their functions and improves efficiency to save energy but is not limited to our customers' products alone. For example, our technology is utilized on the production lines of products such as automobiles and in the machines for making the equipment used on production lines. NSK's products are involved in the entire value chain of industrial systems and have contributed to the reduction of energy loss throughout industry. As the movement toward a carbon neutral society accelerates, NSK believes that it can make further contributions, and I personally would like to lead in the collaborative creation of new social value with our stakeholders.

To be a company that keeps society in motion 100 or even 1,000 years into the future, a company that is needed, trusted, and relied upon by society, and a company that is vibrant, energetic, and engaging that works toward high future-oriented goals while continuing to take on new challenges and moving forward, we will endeavor to “Change & Go Beyond.” As we work toward achieving our goals, we ask for your continued support and cooperation.

For a company to be needed and trusted by society, it is vital to exhibit financial sustainability together with non-financial strength.

