

Risk Management

NSK works to build a risk management system based on clearly stipulated fundamental principles aimed at effectively enabling global Group management and internal control functions. Every year, all the business sites perform their own risk assessment, classifying, analyzing, and evaluating risks in accordance with changes in the social environment, the frequency of risk occurrence, the size of impact, and other factors to identify risks that should be addressed. The Corporate Planning Division Headquarters and the Finance Division Headquarters coordinate with business and regional and functional headquarters regarding risks at each division and each business site, which are managed in accordance with prescribed reporting systems. While putting in place preventive measures, the Company devises steps to swiftly and appropriately act in the unfortunate event a risk is actually manifested, and then works to mitigate the impact.

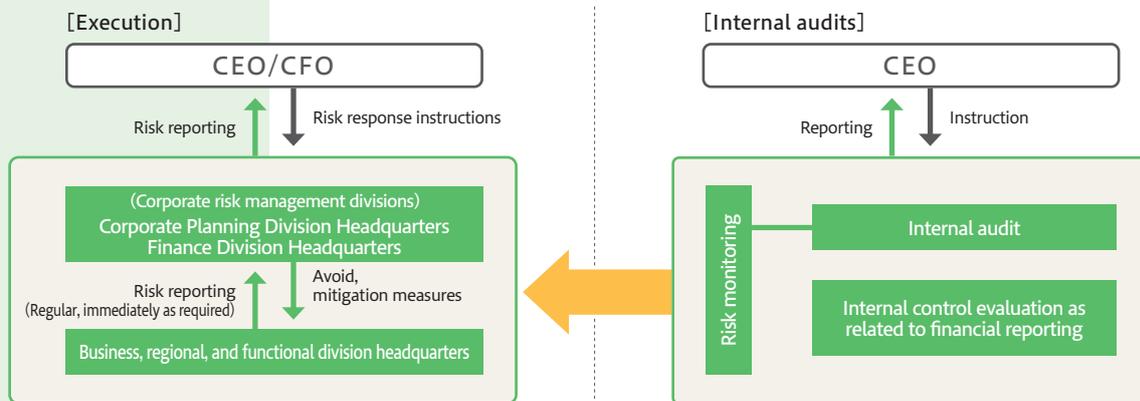
In addition, the internal audit division coordinates with the Audit Committee to monitor the tasks carried out by executive divisions, build an internal control system and audit operational status.

As NSK's business activities spread to more areas, the range of anticipated risks also widens. However, the Company has identified 10 types of representative risks deemed of high importance according to what they entail and likelihood of occurring, their degree of impact, and mitigation measures. Among the risks we present, the three types outlined in 1, 6, and 7 could lead to business opportunities for NSK, and we include details concerning these as well.

Risk Management Flow

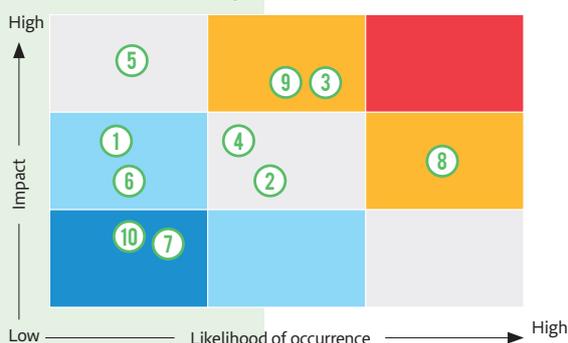


Risk Management System



Risk Heat Map

■ Short-Term Risk: 1-2 years



■ Long-Term Risk: 10 years



Representative Risks and Mitigation Measures

Risk Types	Details of Representative Risks	Risk Mitigation Measures
① Risk associated with changes to technology innovation, and the market or competitive landscape	<ul style="list-style-type: none"> Risk of delayed product engineering response to market changes and customer technology demands brought on by technological innovation such as CASE and IoT Risk of being unable to respond to an increasingly competitive market populated by rival companies and new market entrants <p>Opportunity Create and expand new businesses through new products, technologies and services ▶ PP. 24–27, 35</p>	<ul style="list-style-type: none"> Understand the needs through close relationships with a broad range of customers Continually allocate resources to develop new products and new technology Leverage open innovation and alliances <p>▶ P. 49</p>
② Risk related to local situations and dependency on specific region	<ul style="list-style-type: none"> Risk of change in the economic environment of a specific region in which the Company conducts business, and of the impact of falling into political instability Risk associated with halt in operations on account of deteriorating public order, outbreak of riot, or terrorism Risk of business losses and declined earnings due to changes in the trade rules of individual countries 	<ul style="list-style-type: none"> Expand and enhance a balanced presence in other regions Get an early grasp of information on dangers by strengthening ability to gather information from each region Leverage and optimize the allocation of our global network based on the principle of local production and local procurement <p>▶ PP. 50–51</p>
③ Risks associated with safety, prevention of fire and disaster, and pandemics	<ul style="list-style-type: none"> Risk of major industrial accident occurring Risk of halt in operations due to mistaken BCP measures to address fires or natural disasters Risk of being unable to secure a comfortable and safe working environment in neighboring regions, or for employees Risk of decreased ability to accomplish objectives due to suspended operations and extended periods of movement restrictions caused by the outbreak of new infectious diseases 	<ul style="list-style-type: none"> Strengthen and nurture safety awareness, thoroughly educate and enlighten employees Share case studies from other locations introducing what went right, and what went wrong Conduct simulations of anticipated scenarios, prepare disaster countermeasures, formulate a business continuity plan Implement thorough measures to prevent infection and strengthen remote collaboration between business sites including the promotion of remote work and online meetings and training <p>▶ PP. 38, 58, 59</p>
④ Risk associated with quality	<ul style="list-style-type: none"> Risk of compensation claims due to significant quality defects Risk associated with insufficient response due to improper quality assurance system or quality control management Risk of spoofed, falsified quality data Risk of being unable to respond to increasing quality requirements from customers 	<ul style="list-style-type: none"> Secure high quality by strengthening process management aimed at enhancing design and product quality Realize zero defects through continued quality improvement activities Create a system to prevent data falsification and conduct thorough training Bolster recurrence prevention by leveraging the quality information system Ensure the execution of investments for quality improvement <p>▶ P. 39</p>
⑤ Risk with regard to compliance	<ul style="list-style-type: none"> Risk of violating laws and regulations due to employee carelessness or misunderstanding, etc. Risk of further losing the trust of society due to bearing responsibility for criminal, civil, and administrative acts associated with the above 	<ul style="list-style-type: none"> Undertake education on strict adherence to laws and regulations, create a corporate culture and atmosphere interwoven with morals and manners Review compliance systems, policies, and related rules on an as needed basis to strengthen and improve Promote specific measures related to strengthening compliance, follow up to confirm on status of implementation <p>▶ P. 55</p>
⑥ Risk concerning the environment	<ul style="list-style-type: none"> Risk of being unable to respond to changes in environment-related laws and systems, or to evolving environment-related technologies and market needs Risk of a leak of environmentally harmful substances or overrun of emissions standards Risk of lost business opportunities and damage to NSK's corporate value due to the inability to keep up with the accelerating movement toward a post-carbon society <p>Opportunity Improve competitiveness in the market through environmentally friendly technologies ▶ PP. 21–23, 37, 52–53</p>	<ul style="list-style-type: none"> Ascertain information on legislation and the needs of the market related to the environment in order to establish and implement an environmental response road map Thoroughly implement environmental accident prevention measures, promote the elimination of environmentally harmful substances, and strengthen the environmental assurance system Promote CO₂ emissions reduction through activities such as energy conservation initiatives, the transformation of manufacturing, and renewable energy procurement <p>▶ PP. 21–23, 37, 52–53</p>
⑦ Risk associated with human resources and labor	<ul style="list-style-type: none"> Risk of being unable to secure globally competent human resources, consequently hindering business expansion and execution of strategy Risk of impact on operations due to deteriorating labor relations Risk of delayed human resources and labor management response to the work-style changes that have been accelerated by the COVID-19 pandemic <p>Opportunity Enhance competitiveness and avoid risks by promoting diversity and inclusion ▶ PP. 36, 54</p>	<ul style="list-style-type: none"> Strengthen and thoroughly implement human resource management policies such as leveraging a diverse workforce, building more engaging workplaces, providing opportunities for growth Undertake measures to bolster engagement and systems, including support for females, elderly, and people with disabilities to play an active role, conduct employee awareness surveys and Employee Relations (ER) Create and implement human resources and labor management rules and standards corresponding to diverse work styles <p>▶ PP. 36, 54</p>
⑧ Risk with regard to procurement	<ul style="list-style-type: none"> Risk of procurement of raw materials or components being hindered by dependency on a specific source of supply, occurrence of quality issues, insufficient supplier production capacity, etc. Risk of impact from rising costs for raw materials or components Risk that CSR procurement initiatives will not make progress Risk of being unable to procure some parts and materials due to environmental changes during the COVID-19 pandemic and disasters 	<ul style="list-style-type: none"> Build a firm understanding of the Company's basic policy through procurement policy briefings, NSK Supplier CSR Guidelines, procurement standards, use of whistleblowing system, and other measures Cultivate and educate new suppliers based on high and increasingly sophisticated assessed purchasing capabilities Conduct supplier BCP inspections, as well as quality, environmental, and CSR audits, and support supplier improvement Ensure flexibility in procurement and carry out strategic inventory management in order to agilely respond to environmental changes <p>▶ PP. 38, 54</p>
⑨ Risk associated with information and communication technology (ICT)	<ul style="list-style-type: none"> Risk of decline in competitiveness due to delayed digitization of management resources Risk of decline in business efficiency due to loss of stability in IT system that underpins business operations Risk of halt in operations or loss of trust from society on account of insufficient measures or lack of IT security to defend against cyber-attacks and other external threats 	<ul style="list-style-type: none"> Reform and bolster IT system infrastructure and improve ICT literacy based on trends in digital technology Ensure stability through backup and redundancy of IT system infrastructure and standardized system support Build and strengthen a management structure relevant to cybersecurity risks and educate and enhance knowledge internally with regard to information security, acquire external certifications <p>▶ P. 59</p>
⑩ Risk related to finance	<ul style="list-style-type: none"> Risk relating to the collection of accounts receivable due to sales destination trust problems Risk of cost burden from problems that arise related to quality, litigation concerning business activities Risk of procurement of necessary funds, cash flow Risk related to mistakes in accounting estimates and accounting procedures 	<ul style="list-style-type: none"> Identify issues early by ascertaining information from the risk reporting system in a timely manner, and respond to issues swiftly through close collaboration with relevant divisions Perform Group management and increase effectiveness based on the internal control system <p>▶ P. 56</p>