

# Corporate Governance

## NSK's Approach

NSK believes that the establishment and maintenance of systems that ensure transparent, fair and timely decision-making is essential in order to achieve sustainable growth and increase our mid- to long-term corporate value. To realize this objective, we are working to construct our corporate governance systems based on the following four guiding principles.

### Policy on Development of Corporate Governance Systems

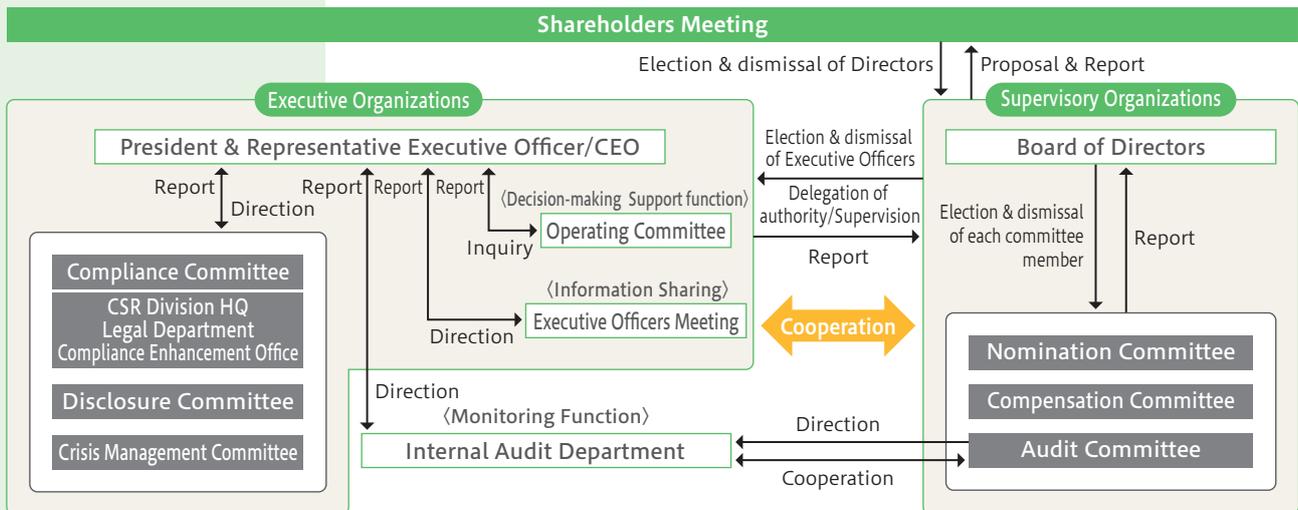
1. To increase the efficiency and agility of management by proactively delegating decision-making authority regarding the execution of operations from the Board of Directors to the Company's executive organizations.
2. To ensure that supervisory organizations have oversight of executive organizations by clearly separating the two.
3. To strengthen supervisory organizations' oversight of the executive organizations by ensuring cooperation between the two.
4. To improve the fairness of management by strengthening compliance systems.

## Corporate Governance Systems

### Current Systems and Operating Status

NSK has adopted a Company with Three Committees (Nomination, Audit, and Compensation) as its form of corporate organization to better achieve the basic approach. NSK's Board of Directors determines basic management policies, etc., with the aim of achieving the Group's sustainable growth and increasing mid- to long-term corporate value. The Board proactively delegates decision-making authority regarding business execution to executive organizations, while supervising the status of implementation in an appropriate manner. The CEO has the ultimate authority and responsibility for all decision-making and operational executive functions delegated by the Board. Under the direction of the CEO, executive officers are responsible for executing their respective duties in accordance with the division of duties.

### NSK's Corporate Governance Structure



### Roles and Structure of Supervisory Organizations (As of August 2021)

○ Internal director   
 ● Outside director (Men)   
 ● Outside director (Women)

Organizations	Board of Directors	Nomination Committee	Audit Committee	Compensation Committee
Structure	<p>Chair 9 members (4 internal directors, 5 outside directors)</p> <ul style="list-style-type: none"> <li>● Majority outside directors</li> <li>● Chaired by a non-executive director</li> </ul>	<p>Chair 3 members (2 outside directors, 1 internal director)</p> <ul style="list-style-type: none"> <li>● Majority outside directors</li> <li>● Chair: Outside director</li> </ul>	<p>Chair 4 members (3 outside directors, 1 internal director)</p> <ul style="list-style-type: none"> <li>● Majority outside directors</li> <li>● Chair: Outside director</li> </ul>	<p>Chair 3 members (2 outside directors, 1 internal director)</p> <ul style="list-style-type: none"> <li>● Majority outside directors</li> <li>● Chair: Outside director</li> </ul>
Objectives and Authority	<ul style="list-style-type: none"> <li>● Passes resolutions related to basic management policies, etc. (including delegation of duties to executive officers)</li> <li>● Supervises execution of duties by executive officers</li> </ul>	<ul style="list-style-type: none"> <li>● Determines the content of proposals submitted to the Shareholders Meeting regarding the appointment or dismissal of directors</li> </ul>	<ul style="list-style-type: none"> <li>● Audits the duties of directors and executive officers</li> <li>● Creates audit reports</li> <li>● Determines the content of proposals related to appointment or dismissal of the auditor, and other matters</li> </ul>	<ul style="list-style-type: none"> <li>● Determines policies on the compensation of directors and executive officers</li> <li>● Determines the individual compensation provided to directors and executive officers, and other matters</li> </ul>
Secretariat	Corporate Planning Division Headquarters, Secretariat Office	Human Resources Management Division Headquarters, Corporate Planning Division Headquarters	Internal Audit Department	Human Resources Management Division Headquarters
Number of times convened in FY2020	10	5	16	4

## Changes to NSK's Corporate Governance Systems

	1999~	2004~	2006~	2015~
<b>Form of Corporate Organization</b>	1999 ● Adopted an executive officer system	2004 ● Transitioned to a Company with Committees System	2006 ● Transitioned to a Company with Committees	2015 ● Transitioned to a Company with Three Committees (Nomination, Audit, and Compensation)
<b>Committee</b>	1999 ● (Voluntary) Established a Compensation Committee 2003 ● (Voluntary) Established an Audit Committee	2004 ● (Voluntary) Established a Nomination Committee ● Established Nomination, Audit, and Compensation committees based on the Companies Act of Japan		2017 ● Chairs of three committees all outside directors
<b>Outside Director</b>	1999 ● 1 outside director 2003 ● 2 outside directors	2004 ● 3 outside directors 2005 ● 4 outside directors	2010 ● Established criteria for the independence of NSK's outside directors ● Each of the Company's outside directors registered with the Tokyo Stock Exchange as an independent director	2018 ● 5 outside directors
<b>Others</b>	2002 ● Established the Crisis Management Committee	2004 ● Established the Internal Audit Office (current Internal Audit Department) to undertake auditing functions and monitor the operations of the Company 2005 ● Established the Information Disclosure Team (current Disclosure Committee)	2006 ● Established the Internal Control Project Team (later merged into the current Internal Audit Department)	June 2020 ● Outside directors a majority on the Board of Directors 2012 ● Established the Compliance Committee

## Initiatives to Further Enhance the Effectiveness of the Board of Directors

### Officer Training

NSK provides training to its directors and executive officers to enhance their knowledge regarding relevant laws such as the Companies Act of Japan, corporate governance, its business, and financial status.

### Active Board Deliberations

To achieve active Board deliberations, the Company believes that it is important to provide information to directors in advance of the meeting date. We provide information in an appropriate manner, including distributing materials to all directors in advance, and prior explanation by officers and the Board secretariat.

### Assessment of Effectiveness of the Board of Directors

To achieve sustainable growth and increase our mid- to long-term corporate value, NSK conducts annual assessments of the effectiveness of its Board function and works to further enhance performance. To maintain the objectiveness of these assessments, they are commissioned to external experts and conducted based on questionnaires and interviews. Findings are subsequently discussed by the Board.

Assessment Process	<ul style="list-style-type: none"> <li>● Conduct a questionnaire for each director</li> <li>● Conduct a one-hour interview for each director</li> </ul> <p>Note: The interviews were done in person or on a remote basis in fiscal 2020.</p>
Main Content of the Questionnaire	<p>The main content of the questionnaire conducted in fiscal 2020 is outlined below.</p> <ul style="list-style-type: none"> <li>● Management strategies and risk control</li> <li>● Composition, roles, and processes of the Board of Directors</li> <li>● Stakeholder engagement</li> <li>● CEO succession planning</li> <li>● Operation of advisory committees (Nomination/Audit/Compensation Committees)</li> </ul>
Assessment Results	<p>An assessment conducted in 2020 by external experts concluded that the Board of Directors maintained a high level of effectiveness with the purpose of sustainable growth and mid- to long-term corporate value.</p> <ul style="list-style-type: none"> <li>● All the directors including outside directors who have extensive knowledge keep contributing to active discussions, backed by a close relationship of mutual trust.</li> <li>● The structure of the Board of Directors was changed to consist of a majority of outside directors. Furthermore, the Board of Directors delegated more authority to the executive organization, which enabled the Board to focus on monitoring and discussing mid- to long-term strategies.</li> </ul>

We will continue to improve the effectiveness of our Board of Directors, consisting of a majority of outside directors, to further enhance corporate value by strengthening our corporate governance system, focusing on improved monitoring function, and placing more emphasis on discussions regarding the direction of long-term management.

### Composition of the Board of Directors

The Company believes that the Company's Board of Directors should be well versed in the Company's businesses and be capable of supervising important managerial judgments related to business execution, with the aim of enhancing the sustainable growth and mid- to long-term corporate value of the NSK Group. Career diversity in field of expertise and business experience are considered to ensure that the Board maintains a well-balanced composition, in light of the Company's mid- to long-term business strategy or managerial issues, and the size of the Board is also considered to enhance the effectiveness of deliberations.

In appointing individual directors, in addition to selecting based on experience in business and management in general or experience in their area of expertise, high ethical standards in management and their insight into corporate governance is also in the selection criteria.

### Outside Director Attendance and the Three Committees System

● Chair ○ Members

Name	Date Appointed as Director	Attendance at Board of Directors' Meetings and Committee Meetings in FY2020				Composition of Each Committee from June 2021		
		Board	Nomination	Audit	Compensation	Nomination	Audit	Compensation
Hajime Bada	June 2018	○ 90% (9/10)	● 100% (5/5)			●		
Akemi Mochizuki	July 2018	○ 100% (10/10)		● 100% (16/16)			●	
Toshio Iwamoto	June 2019	○ 100% (10/10)			○ 100% (4/4)	—	—	—
Yoshitaka Fujita	June 2019	○ 100% (10/10)	○ 100% (5/5)	○ 100% (10/10)		○	○	
Mitsuhiro Nagahama	June 2020	○ 100% (8/8)		○ 100% (10/10)	● 100% (3/3)		○	●
Koichi Obara	June 2021	—	—	—	—			○

Note:

- Each of the outside directors has been registered with the Tokyo Stock Exchange as an independent director.
- As Yoshitaka Fujita was appointed to the Audit Committee, and Mitsuhiro Nagahama was appointed to the Board of Directors, the Compensation Committee, and the Audit Committee on June 30, 2020, the numbers of Board of Directors' meetings and meetings of the three committees attended differ from the actual number of Board of Directors' meetings and meetings of the three committees held in fiscal 2020.
- Toshio Iwamoto retired from the Board of Directors on June 25, 2021.

### Supporting System for Outside Directors

To deepen their understanding of NSK's business and knowledge of matters specific to NSK, outside directors visit business facilities in Japan and overseas every year. (These were not carried out in fiscal 2020 due to the spread of the COVID-19 pandemic.)

In addition, NSK holds meetings comprised of outside directors to facilitate information exchange and foster shared understanding among outside directors and executive officers. While valuing these meetings as an opportunity to freely share opinions, the Board secretariat follows up on any relevant matters as appropriate to improve the effectiveness of the Board of Directors.

### Internal Control

Having stipulated its basic policy on the establishment of internal control systems, which forms its basic policy for the appropriate and effective functioning of global Group management and internal control functions, NSK is working to strengthen its Group-wide internal control systems. This basic policy consists of matters relating to the development of the systems necessary for ensuring that the NSK Group's operations are conducted in an appropriate manner and that executive officers comply with laws, regulations, and the Articles of Incorporation when performing their duties and matters necessary for the Audit Committee in the performance of its duties.

Based on this policy, executive officers establish the specific systems (covering the organization, personnel, decision-making, reporting, and auditing, as well as the internal rules and regulations system that supports them) while reporting on the status of those operations to the Board of Directors. Reporting directly to the CEO, the Internal Audit Department is responsible for conducting audits to determine the legality, adequacy, and efficiency, etc., of operations and for the monitoring of business execution from a standpoint independent from the auditees.

The Audit Committee utilizes the internal control system to audit the performance of operations and conducts audits to ensure that the internal control system is constructed and operated in a satisfactory manner. The Internal Audit Department shall collaborate with the Audit Committee and provide support to audits conducted by the Audit Committee.

### Response to Japan's Corporate Governance Code (as of August 2021)

NSK complies with all principles of the Corporate Governance Code and outlines its policies in the Corporate Governance Report that it submits to Tokyo Stock Exchange, Inc. Please access the website below for NSK's corporate governance reports in English.

In response to the revised Corporate Governance Code of June 2021, NSK plans to submit a Corporate Governance Report to the Tokyo Stock Exchange by the end of December 2021.

▶ English <https://www.nsk.com/company/governance/index.html>

### Group Governance

NSK has established the NSK Group Companies Governance Standards, which among other matters set out the basic operating policies of Group companies. In accordance with these standards, we strive for smooth business management by thoroughly implementing internal control at Group companies while enhancing management transparency and fairness. In addition, the Business Division Headquarters, Functional Division Headquarters, and regional headquarters provide management support to each Group company from multiple perspectives, and the corporate auditors of each Group company carry out regular monitoring in cooperation with the Internal Audit Department.

## Directors/Officers' Compensation

### Compensation for Directors and Executive Officers, Policy on Determining Compensation Amounts and Calculation Methods

As a Company with Three Committees (Nomination, Audit, and Compensation), NSK makes decisions on executive compensation structure, compensation levels, and individual compensation, etc., at a Compensation Committee chaired by an independent director, and based on advice from external consultants as well as objective information on compensation levels and trends at other companies.

The Company will determine compensation for director and executive officer positions separately. When a director also serves as an executive officer, the total of each respective compensation amount shall be paid. For directors who also serve as executive officers, stock-based compensation will not be provided for the director position.

#### 1 Executive Officers' Compensation

The compensation package for executive officers consists of a fixed basic compensation and a performance-based compensation that fluctuates with performance. The Company will target a compensation ratio of roughly 4:6 of fixed compensation to performance-based compensation.

##### Executive Officer Compensation Package

① Basic compensation	② Performance-based compensation	
	a. Short-term performance-based compensation	b. Mid- to long-term performance-based stock compensation

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##### ① Basic compensation

The amount of basic compensation is determined according to the title of the executive officer. Moreover, an additional amount will be paid to executive officers with representative rights.

##### ② Performance-based compensation

The performance-based compensation consists of short-term performance-based compensation and mid- to long-term performance-based stock compensation.

##### a. Short-term performance-based compensation

The short-term performance-based compensation will be determined based on metrics consistent with management goals to increase profitability, raise efficiency of shareholders' equity, and improve corporate value: metrics related to the operating income margin, ROE, and cash flow, as well as an achievement target for ESG goals for CO<sub>2</sub> emission reductions and safety and quality improvement. The individual's level of achievement in their designated job duties is also evaluated when determining the amount of compensation paid to each executive officer.

##### b. Mid- to long-term performance-based stock compensation

To further incentivize contributions to the sustainable improvement of corporate value, to ensure that executive officers share the interests of shareholders, and to further reinforce the link between executive officer

compensation and the mid- to long-term stock price, the Company has introduced a performance-based stock compensation program using the Board Benefit Trust system.

Through the system, points are fixed after three years based on a relative evaluation of the Company's total shareholder return (TSR) through a comparison with the TOPIX growth rate, the equivalent for which Company shares are then distributed upon retirement. However, for a certain portion of the above, the NSK will compensate executive officers with the equivalent amount acquired by converting shares into cash.

#### 2 Directors' Compensation

The compensation package for directors consists of a fixed basic compensation and fluctuating 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 incentivize contributions to the sustainable improvement of corporate value, to ensure that directors share the interests of shareholders, the Company has introduced a stock compensation program using a Board Benefit Trust system. The system distributes Company shares upon retirement based on points allocated each fiscal year, of which separate amounts are given for outside and internal directors. However, for a certain portion of the above, the Company will compensate directors with the equivalent amount acquired by converting shares into cash. For directors who also serve as executive officers, stock-based compensation will not be provided for the director position.

#### 3 Other

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.

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

The amount of compensation for directors and executive officers between April 1, 2020, and March 31, 2021, was as follows.

Classification	Compensation, etc., Total (¥ Millions)	Basic Compensation		Short-term Performance-based Compensation		Stock Compensation	
		No. of Directors/Officers	Amount (¥ Millions)	No. of Directors/Officers	Amount (¥ Millions)	No. of Directors/Officers	Amount (¥ Millions)
Directors (internal)	73	7	66	—	—	1	7
Directors (outside)	79	6	65	—	—	6	13
Executive Officers	1,851	31	939	30	277	43	634

Notes:

1. Compensation (excluding stock compensation) for directors (internal) includes compensation for directors who also serve as executive officers.
2. The amount of performance-based compensation is the planned amount to be paid on July 1, 2021, based on the results for the year ended March 31, 2021.
3. The amount of stock compensation is the amount recorded as expenses for the current fiscal year.
4. Figures listed above are rounded down to the nearest one million yen.

### Directors/Officers Receiving a Total of ¥100 Million or More in Consolidated Compensation

The amount of compensation for directors and executive officers between April 1, 2020, and March 31, 2021, was as follows.

Name	Consolidated Compensation, etc., Total (¥ Millions)	Title	Company	Amount for Each Item of Consolidated Compensation, etc. (¥ Millions)			
				Basic Compensation	Short-term Performance-based Compensation	Stock Compensation	Retirement Benefit
Toshihiro Uchiyama	157	Director	NSK	9	—	—	—
		Executive officer	NSK	50	21	76	—
Jean-Charles Sanchez	140	Executive officer	NSK	101	35	2	—
Ulrich Nass	111	CEO	Consolidated subsidiary NSK Europe Ltd.	54	50	2	3
Brian Parsons	204	CEO	Consolidated subsidiary NSK Americas, Inc.	63	116	2	22