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## Corporate Governance Report

Last Update: April 1, 2021

NSK Ltd.  
Representative Executive Officer and President  
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Securities Code: 6471  
<https://www.nsk.com/jp/>

The corporate governance of NSK, Ltd. (the “Company”) is described below.

### **I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

#### **1. Basic Views**

The NSK Mission Statement is as follows: “NSK contributes to a safer, smoother society and helps protect the global environment through its innovative technology integrating Motion & Control™\*.” As a truly international enterprise, we are working across national boundaries to improve relationships between people throughout the world. NSK Ltd. aims to fulfill this responsibility to society while maintaining an appropriate level of profitability that meets the expectations of our shareholders, thereby achieves sustainable growth and increases our mid-to long-term corporate value.

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 increases 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.

We aim:

- (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.

NSK has adopted a Company with Three Committees system (Nomination, Audit and Compensation) as its

form of corporate organization to better achieve the aforementioned basic approach. We have articulated this basic approach to corporate governance and its structure in our Corporate Governance Rules, which guide directors and executive officers in the performance of their duties.

(\*MOTION & CONTROL™ defines the scope of NSK's present and future business. "MOTION" symbolizes our complex hardware, machinery, and systems, while "CONTROL" represents our sophisticated software and electronics systems.)

#### **[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

NSK complies with all principles of the Corporate Governance Code.

#### **[Disclosure Based on the Principles of the Corporate Governance Code]**

##### **[Principle 1-4 Cross-Shareholdings]**

###### **(1) Policy on cross-shareholding**

NSK aims to reduce the cross-holding of shares deemed to have little benefit in increasing mid- to long-term corporate value. Conversely, if we believe that there is a valid rationale for holding such shares, we will continue to do so. Regarding the appropriateness of cross-shareholdings, our operating organizations conduct quantitative and qualitative evaluations on an annual basis to determine whether each individual shareholding is delivering acceptable benefits in relation to our capital cost. The Board of Directors receives regular reports from the aforementioned operating organizations and studies the matter accordingly. We will sell any cross-shareholdings whose possession we believe cannot be justified, taking into account stock prices and market trends.

###### **(2) Criteria for exercise of voting rights concerning cross-shareholdings**

NSK has defined specific criteria for exercise of voting rights concerning cross-shareholdings. When exercising voting rights, we confirm that the proposal in question does not damage shareholder value, and that it serves to improve the mid- to long-term corporate value of both NSK and the company in which the stake is held.

##### **[Principle 1-7 Related Party Transactions]**

NSK's Board of Directors conducts prior approval of transactions with officers or major shareholders (transactions between related parties) in accordance with relevant laws such as the Companies Act, as well as internal regulations, to ensure that the interests of the Company and its shareholders are not harmed. The Board also receives regular status reports. Furthermore, the Audit Committee conducts audits on transactions where required.

##### **[Principle 2-6 Roles of Corporate Pension Funds as Asset Owners]**

NSK has established a Pension Administration Committee, to which it has assigned personnel from the human resources and finance divisions possessing appropriate knowledge and skills, and operates its pension assets in accordance with defined operating policies. We select the organizations to which we entrust the operation of our pension fund based on a comprehensive evaluation which encompasses investment policy, investment performance, compliance, and other perspectives. The management of our pension assets is commissioned to several organizations, and by entrusting the selection of investment targets and exercise of voting rights to each fund we ensure that no conflict of interest arises between pension beneficiaries and the Company.

##### **[Principle 3-1 Full Disclosure]**

###### **(i) Company objectives, business strategies and business plans**

NSK's mission is outlined in our Corporate Philosophy. The Board of Directors resolves mid- to long-term management strategies, management plans, and other key policies in line with this Philosophy.

Further information on our Corporate Philosophy can be found on the following website:

<https://www.nsk.com/company/visionandphilosophy.html>

For more information regarding our management strategies and management plans, NSK's mid-term plan and long-term vision can be found at the following website:

<https://www.nsk.com/investors/library/mtp.html>

(ii) Basic views and guidelines on corporate governance

NSK's basic approach and policy on corporate governance are as described in the section of this report entitled "I-1 Basic Views".

(iii) Board policies and procedures in determining the remuneration of senior management and directors

The policy in determining the compensation of directors and executive officers is as described in the section of this report entitled "II-1. [Remuneration for Directors and Executive Officers (Shikkoyaku)] Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods".

(iv) Board policies and procedures in the appointment/dismissal of senior management and the nomination of director candidates

NSK's directors are required to possess experience and insight into either general business and management or a specific field of expertise, as well as high ethical principles and a sound knowledge of corporate governance. Based on this approach, candidates for director are determined by the Nomination Committee, and the Board of Directors then submits a resolution to the General Meeting of Shareholders for approval.

In the event that it is deemed that a director has failed to exercise appropriate duty of care or duty of loyalty, or is otherwise unsuitable to continue serving in the position, the Nomination Committee deliberates on their removal. The Board of Directors then submits a resolution to the General Meeting of Shareholders for approval.

NSK's executive officers are required to possess sufficient capability to swiftly and appropriately enact the decision-making responsibility delegated to them by the Board of Directors. This includes considerable knowledge and insight into business and/or a specific field of expertise, as well as high ethical principles and a sound knowledge of corporate governance. Appointment of executive officers is made via resolution by the Board of Directors, in order to construct an optimal operating framework for management of the Group. In the event that the Board of Directors deems that an executive officer has failed to exercise appropriate duty of care or duty of loyalty, or is otherwise unsuitable to continue in the position, it shall pass a resolution to remove the officer in question from the position.

(v) Explanations with respect to the individual appointments/dismissals and nominations by the Board of Directors based on (iv), when appointing/dismissing senior management or nominating director candidates

Reasons for selection of director candidates and the career history, positions, and assignments of directors and executive officers are listed in the Notice of the Ordinary General Meeting of Shareholders and the Securities Report, as well as disclosed on the following website:

[Notice of the Ordinary General Meeting of Shareholders]

<https://www.nsk.com/investors/stockandbond/meeting.html>

**[Supplementary Principle 4-1-1 Role and Responsibilities of the Board of Directors]**

NSK's Board of Directors determines basic management policies, etc. with the aim of achieving the Group's sustainable growth and increasing its mid- to long-term corporate value. In order to achieve fair, transparent, and swift decision-making based on the aforementioned policies, the Board proactively delegates decision-making authority regarding business execution to executive officers, while monitoring

the status of implementation in an appropriate manner. A list of the items which must be resolved by NSK's Board of Directors can be found at the following website:

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

The Board of Directors also discusses long-term and strategic issues from the perspective of the NSK Group's stakeholders, and advises executive officers regarding the planning and implementation of long-term strategy.

#### **[Principle 4-8 Effective Use of Independent Directors]**

NSK maintains a principle that at least one third of its Board should be comprised of outside directors, and has appointed five independent outside directors possessing outstanding character and a broad range of knowledge. These individuals provide expert knowledge beneficial to the Group and contribute to achieving sustainable growth and increasing its mid- to long-term corporate value. We hold meetings comprised of independent outside directors to facilitate information exchange and foster shared understanding. While respecting the objective of these meetings as an opportunity to freely share opinions, the Board secretariat follows up any relevant matters as appropriate to improve the effectiveness of the Board of Directors.

#### **[Principle 4-9 Independence Standards and Qualification for Independent Directors]**

When electing outside directors nominee, we refer to the following criteria:

- Persons who have neither a special interest with the Company nor conflict of interest with regular shareholders
- Persons who meet NSK's criteria for independence
- Persons who have considerable experience and deep insight as a corporate executive or as experts
- Persons who can devote sufficient time to perform duties as an outside director of NSK

The Nomination Committee determines outside director candidates who meet the above criteria.

The criteria for the independence of NSK's outside directors can be found in the section of this report entitled "II-1 Independent Directors," as well as the following website:

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

These criteria satisfy those of the Tokyo Stock Exchange, Inc., and each of the outside directors has been registered with the Tokyo Stock Exchange as an independent director.

#### **[Supplementary Principle 4-11-1 Composition of the Board of Directors]**

NSK believes that its Board of Directors should be well versed in the Company's businesses and have the function of making important management decisions and appropriately supervising the execution of business in order to achieve sustainable growth of the NSK Group and improvement of corporate value in the mid to long term. Career diversity in field of specialty and business experience are also considered in order to ensure that the Board maintains a well-balanced composition and is of a size to improve the effectiveness of discussions.

#### **[Supplementary Principle 4-11-2 Status of Directors with Concurrently Held Posts]**

NSK discloses important concurrently held posts of each director in the Business Report and Reference Material sections of the Notice of the Ordinary General Meeting of Shareholders, as well as at the following website:

<https://www.nsk.com/investors/stockandbond/meeting.html>

#### **[Supplementary Principle 4-11-3 Evaluation of Effectiveness of Board of Directors]**

In order 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.

**[Main contents of questionnaire]**

The main contents of the questionnaire conducted in fiscal 2019 are outlined below.

- Role of the Board of Directors (including deliberating on management strategies, monitoring operation of internal control systems, etc.)
- Composition and balance of the Board of Directors
- Operation of the Board of Directors
- Operation of advisory committees (Nomination/Audit/Compensation Committees)

**[Assessment Results and Future Initiatives]**

Continuing from the previous year, an assessment in 2019 by external experts found that the assessment concluded that the Board of Directors maintained a high level of effectiveness.

- The decision-making authority delegated by Board of Directors and the Boards' supervision of executive directors' duties is appropriate.
- Outside directors gave useful opinions based on their extensive knowledge of and experience in corporate management, finance, accounting and technology at Board of Directors' meetings.
- Discussions are advancing in terms of technology and global management.

Going forward we will continue working to improve the effectiveness of our Board of Directors, consisting of a majority of outside directors, by further strengthening our corporate governance system and focusing on discussions regarding the direction of long-term management.

**[Supplementary Principle 4-14-2 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 its financial status.

**[Principle 5-1 Policy for Constructive Dialogue with Shareholders]**

**(1) Basic Approach**

NSK discloses its management information in a fair and timely manner, and strives to maintain a healthy dialogue with investors. By delivering stable shareholder returns and working to secure sustainable growth and increasing mid- to long-term corporate value, we aim to constantly exceed the expectations of our stakeholders, including shareholders and investors.

**(2) Investor Relations Framework**

NSK positions investor relations initiatives as one of its key management tasks. Accordingly, we have established the IR Office, a specialized organization which reports directly to the CEO and is overseen by the executive officer responsible for investor relations. The IR Office works with the Company's various departments to develop systems by which to disclose business strategies and financial information, as well as non-financial information such as ESG initiatives, in a fair and appropriate matter.

**(3) Method of Dialogue and Status of Initiatives**

NSK recognizes the General Meeting of Shareholders as an important opportunity for dialogue with its shareholders. When setting meeting dates we strive to avoid clashes with other companies and work to

achieve swift disclosure by sending the Notice of Convocation and Business Report to our shareholders as early as possible.

We also hold face-to-face dialogue between shareholders and investors through briefing meetings for institutional investors and analysts, hosted by top management, to explain our corporate results and mid-term management plans. Specific efforts are as described in the section of this report entitled “III-2 IR Activities”.

We also began publishing the NSK Report (Integrated Report) as a tool for advancing constructive dialogue with investors and a range of other stakeholders and conduct constructive dialogue (engagement) relevant to our management strategy and ESG initiatives.

(4) Feedback

NSK has developed systems to swiftly relay the feedback obtained at its General Meeting of Shareholders and through the IR initiatives outlined above to the Board of Directors, upper management, and relevant departments.

(5) Management of Insider Information

NSK will not disclose or divulge insider information during dialogue with shareholders and investors. When disclosing important information regarding NSK that might influence investment decisions of investors as outlined in relevant laws and regulations, the Disclosure Committee will confirm the timeliness and appropriateness of the information prior to release. In addition, we will refrain from dialogue for a certain period prior to the release of our quarterly results, referred to as the “Silent Period”.

(6) Initiatives to Ensure Fair Disclosure

NSK promotes fair disclosure to prevent any information gaps regarding our company between market participants. In addition to exercising caution during communication with shareholders and investors, we work to make information regarding the Company broadly available through our website and other means.

## 2. Capital Structure

Percentage of Foreign Shareholders	From 20% to less than 30%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	51,661,800	9.97
Custody Bank of Japan (Trust Account)	31,566,400	6.09
Meiji Yasuda Life Insurance Company	27,626,000	5.33
Nippon Life Insurance Company	27,543,090	5.31
Fukoku Mutual Life Insurance Company	22,400,000	4.32
Mizuho Bank, Ltd.	18,211,000	3.51
The Master Trust Bank of Japan, Ltd. (Toyota Motor Corporation Account)	10,709,600	2.07
Toyota Motor Corporation	10,000,000	1.93
NSK Customer Shareholding Association	8,979,718	1.73
Custody Bank of Japan (Trust Account 5)	7,872,300	1.52

Controlling Shareholder (except for Parent Company)	-----
Parent Company	None

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### 3. Corporate Attributes

Listed Stock Market and Market Section	First Section of the Tokyo Stock Exchange
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Three Committees (Nomination, Audit and Remuneration)
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	No maximum number
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman (excluding those with concurrent position as President)
Number of Directors	9

#### [Outside Directors]

Number of Outside Directors	5
Number of Independent Directors	5

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Hajime Bada	From another company								△			
Akemi Mochizuki	Certified Public Accountant											
Toshio Iwamoto	From another company											
Yoshitaka Fujita	From another company								○			
Mitsuhiro Nagahama	From another company								△			

\* Categories for “Relationship with the Company”

\* “○” when the director presently falls or has recently fallen under the category;

\* “△” when the director fell under the category in the past

\* “●” when a close relative of the director presently falls or has recently fallen under the category;

\* “▲” when a close relative of the director fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive director or executive of a parent company of the Company
- c. Executive of a fellow subsidiary company of the Company
- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the listed company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

#### Outside Directors’ Relationship with the Company (2)

Name	Membership of Committees	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Hajime Bada	Nomination Committee	Independent Director	Hajime Bada has not engaged in business execution at JFE Holdings, Inc. since July 2015. Although there are mutual transactions between the Company and JFE	Hajime Bada has actively expressed his opinions at meetings of the Board of Directors from a fair and independent standpoint, based on his considerable experience and deep insight as a corporate executive. As a Chair of the Nomination Committee, he has provided



			<p>Holdings, Inc., the value of such transactions was less than 0.5% of net sales of each company, constituting no special interest between the Company and Mr. Bada. Mr. Bada fulfills the Company's Criteria for Independence of Outside Directors and the criteria for independence laid out by the Tokyo Stock Exchange. The Company has filed Mr. Bada as an Independent Director with the Tokyo Stock Exchange.</p>	<p>appropriate guidance on the proposals for election of Directors, in successor planning. The Company has designated him as an outside director nominee with the expectation that he will continue to contribute to enhancement and reinforcement of the Company's corporate governance, as well as ensure its sustainable growth and increase its corporate value.</p>
Akemi Mochizuki	Audit Committee	Independent Director	<p>Akemi Mochizuki has not engaged in operations at Deloitte Touche Tohmatsu LLC since July 2018. There are no transactions between the Company and Deloitte Touche Tohmatsu LLC, constituting no special interest between the Company and Ms. Mochizuki. Ms. Mochizuki fulfills the Company's Criteria for Independence of Outside Directors and the criteria for independence laid out by the Tokyo</p>	<p>Akemi Mochizuki has actively expressed her opinions at meetings of the Board of Directors from a fair and independent standpoint, based on her considerable experience and deep insight as a Certified Public Accountant. As a chair of the Audit Committee, she has provided appropriate guidance on the operation and enhancement of internal audit systems. The Company has designated her as an outside director nominee with the expectation that she will continue to contribute to enhancement and reinforcement of the Company's corporate governance, as well as ensure its sustainable growth and increase its corporate value.</p>

			Stock Exchange. The Company has filed Ms. Mochizuki as an Independent Director with the Tokyo Stock Exchange.	
Toshio Iwamoto	Compensation Committee	Independent Director	Toshio Iwamoto has not engaged in business execution at NTT Data Corporation since July 2018. There are no transactions between the Company and NTT Data Corporation, constituting no special interest between the Company and Mr. Iwamoto. Mr. Iwamoto fulfills the Company's Criteria for Independence of Outside Directors and the criteria for independence laid out by the Tokyo Stock Exchange. The Company has filed Mr. Iwamoto as an Independent Director with the Tokyo Stock Exchange.	Toshio Iwamoto has actively expressed his opinions at meetings of the Board of Directors from a fair and independent standpoint, based on his considerable experience and deep insight as a corporate executive. As a member of the compensation committee, he has provided appropriate guidance on executive compensation policy and determining executive compensation. The Company has designated him as an outside director nominee with the expectation that he will continue to contribute to enhancement and reinforcement of the Company's corporate governance, as well as ensure its sustainable growth and increase its corporate value.
Yoshitaka Fujita	Nomination Committee /Audit Committee	Independent Director	Yoshitaka Fujita has not been engaged in business execution at Murata Manufacturing Co., Ltd since July 2019. Although there are mutual transactions between the Company and Murata Manufacturing	Yoshitaka Fujita has actively expressed his opinions at meetings of the Board of Directors from a fair and independent standpoint, based on considerable experience and deep insight as a corporate executive. As a member of the Nomination Committee, he has provided appropriate guidance on proposals for the election of Directors and in successor planning.

			Co., Ltd., the value of such transactions was less than 0.1% of net sales of the Company, constituting no special interest between the Company and Mr. Fujita. Mr. Fujita fulfills the Company's Criteria for Independence of Outside Directors and the criteria for independence laid out by the Tokyo Stock Exchange. The Company has filed Mr. Fujita as an Independent Director with the Tokyo Stock Exchange.	The Company has designated him as an outside director nominee with the expectation that he will continue to contribute to enhancement and reinforcement of the Company's corporate governance, as well as ensure its sustainable growth and increase its corporate value.
Mitsuhiro Nagahama	Audit Committee/ Compensation Committee	Independent Director	Mitsuhiro Nagahama has not been engaged in operations at Mizuho Securities, Co., Ltd. since April 2015. Although there are mutual transactions between the Company and Mizuho Securities, the value of such transactions was less than 0.1% of net sales of Mizuho Securities, constituting no special interest between the Company and Mr. Nagahama. Mr. Nagahama fulfills the Company's Criteria for Independence of Outside Directors and the criteria for independence laid out by the Tokyo Stock Exchange. The Company has filed Mr.	Mitsuhiro Nagahama has considerable experience and deep insight as a corporate executive. Such experience and knowledge make him sufficiently qualified to supervise important decision-making matters and the execution of the Company's business operations. The Company has designated him as an outside director nominee with the expectation that he will contribute to the enhancement and reinforcement of the Company's corporate governance, as well as ensure its sustainable growth and increase its corporate value.

			Nagahama as an Independent Director with the Tokyo Stock Exchange.	
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## [Committees]

### Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Nomination Committee	3	0	1	2	Outside Director
Remuneration Committee	3	0	1	2	Outside Director
Audit Committee	4	1	1	3	Outside Director

## [Executive Officers (Shikkoyaku)]

Number of Executive Officers (Shikkoyaku)	32
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### Status of Additional Duties

Name	Representative Authority	Additional Duties as Director			Additional Duties as Employee
			Nomination Committee Member	Remuneration Committee Member	
Akitoshi Ichii	Yes	Yes	-	Yes	-
Saimon Nogami	Yes	Yes	-	-	-
Tomoyuki Yoshikiyo	-	-	-	-	-
Hideki Ochiai	-	-	-	-	-
Nobuaki Mitamura	-	-	-	-	-
Tatsuya Atarashi	-	-	-	-	-
Kunihiko Akashi	-	-	-	-	-
Masaru Takayama	-	-	-	-	-
Guoping Yu	-	-	-	-	-
Keita Suzuki	-	-	-	-	-
Susumu Ishikawa	-	-	-	-	-
Hayato Omi	-	-	-	-	-
Narihito Otake	-	-	-	-	-
Hiromichi Takemura	-	-	-	-	-
Tatsufumi Soda	-	-	-	-	-
Hiroya Achiha	-	-	-	-	-
Tamami Murata	-	-	-	-	-
Hiroyuki Tsugimoto	-	-	-	-	-

Jean-Charles Sanchez	-	-	-	-	-
Hisakazu Tadokoro	-	-	-	-	-
Ulrich Nass	-	-	-	-	-
Michio Ozaki	-	-	-	-	-
Masato Kitou	-	-	-	-	-
Natsuki Sensui	-	-	-	-	-
Hidenori Oka	-	-	-	-	-
Brian Parsons	-	-	-	-	-
Shinji Miyata	-	-	-	-	-
Gen Murayama	-	-	-	-	-
Naoki Goto	-	-	-	-	-
Michio Komaba	-	-	-	-	-
Ruriko Yoshida	-	-	-	-	-
Hideaki Hayami	-	-	-	-	-

#### [Auditing Structure]

Appointment of Directors and/or Staff to Support the Audit Committee	Appointed
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#### Matters Related to the Independence of Such Directors and/or Staff from Executive Officers (Shikkoyaku)

NSK's Internal Audit Department is designated as the organization tasked with supporting the duties of the Audit Committee. Selected employees of the Internal Audit Department are assigned to support Audit Committee duties, on either a full-time or part-time basis. The Internal Audit Department reports directly to the CEO, and is independent from audit subject divisions and the executive officer(s) responsible. The Audit Committee may give direct instructions/directions to employees belonging to the Internal Audit Department. Official notification of appointment or disciplinary disposition of the aforementioned Internal Audit Department staff requires the prior consent of the Audit Committee. In addition, the Audit Committee may state opinions regarding the performance evaluation of Internal Audit Department staff. As an internal director has been designated as a standing member of the Audit Committee, allowing committee members to focus solely on monitoring duties, no other directors have been assigned to support the duties of the Audit Committee.

#### Cooperation among Audit Committee, Accounting Auditors and Internal Audit Departments

The Audit Committee receives reports from the accounting auditor at the time of formulation of the accounting auditor's audit plan and at appropriate intervals, such as on a quarterly basis. Matters for discussion include the implementation status of the accounting auditor's duties and the results of audits of the Group's non-consolidated and consolidated financial statements. Where necessary, the Audit Committee requests further clarification. The above system maintains the independence of the accounting auditor and ensures that the auditing duties of the Audit Committee are monitored to verify their appropriate operation.

The Audit Committee also creates an audit policy as well as an annual audit plan. In addition to conducting day-to-day auditing duties, the Committee also coordinates with the Internal Audit Department in order to audit the Group.

In addition, the Audit Committee reviews the plans, implementation status, and results of audits performed by the Internal Audit Department (including appraisal of internal control over financial reporting), and directs changes or improvements where necessary. The Committee also receives monthly reports from the Internal Audit Department detailing eventuated or underlying risks related to business operation and directs additional investigations or other follow-up actions as required.

## [Independent Directors]

Number of Independent Directors	5
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### Matters relating to Independent Directors

NSK classifies all outside directors who meet the criteria for independent officers as Independent Directors. Criteria for independence is outlined below:

#### <Criteria for Independence of Outside Directors>

The following persons are ineligible to become independent director candidates of the Company.

- 1) Persons holding positions at a company which constituted 2% or more of the previous year's consolidated sales of NSK, or persons who held such a position until recently.
- 2) Persons holding positions at a company which made 2% or more of its previous year's consolidated sales to NSK or a subsidiary of NSK, or persons who held such a position until recently.
- 3) Persons holding positions at a financial institution which NSK relies on for funding, or persons who held such a position until recently.
- 4) Consultants, accounting or legal professionals receiving significant financial compensation in addition to compensation for the NSK independent director position, or persons who held such a position until recently.
- 5) Persons belonging to a company or organization which held 10% or more of NSK's total stock at the end of the most recent financial reporting period, or persons belonging to such a company or organization until recently.
- 6) Persons belonging to a company or organization which NSK holds 10% or more of the company's total stock at the end of the most recent financial reporting period, or persons belonging to such a company or organization until recently.
- 7) Relatives within the second degree, or family members living in the same household as persons specified in items 1 to 6 (excluding non-key posts). ("Key posts" are generally assumed to refer to executive or senior managers of relevant companies or trading partners, chartered public accountants belonging to relevant audit firms, and legal professionals belonging to relevant legal firms.)
- 8) Persons who hold executive positions at NSK or a subsidiary of NSK, or relatives within the second degree or family members living in the same household of persons who held such positions until recently.

The wording "recently" in the items above shall be assumed to be a period of three years or less from the date NSK elects directors.

\* This information is also available on the Company's website below:

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

## [Incentives]

Incentive Policies for Directors and/or Executive Officers (Shikkoyaku)	Introduction of performance-based remuneration system
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#### Supplementary Explanation

At the Compensation Committee meeting held on May 16, 2016, the decision was made to end stock option programs. Furthermore, at the Compensation Committee meeting held on March 27, 2019, the committee resolved to revise the stock compensation program for executive officers from the year ending March 31, 2020, changing it into a performance-based program. However, the stock compensation program for directors will be operated as previously as a stock compensation program with no added incentive for business performance, in consideration of the supervisory role of directors. For directors who also serve as executive officers, stock-based compensation will not be provided for the director position. Details of performance-based and stock compensation can be found in the sections of this report entitled “Remuneration for Directors and Corporate Executive Officers (Shikkoyaku) , Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods”.

#### Recipients of Stock Options

#### Supplementary Explanation

### [Remuneration for Directors and Executive Officers (Shikkoyaku)]

Disclosure of Individual Directors' Remuneration	Individual compensation is not disclosed
Disclosure of Individual Executive Officers' (Shikkoyaku) Remuneration	Selected corporate executive officers (shikkoyaku)

#### Supplementary Explanation

#### Compensation for year ended March 31, 2020

	Total compensation	Fixed compensation		Performance-based salary		Stock options	
		No. of officers	Amount	No. of officers	Amount	No. of officers	Amount
Directors (internal)	¥72 million	7	¥65 million	-	-	1	¥7 million
Directors (outside)	¥77 million	7	¥61 million	-	-	7	¥15 million
Executive Officers	¥1,447 million	33	¥1,058 million	31	¥110 million	36	¥279 million

1. Compensation (excluding stock compensation) for directors (internal) includes compensation for directors who also serve as executive officers.
2. The amount of performance-based salary is the planned amount to be paid on July 1, 2020, based on the results for the year ended March 31, 2020. The amount of performance-based salary paid on July 1, 2019, based on the results for the year ended March 31, 2019, was ¥410 million.
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.

Policy on Determining Remuneration Amounts and Calculation Methods	Appointed
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## Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

As a Company with Three Committees (Nomination, Audit, and Compensation), NSK Ltd. 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.

#### (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 representation rights.

#### (2) Performance-based compensation

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

##### i) 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 CO2 emission reductions and safety and quality improvement. The individual's level of achievement in their designated job duties are also evaluated when determining the amount of compensation paid to each executive officer.

##### ii) Mid- to long-term performance-based stock compensation

In order to further incentivize contributions to a sustainable improvement of corporate value, to ensure they share the interests of shareholders, and to further reinforce the link between executive officer compensation and mid- to long-term stock price, the Company has introduced a performance-based stock compensation program using a 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

In order to further incentivize contributions to a sustainable improvement of corporate value and to ensure they 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 executive officers 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.

**[Supporting System for Outside Directors]**

NSK provides information to its outside directors in an appropriate manner, including distributing meeting materials to all directors in advance, and providing prior explanation by the officers responsible or the Board secretariat. Furthermore we provide opportunities for outside directors to attend meetings of the operating organizations and visit business facilities in Japan and overseas, which enables them to learn directly about the state of business execution in order to deepen their understanding of NSK's business and matters specific to NSK.

Each outside director is a member of either the Nomination, Audit, or Compensation committees, and are supported in the corresponding duties by the respective secretariats.

**[Retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)]**

Information on retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)

Name	Job title/ position	Responsibilities	Employment terms (Full/part time, with/without compensation, etc.)	Date when former role as president/ CEO ended	Term
Seiichi Asaka	Honorary Advisor	Key external engagements to further the Company's activities in the business world	Part-time, compensated	6/25/2009	Maximum of five years
Norio Otsuka	Advisor	Key external engagements to further the Company's activities in the business world	Part-time, compensated	6/24/2015	Maximum of five years

Number of retired presidents/CEOs holding  
advisory positions (sodanyaku, komon, etc.)

2

Others

- Honorary advisors and advisors have no involvement in managerial decision-making. They engage in social activities and public services including key external engagements that serve to increase the Group's corporate value.
- "Term" in the above table indicates the maximum term of honorary advisor and advisor.

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

### (1) Current Framework

NSK's Board of Directors determines basic management policies, etc. with the aim of achieving the Group's sustainable growth and increasing its 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. In addition, the Nomination Committee, Audit Committee, and the Compensation Committee, each of which are chaired by an outside director, have been granted independent authority, and work to strengthen the monitoring function by fulfilling the criteria defined by the Companies Act etc. and the rules of each board committee. At the time of this report, our Board is comprised of nine directors, five of whom are outside directors (four men, one woman), while four are internal directors (three of whom concurrently serve as executive officers).

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. We also maintain an Operating Committee, which functions as an organization to support the CEO in the decision-making process. The Committee deliberates on policies and key matters related to the NSK Group's business operations. NSK also holds Executive Officers Meetings, which provide an opportunity for executive officers to report on the status of their duties to the CEO. The meetings also aim to foster a common understanding of operational direction by sharing important information related to the operation of the business among the executive team.

The structure of the Board and each committee and the number of times each meeting was convened during the period from April 1, 2019 to March 31, 2020, and the attendance record of each member are outlined below.

#### [Board of Directors]

- Objectives and authority
  - Passes resolutions related to basic management policies, etc. (including delegation of duties to executive officers)
  - Supervises execution of duties by executive officers
- Structure: 12 members: (5 outside directors, 7 internal directors)
- Number of times convened: 10
- Secretariat: Employees from the Corporate Planning Division Headquarters and the Secretariat Office perform secretariat duties in addition to their regular duties.
- Members (number of meetings attended):
  - Toshihiro Uchiyama (10/10)
  - Saimon Nogami (10/10)
  - Shigeyuki Suzuki (10/10)
  - Yasuhiro Kamio (10/10)
  - Nobuo Goto (10/10)
  - Akitoshi Ichii (10/10)

Toshihiko Enomoto (10/10)  
Teruhiko Ikeda (10/10)  
Hajime Bada (9/10)  
Akemi Mochizuki (10/10)  
Toshio Iwamoto (7/7) \*appointed as of June 25, 2019  
Yoshitaka Fujita (7/7) \*appointed as of June 25, 2019

Directors Shigeyuki Suzuki, Yasuhiro Kamio, Nobuo Goto and Teruhiko Ikeda retired from their positions as of June 30, 2020, and Mitsuhiro Nagahama was appointed as a director on the same date.

[Nomination Committee]

- Objectives and authority
  - Determines the content of proposals submitted to the General Meeting of Shareholders regarding the appointment or dismissal of directors
- Structure: 3 members: (2 outside directors, 1 internal director; Chair: outside director)
- Secretariat: Employees from the Human Resources Management Division Headquarters and the Corporate Planning Division Headquarters perform secretariat duties in addition to their regular duties.
- Number of times convened: 8
- Members (number of meetings attended)

Hajime Bada (8/8)  
Yoshitaka Fujita (7/7) \*appointed as of June 25, 2019  
Toshihiro Uchiyama (8/8)

[Audit Committee]

- Objectives and authority
  - Audits the duties of directors and executive officers
  - Creates audit reports
  - Determines the content of proposals related to appointment or dismissal of accounting auditor and other matters.
- Structure: 3 members: 2 outside directors, 1 internal director (standing Audit Committee member); Chair: outside director
- Secretariat: Employees from the Internal Audit Department perform secretariat duties either exclusively or in addition to their regular duties.
- Number of times convened: 15
- Members (number of meetings attended)

Akemi Mochizuki (15/15)  
Teruhiko Ikeda (15/15)  
Toshihiko Enomoto (15/15)

Teruhiko Ikeda retired from his position as of June 30, 2020, and Yoshitaka Fujita and Mitsuhiro Nagahama were appointed as directors on the same date.

[Compensation Committee]

- Objectives and authority
  - Determines policies on the compensation of directors and executive officers
  - Determines the individual compensation provided to directors and executive officers, and other matters

- Structure: 3 members: (2 outside directors, 1 internal director; Chair: outside director)
- Secretariat: Employees from Human Resources Management Division Headquarters perform secretariat duties in addition to their regular duties.
- Number of times convened: 5
- Members (number of meetings attended)  
Teruhiko Ikeda (5/5)  
Toshio Iwamoto (4/4) \*appointed as of June 25, 2019  
Akitoshi Ichii (4/4) \*appointed as of June 25, 2019

Teruhiko Ikeda retired from his position as of June 30, 2020, and Mitsuhiro Nagahama was appointed to his position on the same date.

#### (2) Initiatives to Strengthen Audit Committee Functions

As a Company with Three Committees (Nomination, Audit and Compensation), in order to maximize the efficiency and effectiveness of our Audit Committee function, we strive to place outside directors with correlating expertise and experience, such as Certified Public Accountants, on the Committee. In addition, we have assigned an internal director who does not concurrently serve as an executive officer as a full-time (standing) member of the Committee. Furthermore, we have established a dedicated (full-time) secretariat to support the Audit Committee, while the Internal Audit Department, the Group's internal auditing division, collaborates with the Committee to perform audits of the Group's operations.

#### (3) Liability Limitation Agreement

Pursuant to Article 427, Paragraph 1 of the Companies Act and Article 27 of the Articles of Incorporation of the Company, the Company has executed agreements to limit liability for damage of Directors under Article 423, Paragraph 1 of the Companies Act with all Directors (excluding executive directors). The limits of liability for damage under the agreement are equal to the minimum amount of liability as set forth in the relevant laws and regulations.

### 3. Reasons for Adoption of Current Corporate Governance System

NSK has adopted a Company with Three Committees (Nomination, Audit and Compensation) system as its form of corporate organization to better achieve the basic approach described in the section of this report entitled "I-1 Basic Views".

We believe that this organizational design—in which outside directors who have no conflict of interest of interest with regular shareholders participate in Board of Directors meetings as well as the three supervisory committees (Nomination, Audit, Compensation) to determine key management policies and monitor the duties of executive officers—serves to further the transparency and soundness of our corporate management.

## III. Implementation of Measures for Shareholders and Other Stakeholders

### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	NSK aims to send the Notice of the Ordinary General Meeting of Shareholders to its shareholders around three weeks before the meeting date. However, the notice for fiscal 2019 (the year ended March 31, 2020), due to the worldwide spread of the novel coronavirus, the accounting process was delayed and the notice was sent out two weeks before the meeting date.

	Prior to sending the Notice of the Ordinary General Meeting of Shareholders, we registered with the Tokyo Stock Exchange on June 3, 27 days before the meeting, and disclosed the date on our website on June 4.
Scheduling AGMs Avoiding the Peak Day	NSK aims to hold its Ordinary General Meeting of Shareholders at least two days prior to the busiest date for shareholders meetings in Japan. However due to the worldwide spread of the novel coronavirus, the accounting process was delayed and the meeting for fiscal 2019 (the year ended March 31, 2020), was held on June 30.
Allowing Electronic Exercise of Voting Rights	NSK has allowed the electronic exercise of voting rights since fiscal 2008.
Participation in Electronic Voting Platform	NSK has allowed the electronic exercise of voting rights since fiscal 2008.
Providing Convocation Notice in English	NSK registers English-language versions of its basic information to the Tokyo Stock Exchange and publishes the same information on its website.
Other	NSK publishes the Notice of the Ordinary General Meeting of Shareholders and Business Report on its website.

## 2. IR Activities

	Supplementary Explanations	Explanation by Representative of the Company
Preparation and Publication of Disclosure Policy	NSK strives to disclose information rapidly and fairly to investors and other stakeholders. Accordingly, we have published our disclosure policy, which outlines our basic approach of actively engaging in dialogue with stakeholders, on our website at the address below: <a href="https://www.nsk.com/investors/management/disclosurepolicy.html">https://www.nsk.com/investors/management/disclosurepolicy.html</a>	
Regular Investor Briefings for Individual Investors	We hold several briefings per year for individual investors.	No
Regular Investor Briefings for Analysts and Institutional Investors	We hold quarterly briefings, hosted by top management, to explain our corporate results and mid-term management plans as well as the progress of each. In addition, we hold several small meetings per year hosted by our CEO.	Yes
Regular Investor Briefings for Overseas Investors	NSK aims to communicate proactively with investors outside Japan. Our senior management makes annual visits to Europe, the United States and Asia to engage with institutional investors. We also participate in several conferences per year for overseas investors held by securities companies.	Yes
Posting of IR Materials on Website	NSK's quarterly financial results, securities reports, reporting materials (business reports, consolidated and non-consolidated financial statements, audit reports, etc.), NSK Report (Integrated Report)/annual reports, Sustainability Reports, results presentation materials, fact books, mid-term management plans, and other	

	reference materials are published on our website at the address below: <a href="https://www.nsk.com/investors/">https://www.nsk.com/investors/</a>	
Establishment of Department and/or Manager in Charge of IR	NSK has established the IR Office, a specialized organization which reports directly to the CEO and is overseen by the executive officer responsible for investor relations.	

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	With the NSK Corporate Philosophy serving as the cornerstone for all our management decisions, respect for the position of our stakeholders is ingrained in all our internal regulations, such as the NSK Code of Corporate Ethics, Corporate Governance Rules, and Compliance Rules. We regard customers, suppliers, employees, shareholders and investors, local communities, and future generations as important stakeholders of the NSK Group.
Implementation of Environmental Activities, CSR Activities etc.	We report on our relationship with stakeholders, as well as the status of our environmental and CSR initiatives, etc., in our annual NSK Report and Sustainability Report, which are published on our website at the addresses below: NSK Report <a href="https://www.nsk.com/investors/library/nsk_report.html">https://www.nsk.com/investors/library/nsk_report.html</a> NSK Sustainability Report <a href="https://www.nsk.com/sustainability/csrReport/index.html">https://www.nsk.com/sustainability/csrReport/index.html</a>
Development of Policies on Information Provision to Stakeholders	We realize that improving the soundness and transparency of our management to achieve smooth business operations ultimately contributes to the profitability of NSK. To ensure transparency, we have set out rules for timely disclosure of financial and other corporate information in the NSK Group Management Rules, and proactively work to provide key corporate information. In the aforementioned Sustainability Report we provide information on our CSR initiatives, such as environmental protection initiatives, with a focus on each stakeholder, in line with the Environmental Reporting Guidelines issued by Japan's Ministry of the Environment and GRI (Global Reporting Initiative) Sustainability Reporting Standards.

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

#### 1. Basic policy on the development of internal control systems

Since resolving the Basic Policy on the Development of Internal Control Systems in 2006, NSK's Board of Directors has continually reviewed and updated this policy in light of the changing societal expectations placed on companies. Our current policy is outlined below.

#### (1) Structure to ensure appropriateness of operations in the NSK Group

NSK shall aim to improve internal control over the NSK Group as a whole, improve the soundness and transparency of its management, and manage its business smoothly in line with "NSK Group Management Rules." Based on this policy, NSK aims to establish a structure that ensures the

appropriateness of operations throughout the NSK Group. In addition, NSK shall receive, on a regular or continuous basis, reports from the NSK Group's respective divisions regarding relevant duties, and reports from directors of subsidiary companies or equivalent persons regarding the performance of their duties, in accordance with the NSK Group rules governing management and business procedures. The Audit Committee or Audit Committee members appointed by the Audit Committee shall receive reports from subsidiaries on a regular basis. If necessary, they may visit the subsidiaries themselves or cooperate with the auditor of each subsidiary to inspect the status of operations and assets. In addition, when the Audit Committee finds it necessary, it may have the Internal Audit Department to perform this task under the direction of Audit Committee members.

- (2) Structure to ensure executive officers and employees of NSK and directors and employees of its subsidiaries conform to laws and regulations and the Articles of Incorporation during performance of duties

"NSK Code of Corporate Ethics," "Corporate Governance Rules" and "Compliance Rules," based on the NSK Corporate Philosophy, lay down the fundamental principles that executive officers and employees of NSK and directors and other officers/employees of subsidiaries shall comply with when conducting business activities, the structure for promoting compliance, and basic matters for operation (organization, structure for training, internal whistleblowing system, etc.). By fostering awareness of compliance among all officers and employees and strengthening/improving internal controls, NSK aims to prevent violation of laws, regulations, and the Articles of Incorporation. Especially NSK will prevent violation of competition laws in Japan and abroad by ensuring adherence to "Rules for Compliance with Competition Law." In order to strengthen the compliance structure of the NSK Group, NSK will maintain a Compliance Committee and install dedicated organizations to implement concrete measures based on the policies set by the aforementioned committee. The organizations shall work on an ongoing basis to raise awareness of and strengthen compliance through educational initiatives to encourage all NSK Group employees to recognize their responsibility to act as good corporate citizens and to oversee the implementation status of designated measures. Furthermore, the Group's Finance Division Headquarters shall ensure the establishment and operation of internal controls over financial reporting by the NSK Group as a whole, based on the "Rules for Internal Control over Financial Reporting," while the Internal Audit Department (IAD) shall evaluate their implementation. This system secures a structure from which reasonable assurance of financial reporting reliability can be obtained. As its basic policy, NSK takes a resolute stance against all antisocial forces that threaten the order and safety of civil society, and shall decline relationships, including business relationships, with such parties. In addition, NSK shall not accede to any unreasonable or illegal demands from such parties.

- (3) Structure for ensuring efficient performance of duties by executive officers of NSK and directors and other officers of subsidiaries

"NSK Group Management Rules" provide the framework to ensure efficient performance of duties by executive officers of NSK and directors and other officers/employees of subsidiaries regarding principles governing group management, decision-making mechanisms, continuous monitoring of business risks, and each NSK group company's performance targets and management.

- (4) Rules and other frameworks in the NSK Group for management of risk of loss

The NSK Group's Risk Management Rules stipulate the responsible persons and roles of organizations in the execution system, govern the Group's risks exhaustively and comprehensively, and clarify the risk management system. The Internal Audit Department audits risk the management status of each division and reports results to the Audit Committee. The Committee reports this information to the Board of Directors on a regular basis.

- (5) Framework concerning saving and retention of information related to performance of duties by executive officers of NSK and directors and other officers/employees of subsidiaries

The framework for saving and retention of information regarding performance of duties by executive officers of NSK and directors and other officers of subsidiaries shall follow the provisions “NSK Group Management Rules,” “NSK Group Rules on Saving and Retention of Documents” and “NSK Group Information Security Standards.” Executive officers of NSK and directors and other officers/employees of subsidiaries shall make information regarding the above readily available upon request of the Audit Committee or Audit Committee member(s) appointed by the Committee.

- (6) Matters required for the execution of Audit Committee duties

- 1) Matters concerning members of the board and employees who should support the duties of the Audit Committee

The Internal Audit Department is appointed as the organization which supports the duties of the Audit Committee. Selected employees of the Internal Audit Department shall support the duties of the Audit Committee either full-time or part-time.

- 2) Matters concerning independence from the executive officer in charge of the Internal Audit Department and effectiveness of directions issued to the Internal Audit Department

The Internal Audit Department shall be an organization reporting directly to the CEO, independent from audit subject divisions. In order to conduct organizational audits, the Audit Committee may give direct instructions/directions to the head of the Internal Audit Department or employees belonging to the Internal Audit Department. Official notification of appointment or disciplinary disposition of the head of the Internal Audit Department and Internal Audit Department staff requires the prior consent of the Audit Committee.

- 3) NSK Group framework for reporting to the Audit Committee

The NSK Group shall establish a framework under which the responsible persons in business divisions and Group Companies are required to report on items deemed necessary by the Audit Committee. Any events with the potential to cause substantial detriment to the NSK Group must be reported to the Audit Committee on a regular basis. When it is judged that an event likely to cause substantial detriment to the Group has occurred, details must be reported to the Audit Committee immediately. As a means to complement reports, Audit Committee members appointed by the Audit Committee may attend important meetings of the NSK Group which the Audit Committee finds necessary, with consent of the host of the meeting. In addition, executive officers shall establish an internal whistleblowing system in the NSK Group and report the operation and status of whistle-blowing to the Audit Committee or Audit Committee member(s) appointed by the Committee without delay. In addition to the content or methods of the reports stipulated above, directors, executive officers, employees, and auditors of the NSK Group, or persons receiving reports from the aforementioned parties, may report to the Audit Committee. The NSK Group shall prohibit unfavorable treatment of any person reporting to the Audit Committee as a result of the aforementioned or other reports, regardless of the reporting format, and ensure that this policy is understood throughout the NSK Group.

- 4) Other structures for ensuring effective auditing by the Audit Committee

The Audit Committee shall exchange opinions with the CEO and accounting auditor on a regular basis, and, in order to ensure the effectiveness of internal audits performed by the Internal Audit Department, may recommend to executive officers changes to audit plans, performance of additional audits, or improvements in light of the annual internal audit plan, its implementation status, and results. In addition, if necessary during the course of their auditing duties the Audit Committee may hire their own consulting lawyer, or receive advice from specialist lawyers or accountants. NSK shall process expenses



incurred during the performance of Audit Committee members' duties in a prompt and appropriate manner, either via pre-payment of reimbursement, in accordance with the designated methods.

## 2. Functions and Organization Related to Internal Control

The main functions related to the development, maintenance, and operation of the NSK Group's internal control systems as well as the role of the organizations responsible are outlined below. The following organizations play a key role in the development and operation of internal control systems.

### (Compliance)

The Compliance Committee develops policies designed to strengthen the compliance of the overall NSK Group, sets and promotes compliance enhancement measures to realize these policies, supervises their implementation, and periodically reports to the Board on the progress of these measures.

The Compliance Enhancement Office is located under CSR Division Headquarters and as the operational arm of the Compliance Committee is responsible for implementing measures to strengthen compliance based on the policies set by the Committee. It also monitors the operation of initiatives and reports their progress to the Compliance Committee on a regular basis.

### (Risk Management)

Corporate Planning Division Headquarters and Finance Division Headquarters coordinate with each business, functional and regional headquarters to support the CEO and oversee and manage general risks related to management of the NSK Group. It is also responsible for maintaining and enhancing the internal control systems necessary for the operation of the NSK Group's global business.

The Internal Audit Department conducts regular stock takes of risks and performs risk and monitoring to ascertain their management status. It also studies the appropriateness of internal systems and performs business audits to facilitate corrective measures or improvement initiatives.

The Risk Management Committee is responsible for preparing and strengthening risk management systems in order to prevent or minimize the damage from major risks to the NSK Company, such as natural disasters, pandemics, or major accidents. It is also responsible for leading a swift and appropriate response in the event of a disaster.

### (Approval and Reporting)

Each NSK Group Company shall duly apply for approval to the CFO for matters related to corporate management, systems, governance structure and interest of shareholder, or to the controlling business or functional division headquarters in the case of important decisions related to business operation. NSK Group Companies also report on the status of their operations to the Company on a regular basis.

## 2. Basic Views on Eliminating Anti-Social Forces

As its basic policy, NSK takes a resolute stance against all antisocial forces that threaten the order and safety of civil society, and shall decline relationships, including business relationships, with such parties. NSK shall not accede to any unreasonable or illegal demands from such parties. In order to ensure a systematic response across the NSK Group, this policy is clarified in the NSK Code of Corporate Ethics, and we are making ongoing efforts to promote awareness as well as strengthening collaboration with the police and other external organizations.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Adopted
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## **I. Outline of the Basic Policy regarding Persons Controlling the Company's Decisions concerning Financial and Business Policies**

The Company is a stock company whose shares are traded on capital markets, and therefore, the Company believes that, in the case of a large-scale purchase of the Company shares, the decision whether to accept such a purchase should ultimately be left to the shareholders.

However, there is a possibility that a sudden and unsolicited large-scale purchase of shares could occur without necessary and sufficient information being disclosed and an opportunity to consider the proposal being given to the shareholders, and without the NSK's Board of Directors being provided with the information and time to express its opinion and make an alternative proposal. Some of these large-scale purchases of shares may damage the Company's corporate value and the common interests of its shareholders, such as the case in which a purchaser does not intend to manage the Company reasonably or in good faith.

The Company believes that any party that makes a large-scale purchase of the Company shares that damages the Company's corporate value and the common interests of its shareholders is not an appropriate party to control the Company's decisions concerning financial and business policies.

## **II. Outline of the Effective Usage of the Company's Assets, Formation of an Appropriate Corporate Group, and Other Special Endeavors which Contribute to the Realization of the Basic Policy**

### **a) Endeavors to Enhance Corporate Value under the Mid-Term Management Plan**

The NSK Group aims to establish a corporate foundation capable of sustainable growth in the mid- to long-term, in order to continue providing value to society through our Motion & Control technology. Focused on this goal, NSK began its Sixth Mid-Term Management Plan, which will span the three years from 2019 to 2021. The primary objective of the Sixth Mid-Term Management Plan is to Build a business base and strengthen resources in preparation for the next growth phase. With safety, quality, compliance, and the environment as our core values, we will maintain the two key policies set forth in the Fifth Mid-term Management Plan: Operational Excellence (ceaseless pursuit of competitiveness) and Challenging Innovation (generate new value), while working to address three main management tasks: new initiatives targeting growth, enhancing managerial resources, and contributing to the environment and society.

The three main management tasks and details of initiatives are shown below.

#### **1. New initiatives targeting growth:**

- Expand sales of NSK's core products in the growth segments of IoT, electrification, automation, and environment.
- Achieve sales growth by marketing new products in growth segments.
- Restore growth in the EPS business by enhancing our product lineup.

#### **2. Enhancement of managerial resources:**

- Innovate personnel development by restructuring training and education institutions, promoting work style reform and health and productivity management, and promoting diversity and inclusion.
- Achieve innovation in manufacturing by utilizing IoT technology.
- Innovate product development through ceaseless refinement of NSK's core technology and further utilization of open innovation.

#### **3. Contribution to the environment and society:**

- Reduce CO2 emissions, both through our business activities and by developing environmentally friendly products, and effectively utilize resources.
- Create high-quality products which are safe and deliver peace of mind to the market and our customers, and develop a thorough safety-first internal culture.
- Be a company that is trusted by society and create a positive, inclusive work environment.
- Enhance Group governance and dialogue with stakeholders.

The NSK Group will continue contributing to the resolution of societal issues and the sustainable development of society through its corporate activities and the evolution of its Motion & Control technology, while also aiming for ongoing growth through the initiatives above.

#### **b) Endeavors to Enhance Corporate Governance**

The Company has been actively working to improve the transparency and soundness of its management-related decision-making in order to fulfill its social responsibilities as well enhance its corporate value and, by extension, the common interests of its shareholders. Even before shifting to a Company with Committees, etc. governance system in 2004, the Company worked to enhance its governance by introducing an executive officer system, inviting outside directors onto its board, and voluntarily establishing a compensation committee and audit committee. The Company is currently endeavoring to further improve its management transparency and soundness under a Company with Three Committees (Nomination, Audit and Compensation) structure, with each the three committees (nominating committee, audit committee, and compensation committee) comprised of an internal director and a majority of external directors.

Each of the Company's external directors have been registered to the Tokyo Stock Exchange as independent directors.

### **III. Endeavors to Prevent Decisions concerning the Company's Financial and Business Policies from Being Controlled by Inappropriate Persons in Light of the Basic Policy**

The Company renewed response measures to large-scale purchases of the Company's shares Company shares (the "Plan") by obtaining shareholder approval at the Ordinary General Meeting of Shareholders held on June 30, 2020.

The Plan is effective through to the conclusion of the Ordinary General Meeting of Shareholders scheduled to be held in June 2020.

The Plan applies to acts such as a purchase of share certificates, etc. of the Company whose purpose is to make the holding ratio of rights to vote of the specific shareholders' group twenty (20)% or greater ("Large-scale Share Purchase,") and a person who conducts or is about to conduct a Large-scale Share Purchase is referred to as the "Large-scale Share Purchaser." The defined procedures (Large-scale Share Purchase Rules") state that the Large-scale Share Purchaser can only commence the Large-scale Share Purchase after providing information necessary and sufficient for shareholders to make a decision and for the Board of Directors to evaluate and examine, etc., and, after providing this information, completion of a specified period during which the Board of Directors will evaluate and examine the proposal of the Large-scale Share Purchase, etc.

In the case where the Large-scale Share Purchaser commences a Large-scale Share Purchase in compliance with the Large-scale Share Purchase Rules, the board of directors will, as a general rule, not trigger countermeasures to such Large-scale Share Purchase. The board of directors, may, however, express its objections, etc., to shareholders. Notwithstanding the foregoing, if such Large-scale Share Purchase is reasonably deemed to be likely to materially damage the Company's corporate value and shareholders' common interests, after the expiration of the Board of Directors' Evaluation Period, the board of directors may hold a General Meeting of Shareholders and ask the shareholders to decide whether to trigger countermeasures. In addition, if such Large-scale Share Purchase is deemed to fall under any of five types,

such as in the case that the Large-scale Share Purchaser is a "greenmailer," or in the case where it is judged that the purchasing method of the Company's suggested by the Large-scale Share Purchaser may force the selling of shares upon the Company's shareholders by restricting the opportunity or freedom of judgment by shareholders, such as a coercive two-tier purchase and such Large-scale Share Purchase is reasonably deemed to materially damage the Company's corporate value and shareholders' common interests, the board of directors may pass a resolution to trigger countermeasures.

On the other hand, in the case where the Large-scale Share Purchaser commences a Large-scale Share Purchase without complying with the Large-scale Share Purchase Rules, the board of directors may trigger countermeasures to secure and enhance its corporate value and its shareholders' common interests. Notwithstanding the foregoing, if the board of directors reasonably determines that it is practicable and is appropriate to hold a General Meeting of Shareholders in order to confirm its shareholders' opinion and to have them decide whether to trigger countermeasures, the board of directors shall, after the expiration of the Board of Directors' Evaluation Period, hold a General Meeting of Shareholders, and leave the shareholders to decide whether to trigger countermeasures to the Large-scale Share Purchase.

In the case that the above General Meeting of Shareholders is held, the Large scale Purchaser shall not commence the Large scale Purchase until the close of the meeting. When the board of directors decides on whether to trigger countermeasures, it shall take the following measures in order to secure the reasonableness and fairness of the board of directors' decision.

Before triggering the countermeasures, the board of directors shall consult with the Independent Committee, an organization independent from the board of directors, and in deciding whether to trigger countermeasures, the board of directors shall respect the Independent Committee's recommendation to the greatest extent possible. The board of directors shall unanimously resolve to trigger countermeasures at a board of directors' meeting at which all directors are present.

With respect to the details of the Plan, please see the "Continuation of the Response Measures to Large-scale Purchases of the Company Shares (Takeover Defenses)" as of date June 2, 2020, which is published on the Company's website at the address below:

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

#### **IV. Judgments of the Board of Directors and reasons therefor regarding the endeavors described above**

The endeavors described in [II] above are part of the Company's basic endeavors for the mid- to long-term improvement of the Company's corporate value, and have been undertaken for the purpose of enhancing the Company's corporate value and the common interests of its shareholders.

The endeavors described in [III] above have been introduced to require the Large-scale Share Purchaser to provide necessary information on the Large-scale Share Purchase, and secure the necessary period to evaluate, etc., the substance of the Large-scale Share Purchase in order to secure and enhance the Company's corporate value and the common interests of its shareholders, and, by preventing certain types of Large-scale Share Purchases defined in the Plan, as described in [III] above, the endeavors described above aim to prevent inappropriate persons from controlling the decisions concerning the Company's financial and business policies in light of the basic policy described in [I] above.

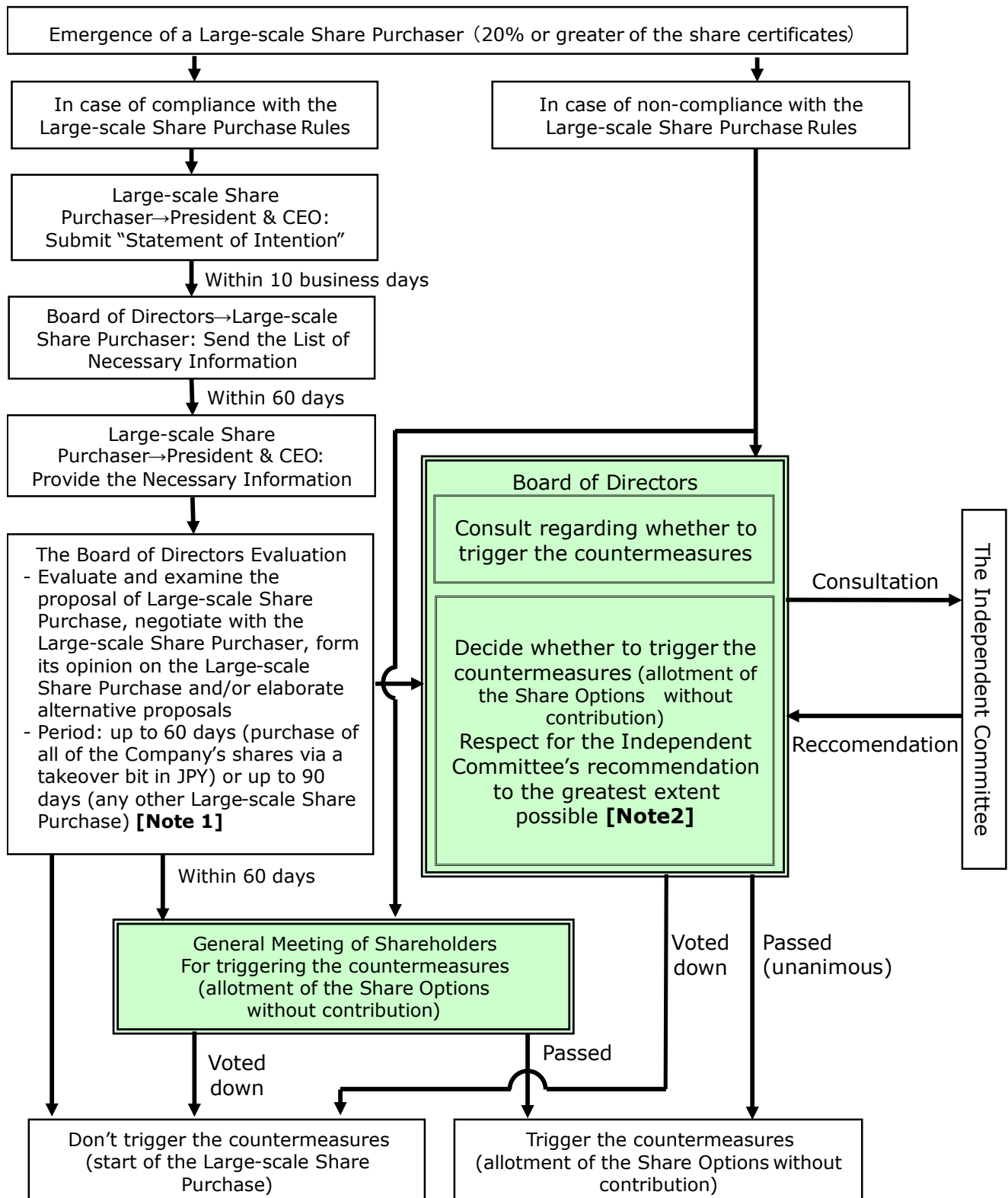
Furthermore, as described in [III] above, there is a general rule to triggering countermeasures that requires the Board of Directors to hold a General Meeting of Shareholders and, when determining whether to trigger the countermeasures, the Board of Directors shall consult with the Independent Committee and respect the recommendation made to greatest extent possible. The Board of Directors must then unanimously resolve to trigger countermeasures at a Board of Directors' meeting at which all of the directors are present. Therefore, NSK has secured a range of systems and procedures that prevent any arbitrary decisions by the Board and ensure that any measures taken are rational and fair.

Therefore, the Board of Directors believes that the endeavors described in [II] and [III] above are consistent with the basic policy described in [I] above, do not damage the common interests of the Company's shareholders, and are not for the purpose of allowing the Company's directors to maintain their position.

**2. Other Matters Concerning to Corporate Governance System**

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Flow Chart of the Procedures Related to the Plan



**[Note 1]** Provided, however, that the period may, after consulting with the Independent Committee and by respecting the Independent Committee's recommendation to the greatest extent possible, be extended up to an additional 30 days by unanimous resolution of the board of directors including the outside directors (provided that the extension may be made only once.).

**[Note 2]** The board of directors may trigger the countermeasures in the following cases, provided, however, that the determination to trigger the countermeasures shall be made by unanimous resolution of the board of directors including the outside directors, after consulting with the Independent Committee and by respecting the Independent Committee's recommendation to the greatest extent possible:

- (1) when the Large-scale Share Purchaser does not comply with the Large-scale Share Purchase Rules;
- (2) when the Large-scale Share Purchase falls under any of five types and such Large-scale Share Purchase is reasonably considered to materially harm the Company's corporate value and shareholders' common interests.

Except for the cases of **[Note 1]** and **[Note 2]**, the resolution of the board of directors shall be made by a majority of the directors who are present at the meeting.

With respect to the procedures, etc. related to the implementation of this Plan, the Guideline has been established separately.

