

To reflect the opinions of our stakeholders in our corporate activities, we have annually held dialog with academics and experts in various fields of sustainability since 2015. For this fiscal year, the 9th dialog was held in May.

In last year's stakeholder dialog, while we listened to how sustainability has actually been promoted in companies, important viewpoints of "not making it a task for disclosure" and "making sure that employees can personalize sustainability" were proposed. It was also recommended that we should confirm individual purposes while promoting activities because the company's purpose is an aggregation of purposes of each employee.

By referring to these recommendations we had received, NTN started a "Carbon Neutrality Promotion Project" in last July to set targets and strategies toward achievement of carbon neutrality. In addition, to promote this project from a location closer to management, the organization was changed in April 2023 to the "Carbon Neutrality Strategy Promotion Department" and turned to a department in the Group Management Headquarters.

Also, "NTN PROUD AWARD," originally started in 2018, was revised into an ESG activity award system and newly restarted on a full scale last year. Through these activities, we are steadily getting closer to achievement of our materiality targets.

In this dialog, we exchanged opinions with experts about the status of our activities and how to proceed in the future. Based on the recommendations we received, we will promote company-wide initiatives for realization of a "NAMERAKA Society."

Topics of the dialog


Topic 1

How to proceed with ESG management


Topic 2

Carbon neutrality


Experts




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(\*Assignment and title of participants are as of the dialog held.)

Topic 1

How to proceed with ESG management

**NTN:** Based on the various recommendations we received in last year's dialog, we are now promoting activities for ESG management through not only bottom-up but also top-down approaches to communicate messages on risks and opportunities specifically linked to management strategies with the timeline fixed in the medium to long term in an easy-to-understand manner. Establishment of the "Carbon Neutrality Strategy Promotion Department" was also part of it. Besides, we think "NTN PROUD AWARD" was successful as the first convention after system renewal, with participation of 69 teams from all over the world.

With regard to materiality, NTN is considering incorporating the current materiality for achieving SDGs into the next Medium-term Management Plan as the materiality for achieving the company's purpose, while proceeding with establishment of a system that enables each employee to "personalize" sustainability activities.

We hope to obtain tips on our ESG management promotion in the future in reference to initiatives promoted by Sekisui House, Ltd. (hereafter, Sekisui House), a company going ahead of us, though in an industry different from ours, and opinions from experts.

**Kokubu:** I see that NTN has set specific strategies and is going ahead along them. In your industry, the external pressure toward sustainability is strong, but I don't think there are any deficiencies or issues in your target setting for carbon neutrality, identification of materiality, disclosure of related information, and initiatives. In other words, I can say that there are no problems in the "foundation." However, as I also said last year, the foundation is easy to build because it is a "form." What is important is to link it to the creation of actual corporate value. It is necessary to focus on ESG activities because a framework for evaluating them has already been established and a low evaluation may affect investment, but too much alignment with evaluation may make it mere a formality. Therefore, it is necessary to figure out how not to make it mere a formality. In that point, I strongly hope that "NTN PROUD AWARD" will be successful as one of your systems for value creation. It would be a good idea to bring out and deploy new businesses from it. But it will not work out if you try to earn quick profit. Instead, you need to think it as investment for the future, even if certain time and cost are required. The difficulty in creating value through ESG management lies in not being able to set a goal soon because you cannot tell what you can do. However, even while you are uncertain, it is important to continue to think what you can do by utilizing your bearings and related technologies and know-how, and to establish a system that enables you to invest currently available resources for that purpose. Otherwise, ESG

management will soon turn into a mere formality. In this regard, "personalization by managers," cited as one of your future issues, is an important aspect. It is recommended that managers will proceed with it as a task, with more specific targets.

Meanwhile, who will bear the cost is another very important issue. It is also related to the next topic, carbon neutrality, and I think there are two vectors for how to view the cost. One is to promote carbon neutrality strongly with advanced technologies, ask customers to understand the cost, and reflect the cost in product prices. The other is to pursue carbon neutrality at a level considered necessary and sufficient in the industry and control the cost within the scope. It depends on each company's level of technologies which strategy is reasonable, but it is necessary to refine strategies through validation. It is also unpredictable how fast and in which direction the external pressure will move on. The pressure also differs depending on the region, so it is necessary to set strategies by proactively considering where you are located in the move toward carbon neutrality.

**Nashioka:** The importance of strategies was just mentioned, so please share how ESG has been integrated into strategies at Sekisui House.

**Shimizu:** We announced our sixth Medium-term Management Plan in March this year. This project was started in June last year, and business divisions and corporate divisions have repeated discussions together for it. More specifically, regarding our global vision of "make home the happiest place in the world," we have considered our priority measures, or what we will achieve with the next Medium-term Management Plan.

With regard to ESG management, we have created the foundation through the fifth Medium-term Management Plan, and we think the key for it is to "personalize," as previously mentioned. "Participation of all employees" was one of the pillars of ESG management also in the fifth Medium-term Management Plan, but we determined to further enhance the initiative and promote the "ESG management through participation of all employees," unique to the Sekisui House Group. This was set as our ESG management strategy in the sixth Medium-term Management Plan. Besides, to "build an organizational culture that fosters innovation," we established an award system called "SHIP (Sekisui House Innovation & Performance Awards)" and have implemented initiatives to develop autonomous persons and organizations that will continue to produce innovations. We are also working to "set and implement ESG indicators" to utilize ESG indicators for ensuring the transparency and effectiveness, including setting ESG indicators easy to be understood by employees and establishing a system to link ESG indicators not only to compensation for directors but also to awarding for business sites. Our strategies also

include reduction of capital cost through further promotion of ESG management and improvement of our corporate value through the synergy of ROE improvement and ESG management promotion.

**NTN:** Thank you very much. “Cost” was mentioned earlier, and that is the very thing we are also concerned about. Our products reduce energetic load in themselves, which contributes to sustainability, but of course, their production process consumes water and electricity. It is difficult to reduce the environmental load to zero in production of all products, but we sometimes think that it would be easier to reflect cost increases in product prices by segmenting each product. For example, it may be effective to produce products using only natural energy such as wind and solar power and convince customers of the value. How do you regard the environmental cost at Sekisui House?

**Shimizu:** The cost is partly absorbed in-house, but basically, we ask the customer to understand the added value and reflect the cost in product prices.

## Topic 2

### Carbon neutrality

**NTN:** Through our Carbon Neutrality Promotion Project started in July last year, we have been considering how to materialize each initiative with the following three teams organized: “visualization of power consumption,” “planning and consideration of purchasing renewable energy power” and “consideration of internal carbon pricing (ICP).” The activity period ended on March 31 this year, and the initiatives were taken over to the Carbon Neutrality Strategy Promotion Department organized in April.

Through each initiative, a rough roadmap was prepared in Japan. In the future, we plan to establish a Carbon Neutrality Promotion Committee structure for global engagement in regional units. Could you give us advice on challenges such as setting intermediate annual targets and how to check a global CO<sub>2</sub> reduction roadmap once prepared.

**Yamada:** I feel that a structure has gradually been organized toward a challenging goal. In establishing a roadmap, it is better to estimate first how much energy consumption can be reduced. To do so, you need to accumulate expertise from in-house energy-saving specialists and set energy-saving control points and completeness evaluation standards for each equipment. This will roughly clarify how much more energy can be reduced at each plant. Once the portion of energy saving is made clear, you can see how much more reduction is required using renewable energy, which makes the related cost visible. With regard to energy saving, it can be said that the Energy Conservation Promotion Group

organized in the Carbon Neutrality Strategy Promotion Department has a large role to play. “Visualization of energy consumption” is listed as one of your measures, but is it clear how and what to “visualize”? One possible first step is to visualize how effectively energy has been utilized in each process. This will quantify the total loss and visualize the limit. Even if it is impossible to eliminate all losses, I think the seriousness in engagement will differ between energy-saving activities conducted blindly with the limit unknown and those conducted, for example, with knowledge that 80% of energy consumption in the process is loss. It is also necessary to think about fixed energies. Energy-saving should always be discussed in connection with production activities. By thinking that energies not contributing to production are all losses, it is better to proceed with initiatives for thoroughly reducing fixed energies. In QCD activities, the lead time, man-hours, quality standard, etc. are documented and monitored for each product and process. Controlling energies also at the same level will probably show the route toward achieving your goal more concretely.

**Kokubu:** Achievement of carbon neutrality is unavoidable, but if you don’t understand what carbon neutrality is, you may still be able to set a plan, but unable to understand its meaning. For example, you have a plan to reduce most of the emission by utilizing renewable energy, but NTN seems to cover a higher ratio by purchasing CO<sub>2</sub>-free electricity at present. If going to extremes, you can achieve carbon neutrality if all electricity you purchase is renewable energy. However, that means you practically make no efforts. Rather, it is important to try to generate the source of green electricity as much as possible. When thinking of electricity self-sufficiency, carbon neutrality will probably take on new meaning.

**Yamada:** The most important thing in renewable energies is “energy creation.” The first thing you should consider after reaching complete energy saving is where you can create electricity. You should first look for on-site locations, and then off-site locations. This initiative should be given a high priority. If this is not enough, purchase CO<sub>2</sub>-free electricity. I recommend this sequence.

**Nashioka:** In summary, I think true carbon neutrality is to ask each company to create electricity on-site. Could you share a related business case at Sekisui House?

**Chikada:** For the past one year, we have focused on net zero energy houses (ZEHs) for rent. While ZEHs for sale are gradually gaining popularity, those for rent are still far from becoming popular.

There are two types of ZEHs for rent: building-wise ZEHs and house-wise ZEHs. For our rental houses, we promote the latter, in other words, the type of ZEHs that aim at zero energy balance at each house. The former has a high energy-saving performance as the whole



building, but you can’t tell whether each house is ZEH or not, so we cannot convince residents of the advantages of ZEHs, such as the comfort and lower utility costs. But advantages of the latter are convincing, so we can even raise the rent. Anticipating an increased number of ethical consumers decades later, we are now proposing would-be owners to build house-wise ZEHs, which will require higher initial cost but remain competitive in the longer term, and this proposal is being accepted. Also, according to our survey on former residents of ZEHs for rent, 80% answered that they want to live in ZEHs again. That means we are increasing ZEH fans. We are trying to create a trend toward ZEHs for both sale and rent.

**Nashioka:** I heard that something had motivated your employees to personalize carbon neutrality.

**Chikada:** That’s right. In 2009, we commercialized houses with a pretty high energy-saving performance at the time, the predecessor to ZEH. At the same time, we changed our sales policy from “price-based” to “value-based.” We started our journey in the direction of presenting high value-added products to customers, making them understand the value, and selling our products at adequate prices. At first, some sales representatives felt uncomfortable, but once successful experiences started to emerge, an increasing number of representatives followed suit. All of us studied quite hard because we needed to learn to talk about product value in order to convince customers. I think this led to personalization of carbon neutrality.

**NTN:** We understand it’s a good business model in the food, clothing and housing industries, in that added value is recognized by customers, which in turn creates a positive chain reaction. Then, what initiatives should we implement in our industry, which is far away from food, clothing and housing.

**Chikada:** We also have suppliers. And we communicate to suppliers our expectation for them to use carbon-free building materials. In the construction industry, a trend toward using such materials even with higher costs has also emerged. Likewise, demands for carbon-free products may emerge at various bearing user companies. Still, I think this should not be tackled by a single company, but requires movement across industries.

**Yamada:** Recently, we are increasingly asked for advice also from the supplier side. For example, one of our customers asked us to show the result of LCA (Life Cycle Assessment) of their products. If products are produced completely with renewable energy, that would be a big differentiator. If you can launch initiatives ahead of other companies, I think that will become your strength in the future society.

**Nashioka:** Could each of you summarize today’s dialog?

**Chikada/Shimizu:** We have been engaged in ESG management for three years, and realized that success will be brought only through steady and diligent effort. At the beginning, it was mentioned that “a form can be created,” but we, having no form, were hit by the wave of ESG after launching our products. We now feel the difficulty of creating a form. We hope to continue our engagement while sharing information each other.

**Yamada:** NTN has declared reduction of energy loss. Bearings reduce energy loss caused by friction of rotating objects, etc., but certain loss still remains. I think you can increase the importance of and interest in bearings by clearly explaining, for example, how much impact automotive hub bearings have in global scale, or your current effort to reduce the loss as much as possible. I also feel it important to increase the sales of environment-contributing products.

**Kokubu:** I have an impression that we had many talks that lead to management during today’s dialog. This reflects the fact that, although environmental initiatives surely lead to management, each company has been confused with the gap. Carbon neutrality is not an issue that can be addressed through conventional methods of production and sales. I think it is important to view it as something you need to tackle strategically in a top-down approach.

**NTN:** Thank you very much for your precious recommendations. This is an opportunity for us to gain insights. We’d like to reflect recommendations we received today in our future initiatives. We will move forward step by step while sharing the significance of our initiatives within the company. We would highly appreciate your continued advice. Thank you very much for today.