Message from Executive Officer in Charge of Sustainability



Toward Further Sustainable Growth through a Two-Way Approach in Sustainability and Financial Strategy

Executive Officer

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The Connection Between ESG Management and Financial Results

Now in my second year concurrently overseeing the Sustainability and Finance departments, I have come to more strongly recognize that sustainability activities are not something that produces short-term results directly tied to financial figures. Just as the profit growth achieved in FY2025 was the result of accumulated, ongoing transformation in each region, I believe that continuous day-to-day effort is essential to creating value through the twin engines of sustainability and finance.

Every year, our company holds town hall meetings at major sites, including overseas, where President Ukai engages in direct dialogue with employees. In addition to this initiative, I believe that when Executive Officers and department heads create opportunities for dialogue at multiple levels within their respective departments, these opportunities deepen understanding of the Company's policies and measures and lead to improved employee engagement.

I myself hold regular meetings with colleagues in the Financial Strategy Dept., Accounting Dept., ESG Promotion Dept., and Internal Control Dept. under my charge, and make a point of directly conveying my own thinking. In doing so, I am conscious of promoting mutual understanding between departments—for example, by conveying a financial perspective to the ESG Promotion Dept. and Internal Control Dept., and conveying to the Financial Strategy Dept. and Accounting Dept. the importance of ESG management for generating sustainable results. Furthermore, at company-wide forums such as the Environmental Management Committee, the Sustainability Committee, and the Risk Management Committee, I deliberately touch on financial results figures, so that participants can feel that each of their initiatives is connected to our financial performance.

A Management Perspective Using ROIC Has Taken Root

Since FY2019, our company has been working to explain our concept of corporate value—that is, the appropriate level of profit relative to invested capital—using indicators such as ROIC and ROE. In addition, we are advancing initiatives that balance asset efficiency with profit, such as incorporating ROIC targets into the evaluation indicators for Executive Officers and heads of certain departments, primarily in business divisions. Through these initiatives, in the past, emphasis was placed on profit results relative to plans and actual performance, but the perspective of how much return is generated relative to invested capital has now taken root within the Company. For example, whereas profit measures at fiscal year-end were once sometimes prioritized over inventory targets, it is now widely understood that an increase in inventory leads to a decline in ROIC, and this has brought about changes in decision-making and behavior. As a result, over the two years of FY2024 and FY2025, we achieved a combined inventory reduction of 33.0 billion yen on a volume basis, excluding the effect of exchange rates. I find it encouraging that these accumulated efforts are now showing up in the numbers.

ESG Management in the Final Year of the Medium-term Management Plan

The Medium-term Management Plan "DRIVE NTN100" Final, which began in FY2024, has now entered its final year, and further strengthening of our initiatives is also required in ESG management.

E:Environmental

I believe our products contribute directly to the environment by reducing energy loss to the utmost extent possible. Beyond improving the performance of bearings on a standalone basis, we also aim to provide products and services that enhance value for our customers. Specifically, this means developing products that contribute to improving our customers' cost competitiveness, ease of design, and ability to respond to various regulations. I believe that continuing to refine our technology so that customers choose NTN products will, going forward, contribute not only to environmental benefits but ultimately to our own financial results as well.

Regarding our carbon neutrality target, the Carbon Neutrality Promotion Committee shares progress and future outlook. Toward achieving carbon neutrality in FY2035, we have set a target of reducing CO_2 emissions by more than 30% in FY2026 compared to FY2018, and progress is currently proceeding smoothly. At the same time, when making capital investments to promote carbon neutrality, we are always mindful of building highly productive manufacturing processes that are premised on achieving both CO_2 reduction and cost reduction together, rather than simply pursuing CO_2 reduction alone. Furthermore, regarding Sustainability-Linked Loans, the number of deals increased again this fiscal year, bringing the cumulative total including last year's deals to 22,

with an outstanding balance of 50.0 billion yen. Through these initiatives, we believe that achieving our carbon neutrality targets will also lead to economic benefits in terms of financing.

S: Social

I believe that one factor behind the way management's policies and our approach to ROIC have taken root within the Company is the result of systematic human resource development. Since FY2021, we have introduced NTN Next Leader Program, a talent development program for the next generation of leaders, which provides young managers with opportunities to learn management-oriented thinking, the fundamentals and applications of management strategy, and organizational transformation. I myself was dispatched to an external training institution for several months about ten years ago, and I feel that the systematic learning and experience I gained through interaction with people from diverse backgrounds continue to serve as a foundation for my subsequent decision-making and actions.

In addition, approximately 70% of our net sales come from overseas markets through our sites around the world, making it essential to "collaborate" with people of diverse historical and cultural backgrounds. In recent years, the hiring of foreign national employees has also increased in Japan, and whether in Japan or overseas, employees (talent) with diverse backgrounds understanding and accepting each other's differences while joining forces toward common goals leads to both the organization and individuals having a wide range of options in various situations. I believe that this kind of "collaboration" with diverse talent around the world, together with continuous investment in human resource development, raises the perspective of the organization as a whole and contributes to strengthening the Company's overall capabilities.

On the other hand, in the past, a third-party assessment of our sustainability activities identified items that fell short of the standards expected by our customers, and we faced a situation in which, had the assessment not improved, it could have affected the continuation of certain business relationships. In response, we promptly shared this information at a meeting attended by Executive Officers, and following several months of intensified internal efforts toward improvement, we were able to steadily bring our performance up to a level that meets customer expectations. This was a case that reaffirmed that our response to sustainability is an important management issue that can also affect the continuation of business relationships.

This is just one example showing that, in advancing value enhancement on the financial side, it is essential to link this with the promotion of non-financial sustainability activities. As the Executive Officer responsible for both areas, I will continue to further strengthen this linkage going forward.

G: Governance

The "Domestic Affiliated Company Governance Strengthening Project," launched in 2023, continues to be advanced, taking on evolving forms. Specifically, we have conducted e-learning twice a year for officers of affiliated companies, aiming to foster compliance awareness and deepen their understanding of their roles as officers. We have also steadily continued to develop various internal regulations. In addition to strengthening this foundation, this fiscal year we established a structure in which Executive Officers from the head office also serve as Audit & Supervisory Board Members of multiple subsidiaries, and I myself have had opportunities to offer opinions in that capacity. Furthermore, we began conducting thematic audits that delve into specific issues each year, and in the first year, we carried out a review of the IT systems of affiliated companies, among other steps to strengthen control at the operational level.

Meanwhile, the Audit Committee, chaired by an Outside Director, regularly conducts on-site audits of major locations, including overseas, and in addition to raising site-specific issues, an increasing number of cases have led to improvement initiatives on the executive side regarding matters such as accounting-related issues and the state of internal controls. With the Nominating Committee and Compensation Committee also chaired by Outside Directors, active exchanges of opinions take place, and I believe the effectiveness of governance across the Group as a whole is steadily improving.

Review of Materiality in Line with the Next Medium-term Management Plan

Our current materiality items were identified in December 2020. At that time, with awareness of the response to the SDGs, we organized them along two axes: "expectations from society" and "relevance to our business." This framework remains valid to a certain extent today, and we recognize that it accurately captures our important management issues.

At the same time, in light of subsequent changes in the business environment and societal expectations, we believe it is necessary to reconsider the positioning of our materiality items. In particular, in recent years the concept of "double materiality"—capturing both the impact that companies have on the environment and society, and the impact that changes in the environment and society have on corporate value—has become more widespread, and we are also required to organize our approach with this perspective in mind. In addition, it is important to incorporate dialogue with stakeholders more than before, in order to enhance transparency and stakeholder understanding and buy-in.

In this review, we will verify the validity of our existing materiality items and revise and reorganize them as necessary. As a result, it is possible that no major changes will be made; even in that case, we believe there is significance in thoroughly discussing the matter afresh in light of the current business environment and societal issues.

In the next Medium-term Management Plan, which will start next fiscal year, we aim to strengthen the linkage between materiality and management strategy more than ever before, to more clearly show the connections with each initiative and KPI, and to present, in a way that is easy to understand both internally and externally, a clear path toward our sustainable growth.