

# Financial Strategy/ Policy on Shareholder Returns

## 6th Mid-Term Management Plan Looking Back on the Financial Results (FY2019–FY2021)

Having decided that the basic policy of its financial strategy would be to balance investment in future growth with shareholder returns under a stable financial structure, NSK set the management targets shown below under its 6th Mid-Term Management Plan.

Affected by factors that included a curtailment of economic activity and supply chain disruptions due to the COVID-19 pandemic, which had manifested itself in the second half of the first year of the Plan (FY2019), the target for ROE, a profitability indicator, was not reached. However, even during the COVID-19 pandemic, NSK maintained a sound financial structure and, although profits declined, continued to return profits to shareholders in a stable manner.

Financial Strategy Basic Policy	Management Indicators	6th Mid-Term Management Plan Targets	Results at the Start of the 6th Mid-Term Management Plan (FY2018)	Results upon the Completion of the 6th Mid-Term Management Plan (FY2021)	Evaluation and Comments
Maintenance in Stabilization of the Financial Base	Net D/E ratio	Around 0.3 times	0.27 times	0.27 times	Maintaining sound and stable financial structure as initially planned even during the COVID-19 pandemic
	Equity ratio	Around 50%	49.4%	50.0%	
Growth with Profitability	ROE	10% or more	10.4%	2.8%	Declined due to lower profits
Stabilization of Shareholder Returns	Payout ratio	30%–50%	37.2%	77.3%	Profits decreased, but NSK maintained a stable total return ratio
	Total return ratio	Around 50%	73.1%	77.3%	

### Maintenance of Financial Stability

The maintenance of financial stability is a prerequisite in supporting NSK's sustainable growth and in its ability to withstand the effects of economic fluctuations. Including the equity ratio, the net D/E ratio, and liquidity on hand, the indicators that denote the financial health of the Group remain sound. [▶ P.68 Financial Highlights](#)

By targeting a net D/E ratio of 0.4 times or less under MTP2026, the Company will secure a stable financial base while working on the flexible and effective utilization of interest-bearing debt.

Even during the COVID-19 pandemic, the Company received an "A" rating from Rating and Investment Information, Inc. (R&I), and an "A+" rating from Japan Credit Rating Agency, Ltd. (JCR).

Rating and Investment Information, Inc. (R&I)	Japan Credit Rating Agency, Ltd. (JCR)
A	A+

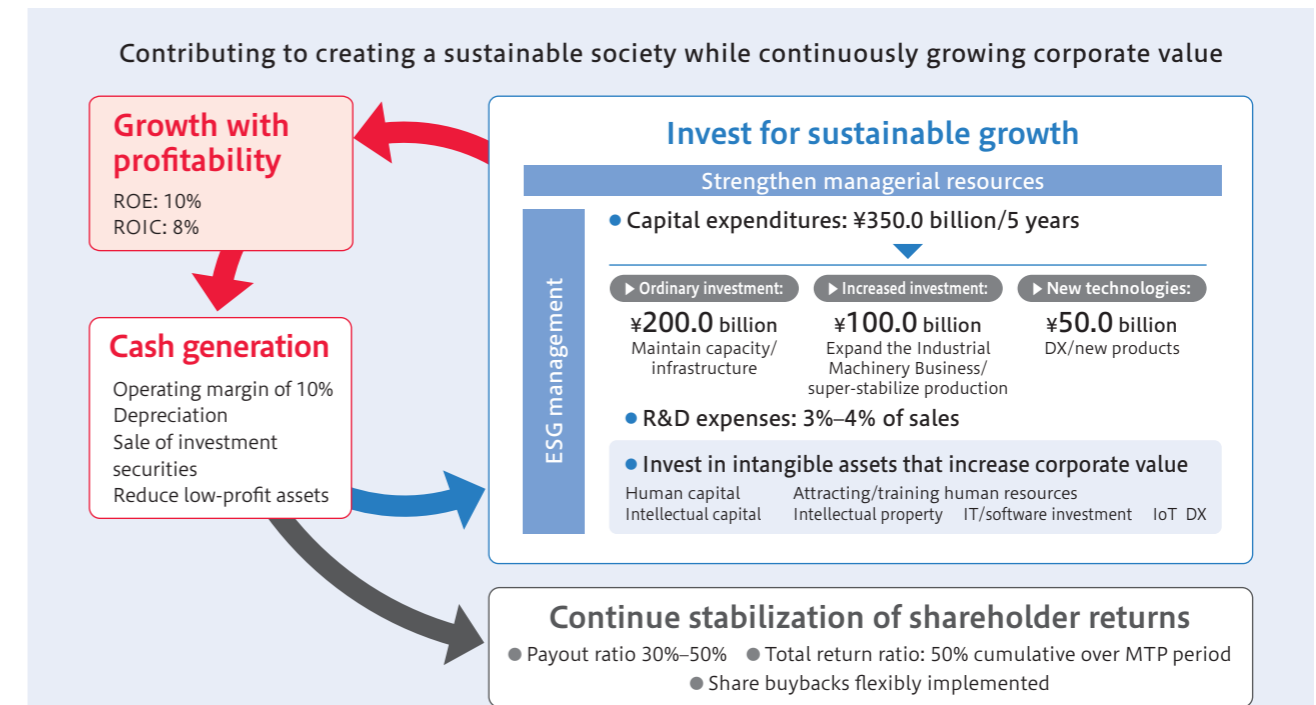
### Growth with Profitability

Sustainably achieving "Growth with Profitability" is essential for generating cash flows and making capital expenditures and R&D investments to achieve sustainable growth, making the investments in the human capital, intellectual capital, IoT, and software necessary for ESG management, as well as for paying a stable return to shareholders. We believe achieving a rate of return that exceeds the cost of capital expected by shareholders and investors can be considered the "mission" of a publicly listed company. The Group has set an ROE target of 10% in its MTP2026, which exceeds its cost of capital (roughly 8%–9%) as estimated based on past share trends, business characteristics, and the current state of the stock market. Having also adopted an ROIC of 8% as one of our management targets, we will work to reduce low-profit assets and improve asset efficiency. We believe maintaining these targets over the mid-term could contribute to further improvement in shareholder value.

## MTP2026 Financial Strategy/Policy on Shareholder Returns Overview

To contribute to the creation of a sustainable society while continuously growing corporate value, the fundamental financial strategy policy under MTP2026, which NSK has launched from FY2022, is to continue to allocate funds for the investment necessary for our sustainable growth and for the stable return of profits to our shareholders. The policy will be carried out by achieving growth with profitability and generating cash, under a stable financial structure.

### MTP2026 Cash Allocation

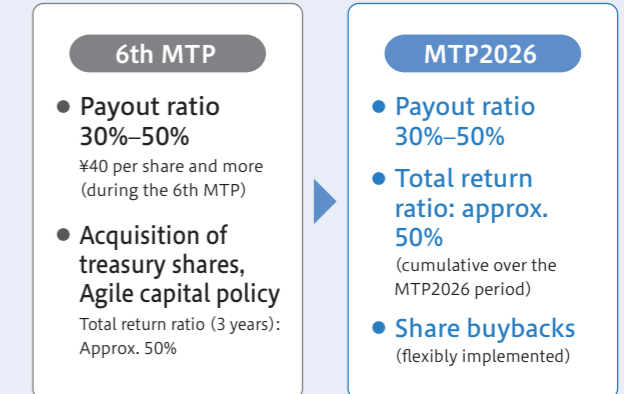


### Stabilization of Shareholder Returns

One of NSK's core management policies is the stabilization of shareholder returns.

Under MTP2026, NSK has established a dividend payout ratio target of 30%–50%, and it remains our policy to pay stable and continuous dividends to our shareholders. We also recognize that the acquisition of treasury shares is one of the options for an agile capital policy. We would like to acquire treasury shares in an appropriate and flexible manner, while taking into consideration such factors as our cash position and stock market trends. Our aim is to achieve a cumulative total return ratio of 50%, which includes dividends and share buybacks, over the three-year period of MTP2026. In implementing these measures, we will make appropriate decisions in consideration of financial conditions and other factors.

### Continue Stabilization of Shareholder Returns



Expand total shareholders' return by implementing stable and continuous dividends and improving corporate value

TSR

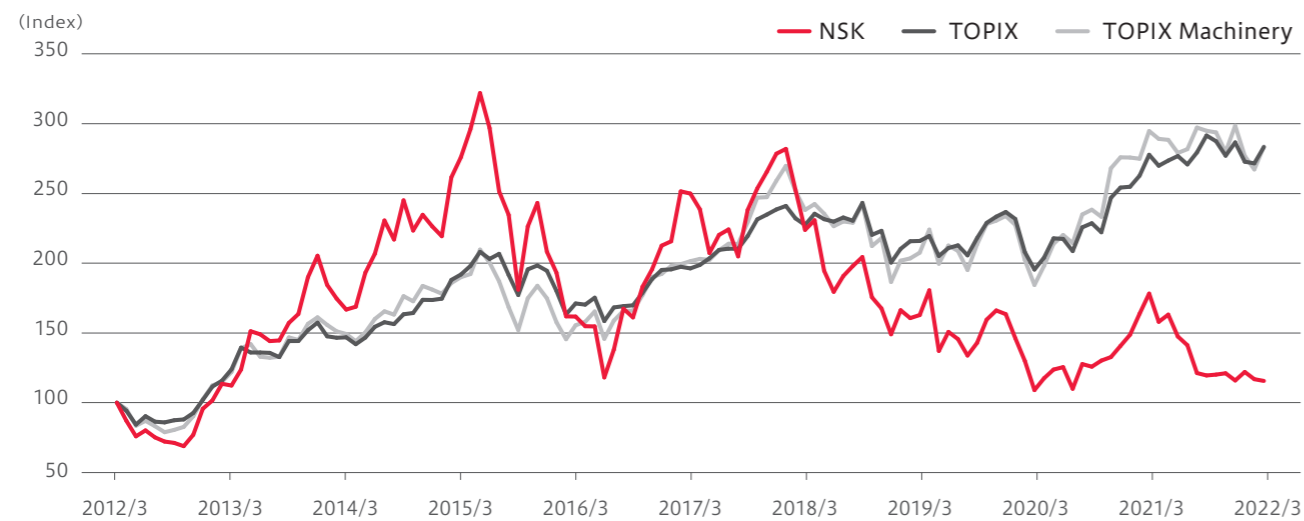
When viewed over the past 10 years, NSK's TSR has increased 59.8% cumulatively, or 4.8% on an annualized basis. Affected by global automobile production volumes, which continued to be adjusted due to production cutbacks because of a supply shortage of parts such as semiconductors and a depressed stock price due to lower steering-related sales, NSK's TSR unfortunately has underperformed TOPIX and TOPIX Machinery.

The stock price is based on various factors beyond just the Company's performance, such as market trends and the state of the economy. However, under MTP2026, having established its shareholder return policy of expanding TSR through the payment of stable and continuous dividends and the improvement of corporate value, NSK aims to expand TSR.

Investment Period	1 Year	3 Years		5 Years		10 Years	
	Cumulative/Annual Rate	Cumulative	Annual Rate	Cumulative	Annual Rate	Cumulative	Annual Rate
NSK	-33.0%	-21.8%	-7.9%	-44.0%	-11.0%	59.8%	4.8%
TOPIX	2.0%	31.2%	9.4%	44.3%	7.6%	183.3%	11.0%
TOPIX Machinery	-3.8%	36.7%	11.0%	40.8%	7.1%	183.7%	11.0%

Notes: 1. TSR (Total Shareholder Return): Total return on investment including capital gains and dividends  
2. Each index includes dividends. 3. Annual rate based on the geometric mean 4. Compiled by NSK from Quick Factset data

NSK's Share Price Trend (10-year period)



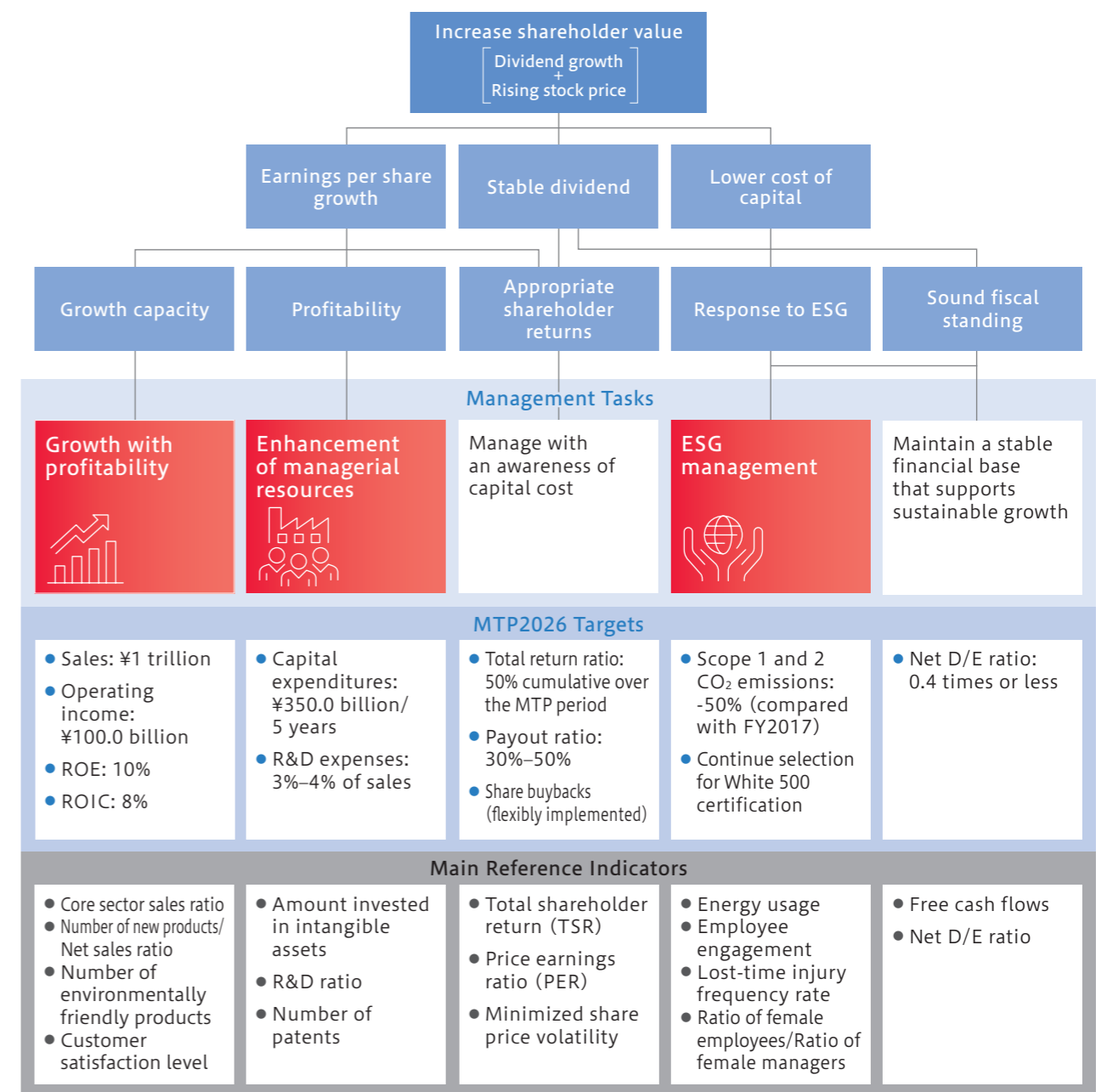
Note: Share price index trend including dividends (March 31, 2012 = 100)

Share Price Trend by Fiscal Year

Fiscal Year	High (Yen)	Low (Yen)	Fiscal Year-End (Yen)	Volatility*
2012	758	414	715	36.5%
2013	1,360	646	1,062	45.7%
2014	1,815	1,023	1,758	32.6%
2015	2,120	910	1,030	39.0%
2016	1,739	691	1,592	44.3%
2017	1,916	1,261	1,426	28.5%
2018	1,488	885	1,037	26.1%
2019	1,208	579	694	33.7%
2020	1,202	581	1,135	43.2%
2021	1,141	630	736	30.6%

\*Volatility refers to the standard deviation annualized rate based on the daily closing price.

NSK Financial Logic Tree



Showing how the NSK Group's management issues and management strategies will lead to increased shareholder value, the NSK financial logic tree is a diagram based on the connections between the numerical targets of MTP2026 and related indicators.

From a financial perspective, dividends and share price growth form part of the factors that bring about increases in shareholder value, and these outcomes can be verified using long-term TSR. Because the stock price generally fluctuates depending on the level of the cost of capital, stably incorporating an appropriate cost of capital into the market price should reduce the risk of stock price fluctuations.

Unfortunately, NSK's TSR over the past 10 years has underperformed TOPIX and TOPIX Machinery. However, having adopted expansion of TSR in MTP2026 as a shareholder return policy, we will work to raise shareholder value over the mid- to long-term.

In addition, as the importance of ESG has been increasing in recent years, we have added management strategies and numerical targets for advancing ESG management to NSK's financial logic tree. We believe that promoting ESG management and reducing capital costs will also lead to increased shareholder value.