CFO Message

Our goal is to achieve an ROE that exceeds the cost of capital through the proper allocation of cash.

Director
Representative Executive Officer,
Executive Vice President,
and CFO
Keita Suzuki

Looking back on FY2024

Promoting structural reforms in Europe with an eye toward sustainable growth

In FY2024, the Automotive Business recorded a decrease in sales owing to such factors as sluggish sales of Japanese cars in China and the downturn in the European economy. In contrast, the Industrial Machinery Business posted an increase in sales, driven by rising demand for machine tools, particularly in China. In addition, results were positively impacted by the yen's depreciation across foreign exchange markets. In the fiscal year under review, NSK reported an increase in both sales and profits. In specific terms, sales climbed ¥7.8 billion year on year to ¥796.7 billion. In terms of profits, operating income grew ¥1.1 billion year on year to ¥28.5 billion. Despite these favorable results, the pace of recovery in demand in the Industrial Machinery Business gradually slowed and fell short of initial performance forecasts. At the same time, ROE continued to trend at the low level of 1.6%.

Financial Strategy Basic Policy	Management Indicators	MTP2026 Targets	FY2024 Results
Maintenance of Financial Stability	Net D/E ratio	0.4 times or less	0.26 times
Growth with Profitability	ROE	8%	1.6%
	ROIC	6%	1.5%
Stabilization of Shareholder Return	Payout ratio	30%–50%	156.1%
	DOE	Lower limit of about 2.5%	2.5%

As far as efforts to improve profitability are concerned, measures aimed at reorganizing production, including structural reforms in Europe, have progressed largely as planned. As a result, the effects are gradually beginning to emerge. Despite this progress, we have yet to fully achieve our desired outcome owing to the sluggish economic environment in Europe. Taking these factors into consideration, we have decided to adopt a more aggressive approach toward reorganization. Coupled with the deterioration in economic sentiment, upswings in labor, energy, and other costs have made it increasingly difficult to maintain a comprehensive supply chain across Europe and to improve our bottom line. With this in mind, we will streamline operations in Europe, encompassing not only production bases but also our sales structure. While these measures will incur one-off costs, we are looking toward completion by FY2026. We hope to reap the benefits from FY2027. Looking at the future of the automotive market, we recognize that demand for electric vehicles will continue to grow and conversely decline for internal combustion engine vehicles. For the most part, NSK's Automotive Business is based on the principle of local production for local consumption. Cognizant of the decline in demand for internal combustion engine vehicles, we will reorganize our production structure by making the most of our global sites and promoting production in optimal locations.

Promoting structural reforms to build a resilient foundation ╲P.26

Forecast for FY2025

Committed to improving our structure amid an uncertain business environment

We are projecting sales of ¥760 billion and operating income of ¥22 billion in FY2025. Despite the ongoing uncertainty that surrounds our business environment in part due to the tariff policies implemented by the U.S., we have set demand assumptions for each of our Industrial Machinery and Automotive businesses at the same levels as the previous year. Based also on the assumption that the value of the yen will appreciate to ¥135 against the U.S. dollar compared with the previous year, and after factoring in the costs associated with ramping up structural reform measures in Europe, we are projecting a year-on-year decrease in sales and profits. Against this backdrop, we are determined to reap the benefits of structural reforms in Europe, pass on inflation costs to selling prices, and reduce unit costs in a bid to secure structural improvements, including increased productivity, and to achieve our forecast figures. As far as the impact of U.S. tariff policies is concerned, we estimate an annual cost increase of ¥12 billion with respect to the Company's full FY2025 plans. Our basic policy is to transfer the increase in costs to sales prices and as such have been negotiating with customers from an early stage. We will provide updates as progress is made.

Background behind the decision to buy back the steering business and policy going forward

Our policy of finding a partner for the steering business remains unchanged

Roughly two years have passed since establishing an equity-method affiliate with Japan Industrial Solutions III Investment Limited Partnership (JIS) in August 2023. The initial plan was to find a strategic partner over a period of approximately three years. However, as uncertainty surrounding the global automotive industry increased from the summer of 2024, we recognized the difficulties involved in reaching a conclusion over the ensuing 6–12 months and the need for a flexible structure to prepare for any sudden developments in the search for a partner. Other than the search for a strategic partner, successful efforts to strengthen profitability, promote independent operations, and strengthen the monitoring system, three of the four goals of our initial plan, were also factors in this decision. From a profit and loss perspective, NSK recorded a steering business profit of ¥4.3 billion in FY2024 compared with a loss of approximately ¥9 billion prior to its collaboration with JIS. Having established a profit structure through thorough improvements in procurement costs and price strategy, we will continue to search for a strategic partner while operating as an independent business entity going forward.

(NSK completed the acquisition of the shares of NSK Steering & Control, Inc. (NS&C), effective September 1, 2025. NS&C was included in the scope of NSK's consolidation as a wholly owned subsidiary.)

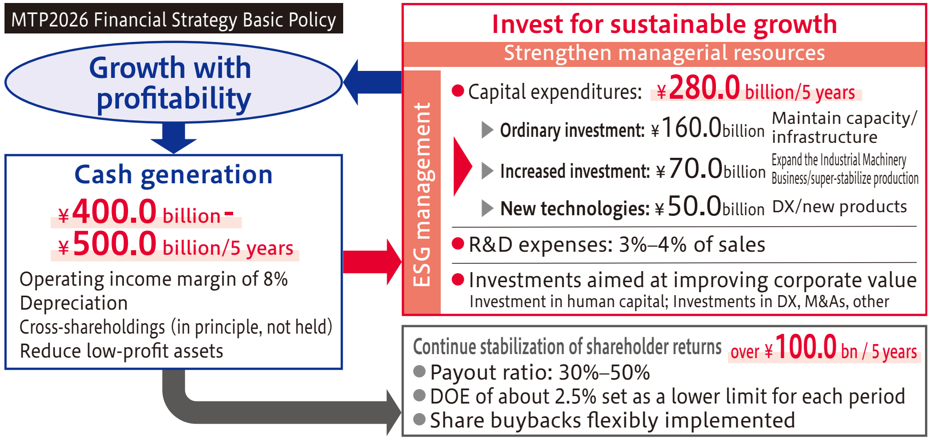
Progress in cash allocation

NSK will continue to generate cash to pursue investments for sustainable growth and to stabilize shareholder return

Turning to the allocation of cash under the five-year (FY2022–FY2026) Mid-Term Management Plan 2026 (MTP2026) currently in progress, plans were initially in place to generate cash of ¥400 billion–¥500 billion. While ¥500 billion is a significant challenge given the level of current profits, we believe that the potential exists to generate ¥400 billion or more through the continued reduction of cross-shareholdings and partial refund of the retirement benefit trust (¥35 billion in April 2024 and ¥70 billion in February 2025). Plans were in place to undertake capital expenditures of ¥280 billion over the five years of the Plan. In light of the business environment, however, we intend to cut back investments geared toward expansion. Having said this, we will continue to invest in initiatives linked to the electrification of motor vehicles; the development of new products; digitalization, including the renewal of our core system; and other areas essential to our sustainable growth.

Positioning efforts to stabilize shareholder return as an important management policy, we intend to return at least ¥100 billion over five years. To clearly demonstrate our commitment to the payment of stable dividends, we set a minimum dividend on equity (DOE) target of 2.5% for FY2024. Our policy is to ensure the stable and continuous payment of dividends to shareholders based on a DOE of 2.5%, a payout ratio of 30% to 50%, and the flexible acquisition of own common shares. While this might not be the case in the event of extraordinary circumstances, including a substantial deterioration in the business environment, there are no significant plans to amend the cash allocation balance identified under MTP2026 given current operating conditions.

Financial Strategy: Cash Allocation



As we look ahead to the next 5–10 years, we also view M&As as a means through which to secure growth. When entering into an M&A, we recognize the need to consider a variety of factors. This includes cultivating new businesses and domains under so-called ambidextrous management, strengthening existing operations, and determining how to upgrade our position within the industry. In this regard, I believe that NSK is well prepared to act with agility. From a cash

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

perspective, there might be instances where an M&A is problematic solely with cash on hand. Here, we will consider the use of interest-bearing debt while adhering to a net D/E ratio below 0.4x and maintaining both financial discipline and a stable financial base.

Moreover, we recognize that many investors are keenly interested in the industry's reorganization. With this in mind, we believe this could also be one option for improving profitability.

Instilling ROIC management throughout the Company while working toward efficient operations

Based on the understanding that ROIC should exceed WACC, we have set our Group-wide ROIC target at 6%. Internally, ROIC is managed by business. This helps to instill an awareness toward the return required relative to the scale of assets invested in each business. For example, the Industrial Machinery Business has a higher investment in such areas as inventory, working capital, and fixed assets and is required to generate a higher return compared to the Automotive Business. We will continue to promote the internal use of ROIC management as a tool for enhancing corporate value.

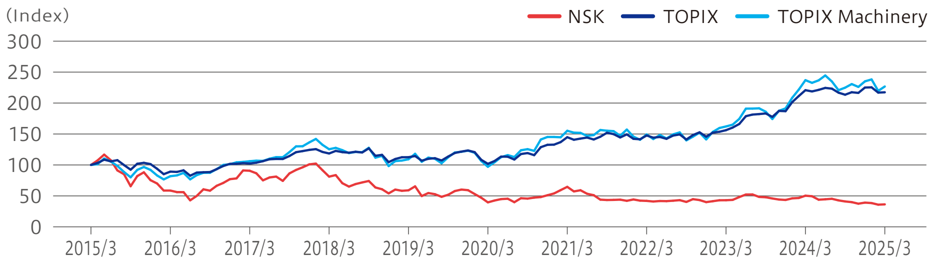
Share price evaluation and message to investors

As an indicator that reflects a company's actual share price and dividend, TSR is an important measure through which to meet investors' expectations. Having said this, NSK's share price has declined over the past 10 years alongside its ROE with its PBR hovering at around 0.5x.

To address this critical issue, it is imperative that we improve our ROE. To this end, we are working to improve our structure by transforming our portfolio and promoting structural reforms. While the effects of these endeavors are beginning to emerge, further measures are required for our ROE to exceed the cost of capital (an ROE of roughly 8%–9%) and to reach the expectations of the market. In our next Mid-Term Management Plan currently under development, we intend to disclose measures aimed at lifting profitability and provide details of a capital structure geared toward lowering the cost of capital. We believe that the resulting improvement in ROE will positively impact our share price. Progress in improving our structure and steps toward formulating the next Mid-Term Management Plan P.27

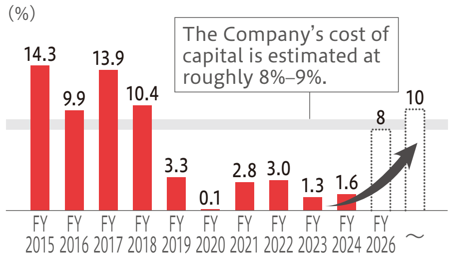
NSK is acutely aware of the importance that dialogue plays in lifting the expectations of investors. During recent discussions with investors, for example, humanoid robots have emerged as a topic of considerable interest within the industrial machinery field. While not limited to humanoid robots, we intend to communicate openly with the stock markets through the timely and appropriate disclosure of information on our views toward future technological innovation and where NSK can contribute and deliver value.

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

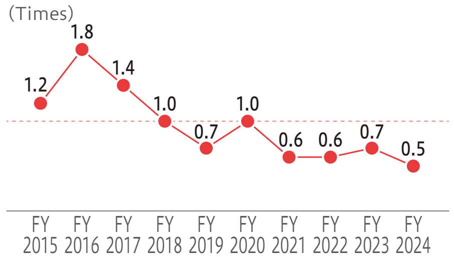


Note: Share price index trend including dividends (March 31, 2015 = 100)

Trend of ROE



Trend of PBR



Note: PBR is calculated based on the share price as of the end of each fiscal year.

Share Price Trend by Fiscal Year

Fiscal Year	High (Yen)	Low (Yen)	Fiscal Year-End (Yen)	Volatility*
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%
2022	803	680	756	23.6%
2023	932	729	884	25.1%
2024	904	628	638	22.8%

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

TSR

Investment Period	1 Year	3 Years		5 Years		10 Years	
	Cumulative/ Annual Rate	Cumulative	Annual Rate	Cumulative	Annual Rate	Cumulative	Annual Rate
NSK	-24.0%	-0.5%	-0.2%	12.0%	2.3%	-45.4%	-5.9%
TOPIX	-1.5%	47.2%	13.8%	113.4%	16.4%	117.4%	8.1%
TOPIX Machinery	-4.3%	51.9%	14.9%	133.7%	18.5%	126.8%	8.5%

Notes: 1. Total Shareholder Return (TSR): 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.