Nikko Corporate Report 2023

Nikko Corporate Report 2023
Fiscal year ended March 31, 2023

Update the social infrastructure
by leveraging engineering
that is one step
ahead of others.



NIKKO
Future creation that starts from an 'n'

Values of Nikko Group and What it Aspires to be

NIKKO CORPORATE IDENTITY

Basic principles

〈Long-standing values since its establishment〉

- Serve society through business.
- Work toward prosperity with sincerity and responsibility.
- Produce appropriate profits through original ideas and improvement efforts.

MISSION

〈Missions Nikko must fulfill in daily operations〉

Update the social infrastructure by leveraging engineering that is one step ahead of others.

VISION

〈Future we want to realize〉

Making the world a resilient and gentle place.

Future axis

Symbolization

SLOGAN

Future creation that starts from an '*n*'

SPIRIT

〈Spirit we treasure〉

Employee axis

1. Make work interesting.
2. Be conscious of the objective.
3. Come up with ideas.
4. Take on challenges without fear.
5. Accomplish to the end.
6. Value time.
7. Communicate with care to your counterpart.
8. Help and enhance your colleagues.
9. Learn extensively, both from within and outside.
10. Strive forward sincerely, and with determination.
11. Be at ease mentally and physically.
12. Give priority to safety.

Customer axis

VALUE

〈Value we offer〉

1. We will pursue safety and security in all products and services.
2. We will identify true issues and make proposals from a customer perspective.
3. We will focus our eyes on where society and the era are heading towards, and continue refining our technology.
4. We will stay close to our customers and support them through the future.
5. We will integrate our engineering capabilities to exceed expectations.

Editorial Policy and Nikko Group's Disclosure

Nikko Group Corporate Report 2023 aims to disclose Nikko Group's medium- and long-term value creation efforts from both financial and non-financial aspects to all stakeholders, including our shareholders and investors. The Report is edited referring to The *International Integrated Reporting Framework* established by the IFRS Foundation and the *Guidance on Integrated Disclosure and Dialogues for Joint Value Creation* by the Ministry of Economy, Trade and Industry of Japan.

■Target readers
All stakeholders connected to the Nikko Group.

■Reporting period
The Report mainly covers FY 2022 (April 1, 2022 to March 31, 2023) but also includes information before and after this period.

■Reporting scope
The Report covers the Nikko Group comprising Nikko Co., Ltd. and 11 subsidiaries (all of which are consolidated subsidiaries).

■Company name
"Nikko" and the "Company" refer to Nikko Co., Ltd. The "Nikko Group" and the "Group" refer to the Nikko Group, including consolidated subsidiaries.

■Note on forward-looking information
This Report includes statements on future outlook. We appreciate your understanding that actual performance may differ from the Company's projections.

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INTRODUCTION

Creating robust, people-friendly cities around the world.

01

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2022 Jan.

●Starts joint research for development of ammonia co-firing burner with Graduate School of Engineering, Osaka University

Launched joint research on CO_2 emission-free ammonia co-firing burner for asphalt plants in collaboration with Prof. Fumiteru Akamatsu's Combustion Engineering Laboratory, Division of Mechanical Engineering, Graduate School of Engineering, Osaka University, which is driving forward active research and development in ammonia combustion technology and other fields.

Feb.

●Introduces CO_2-free electricity at the head office factory in Akashi, Hyogo Prefecture

The use of RE100-compliant electricity generated using renewable energy is expected to reduce CO_2 emission of 1,260 tons a year, which accounts for about 43% of the total CO_2 emissions under Scope 1 at the head office factory.

●Develops Japan's first aggregate diagnosis AI using image recognition AI

Developed Japan's first aggregate diagnosis AI using image recognition AI that can be introduced at concrete plants. Began first full-scale operation at a plant in March 2022 to promote evolution of concrete plants into smart factories.

Mar.

●Makes Ube Kohki Co., Ltd. a wholly owned subsidiary

Acquired all shares in Ube Kohki Co., Ltd. (headquartered in Ube, Yamaguchi Prefecture; unlisted), which engages in design, manufacture, installation, and facility maintenance of steel structures and various industrial machinery on March 1, 2022, making it a consolidated subsidiary.

●Participates in a NEDO Green Innovation Fund Project

Decided to participate in the concrete category of the Green Innovation Fund Project for Development of Technology for Producing Concrete and Cement Using CO_2 solicited by New Energy and Industrial Technology Development Organization (NEDO). It is a consortium led by Kajima Corporation, Denka Company Limited, and Takenaka Corporation, who are the implementing entities, and Nikko Group will contribute to the development and spread of technology for environmentally friendly concrete.

●Uniformly raises the monthly wages of the employees by 30,000 yen

Decided to uniformly raise monthly wages of employees who are the members of Nikko Labor Union by 30,000 yen from April 1, 2022.

●Formulates Medium-Term Management Plan (2022–2024)

Formulated and announced the new Medium-Term Management Plan positioning the period as the internal investment phase for realizing 2030 Vision. The Company aims to achieve net sales of 50.0 billion yen and operating margin of 6.0% in FY 2024, the final fiscal year.

May

●Develops AI'll be sorter separating system using AI image recognition to replace visual identification

The AI'll be sorter separation system based on AI image recognition analyzes images taken with cameras using AI to quickly detect defective products and foreign substances. It will contribute to improvement in the recycling rate in the recycling industry.

July

●Starts joint development of the world's first hydrogen burner for asphalt plants

Together with Tokyo Gas Co., Ltd., the Company started joint development of the world's first burner for asphalt plants that uses hydrogen fuel, which does not emit CO_2.

Sept.

●Decides to invest in green bonds to be issued by Hyogo Prefecture

Decided to invest in the green bonds to be issued by Hyogo Prefecture for raising funds specifically for projects that improve environment.

●Creates 20 meter-tall mural art at the head office building

The Company embarked on a joint initiative with Wall Share Inc., which produces mural arts, to solve the issues faced by the industry in which both companies have a stake, through a collaboration between civil engineering plants and murals. A huge mural was unveiled at the head office building on October 13.

Oct.

●Announces the Partnership Building Declaration

Announced the Partnership Building Declaration with the aim of building new partnerships to collaborate, co-exist, and co-enhance with suppliers in the supply chain and businesses with which it co-creates values.

Dec.

●Makes donations as part of shareholder returns

As part of shareholder returns in FY 2022, the Company added options to make donations to the Japanese Red Cross Society and to organizations that support evacuees from and children in Ukraine. It received applications from many shareholders and made donations to the Japanese Red Cross Society and the Hyogo Ukraine Support Project.

Trajectory of Value Creation

1919-1950	1951-1969	1970-1989	1990-2011	2012-2021	2022-2030
Start-up and postwar reconstruction	Business expansion and rapid economic growth	Transformation into a machinery manufacturer	Foray into environmental business and strengthening of group management	Switch to aggressive management approach	Towards realizing New Medium-Term Management Plan and 2030 Vision

History of Nikko Group

1919-1950
- 1919: Nihon Kogu Product Co., Ltd. established
- 1920: Shovel goes on sale
- 1921: Head Office relocated to Akashi
- 1934: Second Plant opens, starts production of wooden handles
- 1938: Third Plant completed, starts production
- 1948: Completes construction of Fourth Plant, starts production of cast metal
- 1950: Starts production and sales of Ryusen handles

1951-1969
- 1951: Starts production of winches and mixers
- 1956: Starts production and sales of Manten shovels
- 1958: Nikko's first asphalt plant completed
- 1962: Lists shares on the first section of the Tokyo Stock Exchange
- 1963: The first automated batcher plant completed
- 1966: Starts production of belt conveyer system
- 1968: Company renamed to Nikko Co., Ltd.

1970-1989
- 1970: New AP plant
- 1970: Starts production of lifts and scaffold planks
- 1971: Anti-pollution AP completed
- 1974: Signs technology tie-up with Benninghoven of West Germany
- 1979: Signs technology tie-up on drum mixing plants with Boeing Construction Equipment Company of the US
- 1986: Opens Tokyo service center
- 1989: Opens US office

1990-2011
- 1991: Establishes Development Technology Center
- 1994: Satte factory completed
- 1997: Develops WELL Burner, a new model aimed at reducing CO_2 emissions
- 1998: Starts sales of Recycle 4, a new beverage container separator crusher
- 2002: Establishes Nikko (Shanghai) Construction Machinery Co., Ltd.
- 2004: Completes the construction of Jiading factory of Nikko (Shanghai) Construction Machinery Co., Ltd., the Group's first production base overseas
- 2006: Establishes Nikko (Thailand) Co., Ltd. (sale and after-sales service of asphalt and concrete plants)
- 2011: New Wuhan factory of Shantui Nikko Construction Machinery Co., Ltd. completed

2012-2021
- 2012: Takahisa Nishikawa appointed Representative Director and President
- 2012: Dissolves Nikko (Thailand) Co., Ltd.
- 2015: Starts activities as the sole Japanese agent for Kleemann of Germany
- 2015: Closes Shantui Nikko Construction Machinery Co., Ltd.
- 2016: Starts sales of Value Pack, a new asphalt plant model
- 2018: Newly constructs Techno Center (Akashi)
- 2018: Establishes Mobile Plant Business Department
- 2019: Masaru Tsuji appointed Representative Director and President
- 2020: Establishes Nikko Asia (Thailand) Co., Ltd.

2022-2030
- 2022: Announces the Medium-Term Management Plan (2022–2024)
- 2023: Ships mobile plants for restoration of Ukraine
- 2024: The final fiscal year of the Medium-Term Management Plan (targets: 50.0 billion yen in sales and 6.0% in operating margin)
- 2030: 2030 Vision (targets: 60.0 billion yen in sales and 10.0% in operating margin)

M&A history

1990-2011
- 2002: Acquires the asphalt plant division of Niigata Engineering Co., Ltd.
- 2006: Acquires the concrete pump business of Shimonoseki Shipyard & Machinery Works of Mitsubishi Heavy Industries, Ltd. and establishes Nikko Diacrete Co., Ltd.
- 2008: Makes Maekawa Kogyosho Co., Ltd. into a group company
- 2012: Absorbs Nikko Diacrete Co., Ltd. in absorption type merger

2012-2021
- 2022: Makes Ube Kohki Co., Ltd. into a group company

UBE KOHKI

2022-2030
- 2023: Makes Matsuda Kiko into a group company

㈱松田機工

Solutions offered by Nikko Group

1919-1950
Offered shovels and spades for reconstruction demand

1951-1969
Manufacture and sales of various construction machinery
Started manufacture and sales of asphalt plants
Started manufacture and sales of batcher plants
Offered various large-scale machinery and automated plants

1970-1989
Offered anti-pollution plants
Offered products that take environment and safety into account
Strengthened maintenance service

1990-2011
Offered high-quality ready-mix concrete manufacturing technology
Offered energy-saving, low-noise burners
Offered environmentally friendly and recycling products

2012-2021
Enhanced products that reduce CO_2 emissions and solve social issues
Strengthened disaster recovery product lineup
Offered high quality, high environmental performance products to the Asian market

2022-2030
Proposal of decarbonization technology
Roll-out of environmentally friendly products
Proposal of remote operations, automation, and manpower saving utilizing DX

External environment

1919-1950
Post-war robust reconstruction demand
- 1924: Hanshin Koshien Stadium completed
- 1936: Diet Building completed
- 1939: The Second World War begins
- 1945: Japan accepts the Potsdam Declaration
- 1950: The Korean War begins



Head office factory at the time of founding

1951-1969
Rapid growth period
- 1956: Japan Highway Public Corporation established
- 1958: Tokyo Tower opens
- 1964: Olympic Games Tokyo held
- 1965: Entire length of Meishin Expressway opens
- 1967: Basic Act for Environmental Pollution Control enacted



1958: Nikko's first asphalt plant completed

1970-1989
Bubble economy and growing environmental awareness
- 1970: The Japan World Exposition, Osaka, held
- 1972: Tohoku Expressway (Iwaki–Utsunomiya) opens
- 1978: Narita Airport opens
- 1983: Entire length of Chugoku Expressway opens
- 1988: Seto Ohashi Bridge opens



1968: The first made-in-Japan plant used in the construction of Tomei Expressway
Nikko's NAP-602

1990-2011
Growing need for environmentally friendly products
- 1994: Kansai International Airport opens
- 1995: The Great Hanshin-Awaji Earthquake
- 2008: The collapse of Lehman Brothers
- 2010: Expo 2010 Shanghai China held
- 2011: The Great East Japan Earthquake



Introduction of plants especially for quake-disaster recovery

2012-2021
Exacerbation of various disasters
- 2012: Tokyo Skytree opens
- 2015: Hokuriku Shinkansen (Tokyo–Kanazawa) starts operation
- 2020: COVID-19 pandemic
- 2021: Olympic Games Tokyo 2020 held
- 2022: Russia's invasion of Ukraine



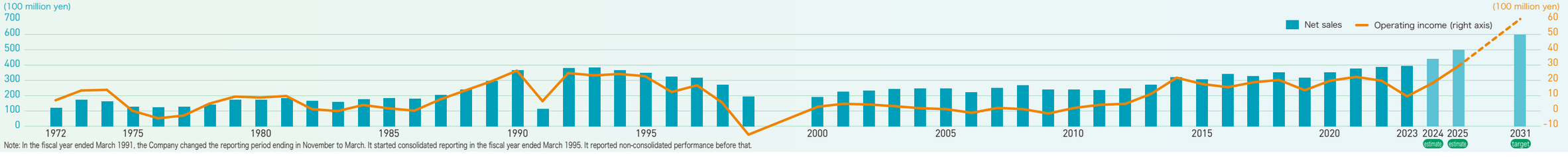
Ube Kohki Co., Ltd.

2022-2030
Post-COVID era
- 2024: Workstyle reform bill for the construction industry to take effect
- 2025: Takanawa Gateway City to open
- 2025: Expo 2025 Osaka, Kansai
- 2026: Asian Games Aichi-Nagoya

JICA



Mobile plant

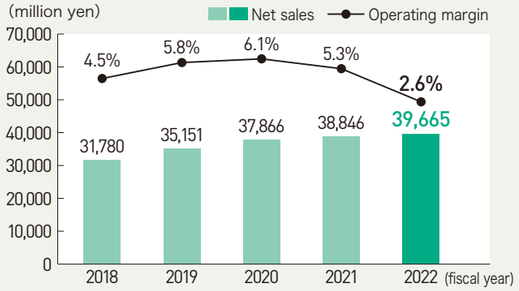


Note: In the fiscal year ended March 1991, the Company changed the reporting period ending in November to March. It started consolidated reporting in the fiscal year ended March 1995. It reported non-consolidated performance before that.

Financial and Nonfinancial Highlights

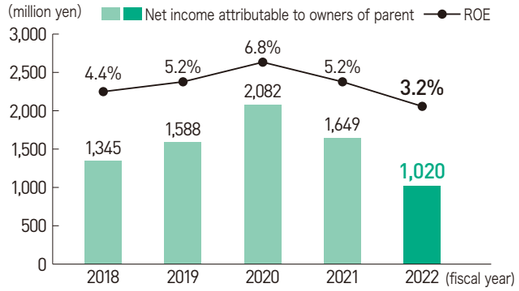
Financial highlights

Net sales and operating margin



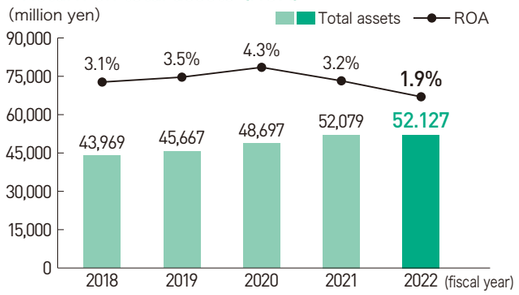
Operating margin in FY 2022 came to 2.6%, down 2.7 pp from 5.3% in FY 2021. By business, operating margin of AP-related business declined 2.8 pp and that of BP-related business fell 1.2 pp due to low-margin projects in unit products. Profitability of the environment and conveyor-related business and other business also worsened. The Company expects 4.3% in operating margin in FY 2023 as it expects improvement in both AP- and BP-related businesses.

Net income attributable to owners of parent, return on equity(ROE)



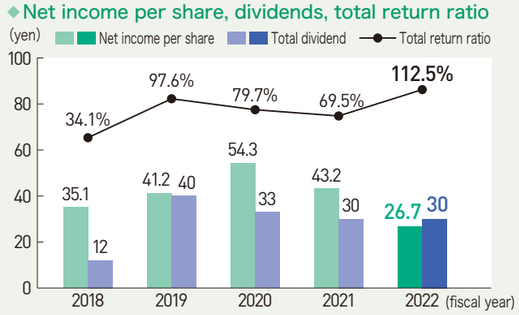
Net income attributable to owners of parent in FY 2022 decreased 38.1% from a year earlier to 1.02 billion yen. The rate was less than the 49.9% decline in operating income. Net assets fell 0.4 billion yen compared with FY 2021 to 31.6 billion yen, while ROE came to 3.2%, a decline of 2.0 pp from 5.2% in FY 2021. The Company expects ROE to recover in FY 2023, given the high level of total return ratio and as it anticipates a recovery in business results.

Return on total assets (ROA)



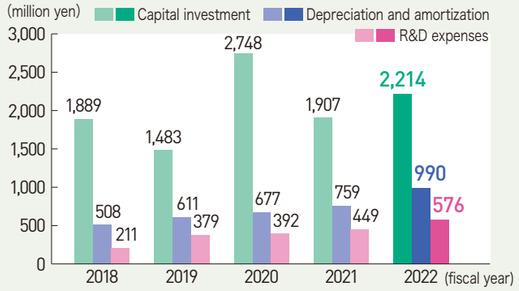
ROA in FY 2022 came to 1.9%, a decline of 1.3 pp compared with FY 2021. This was due to a large decline in net income, even though net assets at the end of FY 2022 remained roughly unchanged from FY 2021 at 52.1 billion yen. On the balance sheet, cash and cash equivalents declined 2.1 billion yen while interest-bearing debts increased 1.9 billion yen, resulting in a decline in net cash.

Net income per share, dividends, total return ratio



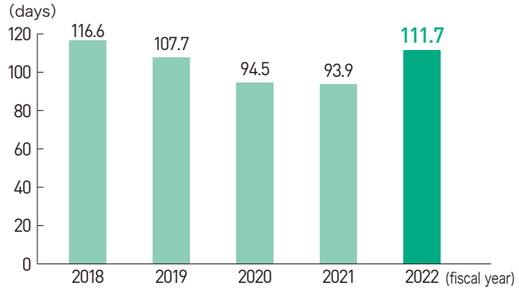
Dividends for FY 2022 were 30 yen per share, exceeding the net income per share of 26.7 yen. While the Company did not carry out share repurchase as treasury stock, total return ratio came to 112.5%, up from 69.5% in FY 2021. The Group expects to pay a dividend of 30 yen per share in FY 2023, with which payout ratio is expected to reach 95.7%. Under the Medium-Term Management Plan, the Company's shareholder return policy is to maintain payout ratio at 60% or higher.

Trends in capital investment, depreciation and amortization, R&D expenses



The Group made capital investment of 2.2 billion yen in FY 2022 including 0.58 billion yen for construction of buildings for rent, 0.25 billion yen for machines and equipment for the AP-related business, and 0.11 billion yen for construction of warehouses for the AP- and BP-related businesses. Further, it spent 0.36 billion yen for purchase of software. Depreciation and amortization is on a rising trend reflecting active capital investment. R&D expenses, at 0.58 billion yen, were up from 0.45 billion yen from FY 2021. Nevertheless, it was below the level of the company plan under Medium-Term Management Plan.

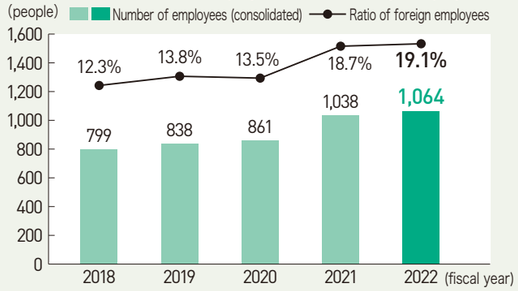
Cash conversion cycle



In FY 2022, the Company's CCC was 111.7 days, which was significantly longer than the 93.9 days in FY 2021. This was because inventory turnover period worsened to 127.7 days from 108.5 days in FY 2021 partly due to a supply chain issue. On the other hand, turnover period of trade receivables improved to 64.9 days from 73.6 days in FY 2021, while turnover period of notes and accounts payable-trade also improved to 80.9 days compared with 84.9 days a year ago. The Group intends to improve CCC in FY 2023 by reducing inventories.

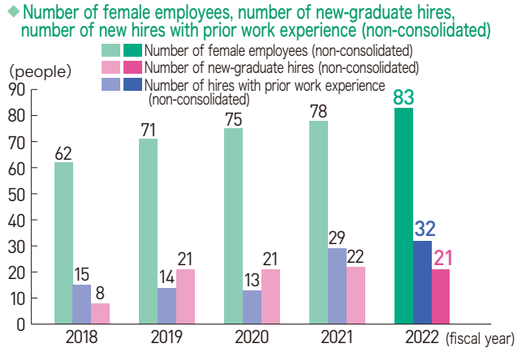
Nonfinancial highlights

Number of consolidated employees, ratio of foreign employees



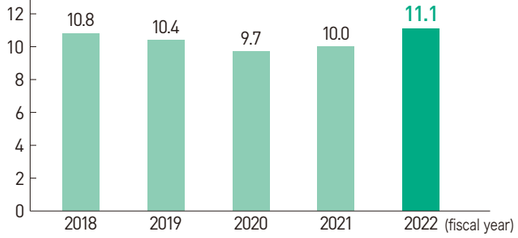
The number of consolidated employees was 1,064 at the end of FY 2022, up 26 from the end of FY 2021. The change reflected increases from the acquisition of Ube Kohki and the start of operations of the Nikko NilKhosol plant in Thailand at the end of FY 2021. Among the employees, foreign employees were 205, an increase of 11 from the end of FY 2021 and accounting for 19.1% of the total. The primary reason for the increase in foreign employees is the addition of 10 employees at the Nikko NilKhosol plant in Thailand.

Number of female employees, number of new-graduate hires, number of new hires with prior work experience (non-consolidated)



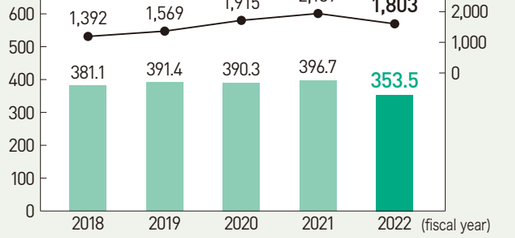
The number of female employees (non-consolidated) was 83 as of the end of FY 2022, an increase of five from 78 as of the end of FY 2021. The number of new hires was 32 on a non-consolidated basis, an increase from 29 in FY 2021, while the number of new female hires was six compared to three in FY 2021. The number of hires with prior work experience was 22 (21 in FY 2021) maintaining a high level. The Group will continue to boost such hiring in accordance with the new Medium-Term Management Plan.

Average number of annual paid holidays per employee (non-consolidated)



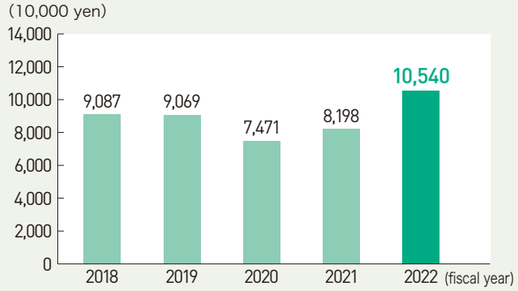
The average number of annual paid holidays used per employee was 11.1 days in FY2022 on a non-consolidated basis compared with 10.0 days in FY 2021. The increase from FY 2021 is partly attributed to the fact that improvements in the workplace environment have made it easier for employees to take paid holidays. The Group believes the number of paid holidays taken by employees is important for improving employee satisfaction and realizing a good work-life balance ultimately to significantly raise labor productivity by improving operating efficiency.

Power usage, output (non-consolidated)



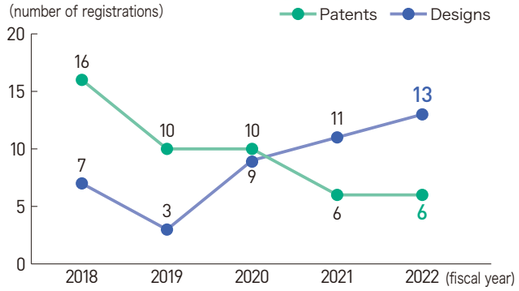
Power usage in FY 2022 came to 3,535,000 kwh, a decline of 10.9% from 3,967,000 kwh in FY 2021. This was a result of the fact that production volume declined 15.7% in FY 2022 compared with FY 2021, and power usage on a unit consumption basis continued to decline. In accordance with the guidelines for achieving carbon neutrality, the Group will continue to reduce CO_2 emissions by increasing the ratio of renewable energy as well as implementing electricity conservation initiatives.

Changes in expenses of ISO activity items (non-consolidated)



Total expenses of ISO activity items (electricity, water, waste, and paper) in FY2022 came to 105.4 million yen, up 28.6% from FY2021. The expenses of ISO activity items have been increasing for the past several years and the major factor behind this is the rise in electric power charges due to increasing crude oil prices, etc. The Group will promote effective utilization of resources and continue to make contributions to environmental activities.

Number of patent and design registrations

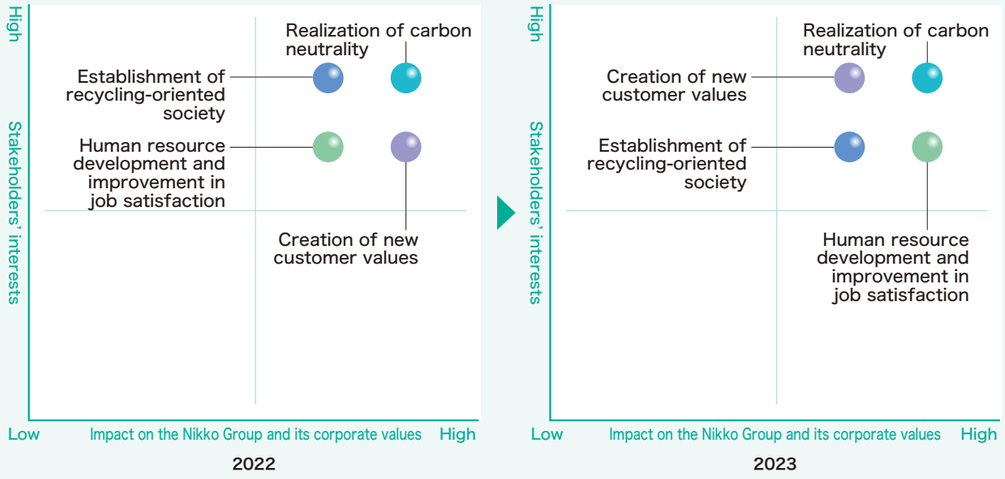


In FY 2022, the Group registered six patents, unchanged from FY 2021, and 13 designs, up two from FY 2021. The patents registered in FY 2022 include those related to woody biomass facilities as well as related to the AP-related business. The design registrations range widely including AP-related products, Nikko Sec's temporary scaffolding products, Tombo Industry's hand tools, and Nihon Kogu Product's barbeque grill.

Materiality 2023

Nikko Group recognizes that there have been various risks and opportunities for the Group resulting from changes in the external environment in recent years. Specifically, the initiatives addressing the following have become indispensable for corporate sustainability: increasing geopolitical risks, supply chain instability, etc. in the political and economic fields; accelerating shift to carbon neutrality, biodiversity, etc. in the environmental and energy fields; digital transformation, generative AI, etc. in the technological field; and diversity and inclusion, diverse workstyles, employee engagement, human rights and demands on corporate ethics, etc. in the social field. In order for Nikko Group to achieve what it aspires to be in its 2030 Vision, it is indispensable that we not only appropriately grasp the changes in the external and industrial environments and maximize the corporate value in the various issues identified there, but also solve the materiality by taking into account the impact on stakeholders and sustainability.

Changes in Nikko Group's materiality map



Nikko Group established the Sustainability Committee in June 2023 with five members and appointed the Director and Manager of Corporate Planning Department as the chairperson. The committee's roles include (1) identification of materiality for realizing the long-term vision and (2) identification of the risks and opportunities of the materiality and clarification of the progress management policy (indicators and targets). We will implement our initiatives to address materiality, by bearing in mind "promoting self-reform to win the broad trust from society and fulfill our mission as a solutions partner that evolves with the customers" as stated in our Management Philosophy, leading to improvement in corporate values over the medium to long term.

The material matters for 2023 are (1) realization of carbon neutrality, (2) establishment of recycling-oriented society, (3) creation of new customer values, and (4) human resource development and improvement in job satisfaction. While these four remain the same as in 2022, we have made slight changes to their positioning. We changed the position of (4) human resource development and improvement in job satisfaction, which has been moved to the right-most position of the materiality map taking into account the impact of the new personnel system enacted in April 2023, and its importance has grown for improving the corporate value of Nikko Group. The reasons for changing the position of (4) human resource development and improvement in job satisfaction are as follows:

Human resource development and improvement in job satisfaction

Nikko Group is currently executing its Medium-Term Management Plan for FY 2022–2024 towards achieving the 2030 Vision. We consider the three pillars of salary raise, increase in personnel, and human resource development as measures to strengthen human capital. In the first year of the medium-term plan, we were able to achieve results in them generally in line with the plan.
We set the KPI in materiality along with the three pillars of the human capital strengthening measures and also launched the new personnel system from April 2023. The new personnel system aims to create a mechanism for future employees and boost job satisfaction as a business entity, while scrapping the existing seniority system. This is important for creating the foundation for expanding the revenues of Nikko Group in the next medium-term plan (FY 2025–2027), and we believe it is indispensable to raise not only the economic value but also the social and environmental values. It is a high-priority challenge for us to achieve the 2030 Vision.

Relationship between materiality and sustainability; KPI and SDGs to which they contribute

	Materiality	What the Group aspires to be and how it is related	KPI	SDGs to which it contributes
Sustainability of society × Nikko's Sustainability	**Realization of carbon neutrality** (➡ P.58)	About 70% of CO_2 emissions from APs in Japan (approx. 1.3 million tons a year) is estimated to be emitted by Nikko plants. While it will become a major risk if Nikko is late to respond to this, the Group believes that it also offers opportunities from various aspects starting from fuel conversion to electrification, as it is also an important social issue.	• CO_2 emissions (Scope 1, 2, and 3) FY 2030: 50% reduction (compared to FY 2021) FY 2050: Net-zero • Net sales of decarbonization- and low-carbon-related products FY 2030: 2.7 billion yen	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION
	Establishment of recycling-oriented society (➡ P.63)	The arrival of a global recycling-oriented society is beneficial for Nikko in terms of the anticipated increase in recycling AP in China, as Nikko boasts a 99% recycling rate of asphalt waste and has a 70% share in AP in Japan. The Company has been engaged in the development of technology for recycling concrete sludge and is working on its practical applications.	• Recycling of asphalt waste • Recycling of plasterboards • Recycling of concrete sludge	8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
	Creation of new customer values (➡ P.65)	In its 2030 Vision, Nikko Group aims to become a "customers' management partner through operation and maintenance service." The Group will not only improve customer satisfaction by leveraging DX and AI but also pursue subscription contracts of maintenance service.	• Creating new values through DX • Flat-rate service outsourcing count	3 GOOD HEALTH AND WELL-BEING, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	Human resource development and improvement in job satisfaction (➡ P.67)	The importance of leveraging human capital increases further upon solving material matters 1 to 3. For Nikko to achieve the 2030 Vision, it is necessary to have human resources based on diversity and inclusion, and improving motivation by nurturing them, as well as improving their work-life balance and well-being also assuming importance.	FY 2030 • Ratio of female managers: 7% • Training duration and expenses per person: 10 hours, 50,000 yen • Ratio of employees taking childcare leave: 100% for female and 50% for male (FY 2025) • Attrition rate: 7% for three years from joining the company	5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH

Process of Value Creation

In 2023, we added time axis to Nikko Group's process of value creation. In other words, we clarified outcomes that can lead to value creation in relatively short to medium term, and those that can lead to value creation in long term after output. We will aim for making the world a resilient and gentle place, which is the vision of the future we want to realize, by solving the materiality and leading it to the desired outcome so as to ensure that the sustainability of the society and the Nikko Group is in sync.

Social issues and changes in the industry (risks and opportunities) (see p. 47)

- Carbon-neutral initiatives
- Recycling of waste materials and establishment of recycling-oriented society
- Acceleration of digitization
- Intensification of disasters and early restoration
- Declining birthrate and aging population, declining workforce
- Rising ESG awareness

Nikko Group's mission (raison d'être) (see P.1)

Update the social infrastructure by leveraging engineering that is one step ahead of others.

Input (business foundation)

Financial capital

Robust financial base and ample cash (see pp. 27, 31)

➡Total assets of 58.5 billion yen and net assets of 34.0 billion yen at the end of FY 2024

Manufactured capital

Capital investment focusing on the 2030 Vision (see p. 28)

➡Capital investment worth 6.0 billion yen in FY 2022–2024

Human capital

Addition of more people and reform of diversity and work style (see p. 29)

➡An increase of 145 employees at Nikko in FY 2022–2024

Intellectual capital

Business model innovation by leveraging core technology (see p. 30)

➡R&D expenses of more than 2.5 billion yen in FY 2022–2024

Social and relationship capital

Trust as a solutions partner (see p. 28)

➡Number of Akitsu-kai members as of the end of FY 2022: 200 companies

Natural capital

Utilization of energy, water resources, etc. (see p. 58)

Business activities (business process)

Medium-Term Management Plan (2022–2024) (see p. 23)

Value chain (see p. 49)



Sustainability management (see p. 54)

Materiality (see p. 9)

Sustainability of society	Nikko's Sustainability
◆Realization of carbon neutrality	◆Creation of new customer values
◆Establishment of recycling-oriented society	◆Human resource development and improvement in job satisfaction

- ◆Management philosophy (see p. 1)
- ◆Corporate identity (see p. 1)
- ◆Corporate governance (see p. 80)

Output (business value)

Business transformation

- ◆AP-related business in Japan (see p. 37)
- ◆BP-related business (see p. 39)
- ◆Maintenance service business (see p. 63)

Strengthening of operation and maintenance services

×

Scale expansion leveraging technology

- ◆Overseas AP-related business (see p. 37)
- ◆Environment- and conveyor-related business (see p. 41)
- ◆Other businesses (see p. 42)

Lateral deployment of products and markets

=

Financial targets for FY 2024

- ◆Net sales: ¥50 billion
- ◆Operating income: ¥3 billion (6% in operating margin)
- ◆ROE: 6.0%
- ◆Payout ratio: Continue with 60% or more

Outcome (creation of social values)

Social and environmental values to be contributed

- ◆Establishment of recycling-oriented, environmentally friendly society (see p. 63)
- ◆Contribution to realization of decarbonized societ (see p. 58)
- ◆Contribution to disaster prevention and mitigation
- ◆Support for early restoration from natural disasters (see p. 64)
- ◆Co-existence with local communities (see p. 64)

Economic values to be created

Financial targets forFY 2030 (see p. 23)

- ◆Net sales: ¥60 billion
- ◆Operating margin: 10.0%
- ◆ROE: 10.0%
- ◆Market cap: ¥50 billion or more

Achievement of 2030 Vision (see pp. 31, 43, 71, 76)

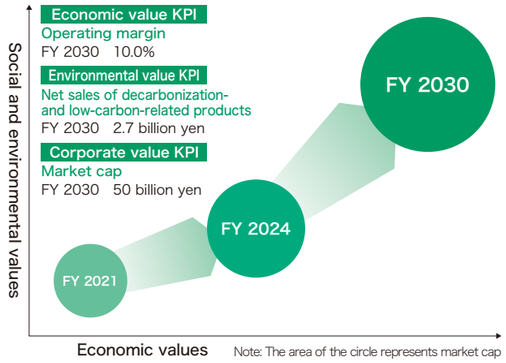
Future the Group wants to realize

Making the world a resilient and gentle place (see p. 1)

Key Points of Value Creation Process

Realization of the value creation process is necessary for the Nikko Group to fulfill its long-term vision of "Making the world a resilient and gentle place" based on the Group's raison d'être and mission of "Update the social infrastructure by leveraging engineering that is one step ahead of others." To this end, we have to appropriately grasp the social issues and changes in the industry, achieve the medium-term plan and solve the materiality through business activities in the inputs where our strength lies, and realize the outcomes, which are social, environmental, and economic values, from the output. The key to solving materiality lies in sustainability transformation (SX) initiatives that would synchronize the two social sustainability-related items (establishment of recycling-oriented society and realization of carbon neutrality) and the two items (creation of new customer values and human resource development and improvement in job satisfaction) related to the Group's sustainability to enable value creation in the medium to long term. Further, in addition to outcomes that can be created through business activities in short term, we will identify those that need to be created in medium to long term after output and consider their relationship with management capital.

Image of corporate value improvement towards 2030



Input (business foundation)

- In terms of financial capital, Nikko Group had an equity ratio of 61% as of the end of FY 2022 with net cash of about 4.6 billion yen. The Group has been pursuing active capital investment and sales of cross-shareholdings as shareholder return measures for the past few years, and net cash has been declining from 10.3 billion yen five years ago. Net assets have increased by 1.3 billion yen from five years ago to 31.6 billion yen, significantly slowing down from the increase of 5.9 billion yen in the five-year period prior to that.
- In manufactured capital, we have been carrying out capital investment exceeding depreciation since FY 2013, and has significantly increased the capital in waterproof boards and other growth areas and AP manufacturing and sales base in Thailand among others since FY 2018. The acquisition of Ube Kohki and Matsuda Kiko is also part of our efforts to strengthen manufactured capital. As a result, property and equipment as of the end of FY 2022 more than doubled to 11.8 billion yen from 5.3 billion yen five years ago.
- In terms of human capital, Nikko Group had 1,064 employees as of the end of FY 2022, which is an increase from the 807 employees at the end of FY 2017. However, further enhancement is necessary to achieve the long-term vision target. We aim to achieve the KPIs in our human resource development policy and internal environment development policy in FY 2023 so as to evolve human capital management.
- As for intellectual capital, we are thinking of something extra in the future, in addition to the four core technologies we possess, and leverage that for business model reforms and to realize the outcomes. R&D expenses for FY 2022 was about 0.6 billion yen, and have doubled over the past five years. We are expecting expenses in excess of 2.5 billion yen in the medium-term plan and will further accelerate it.
- As for social and relationship capital, we will leverage our strengths including Akitsu-kai and Tombo-kai to become a solution partner of the customer as advocated by Nikko Group. We will also strengthen the supply chain taking into account the anticipated business expansion.
- With respect to natural capital, we will work to expand the net sales of carbon neutrality-related products to not only reduce CO_2 emissions of Nikko Group but also contribute to reductions at our customers. In outcome, based on the forecast of an increase in sales of warm mix (foamed) equipment in FY 2023 to 55 units (19 units in FY 2022), we consider it important to develop combustion technology for decarbonized fuels such as ammonia and hydrogen burners for AP.

Business activities (business process)

Upon moving from input to business activities, we will add something extra to Nikko Group's four core technologies for mixing, heating, control, and material handling to achieve business transformation and scale expansion leveraging technology, which form the gist of the medium-term management plan, ultimately leading to solving materiality. Specifically, business transformation means strengthening of operation and maintenance services led by subscription service of mainstay maintenance service. Scale expansion leveraging technology points to expansion of AP-related business to ASEAN market with the Group's manufacturing and sales base (NIC) in Thailand at the center, strengthening of environmental products and waterproof board business, and lateral deployment of products and markets including acquired businesses. As maintenance service accounts for about 60% of the net sales of AP- and BP-related businesses, we believe evolution here is important from the value chain perspective.

Output (business value)

In output, it will be necessary to realize business transformation and scale expansion leveraging technology so as to achieve the financial targets (50 billion yen in net sales, 3 billion yen operating income, etc.) for FY 2024, the final year of the medium-term plan. However, for the time being it is the period for sowing seeds primarily for securing human and intellectual capital, for establishment of the business foundation, and therefore we believe it is important to put the alignment in order for achieving the 2030 Vision.

Outcome (creation of social values)

Our business activities that will lead to social and environmental value creation include support for early restoration from natural disasters and co-existence with local communities. In support for early restoration from natural disasters, recovering from intensifying natural disasters, such as large typhoons, severe rainstorms, and earthquakes, starts with quick recovery work of the Group's damaged plants. In FY 2022, Nikko-manufactured plants suffered damage at 60 places, which was a decrease from the 72 places in FY 2021. We will continue to collaborate closely with customers and focus on early restoration and will work to expand the social and relationship capital in the short-term. As part of coexistence with local community, the Nikko Business Foundation has been offering scholarships that do not require repayment to domestic and overseas students enrolled in universities and technical junior colleges in Hyogo Prefecture and to students from Hyogo Prefecture studying in the Kinki region. The foundation also provides grants to researchers who conduct research on technology development in the laboratories of the universities and technical junior colleges in Hyogo Prefecture and to researchers who reside in Hyogo Prefecture and work for universities outside the prefecture. We expect such efforts to lead to stabilization of social and relationship capital in the medium to long term.

Our business activities that will lead to value creation after output include contribution to disaster prevention and mitigation, establishment of recycling-oriented, environmentally friendly society, and contribution to realization of decarbonized society. From the perspective of the contribution to disaster prevention and mitigation, the Group recognizes waterproof boards as something indispensable for protecting people from intensifying floods resulting from extreme weather. While demand for waterproof boards fell in FY 2022, it will contribute both in the short term and long term to financial capital, social and relationship capital, and natural capital. For the establishment of recycling-oriented, environmentally friendly society, we recycle almost all of the asphalt waste (more than 99%), and about 75% of the asphalt mixture we use in new road pavement works is recycled mixture collected as pavement waste. Going forward, we are expected to use the domestically developed AP recycling technology in China, where there is large demand, and also in the ASEAN region in the future. Regarding recycling of plasterboards, the amount of plasterboard waste is expected to reach 2 million tons in Japan in 2025 and exceed 3 million tons in 2039 as the residential buildings built during the rapid economic growth period enters the demolition stage. There is little capacity at final disposal sites and disposal costs are soaring mainly in large cities. In this field, contributions can be expected from financial capital, intellectual capital, social and relationship capital, natural capital, and a wide range of management capital in the medium to long term. Contribution to realization of decarbonized society is an important outcome which the Group should achieve in the medium to long term. It is necessary to draw up technological and business roadmaps including collaboration with customers and various businesses and implement them, and not just limited to reduction of CO_2 emissions at the Group. Warm mix (foamed) equipment has been shown to reduce CO_2 emissions in the short term, and demand for hydrogen and ammonia burners for fuel transition is anticipated in the medium-term. While it is expected to have a negative impact of a short-term increase in costs including R&D and personnel expenses, it is likely to have a positive impact on the Nikko Group in the long run including intellectual capital and social and relationship capital as well as a ripple effect on natural capital.







Future the Group wants to realize: Making the world a resilient and gentle place

At the Nikko Group, we believe that the corporate identity we formulated will lead to "Making the world a resilient and gentle place," which is the future we want to realize under our long-term vision, along the three axes of customers, employees, and future, with our mission "Update the social infrastructure by leveraging engineering that is one step ahead of others" at the core.

VALUE CREATION VISIONS & STORIES

NIKKO

Creating robust, people-friendly cities around the world.

02

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It is essential for the Nikko Group to build a foundation for growth and take on new challenges for realizing the vision of "Making the world a resilient and gentle place." My mission is to not lose sight of this perspective.

Representative Director and President
辻　勝
Masaru Tsuji

<< Session.1 Nikko Group's business model and what it aspires to be

— First, could you please explain Nikko Group's business model? What are Nikko's technological strengths, and how do they differentiate it from other companies?

Nikko's business model is based on four core technologies of heating, mixing and kneading, material handling, and control, and our strength lies in the integrated handling of everything from development and design to manufacturing, construction, and maintenance. This is the point where we set ourselves apart from other companies. Another feature of our business model is that it consists largely of stock business, as we have the top share of the domestic market for asphalt plants (AP) and batch plants (BP), and the maintenance service business for them accounts for about 60% of net sales.
We consider the requirements of the customers as our tasks and

the major theme here is the response to carbon neutrality (CN). AP customers, mainly road pavement companies, bear a sense of mission to respond to CN, and I am confident that Nikko's technology development will play an important role in CN.
In CN initiatives, we so far have been carrying out R&D ahead of our competitors, and I am proud to say that we are in an advantageous position globally in CN-related products.
For example, of the core technologies, heating technology used in APs includes biomass fuel burners we have been developing to achieve CN for many years. In April this year, we succeeded in mixture manufacturing and pavement works using hydrogen burners. In addition to the hydrogen burners, our warm mix (foamed) equipment for warm mix (low-carbon) asphalt mixture is seeing a major growth in orders.
The equipment manufactures asphalt mixture at a temperature lower than the usual heating temperature as it reduces the viscosity of asphalt by adding a small quantity of water to heated asphalt and foaming it, which leads to reduction in CO_2 emissions. As shown in the product development road map through FY 2050, we will continue to develop decarbonization-related equipment to achieve CN (see pp. 35, 51).

—Domestic demand for APs and BPs, excluding decarbonization-related and low-carbon-related products for CN, has been sluggish. Taking into account the future business environment, how do you think the business model needs to be changed from what it is now?

Our assessment shows that domestic demand for APs and BPs is in a mature state, and we think that the key to business continuity is the maintenance service business. In this field, we have been receiving requests from customers for unmanned plant operation as part of workstyle reforms and as a solution to the labor shortage, and we also have been continuing to approach them. The workstyle reform law is about to be applied, which, in principle, will require the construction industry to limit overtime work to 360 hours or less per year. It is the so-called 2024 problem. In the transportation field, also, customers will face the 2024 problem as they manufacture and deliver materials. We are considering a technological approach to lighten the burden on the customers resulting from transportation of materials. In utilizing the service stock business, we are working on a remote maintenance service where the Customer Support Center (CSC) at the head office would monitor the customers' plants. We are also optimizing the division of labor in such a way that maintenance staff can improve their skills and focus on operations that require skills (see p. 65).
Customers' ultimate challenge is how many employees they can reduce in plant operation, with the final aim of achieving unmanned operation. In particular, customers operating multiple plants are facing issues with employee management.
As a first step towards solving the issues, we developed a system called SiiLO that enables shipment from mixture silos of multiple plants through remote operation in August this year. Mixture silos are facilities that store manufactured asphalt mixture while retaining the heat. Asphalt mixture plants in urban areas with high shipment volume usually have staff to handle shipping operations during night time and holidays to enable 24-hour shipping, and are facing issues with attendance management and work styles. Our system enables remote shipping from mixture silos regardless of the location, reducing the working hours of employees at asphalt mixture silos, and will lead to work style reform. If this remote operation of asphalt mixture silos of multiple plants can be expanded to all the plants, labor saving can be accelerated. What is important upon operation of the system is guaranteeing its safety. In carrying out shipping operation, SiiLO verifies the footage from a surveillance camera installed inside the plant and communicates with the driver of the dump truck to confirm the safety. Going forward, we need to consider measures including DX solutions.
In the future, we are aiming to transform the current maintenance service business model from remote maintenance to asset management where Nikko manages the assets of the customers including preventive maintenance. If we expand the scope of asset management, emergency deployment of maintenance staff will decrease, which will enable leveling of operations. We will work on DX and labor saving in plant operations and the transition to asset management of maintenance service by using control technology, one of our core technologies. With the increasingly serious decrease in working population in the construction and civil engineering industries, we will strive to realize our vision of "Making the world a resilient and gentle place" by ensuring labor-saving and



We will aim to transform the business model of maintenance service into asset management where we manage the assets of the customers

In development, we are providing advanced technical support to customers based on our assumptions and hypotheses. We will tenaciously continue with the trial-and-error method

deploying DX solutions in plant operation as we also address the 2024 problem.

—You have apparently changed the approach to R&D from what it was before upon pursing CN initiatives and labor-saving. What are the specific initiatives you are taking?

The technologies Nikko possess now were developed through our long history of sincerely addressing each and every one of customers' requests. However, from now on it is imperative that we grasp the requirements of customers, take the social issues as our mission, and proceed with development in advance. If we start development after receiving a request from the customer, we will not make it in time. The same applies to the 2024 problem and CN. Among those, CN requires drastic measures such as energy saving and alternative fuels, and we need to respond in advance with technology based on our predictions. While these efforts will most likely see the light of day some 10 years from now or even later, we are pushing forward with our operations by taking an R&D approach that is different from the past.
In this regard, we will take on challenges for various developments without fear of failure or hesitation. We have started seeing some changes in the course of our trials and errors. We follow the Ringi decision-making system in development. Prior to that the person in charge has to present a proposal of the objective, method, amount, etc. to the Development Technology Committee and obtain its approval. A project that has passed the committee goes through the



Ringi decision-making process by the executive board, and receives investment if approved. Recently we have seen more proposals from young engineers. Their explanations are realistic and passionate, making meetings very lively. The meetings of the Development Technology Committee used to be boring for me, but have recently become very interesting. Development themes also used to be often passive responses to customers' requests. Now we are carrying out quite a few development projects that pass the Ringi decision-making process based on ideas that will be needed in the future, even if they may not lead to sales for several years. I have been conveying to the employees that we should resolutely continue with this (see p. 40).

<< Session.2 Review of the first year of Medium-Term Management Plan and new businesses

—The first fiscal year of the Medium-Term Management Plan ended in FY2022. How would you summarize it?

The results for the first year of the medium-term plan regrettably fell much short of the passing score. While there was the impact from many overlapping negative factors such as the rapid depreciation of yen, soaring energy costs, steep rise in price of supplies, and prolonged delivery times, we also have numerous points to reflect on. Asphalt prices rose due to the rise in crude oil price, and management of road pavement companies, the customers of our AP-related business, worsened, which diminished their appetite for capital investment. Overseas, the COVID-19 pandemic took the wind out of the sails of the Thai business, which is yet to get back on track, and the resultant poor performance of the AP-related business both in Japan and overseas has acted as a brake in the first year of the medium-term plan. However, even if orders stop for one year, our AP-related maintenance services cannot fully protect the customers' plants unless maintenance work resumes the following year. If sales are concentrated in a certain period, including maintenance work postponed, then there is a risk of us not being able to handle work, so we will be reconsidering our supply structure, etc. On the other hand, the BP-related business is generally performing well, as our customers in the ready-mix concrete industry have successfully passed on cost increases to selling prices, and as there are some regions where the economy is good. We expect that delivery times for supplies will continue to be prolonged, and since the cycle from order receipt to sale is expected to become longer, we will work

The contract-based manufacturing by the two companies we acquired through M&A offers business chances for the future. We can also grow the environmentally friendly and recycling products



to ensure appropriate cost management to secure profits while upgrading management of schedules for production, shipment, and on-site construction (see p. 32).

—What is your assessment of new businesses?

Regarding new businesses, while the expansion of sales of waterproof boards has slowed due to a delay in the shifting of costs to prices, the mobile plant business including mobile crushers has continued to grow with net sales rising 24% year on year to 1.8 billion yen in FY 2022. We recognize that this is partly due to the good market environment. At the same time, requirements at stone crushing plants, etc. using aged crushing equipment are changing from stationary-type to mobile machines. In emerging countries overseas, crushing equipment started off originally with mobile ones, whereas stationary machinery was popular in Japan. While it takes time for the facility to start operations in the case of stationary machinery, mobile equipment can be delivered at short notice and can start operations immediately on delivery. With customers increasingly becoming cognizant of mobile crushers, we were able to sell 170 units cumulatively and we can also expand sales further to stock business, etc. Though we are confident that German company KLEEMANN's products that we offer are superior in performance to our competitors' products, the current depreciation of the yen against the euro is a negative factor for profit from them. Nonetheless, the superiority of the products in performance including running costs allows us to compete with other companies even at the current level of exchange rate. Also, we expect that the net sales for the mobile plant business for FY 2023 will be close to 3 billion yen and that operating income will turn profitable earlier than planned (see p. 42).
Another topic to be mentioned here is that we recently received orders worth about 1.1 billion yen for mobile plants for Ukraine, which continues to be at war with Russia, as ODA from Japan. We hope to contribute to the restoration of Ukraine through our AP and BP business as well. This is related to our vision of "Making the world a resilient and gentle place."

—The Group acquired Matsuda Kiko this July following the acquisition of Ube Kohki in March of 2022. What was the objective in purchasing two contract-based manufacturing companies, and what contributions do you expect from them in the medium to long term?

Many people feel contract-based manufacturing is subcontracting, but the products being manufactured under contract require high processing technology and experience to handle various materials and temperatures and to ensure accuracy.
It is necessary to broaden and improve the manufacturing technology in order to broaden the range of Nikko's products. The M&A this time was also to attain this goal and I am convinced that it will be a source of energy for us to grow as a manufacturer. We have been supplying improvement devices for manufacturing equipment to many companies. Among them, many are recycling equipment for waste generated in the production process at plants. Nikko has a track record of solving, with engineering, the demands from companies for stable treatment of the effluents and waste generated in the production process to achieve their zero emission goals. Nonetheless, we have not been able to develop this track record into a major business pillar. Going forward, I would like to make the environmentally friendly and recycling products as a pillar of our business.
Till now we have been manufacturing the environmentally friendly and recycling products at the head office factory, but it took a little longer to deliver them as regular products were given priority. This disrupted the process of regular products and was also disadvantageous from the profitability perspective as we sometimes could not manufacture them at a low price. The reasons for acquiring Ube Kohki and Matsuda Kiko are that they possess solid manufacturing capability and adaptability in contract-based manufacturing. With the two companies carrying out the manufacturing of the environmentally friendly and recycling products, we would like to grow it into a new pillar of Nikko Group's business.
I was involved in launching the business for environmentally friendly and recycling products. I remember that staff at the plant felt demotivated when they found the products they made based on orders from various companies were very unprofitable despite the amount of time and effort they spent. Now, contract-based manufacturing also has high profitability, but in those days we were trapped by stereotypical views, for example, that you cannot win orders unless you offer manufacturing at low cost. There is also the social issue of business succession in the manufacturing industry, and I think high-level contract-based manufacturing presents a business chance for the future.

<< Session.3 Initiatives on sustainability transformation

—Sustainability transformation (SX), in which sustainability of the society and that of Nikko are synchronized so as to create values in the future, is gaining attention. We talked about the industry environment at the beginning. What are the challenges and risks in environment (E) and what kind of strategies are you considering?

Nikko and customers share the same challenges such as carbon neutrality and the 2024 problem. What is important in advancing SX from now on is to come up with countermeasures for common challenges and share a common schedule for implementing the measures. In addition to solving the challenges, it is important to develop a structure for cooperation to accomplish growth. In other words, the most important thing is to create an environment in which the market as a whole can work on solving them rather than doing it on our own or alone. To this end, it will be effective to involve the industries related to the market and we would like to take the lead in doing this.
Risks faced in decarbonization include the fact that APs emit 1.3 million tons of CO_2 a year. Road pavement companies are required to take measures for large-scale decarbonization, but they may not be able to do so in time if the industry as a whole does not take drastic measures.
Taking this as an opportunity, we are considering decarbonization measures as the most significant theme for our development investment, and we are allocating a large amount of management resources to the development of products that run on alternative fuels such as hydrogen and ammonia in addition to energy saving. In this field, warm mix (foamed) equipment among decarbonization-related devices has been contributing to sales. In the future, we should promote the launch of system products that can be significantly effective in decarbonization, on a regional basis rather than on a plant-by-plant basis. It is necessary to target multiple plants in each area for sales through associations, etc., and to this end, the regional divisions of the Japan Asphalt Mixture Association have been carrying out PR activities such as lectures on a regular basis (see p. 61).

—In society (S), Nikko has introduced a new personnel system along with three measures to strengthen human capital in April 2023. What kind of effect are you expecting from this in the future?

The new personnel system is designed to create a structure for young employees who will support Nikko in the future, and aims to make the company a more rewarding place to work than it is now. Employees have various values such as income, position, how interesting the job is, and how well their opinions are accepted. It may not be easy for this personnel system to raise the motivation of the employees as a whole, but it focuses on giving young employees hope in Nikko's future and is premised on the scrapping of the seniority system. My hope is that by implementing the new personnel system gradually and steadily, we will be able to increase the number of motivated employees, raise the motivation of the company and make it a corporate entity that can progress towards goals in the shortest possible distance.
In formulating the new personnel system, we paid attention to ensure that no one would have a feeling of unfairness. If we make it a system that gives special recognition to employees who tried hard, we would not be living up to our words. For



Strengthening of human capital is imperative for building the foundation for growth towards 2023 vision. With the new personnel system, we aim to become a corporate entity that can progress towards goals in the shortest possible distance

this reason, we decided to let the employees set six goals at the beginning of the fiscal year and then objectively give scores for the results. Setting the targets also is not something that should be forced on the employees. Our aim is to let them develop the targets through dialogues with their respective managers and have both employees and managers share not only short-term but also medium- to long-term perspectives. Managers must have five one-to-one meetings with employees and we are asking managers to spend half of their working time for this purpose. It is embarrassing that we lacked such a mechanism till now. While employees are evaluated based on scores, we make sure that managers use their discretion to a certain extent.
The new personnel system is designed so that its introduction will not significantly raise the personnel expenses for the Nikko Group as a whole. Strengthening of human capital is indispensable for the Nikko Group to enter the business expansion phase in the next medium-term plan and it also leads to achieving sustainability (see p. 69).

—In governance (G), the number of outside directors declined by one, and now they account for three out of the nine members of Board of Directors. What did you learn in terms of management in relation with the skill matrix of each outside director?

As the skill matrix indicates, we receive various management advices from the three outside directors, who also supervise the board of directors. Ms. Saeki, who manages a system company and is also guiding us on SDGs, pointed out that we need to set forth concrete numerical targets for female managers and executives. She also proposed expanding the scope to include not just young employees but up to division head level when hiring people with prior work experience. Ms. Saeki also suggested to turn one floor of the three-story bachelors' dormitory into a women-only floor when we built it last year and we adopted her proposal. With his experience of serving as the Ambassador Extraordinary and Plenipotentiary to Indonesia, Mr. Ishii is well versed in international affairs and we have been consulting with him for our expansion into the ASEAN region. He gives lectures once a month on overseas situations to employees, helping to raising their awareness. He also advised us to increase the opportunities for employees to experience and learn English conversation in places where it is spoken. Mr. Sadakari, who is experienced in management of financial institutions, is also an expert in financial matters and provides us comprehensive opinions based on figures from a third-party perspective. He studies materials in advance and gives in-depth views backed by figures, and we are learning from them. He has served as the representative director of a bank and knows various company managers, which also I consider as one of his strengths (see p. 76).

<< Session.4 Stakeholder engagement and improvement of corporate value

—Last year, the Group established its Corporate Identity (CI). What are the new initiatives you implemented in the past one year to instill it throughout the Company?

It has been one year since we established CI of Nikko Group. CI consists of values, spirit, and slogans for bridging "Update the social infrastructure by leveraging engineering that is one step ahead of others," which is Nikko's raison d'être and mission on a day-to-day basis, to its vision of "Making the world a resilient and gentle place." We have retained the three basic principles as long-standing values from the time of our founding. CI is not something that an employee representative decided from top down, but is something that emerged from the various discussions held by employees who had volunteered on their own, and was subsequently disseminated as message from Nikko Group to the society. While there have been no visible changes resulting from the establishment of CI till now, we produced a branding movie as one of the tools to spread the philosophy and created a booklet of philosophy cards and distributed them to all employees including those at group companies. We also watch the movie at the end of the



Dialogue and engagement with employees enable us to take actions with confidence

I feel it is also necessary to improve external name recognition to improve corporate value. We will continue taking on various challenges

morning meeting held once a month.
In July this year, we started dialogue and engagement as a forum where I directly address the employees. I do not limit the topics there to CI and philosophy, and I exchange views with employees regarding various themes including job-related doubts and measures for improvement for one to two hours. Learn extensively, both from within and outside is one of CI spirit items, and I feel I too learn a lot from the dialogue with employees. If we take the dialogue I mentioned initially as an example, all of the entries were from young employees, five of them. Through this dialogue, I felt a high level of interest among young employees in the Medium-Term Management Plan. Young employees nowadays are more interested in management than when I was young, asking questions such as what the Nikko Group's key performance indicators (KPIs) are and what needs to be done by when. Our website has materials on the medium-term plan and employees have many opportunities to learn such information, which enables them to understand the gist of management.
From the dialogue, I am learning the points I can relate to among the opinions of the employees regarding the medium-term plan and the questions I have regarding them. I am thinking of leveraging the things I learn from this continued dialogue and engagement in management. It is also true that I used to be worried about how employees would react to the policies, as we had announced them top down till now. Now I can listen to employees' opinions directly, which is very effective for making management decisions, and I feel more confident in implementing something based on that (see p. 1).

—What do you think is necessary in the future for engagement with stakeholders other than employees? What roles are you going to play in this and what are your responsibilities?

For me to engage with stakeholders other than employees, I believe it is important to have them fully understand and empathize with the business of the Nikko Group. Public relations activities are also important and we need to highlight our activities more externally. I need to make efforts to increase contacts with customers in my role as top management of the company. We are increasing steady efforts, for example, to showcase our various initiatives by joining the Japan Road Contractors Association as a support member.
To improve our press releases and website, we are having employees come up with various opinions and ideas as to how to raise our name recognition, and have been driving forward new initiatives. One example of the ideas was the launch of a new game called Let's Protect Roads! in Gokko Land, a social experience app for children, in an effort to engage with future



generation. Gokko Land is a free app that enables children to learn how the society works interactively through playing pretend, which children love. There are about 5.5 million households using the app, which account for about a third of the child-rearing generation (see p. 57).
We have long been supporting roads through delivery of APs. The number of people engaged in the road pavement industry has declined because of its 3K—kitsui, kitanai, and kiken (demanding, dirty, and dangerous) image. It is also difficult to gain the understanding of local residents for building a new AP, and I have been feeling the need for improving the image of the industry and correctly communicating the significance of APs to maintain the infrastructure. For this reason, we launched the game as we wish everyone including children to deepen their understanding of roads and feel familiar with APs. We are making an appeal to the future generation 20 years from now, with Japan facing social issues such as a decline in workforce and aging infrastructure.
I believe new initiatives like this aimed at improving name recognition in the society will become more and more relevant in order to think from the same perspective as our stakeholders and to raise our corporate value through engagement. My responsibility in these endeavors is to firmly instill in employees the Nikko Group's mission to "Update the social infrastructure by leveraging engineering that is one step ahead of others," and to complete within the current medium-term plan period the development of the foundation for growth towards "Making the world a resilient and gentle place," the future vision we want to achieve. In the next medium-term plan, we will link it to raising not just economic value but also social and environmental values (see p. 13).
We look forward to the continuous support from our stakeholders. We will continue to take on various challenges in our efforts to live up to their expectations.

Overview of Medium-Term Management Plan and its progress

Positioning of the internal investment phase towards realization of 2030 Vision

The Group positions the three-year Medium-Term Management Plan (FY 2022–FY 2024) as the internal investment phase for building structures, processes, and systems for realization of the 2030 Vision (consolidated net sales target of 60 billion yen and operating income target of 6 billion yen), which indicates what it aspires to be in 2023. It positions the subsequent period from 2025 to 2030 as the business expansion phase with improved profitability, in which the Group expects to succeed in full-fledged sales of environmentally friendly products for decarbonization, business expansion into the ASEAN region, actualizing the impact of introduction of technologies such as automation and remote operations, and review of production process. In 2030 Vision, the Group declares as targets 50 billion yen or more in market cap and 60% or higher in payout ratio in addition to other numerical targets.

(million yen)

	Previous Medium-Term Management Plan			New Medium-Term Management Plan				
	FY 2019 results	FY 2020 results	FY 2021 results	FY 2022 plan	FY 2022 results	FY 2023 plan	FY 2023 forecast	FY 2024 plan
Sales	35,151	37,866	38,846	42,000	39,665	48,000	44,000	50,000
Operating income	2,053	2,302	2,053	2,300	1,028	2,800	1,900	3,000
Net income attributable to owners of parent	1,588	2,082	1,649	1,600	1,020	1,900	1,200	2,100
Dividend per share (yen)	40	33	30	30	30	30	30	35
Total dividend	1,550	1,260	1,146	1,144	1,147	1,144	1,147	1,334
Dividend payout ratio	97.6%	60.5%	69.5%	71.5%	112.5%	60.2%	95.7%	63.5%
Net assets	30,293	31,451	32,050	32,506	31,604	33,262	31,657	34,028
ROE	5.2%	6.8%	5.2%	4.9%	3.2%	5.7%	3.8%	6.2%

Medium-term plan numerical targets by segment and progress

Asphalt Plant (AP)-Related Business: Aiming to improve operating margin

- Net sales target for FY 2024 of 23.0 billion yen and operating income target of 1.6 billion yen (operating margin target of 7.0%).
- We plan to restore operating margin to the 7% level through growth of environmentally friendly products and profit recovery at overseas subsidiaries.
- In FY 2022, both net sales and operating income fell significantly short of the plan.

Batcher Plant (BP)-Related Business: Expecting steady business performance

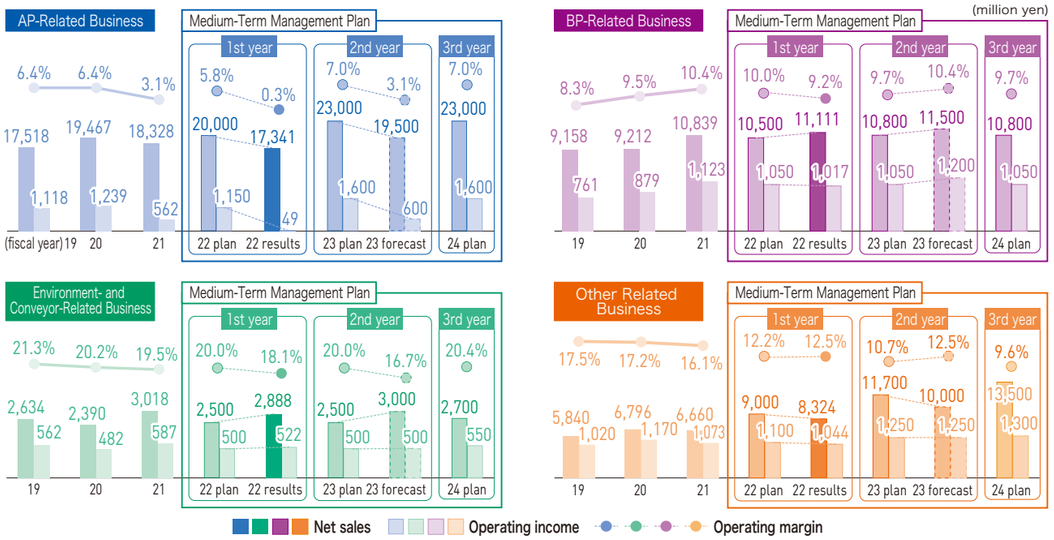
- Net sales target for FY 2024 of 10.8 billion yen and operating income target of 1.05 billion yen (operating margin target of 9.7%).
- We expect the prices in the market to remain high. We will maintain the market share and focus on growth investment such as development of decarbonization products.
- In FY 2022, net sales exceeded the plan, while operating income fell slightly short of it.

Environment- and Conveyor-Related Business: To maintain operating margin at 20% level

- Net sales target for FY 2024 of 2.7 billion yen and operating income target of 0.558 billion yen (operating margin target of 20.4%).
- We will prioritize securing high profitability even as we anticipate both sales and operating income to remain roughly unchanged.
- In FY 2022, both net sales and operating income exceeded the plan.

Other Related Business: Aiming to secure stable operating income

- Net sales target for FY 2024 of 13.5 billion yen and operating income target of 1.3 billion yen (operating margin target of 9.6%).
- We aim to secure stable operating income by absorbing the negative impact of the weaker yen with sales expansion.
- In FY 2022, both net sales and operating income fell short of the plan.



Progress in Medium-Term Management Plan and issues

The results for the initial fiscal year fell short of the plan because of the worsening external environment and the burden from active investment

For FY 2022, which is the first fiscal year of the Medium-Term Management Plan, consolidated net sales totaled 39.6 billion yen and operating income came to 1.0 billion yen (operating margin of 2.6%), falling short of the net sales target of 42.0 billion yen and operating income target of 2.3 billion yen (operating margin of 5.5%). By segment, the three business segments other than the AP-related business exceeded the plan in general, while the AP-related business significantly underperformed the plan. Nevertheless, the Group has been steadily implementing investment for growth by examining items that are necessary for achievement of the medium-term plan including increasing the number of employees by 26 from a year earlier to 1,064 as of the end of March (the medium-term plan calls for increasing the number of employees by 145 during the period), a 0.3 billion yen increase year on year in capital investment to 2.2 billion yen (the medium-term plan: 6.0 billion yen), and a 0.127 billion yen increase in R&D expenses to 0.576 billion yen (the medium-term plan: 2.53 billion yen).

Basic policy by segment in Medium-Term Management Plan

- The Group will make active investment in launch of new products and services for achieving the business structure reform set down by the 2030 Vision and for enhancement of the organizational capability required for that at each business.

	Basic policies	Key themes	Progress in FY 2022
AP in Japan	● Develop environmental products by leveraging the top manufacturer's development capability ● Support customers' plant management as a solutions partner	● Support for decarbonization ● Remote operations and automation support	○ ○
BP	● Implement comprehensive management of ready-mixed concrete plants ● Develop products that satisfy the requirements for high quality of precast concrete	● Comprehensive management and plant support center ● Mobile plants and environmentally friendly products	○ ○
Overseas AP	● Design and launch standard model products that are competitive also in overseas markets ● Build an organizational structure for expansion in the ASEAN market	● Global standard machines ● Expansion to the ASEAN region	△ △
Conveyors	● Realize short delivery time and low price through further modularization and offer convenience and efficiency that go beyond the boundaries of manufacturers, enabled by engineering conveyor lines ● Improve online service and design structure to build the foundation for delivering new products and services	● Further modularization of portable conveyors ● Offering of conveyor lines in package (full-fledged entry into the stringer conveyor market)	○ ○
Mobile plants (other business)	● Develop sales network, promote sales for rental business, promote the maintenance business ● Promote sales of in-house developed products in Japan and abroad (study the needs of market and customer)	● Stabilization of the mobile plant business and strengthening of profitability ● New product development, development of proposed products (-> To achieve a 50% market share and No.1 sales share in FY 2024)	○ ○

Progress by segment and issues

Asphalt Plant-Related Business in Japan

- Establishment of technologies for decarbonization, remote operation, and automation
- Provision of more support to plant operations at customers

Issue: Stagnation of capital investment at customers due to worsening business environment

(1) Support for decarbonization

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Development of low-carbon mixture manufacturing system	● Warm mix (foamed) equipment FY 2022 orders 40 units Sales 19 units FY 2023 estimate Orders 64 units Sales 55 units
Development of combustion technology for decarbonized fuels 	● Hydrogen burner Developed hydrogen burner for AP jointly with Tokyo Gas Co., Ltd. (100% hydrogen-fired; mixed-combustion with city gas is possible) In April 2023, we manufactured asphalt mixture at Maeda Road Construction Co., Ltd. and paved a road on a trial basis. ● Ammonia burner Carried out in-house combustion test of LNG and ammonia
Offered biomass and gas combustion technology	● Developed biomass burner that uses rice hulls. We are in business negotiations for applications other than for AP, such as pulverized coal

(2) Remote operations and automation support

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Offering of partially remote shipping system	● Remote shipment from silos From April 1 to 3, we carried out necessary work at a user and started demonstration experiment for remote shipment.
Development of remote operations and automation technologies	● In the process of developing technology that leads to remote operation and automation from the aspects of both mechanical and control equipment
Accumulation of plant operation data based on expansion of the number of maintenance subscription contracts	● Concluded five contracts More proposals underway

Concrete Plant (BP)-Related Business

- Carrying out comprehensive management of ready-mixed concrete plants and product development to meet high quality expectations for precast concrete
- Aim to become the top manufacturer, which is also environmentally friendly

(3) Comprehensive management system and plant support center

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Promotion of plant standardization through deployment of in-house developed control panels and accumulation of customer plant operation information	● Promoted capturing other companies' shares as we expand sales of in-house developed control panels. (to improve market share) FY 2022 delivery share: 42% Working on manufacture of ready-mixed concrete with higher quality through visualization of plant using mobile equipment by collecting plant big data and enhancing facility ledger function as well as through demonstration experiment of comprehensive plant management and linkage with other systems
Introduction of customer plant operation support service	● Started working on plant maintenance that utilizes a prototype image processor and various sensors for predictive and preemptive maintenance from the perspectives of both infrastructure and services developed under the theme of DX plant management

(4) Enhancement of mobile plants and environmentally friendly products

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Deployment of mobile plants in areas that became unreachable due to the consolidation of plants	● Delivered a plant to a precast concrete user for a project We are receiving inquiries for disaster recovery and for special concrete demand
Product development and deployment in response to customers' environmental needs such as CO_2 emissions reduction	● Participated in a GI Fund project to develop manufacturing technology for concrete, etc. using CO_2 and received an order for demonstration plant Delivered an Eco Tankaru manufacturing facility to a precast concrete user. Continuing to receive inquiries.

Overseas Asphalt Plant (AP)-Related Business

- Build an organizational structure for expansion in the ASEAN market (Early takeoff of the Thailand production base and building a sales structure in Indonesia and Vietnam)
- Development of global standard products

Issue: Delay in making the Thailand business profitable

(5) Expansion to the ASEAN region

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Entry into the Indonesian and Vietnamese markets	● Singed an agent agreement with a construction machinery dealer in Vietnam ● To monitor the local demand and then decide on such agreements in Indonesia
Enhancement of production capacity in Thailand to cover the entire area of ASEAN	● Making active capital investment at the Thai plant Plan to increase the scope of products manufactured in Thailand from **current** Nikko:NIC* = 8:2 to 2:8 from the products to be shipped in FY 2023
Building collaboration structures with local sales agents	● Discussed a system that generates synergies with the Thai agent ● Promoted plant education at the Vietnamese agent

(6) Development of global standard plant

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Launch of a marketing team for grasping the needs of each country	● Established ASEAN Business Strategy Office to comprehensively discuss the ASEAN business and accelerate the implementation of numerous measures we need to drive forward
Designing of a standard plant with price competitiveness that corresponds to the needs of the overseas markets including introduction of locally purchased supplies	● Finalized the concept We aim to complete it by the end of FY 2023. Also, we plan to expand the scope of local procurement in Thailand from current Nikko:NIC = 8:2 to 2:8 from the products to be shipped in FY 2023

*NIC: Nikko NilKhosol (a local manufacturing subsidiary in Thailand)

Mobile Plants (Other Business): Aim for 50% market share by sales units in FY 2024

- Aim to stabilize the business and reinforce profitability
- Strengthen development of new products and proposal-based products

(7) Stabilization of business

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Building sales network, establish and promote rental business	● Continuing with the activities to increase the number of new sales agents in addition to the Mobile Plant Subcommittee (12 companies) of the Nikko Dealers' Association to build a structure of 66 sales agents in Japan from FY 2019 to FY 2022 and further add new sales agents ● Established a sales structure with eight sales companies belonging to crusher construction machinery manufacturers that do not have mobile machines
Promotion of maintenance business	● Increased the number of employees engaged in maintenance from five to eight Net sales of maintenance increased 103% compared with FY 2021 due to an increase in the number of units in the market

(8) In-house development of products and development of proposal-based products

Medium-term plan (FY 2022-FY 2024)	Progress in FY 2022
Research of market and customer needs	● Continue to work to increase the variations and sales of new products and other products we offer
Promotion of sales in Japan and overseas through the development of in-house products	● Delivery to users with strong influence over industries such as crushing, mining, steel, and AP recycling increased ● ODA orders for Ukraine (orders for three units and sales of two units) ● Publishing articles and ads in industry newspapers
Creation of new hit products	● Development of an improved version of mobile soil improver Mobix and its launch in FY 2023

STRATEGY FOR VALUE CREATION

NIKKO

Creating robust, people-friendly cities around the world.

03

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Financial Capital

“We will make active investments during the current Medium-Term Management Plan period for future improvement in corporate value”

| Basic policy |

Towards achieving the numerical targets (consolidated net sales of 60.0 billion yen, operating income of 6.0 billion yen, and operating margin of 10.0%) set forth in the 2030 Vision, we will position the current Medium-Term Management Plan period as the internal investment phase, in which we will make active investments to boost earning power while promoting sale of strategically-held shares and improvement of cash conversion cycle (CCC). We will aim to raise ROE (FY 2024 target: 6.2%) by keeping net assets in check and improving profitability. As share valuation (PER) also improves through strengthening of sustainability activities and active shareholder returns, we would take on the challenge of achieving 50.0 billion yen in market cap and ROE of 8.0% or higher in 2030.

| Nikko’s financial capital |

In terms of financial capital, Nikko Group had total assets of 52.1 billion yen as of the end of FY 2022, invested capital of 35.7 billion yen (shareholders’ equity of 29.9 billion yen and interest-bearing debts of 5.7 billion yen), net cash of 4.6 billion yen (cash and cash equivalents of 10.3 billion yen and interest-bearing debts of 5.7 billion yen), and equity ratio of 60.7%. Nikko Group has a strong balance sheet based on stable cash generating ability.

| Source of strength |

Our AP-related business has a 70% share of the domestic market, while the BP-related business boasts a 40% share, and we have been maintaining top shares in both businesses in Japan. Total net sales in maintenance service of both businesses, in which Nikko Group expects stable revenues, account for about 30% of its consolidated net sales (both businesses together account for 55.5% of total domestic sales), and the service has high capability to create cash flow. Further, the operating margin of our environment- and conveyor-related business for FY 2022 was 18.1%, and other businesses, with operating margin of 12.5%, also similarly posted stable high profitability.

Financial capital

- Total assets of 52.1 billion yen
- Invested capital of 35.7 billion yen
- Net cash of 4.6 billion yen

Output

- Net sales of 39.6 billion yen, operating income of 1.0 billion yen
- Cumulative FCF for the past five years of 67million yen
- Dividend of 30 yen per share (payout ratio of 112.5%)

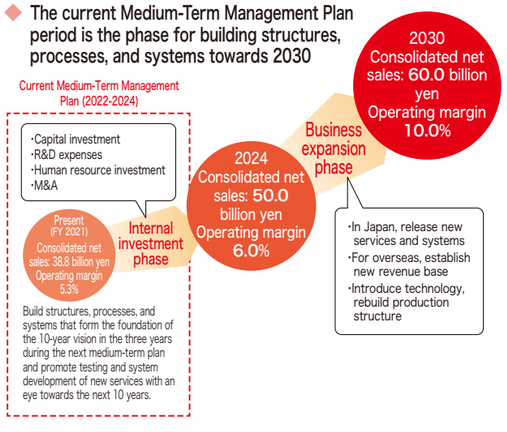
Outcome

- Stable profit creation
- Attractive dividend yield (about 4.4%)
- High financial stability (equity ratio of 60.7%)

| Strategy towards the achievement of the Medium-Term Management Plan |

While Nikko Group has been maintaining a strong balance sheet, its ROE for FY 2022 stayed at 3.2% and PBR also has remained low. While focusing on ROE, we aim to achieve an operating margin of 6.0% in FY 2024 by prioritizing investment in fields that would generate profits in the future towards the business expansion phase starting from FY 2025. As for growth investment, in the three-year period of the current medium-term plan, we will carry out staff reinforcement (addition of 145 employees at parent Nikko), R&D (2.53 billion yen), capital investment (6.0 billion yen), and M&A investment projects (Ube Kohki and Matsuda Kiko already made into group companies). The policy is to allow equity ratio to decline to around 50% depending on the projects while assessing the profitability.

◆ **The current Medium-Term Management Plan period is the phase for building structures, processes, and systems towards 2030**



◆ **Numerical targets**

	FY 2022 results	FY 2024 target
Operating income	1.0 billion yen	3.0 billion yen
Operating margin	2.6%	6.0%
ROE	3.2%	6.2%
(Concerned net income: million yen)	1,020	2,100
(Net assets: million yen)	31,604	34,028
Net income per share	26.67 yen	55.09 yen
Dividend per share	30 yen	35 yen
Dividend payout ratio	112.5%	63.5%
Market cap	25.3 billion yen	——

Manufactured Capital and Social and Relationship Capital

“We will support infrastructure around the world with our high-quality products backed by our integrated production and high technological capability”

| Basic policy |

We have an integrated production structure where we manufacture everything in-house from the plant to the control panels, and our basic policy is to manufacture high quality products efficiently and deliver them to customers through collaboration with our business partners. Also, we take all possible measures to ensure safety and quality while meeting delivery deadlines. These include measures such as carrying out appropriate construction of plants and machinery depending on the environment and location in addition to checking the operation of the plants using digital twins. We strengthened our Customer Support Center (CSC) in 2018 and are focusing on maintenance services for customers’ facility assets, including preventive maintenance and other support. We will bolster our on-site capabilities by making capital investment to the tune of 6.0 billion yen in the three years of the current medium-term plan.

| Nikko’s manufactured, and social and relationship capital |

With the head office factory at Akashi city in Hyogo Prefecture as the mother plant, we have five factories in Japan and two overseas (in China and Thailand). Ube Kohki and Matsuda Kiko, which newly joined the Nikko Group, have their own plants and carry out contract-based manufacturing of various plants and industrial machinery. In terms of material procurement, Nikko has a fair and equitable collaborative relationship with about 20 external suppliers of materials based on Nikko’s design and some 100 suppliers of general materials. We have a highly efficient integrated production structure in the manufacturing division that combines high-precision machine tools, including a five-face machining center, with automated lines. Further, Nikko’s own contractor network Akitsu-kai has some 200 companies as its members.

| Source of strength |

Our strength lies in our comprehensive support system based on integrated production where we not only manufacture the plant internally, but also the control panels. In addition to the high share primarily in the AP- and BP-related markets, Nikko boasts an ample track record of supplying to more than 4,000 companies around the world. Stable replacement demand as well as introduction of environmentally friendly products are contributing to the stable operation of plants. As for the maintenance business, we aim to contribute to the stable operation, labor saving, and automation of customer plants by leveraging various data and other means.

Manufactured capital and social and relationship capital

- Capital investment of 2.214 billion yen
- Production capability and strong sales agent and procurement network to achieve medium-term plan goals
- Five factories in Japan and two overseas
- Akitsu-kai, Tombo-kai (sales network: 124 companies)

Output

- Nikko products in the four businesses
- High market share
- Thorough maintenance services
- Production of 39.1 billion yen, up 2.4% from year earlier

Outcome

- Safe and employee-friendly production environment
- High rating from customers
- Development of safe and secure roads and infrastructures
- Contribution to environment-friendly recycling-oriented society
- Strong relationship of trust with business partners

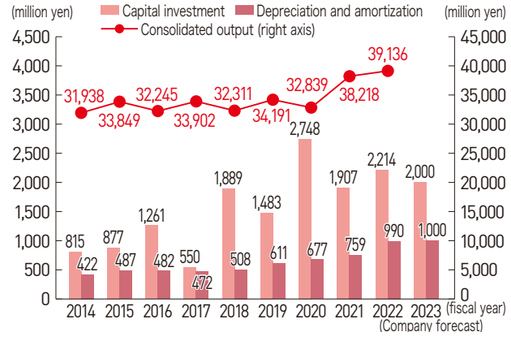
| Strategy towards the achievement of the Medium-Term Management Plan |

Nikko Group plans to make a cumulative capital investment of 6.0 billion yen during the three-year period of the current medium-term plan (cumulative 6.1 billion yen in the previous three-year medium-term plan period), which includes construction of a new plant in Hyogo Prefecture (0.5 billion yen) and development test center (1.0 billion yen). In FY 2022, we carried out capital investment worth 2.2 billion yen (ratio to net sales of 5.6%), up 0.3 billion yen compared to the previous fiscal year. Major investment projects in the AP-and BP-related businesses included expansion and renovation of factories, acquisition and update of production facilities, and 0.4 billion yen for construction of bachelors’ dormitory. Depreciation and amortization, including amortization of goodwill, totaled 0.99 billion yen, up 0.231 billion yen from a year earlier, and its ratio to sales was 2.5%.
In FY 2023, we are expecting capital investment of 2.0 billion yen (ratio to sales of 4.5%) and depreciation and amortization of 1.0 billion yen (ratio to sales of 2.3%).

◆ **Capital investment**

Investment (total for three years)	Three-year plan for FY 2022–FY 2024	FY 2022 results
6.0 billion yen (6.1 billion yen cumulative for the three-year period of the previous medium-term plan)	・Construction of new plant in Hyogo Prefecture (0.5 billion yen) ・Construction of development test center, etc. (1.0 billion yen)	・Machinery and installation expenses in AP-related business including Shanghai and Thailand (0.25 billion yen) ・Construction of warehouses for AP- and BP-related businesses (0.11 billion yen) ・Total of 2.21 billion yen including 0.35 billion yen for software

◆ **Trends in capital investment, depreciation and amortization, and consolidated output**



Human Capital

“We aim to become a professional group that will contribute to a sustainable society through active investment in human resources”

| Basic policy |

All employees are the most valuable asset for Nikko Group. We are engaged in building an organization capable of making sustainable contribution to society and nurturing our human resources while quickly responding to all changes surrounding our business. We have defined our ideal human resource as human resource that reinvents for the future, human resource that takes on challenges without fear of failure, and human resource that respects and collaborates with diverse coworkers, and along with developing a rewarding work environment and investing actively in human resources we are also raising the effectiveness by setting metrics and targets. We aim to become a professional group that will contribute to a sustainable society towards realizing our future vision of “Making the world a resilient and gentle place.”

| Nikko’s human capital |

As of the end of FY 2022, the number of consolidated employees working at Nikko Group was 1,064 (up 26 from the end of the previous fiscal year). On a non-consolidated basis, the average age of the employees is 40.3 with an average length of service of 14.7 years. The average annual salary has risen 580,000 yen from four years ago in FY 2018 to 7.28 million yen. The proactive hiring of human resources is not only lowering the average age and shortening average length of service but also diversifying and energizing the organization.

| Source of strength |

We introduced a new personnel system (Nikko’s version of job-based employment) in FY 2022 and also started position-based training for employees towards achieving the 2030 Vision. In September 2019, we granted treasury stock with restriction on transfer to all employees of Nikko Group. In August 2021, we allotted 100 shares in treasury stock to long-time employees, new hires, and hires with prior work experience. Furthermore, we uniformly raised the monthly wages of the employees by 30,000 yen from April 2022. We also made progress in the strengthening of support for nurturing the next generation and advancing female participation, and we are seeing further vitalization of the organization as well as improvement in motivation. We will aim to raise the ratio of female employees from 14.5% in FY 2022 to 22.5% in FY 2030, and that of female managers from 0% in FY 2022 to 7% in FY 2030.

Human capital

- Number of employees: 1,064 (including 203 foreign nationals)
- Number of female employees: 83 (non-consolidated)
- Annual training expenses: 29 million yen

Output

- Net sales per person: 37 million yen
- Ratio of employees taking childcare leave: 100% for female and 33.3% for male
- Length of service: 18.7 years for men, 11.0 years for women

Outcome

- Fostering job satisfaction
- High motivation
- Employee-friendly work environment

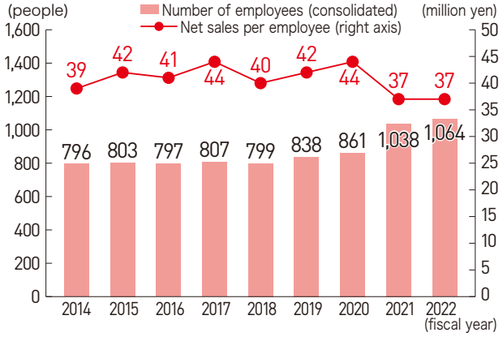
| Strategy towards the achievement of the Medium-Term Management Plan |

We are rebuilding the human resources management platform and system and carrying out active investments in human resources towards enhancing our human capital. The long-term (10-year) basic policy looking into the future lists the implementation of workstyle reforms for the employees and aims to significantly raise labor productivity. In the current Medium-Term Management Plan, we are planning to increase the number of employees by 145 during the three-year period. Specifically, the AP-related business field will see an increase of 59 people, 20 in the BP-related business field, 12 in the environment- and conveyor-related business, six overseas, 12 in development, 11 in mobile plant, and 25 in other business. In FY 2022, we hired a total of 53 people (of which, eight are women) comprised of 31 new graduates and 22 with prior work experience. We raised the monthly wages of employees in FY 2022 and implemented a 5% increase in base pay in FY 2023. We will continue to raise wages with the aim of not only vitalizing the organization and improving job satisfaction but also achieving the Medium-Term Management Plan.

◆ **Staff reinforcement**

Investment (total for three years)	Three-year plan for 2022-2024		FY 2022 results	
Nikko (non-consolidated) Increase of 145 employees (added 69 employees in the previous medium-term plan)	AP-related business field	59	AP-related business field	17
	BP-related business field	20	BP-related business field	15
	Environment- and conveyor-related field	12	Environment- and conveyor-related field	1
	Overseas	6	Overseas	0
	Development	12	Development	4
	Mobile plants	11	Mobile plants	1
	Other	25	Other	15
	Total	145	Total	53

◆ **Number of consolidated employees and net sales per employee**



Intellectual Capital

“Based on Nikko’s four differentiated core technologies, we will accelerate the development of products that can solve social issues”

| Basic policy |

Adding measurement technology to the four core technologies (mixing and kneading, heating, control, and material handling) of Nikko Group, we will accelerate the development of differentiated technology and the commercialization of resulting products ahead of other companies. Our basic policy is to contribute towards solving the decarbonization, labor shortage, environmental, and other issues faced by our customers by strengthening our maintenance service business such as remote monitoring and operation of plants leveraging data analysis, IoT, AI, and other technologies. Pursuing, now more than ever, R&D based on the approach to offer what customers want, we will aim for operational management focused on profitability. Nikko Group is planning to make R&D investment worth 2.53 billion yen in the three years of the current medium-term plan.

| Nikko’s intellectual capital |

We have 28 engineers, who account for 2.6% of consolidated employees, working in the R&D department. Nikko holds 214 patents and 86 design registrations. In addition to our own development based on the 4+α differentiated technologies made up of the four core technologies plus the newly added measurement technology, we also carry out industry-academia collaborative development with our customers, external research institutes, and companies.

| Source of strength |

Nikko boasts the top share domestically in both AP- and BP-related businesses, and its conveyors, handled by the environment- and conveyor-related business, also has the No. 1 share of about 60% in the domestic market. In addition to the four differentiated core technologies of mixing and kneading (mixing all kinds of materials), heating (able to control temperature to suit diverse materials and fuels), material handling (cumulative conveyor shipment of about 300,000 units), and control (in-house development and production of the brains behind the plants), our strong track record of supplying to more than 4,000 companies worldwide has led to high customer confidence and expectations on next-generation technologies and products.

| Strategy towards the achievement of the Medium-Term Management Plan |

Currently, we are speeding up the initiatives aimed at commercialization of environmentally friendly products and their social implementation focused on decarbonized society in the short- to medium-term in accordance with the technological and product development roadmap through 2050. Nikko Group is also leveraging DX and AI to respond to the adoption of the workstyle reform bill and the serious manpower shortage in the construction industry, while strengthening development of technology for improving efficiency and labor saving such as remote operation of plants that ensures safety and preventive maintenance. We also have good prospects for the development of a global standard model asphalt plant for capturing the ASEAN market. We are planning to make R&D investment of 2.53 billion yen in the three years of the current Medium-Term Management Plan. In FY 2022, we made R&D investments worth 0.576 billion yen, up 28% compared to the previous year, primarily in the AP- and BP-related businesses. We plan to make investments worth 0.75 billion in FY2023, raising the ratio to net sales to 1.7%. We aim to achieve the Medium-Term Management Plan and 2030 Vision with technical prowess and product appeal that are a cut above the competition.

Intellectual capital

- R&D expenses (about 576 million yen, or 1.5% of net sales)
- Number of development personnel: 28 (2.6% of consolidated employee count)
- Number of patents held: 214; number of design registrations: 86

Output

- Net sales of environmentally friendly products: 420 million yen
- Products for low carbonization, remote operation, automation, and efficiency improvement
- Customized products that satisfy diverse customer needs

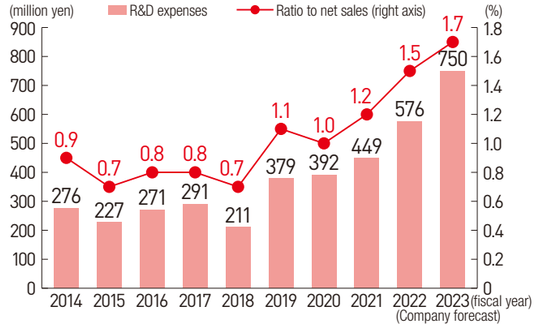
Outcome

- Highly differentiating technology (including control panels made in-house)
- Solution products that surpass other companies’ products
- Creation of new markets

◆ **R&D**

Investment (total for three years)	Three-year plan for 2022-2024	FY 2022 results
2.53 billion yen (total of 1.19 billion yen during the three years of the previous medium-term plan)	AP-related business field ◆New environmentally friendly products ◆Remote operations and automation support BP-related business field ◆Operation support center ◆Product improvement ◆System development Environment- and conveyor-related field ◆Product development ◆EC and other IT investment Overseas ◆Development of standard model	AP-related business field (incl. overseas) 240 million yen BP-related business field 220 million yen Environment- and conveyor-related field 55 million yen Other business, etc. 61 million yen **Total: 569 million yen**

◆ **R&D expenses and its ratio to net sales**



We believe the upfront investment for boosting the earning power required for achieving 2030 vision has utmost importance in our financial strategy



Director and Vice President
and General Manager
of Administrative Division
Hiroshi Fujii

Nikko Group's financial and capital policy, and investment in human capital

Financial and capital policy and key points of FY 2022

Nikko Group's financial strategy has been to make active capital investment as well as R&D, human resources, and other investments that will lead to medium- to long-term growth. We have set forth financial targets of 60 billion yen in net sales and 6 billion yen in operating income under the 2030 Vision. The challenge, however, in achieving this is to enhance our earning power, and towards that end we will need support from the financial aspect. In FY 2022, the first year of the current Medium-Term Management Plan, we actively carried out capital investment for enhancing earning power for the future along with investment in R&D, human capital, and M&A.

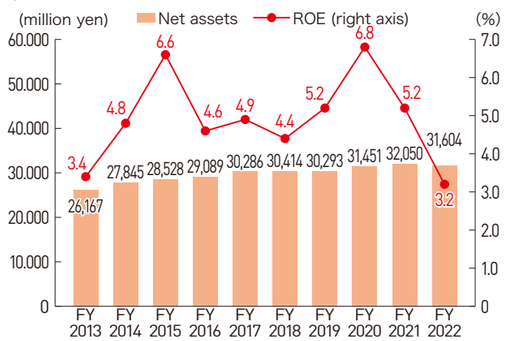
We attach importance to return on equity (ROE) as the KPI for earning power. By focusing on how much we can earn in terms of net income attributable to owners of parent, which is the numerator, without significantly increasing the denominator, i.e., net assets, we will focus on maintaining ROE above the 5% level of cost of shareholders' equity. In reality, net assets were 31.6 billion yen at the end of FY 2022, a modest increase from the 30.4 billion yen four years ago at the end of FY 2018, which was before we strengthened the measure to ensure shareholder returns. However, ROE was 3.2% in FY 2022 due to complex, overlapping factors that worsened the profit in the AP-related business, and went below the capital cost for the first time in two years. While we do not have a KPI for financial soundness, we consider equity ratio above 50% as a benchmark. As the equity ratio at the end of FY 2022 was 60.5%, we believe we have room to increase our net assets.

Upon making proactive investments, assessing where we should be earning future profits is also an important role as the CFO. Basically, I would like to keep away from high risk, high return projects as well as those with low relevance to our current business. While I do understand the importance of new businesses, there are many fields that we thought we should engage in and have not done so yet. I would like to place priority on such fields.

Accelerating investment in human capital

Since FY 2022 we have been boosting investment in human capital, which is the source of growth, and we have set raising wages, increasing personnel, and human resource development as three pillars in the current medium-term plan. In FY2022, the first year, we raised the starting salary of new hires and wages of employees who are union members uniformly by 30,000 yen, while in FY 2023 we raised salary by 5% on average in combination of an increase in the base salary and a regular pay raise. We will strive to maintain the average 5% increase continuously without ending it in just one fiscal year. We are targeting a net increase of 145 employees (at parent Nikko) over the three years of the medium-term plan. In FY 2022, we hired 53 people of which 31 were new hires and 22 were mid-career hires. Net increase was 35. We stipulated the policy for human resource development, which is one of the three pillars, in FY 2022, and will implement the policy from FY 2023. Specifically, we plan to offer position-based training for all employees from FY 2023. While placing importance on acquisition of knowledge, I hope the training will give the personnel an opportunity to gain some insight and voluntarily learn about future career formation.

◆ **Trend in net assets and ROE**



Achievements and issues of the first year of the Medium-Term Management Plan, and future outlook

Income worsened in AP-related business due to overlapping complicated factors

In FY 2022, the first year of the medium-term plan, we carried out capital investment as well as R&D, human resources, and other investments generally in line with the plan, but issues remained as the consolidated business results fell short of the plan at the beginning of the fiscal year, with net sales totaling 39.7 billion yen and operating income of 1.0 billion yen. By business, the gap with the budget target was large at the AP-related business due to overlapping complicated factors. Specifically, earnings at domestic road pavement companies worsened because the rise in asphalt price resulted in a significant fall in the net sales of our high-margin maintenance service, and we were unable to pass on the rise in steel and other raw material prices to the selling price as the delivery time for AP is long. The Thai subsidiary also posted an operating loss of 400 million yen in FY 2022 (operating loss of 250 million yen in FY 2021).

Currently, growth in net sales in the AP maintenance service has turned positive year on year from July 2023 partly due to the recovery in performance of road pavement companies. We are also expecting that maintenance service sales will rebound after the suppressed demand for maintenance investment. The rise in raw material prices is also expected to gradually slow down, and we are entering the phase for recording sales of the projects in which we raised the unit price. Here also, we are expecting improvement in profitability. Further, in the AP-related business, orders for warm mix (foamed) equipment among environmentally friendly products increased significantly since FY 2022, and we expect to sell around 60 units in FY 2023 for net sales of approximately 1.0 billion yen. This is a new environmentally friendly product, and it has quite good profitability compared to regular AP. However, the demand for warm mix (foamed) equipment may disappear once we complete one round of installation, and therefore it is necessary to continuously introduce environmentally friendly products.

Aiming to turn the Thai subsidiary profitable in FY 2025

The biggest challenge we face is to turn the Thai subsidiary established in 2019 profitable early on. The plan for the Thai subsidiary is to manufacture AP with local employees and sell the products in Thailand and the ASEAN region. We needed to develop customers from scratch in Thailand, and we also had to teach everything from monozukuri to procurement of materials from the beginning to local employees, who had no experience with AP. For that reason, we entered into a joint venture with local company NilKhosol, but it took time to get production on track. That was partly because we could not dispatch employees because of COVID-19. From January 2023 we are providing support with a 26-member team on dispatch for the project.

The local sales agent for the Thai subsidiary is TIPCO ASPHALT, a major asphalt supplier, and as of now there is a steady increase in orders with the company having an order backlog worth 700 million yen as of the end of June 2023. We believe that a net sales of 1.5 billion yen would be enough to turn it profitable, but attaining the sales would be difficult in FY 2024 and we expect a 200 million operating loss for the year. Therefore, we are expecting the Thai business to turn profitable in FY 2025 or later. Also, the order backlog of 700 million yen is entirely from within Thailand, and we do not have any orders from Indonesia or Vietnam as we had expected.

Till now, 70% of the products for the market in Thailand have been manufactured in Japan, with the local subsidiary producing the remaining 30%. We have prospects for achieving the production ratio of 70% in Thailand and 30% in Japan in FY 2024, and we expect the manufacturing cost also to go down. In Thailand, we have been selling export models made in Japan, but the customers were not seeking such high specifications. So, we are thinking of paring down the excessively high specifications and lowering the cost by a total of 20% through localization and model change. We will complete this model within the year. Parallel to the cost reduction, we are also hoping to win new orders for a total of about 10 units from Indonesia and Vietnam. Competition is a Chinese company in Thailand and a South Korean company in Vietnam. In Indonesia, we compete with both Chinese and South Korean companies.

Future financial strategy for improving cash flow creation capability

Cash flow creation and allocation policy

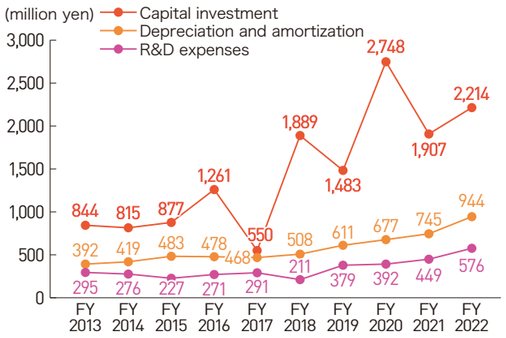
Nikko Group plans to invest 6 billion yen in the three years of the medium-term plan and made investments worth 2.2 billion yen in FY 2022. This does not include M&A, but we have spent 1.9 billion yen for the two M&As till now, and we are thinking of one or two more M&As. Operating cash flow creation ability is crucial for funding such growth investments, but our operating cash flow for FY 2022 was -1.6 billion yen. As we maintained a dividend of 30 yen per share for shareholder returns with payout ratio of 112.5%, the net cash at the end of FY 2022 was 4.5 billion yen, a significant decline from 8.6 billion yen as of the end of FY 2021.

Judging from this, it cannot be helped if a shareholder gets the impression that our cash flow creation capability of the main business has deteriorated and we would not be able to afford future investments. Nonetheless, gross profit margin has not declined at around 26 to 27% during this period, but cash flow creation ability has fallen because of the increase in selling, general and administrative expenses. This is in part because proactive measures such as capital investment, R&D, human resources, and other investments as well as the M&A of Ube Kohki have been driving up selling, general and administrative expenses. Selling, general and administrative expenses for FY 2022 were 9.3 billion yen, going up by 1.7 billion yen in the past three years.

The increase in selling, general and administrative expenses is upfront investment for increasing future net sales and improving gross profit

margin. As it would take time to bear fruits, we are not going to be pessimistic about short-term results nor modify the financial and capital policy. Nikko Group is expecting the results from the price revision addressing the high raw material prices to take effect from the second half onwards. Also, in order to secure appropriate profits, we will continue to raise prices in projects where the returns are low in assessment of values offered. Raising prices were difficult in the past because of deflation, but now more customers are understanding the values we create. We need to continue implementing initiatives to increase prices to enable us to raise the wages of employees by 5% every year.

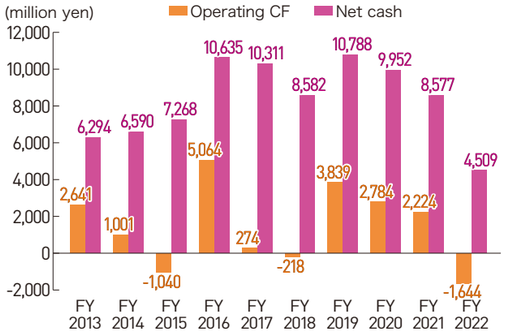
◆ Trends in capital investment, depreciation and amortization, R&D expenses



Cash flow creation from balance sheet

We are also pursuing cash flow creation from balance sheet. In FY 2022, we sold 370 million worth of strategically-held shares, bringing the value of such shares held at the end of the fiscal year to about 2.2 billion yen, and their ratio to shareholders' equity was 9.56%. Going forward, it may not be easy to decrease the strategically-held shares as many of these belong to business partners, but we will continue to reduce them. Behind the worsening of total asset turnover ratio and cash flow creation is the requirement to keep the stock for long because of the continuing prolonged delivery time of motor and electronic parts. Traditionally, we used to place orders for parts once we received an order, but now we are maintaining stock of necessary items to enable prompt delivery and this has led to accumulation of stock on the balance sheet. Taking this perspective also into account, it is necessary to further increase the collection of contract liabilities (down payments). We receive payments equivalent to a third of the contract amount from customers at the time of order as contract liabilities, and they were more than 3.7 billion yen as of the end of FY 2022. However, we have not been able to collect them from about 30% of the customers. There is the need to change business practices and it takes time, but we are negotiating tenaciously and hope to achieve future cash generation.

◆ Trend in operating cash flow and net cash

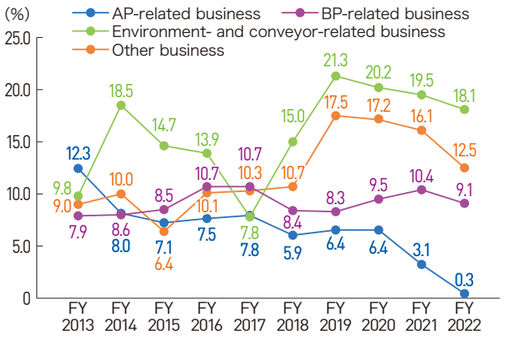


Business portfolio management and future direction

As for business portfolio management, we have been failing to meet the initial forecast in operating profit in the AP-related business in the past few years. Remedying this is the issue with the utmost priority. The reason for the worsening profitability in AP-related business has been the strategic pricing for domestic orders. However, the reason now is the delay in passing on costs caused by the price increase of steel plates and other raw materials (up 200 to 300 million yen) because of the post-COVID prolongation of delivery after the receipt of orders. Further, in FY 2022, the business performance of domestic road pavement companies deteriorated due to the soaring asphalt prices, so the highly profitable maintenance service also declined by 11%. In addition to this, there has been overlapping negative factors such as worsening profitability of the earlier mentioned Thai subsidiary to 400 million yen in loss in FY 2022.

Nevertheless, we have to grow the maintenance service business if we are to expand net sales in the medium to long term, as we cannot expect AP demand to increase in Japan. Therefore, although Nikko Group has been making various related up-front investments, it takes a few years for them to bear fruits. Specifically, AP customers are moving towards outsourcing the repair work, which they were doing themselves till now, because of labor shortage, but we are also lacking in service personnel to respond to this latent demand. We are, therefore, changing our structure so that service personnel can work efficiently by introducing a flat-rate subscription system. The gross profit margin of maintenance service is high at about 30%, but we believe there is still room for improvement through business transformation. In FY 2024, we expect operating income of AP-related business to improve by 600 to 700 million yen compared to FY 2022 as the raw material price increases and losses at the Thai subsidiary would have completed a full circle, and here we expect sales increase in maintenance service.

◆ Trends in operating margin by business



Ube Kohki and Matsuda Kiko, which we acquired in 2022–2023, have technical prowess in contract manufacturing. In the future, we would like to grow contract-based manufacturing as one of Nikko Group's business as its profitability is also high. There is also the issue of lack of successors, and weeding out is expected in the medium to long term among companies carrying out contract-based manufacturing and installation. We also cannot imagine major companies newly entering the contract-based manufacturing field. The two companies have a combined net sales of approx. 2.5 billion yen, with operating margin of around 10%, and they more or less do not have any goodwill amortization. On of the reasons for the acquisition of the two companies also was to outsource manufacturing of Nikko Group's environmentally friendly products and recycling equipment (net sales of about 1.0 billion yen) to group companies, and we expect contract-based manufacturing of recycling equipment to continue increasing in the future. Ube Kohki has seen an improvement in hiring of human resources by forming a part of the Nikko Group, and Matsuda Kiko is also expecting similar improvement in the future.

Financial and capital policies for improving corporate value and engagement with shareholders

Taking into consideration a recent request for the Action to Implement Management that is Conscious of Cost of Capital and Stock Price from the Tokyo Stock Exchange, we will strive to achieve the target of 60 billion yen in net sales and 6 billion yen in operating income (10% in operating margin) under 2030 Vision towards improving our corporate value. The current fiscal year is the second year of the medium-term management plan and we are expecting the investment we are currently making to bear fruits in the next medium-term management plan. In particular, during the next medium-term plan from FY 2025 to FY 2027, we will ensure at least 8% in operating margin, if 10% is difficult, in the final fiscal year, and achieve 50 billion yen in net sales, 4 billion yen in operating income, nearly 3 billion yen in profit attributable to owners of parent, and about 8% in ROE, a level at which equity spread expands. That is because operating income will increase by 0.6 to 0.7 billion yen if the current losses and high raw material prices at the Thai subsidiary come a full circle, the impact of upfront investment in human resources, facilities, and R&D will add 0.5 to 1 billion yen, and on top of these will be the increase in gross profit from sales increase. We are expecting that if these take place, we can increase the dividends significantly as shareholder returns. If the payout ratio does not change from the current 60%, the dividend amount will be 1.8 billion yen, which is a 50% increase from the current 1.2 billion yen.

At the moment, Nikko Group is actively investing overseas and in facilities and human resources, and this is because we have the financial strength to withstand this scale of investment. I basically do not think that the Group's capability to generate cash has deteriorated. While our operating cash flow may appear to be weak because we are spending upfront, it is not that the Company's profitability has worsened fundamentally.

Dialogue with shareholders and investors, engagement-related initiatives

In engagement activities, shareholders and investors have consistently pointed out the low profitability of the AP-related business. They ask us if we intend to raise the price because we are the price leader with a 70% share of the domestic AP market, which is an oligopoly. We have reported this at the Executive Committee meeting and our management team is also aware of it. With respect to this, we have been driving forward measures such as standardization of models but we basically feel there is sufficient room for making efforts to sell products at prices that match the value they offer. Another point is the seasonality of net sales, which is high across the Company, with delivery concentrated at the end of a fiscal year, and this is a factor contributing to inefficient management. We do have an idea to implement unprecedented initiatives to level quarterly sales, provided that it would be accepted by the customers.

The number of shareholders totaled 14,541 as of the end of FY 2022, a major increase compared with 8,200 in FY 2019 and 12,504 in FY 2021. Many of the new shareholders are individuals and the rate of replying to the shareholder questionnaire survey enclosed in the notice of the results of the Ordinary General Shareholders' Meeting has been high at about 36%. As a commitment to attach importance to shareholders' opinions, we not only disclose the results of the shareholder survey on our website but also post individual opinions there. This is an act of engagement that visualizes whether or not shareholders' opinions are reaching the management team, and enables us to think from the shareholders' viewpoint. According to the shareholder questionnaire survey result in FY 2022, shareholders who have been holding Nikko shares for one to three years was 51.1% (45.2% in FY 2021) and those who plan to hold Nikko shares for a long period of time (five years or longer) accounted for 63.2% (57.5% in FY 2021). Dividends and shareholder return policy were cited as the attractiveness of Nikko shares and top reasons for choosing the period of holding them, and the management team is keeping this in mind upon managing the Company. We have also been disclosing the materials used for the financial results briefing for institutional investors and securities analysts, but 36% of the respondents of the shareholder questionnaire survey did not know about this. So, we have been strengthening information disclosure through measures including video streaming the meeting on our website.

To commemorate the 100th anniversary of the Company's foundation, we, in September 2019, distributed 100 shares in the Company to all employees of Nikko Group (equivalent to 500 shares currently following subsequent share split) and in 2021 we introduced a system to allot treasury stock with restriction on transfer with the aim of improving engagement and raising awareness among employees to participate in management. These moves made almost all employees into Nikko shareholders, and we are hoping that having the same perspective as our shareholders would lead them to actively make contributions to the business performance.



Segment Highlights

In FY 2022, consolidated net sales of Nikko Group totaled 39.7 billion yen, of which the AP-related business accounted for 43.7% (47.1% in FY 2021), BP-related business 28.0% (27.9%), environment- and conveyor-related business 7.3% (7.8%), and other businesses 21.0% (17.1%). Overseas, sales at Nikko Shanghai increased significantly and accounted for 14.7% (12.2%) of the total. By segment, net sales of the AP-related business declined 5.4% compared with FY 2021 due to slowdown in capital investment by road pavement companies reflecting high raw material prices; those of the BP-related business increased 2.5%; those of the environment- and conveyor-related business rose 4.3%; and those of the other businesses grew 25.0% owing to contribution from making Ube Kohki a consolidated subsidiary and other factors.

AP-Related Business

Business description

Main products

- Asphalt plants
- Recycling plants
- Crushing plants
- Mixture silos
- Electronic control devices, plant management system



ABD
Made-to-order AP models that can handle diverse needs



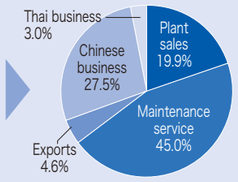
VP IV
Latest high-end model AP, primarily for recycling



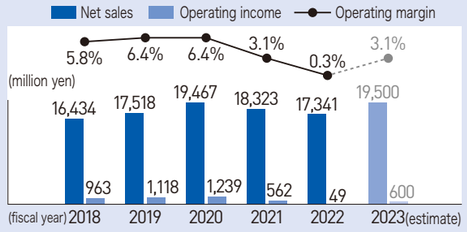
CBD
Global model AP for Thailand and Southeast Asia markets

FY 2022 business breakdown

Sales composition of plant sales in Japan significantly declined 6.6 pp compared to FY 2021 and that of MS also fell 3.0 pp. On the other hand, that of the Chinese business increased 6.9 pp and the Thailand business rose 2.0 pp.



Net sales and operating income by segment (margin)



In FY 2022, net sales of plant products in Japan and those of MS declined significantly by 29% and 11%, respectively, while overseas net sales rose 30%. Operating income declined greatly due to high raw material costs and loss in Thailand. The segment expects a recovery of 600 million yen in operating income in FY 2023.

Market share (based on Nikko's survey)

The AP demand in Japan was 20 units in FY 2022, down 22 units from FY 2021. Nikko's dynamic share fell 9 pp to 60%.



BP-Related Business

Business description

Main products

- Concrete plants
- Mobile concrete plants
- Concrete pumps
- Electronic control devices, plant management system
- Concrete product manufacturing plant facilities, etc.



ONZEMIX-T50
Mobile BP



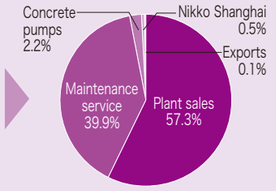
DASH-H275EvoV 220R-ADV
Ultra-strong concrete plants

DASH-225Pro 065ITBF
Large-scale precast concrete plant

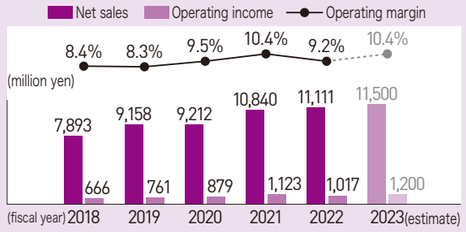


FY 2022 business breakdown

Sales composition of plant sales declined 1.1 pp compared with FY 2021, while that of MS rose 0.8 pp.



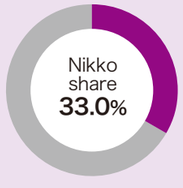
Net sales and operating income by segment (margin)



In FY 2022, net sales slightly increased reflecting a continued increase in projects thanks to the solid ready-mixed concrete market. Operating income declined due to the presence of low-profit margin projects among unit products. For FY 2023, the segment is expecting growth in both sales and profits partly thanks to order backlog.

Market share (based on Nikko's survey)

The BP demand was unchanged at 71 units in FY 2022, but Nikko's steady-state share increased 0.6 pp to 33.0% from FY 2021.



Environment- and Conveyor-Related Business

Business description

Main products

- Belt conveyors, conveyors for facilities, beverage container recycling plants
- Soil remediation plant, plastic recycling plant



Portable conveyor
Conveyor using pipe frames whose lengths can be adjusted in increments of 10cm



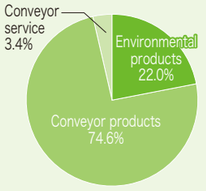
A plaster-based solidification material manufacturing facility
It manufactures gypsum hemihydrate by drying gypsum powder. The facility manufactures solidification material by blending with cement and lime.



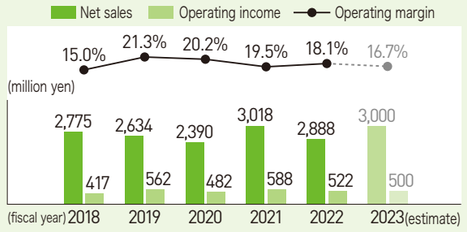
Stringer conveyors
High-quality conveyors with superior cost performance through modularized body and options

FY 2022 business breakdown

Sales composition of environmental products fell 1.6 pp as the number of large-scale projects declined compared with FY 2021, while that of conveyor products rose 1.5 pp reflecting solid demand, despite sales decline.



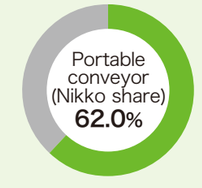
Net sales and operating income by segment (margin)



In FY 2022, net sales declined due to lack of large-scale orders like in FY 2021 despite sales of coke drying system, etc in the environmental business. Operating income declined owing to sales decline. In FY 2023, the segment expects sales to increase from business negotiations related to the World Expo 2025 Osaka, Kansai, in the environmental business while operating income is likely to decline slightly.

Market share (based on Nikko's survey)

In FY 2022, demand for portable conveyors totaled 4,000 units, down 300 units compared with FY 2021. Nikko's share rose 2 pp to 62%.



Other Business

Business description

Main products

- Pipe scaffoldings, steel gangplanks
- Temporary aluminum staircases
- Shovels, spades
- Small-sized concrete mixers, mortar mixers
- Floodgates, waterproof boards, crushers
- Real estate leasing, construction machinery product leasing
- Sales of housing renovation



Hammer crusher
Particle size can be adjusted with grate size and the desired particle size can be obtained with a single crushing



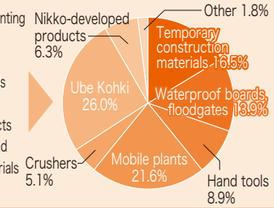
Mobile plant
One set of crusher line (crushers, screens, belt conveyors, etc.)



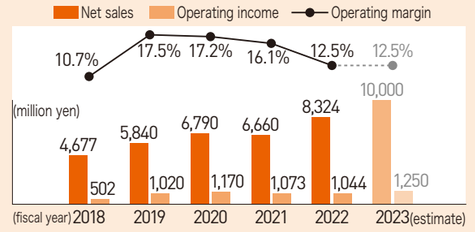
Waterproof board
Waterproof boards, which are effective against water damage (internal flooding) caused by global warning

FY 2022 business breakdown

Ube Kohki joined the segment, accounting for 26.0 pp, while the composition of other businesses fell. Among these, the composition of waterproof boards and floodgates fell 10.2 pp due to postponement of construction projects caused by soaring material prices, and that of temporary construction materials also declined 6.4 pp.



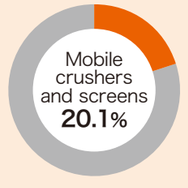
Net sales and operating income by segment (margin)



In FY 2022, Ube Kohki contributed 2.16 billion yen. Among existing products, sales of mobile products increased, while those of waterproof boards and temporary construction materials fell. Operating income slightly declined due to poor performance of the highly profitable businesses. The segment expects both sales and profits to increase in FY 2023.

Market share (based on Nikko's survey)

In FY 2022, demand for mobile crushers and screens was 154 units, down six units from FY 2021. Nikko's share fell 1.2 pp to 20.1%.



AP-Related Business

With the business performance of road pavement companies, who are our customers, expected to recover, we aim to become a one-and-only top manufacturer by leveraging our proprietary technology and service capabilities that lead the competition



Manager, AP Sales Management Department, Business Division
Toshimasa Miyake

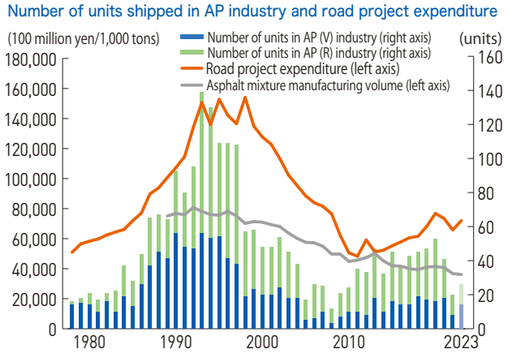
FY 2022 key points

- Road pavement companies, our customers, were forced into a difficult business environment in FY 2022 due to the soaring raw material prices. The companies are expected to recover and post profit growths in FY 2023.
- The AP-related business posted a significant decline in profit in FY 2022 but the profit is expected to increase in FY 2023.
- While net sales of its maintenance service declined 11.4% in FY 2022 from a year ago, there is growing momentum for recovery in FY 2023.
- There has been no change to our medium-term plan of 23.0 billion yen in net sales, 1.6 billion yen in operating income, and 7.0% in operating margin for FY 2024.
- The start-up of the Thai plant has been delayed but the development of the global strategic model targeting the ASEAN market is making steady progress.
- Signed an agent agreement with a construction machinery dealer in Vietnam for development of the ASEAN market.
- We sold 19 units of warm mix (foamed) equipment in FY 2022 and sales are expected to grow to 55 units in FY 2023.
- Development and introduction of products contributing to the environment have been progressing in accordance with the road map towards 2050.
- We have already signed five maintenance subscription contracts.

Road investment and AP market overview

Investment in roads, as per the Ministry of Land, Infrastructure, Transport and Tourism, has been on a recovery trend after bottoming at 4.833 trillion yen in FY 2011, and probably reached 7 trillion yen in FY 2020. Since then, the amount of investment has declined for both ordinary road and expressway projects. For FY 2023, judging from the budget requests, it is highly likely to return to growth for the first time in three years. The asphalt plant (AP) market is basically linked to road investment, and the plants built in 1980s and 1990s have entered the replacement demand period as 30 to 40 years have passed since they started operating. Japan's pavement ratio has reached around 80% and the amount of asphalt mixture manufactured has been falling by the year. Nevertheless, we can expect relatively stable sales of 30 to 40 units a year in the AP market in the future as it is necessary to deliver the mixture from an asphalt plant to the work site within an hour and a half.

Number of units shipped in AP industry and road project expenditure

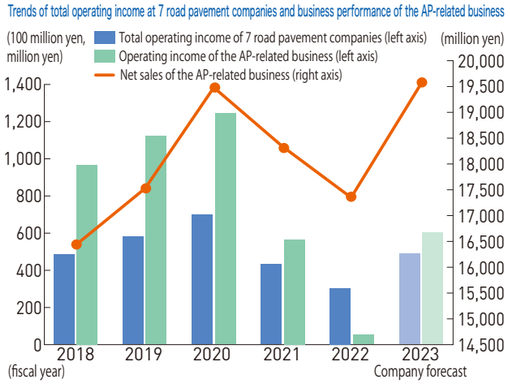


AP (R) is asphalt plants for recycled materials and AP (V) is those for virgin asphalt materials.
Source: Ministry of Land, Infrastructure, Transport and Tourism, prepared by Nikko

Business performance trend of road pavement companies

In terms of the FY 2022 business performance of the seven road pavement companies, who are the customers of the AP-related business, while total net sales were unchanged at 938.2 billion yen from the previous fiscal year, operating income fell 29.8% to 30.1 billion yen, declining for two consecutive years due to soaring raw material prices and other factors. For FY 2023, total net sales of the seven companies are expected to increase by 2.7% to 963.7 billion yen from a year earlier and operating income is forecast to rise by 61% to 48.5 billion yen reflecting the impact of sales growth and product price increases. In FY 2022, the companies curbed or postponed their capital investment given the worsening performance and some even cut back on maintenance investment. However, since around July 2023, some companies have resumed maintenance investment. In addition to the increase in environment-related investment aimed at decarbonization, attention will be focused on the public work value indicated by the cost approach in response to the workstyle reform bill to be enacted in April 2024 and the investment trends in efficiency improvement and manpower savings.

Trends of total operating income at 7 road pavement companies and business performance of the AP-related business



SWOT analysis	Details	Countermeasures by Nikko
Strength	Overwhelming market share and credibility in the Japanese market	Proposal of new solutions such as environmentally friendly products and maintenance services ahead of the competition
	Full support of customer plants including MS	
Weakness	Price competitiveness	Re-analysis of user needs and introduction of semi-custom-made units
Opptunity	Sales expansion of environmentally friendly products towards a carbon-free society	Development of burners that run on hydrogen and ammonia
	Needs for remote and automated operations in response to manpower shortage and workstyle reform	MS proposal utilizing data analysis and DX
Threath	Introduction of similar products by rival companies	Strengthening of product development capability and human resource investment
	Entry of foreign rival companies	Proposals that go as far as support for plant operation

PEST analysis	Details	Countermeasures by Nikko
Politices	Risk of changes in public investment policy due to change of government	Acquisition of market share and strengthening of maintenance services
	Rising needs for environmentally friendly facilities for achieving decarbonization	Bolstering development of environmentally friendly products
	Expectation for the implementation of recycling laws in Thailand and China	Product development that satisfies local needs
Economy	Worsening performances and suppression of investment by road pavement companies due to soaring asphalt price	Offering of values for improving operating rate of customer plants
		Offering of plants and devices that help achieve low carbonization
	Soaring prices and difficulties in purchasing various materials and equipment	Revision of product prices
Society	Growing needs for remote and automated operation reflecting labor shortage	Promotion of remote operations and automation support
Technology	Data analysis utilizing control panels developed by Nikko	Bolstering of R&D
	Development and commercialization of new environmentally friendly products	Strengthening of development team

Business overview	Details
Products	Asphalt and recycling plants
Customers	Construction companies, road pavement companies
Market share	Static share in Japan: 78%
Sales composition and breakdown by region	44% of overall sales (Japan: 69%, Thailand: 3%, China: 28%)
Operating margin	: 0.3% (6.4% in FY 2019 before the pandemic)
Ratio of MS net sales	45.0%
Production bases	Akashi head office factory, Thailand, and Shanghai, China

MS: maintenance service

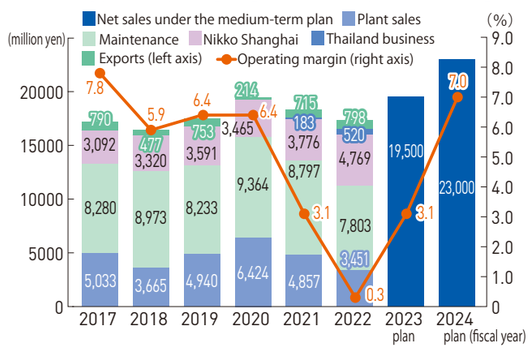
Values to be realized

- We will offer asphalt plants that will ensure a secure, safe, comfortable, and sustainable road environment in Japan.
- We will contribute to the reduction of traffic accidents, easing of traffic congestion, and development of environmentally friendly road transportation network by supporting the road infrastructure development of the ASEAN region.
- We will contribute to realization of a decarbonized society through expansion of sales of environmentally friendly products such as burners that enable fuel transition from heavy oil to LNG, ammonia, and hydrogen as well as warm mix (foamed) equipment.
- We will offer safe and highly operational plants that do not shut down and an employee-friendly work environment by offering predictive maintenance as well as remote operation and automation service in response to manpower shortage.

Source of strength

- Our asphalt quality has been highly rated and we have a 100% market share in asphalt plants for expressways in Japan.
- We boast an integrated production system combining machinery and electronics (control) and have high market share and trust.

Net sales by product, operating margin, medium-term plan numerical targets



- We offer environmentally friendly products and maintenance services that lead the competition.

Future business opportunities

Business opportunities in the Japanese market include stimulating replacement demand with our proprietary and differentiated warm mix (foamed) equipment, various burners aimed at decarbonization such as biomass, ammonia, and hydrogen, and proposals for new plant systems. Moreover, we can expect rising needs for automation and remote operation to address manpower shortage and workstyle reform at customers. In fact, a demonstration experiment of remote shipment has started at a customer with multiple plants located in Kansai. While there remain issues that need to be solved such as ensuring safety, demand is expected to grow in the future given serious labor shortage and workstyle reform. On the other hand, road pavement ratio in the ASEAN market led by Thailand is low and there is large room for growth, and we will focus on the market towards 2030.

Medium-Term Management Plan implementation strategy

Our strategy in the Japanese market is to raise the market share and enhance profitability by not only introducing environmentally friendly products that lead the competition leveraging our development capability as the top manufacturer but also carrying out remote operation, monitoring, and automation of plants, with our collective ability extending even to control, and supporting plant operation. We received orders for 40 units of warm mix (foamed) equipment in FY 2022 and expect orders for 64 units in FY 2023. We began joint development of a hydrogen burner with Tokyo Gas. In the markets overseas, our strategy is to introduce a global strategic standard model as early as possible with quality and price competitiveness that can win against foreign rivals, promote local production, and acquire agents and build an organizational structure to cultivate the ASEAN market including Vietnam and Indonesia. The Thai business, which is taking time to turn profitable, aims to post a profit in FY 2025.

FY 2022 results		FY 2023 forecast		FY 2024 numerical targets	
Net sales	17.3 billion yen	Net sales	19.5 billion yen	Net sales	23.0 billion yen
Operating income	0.049 billion yen	Operating income	0.6 billion yen	Operating income	1.6 billion yen
Operating margin	0.3%	Operating margin	3.1%	Operating margin	7.0%

Business Strategies

- Support for decarbonization
- Remote operations and automation support
- Development of standard overseas models with competitive edge
- Build an organizational structure for business expansion in the ASEAN market

BP-Related Business

In the steady market environment, we will emphasize on increasing market share and improving profitability by leveraging differentiating technologies and aim to become an environmentally friendly top manufacturer



Senior Executive Officer
Manager, Industrial Machinery Sales Management Department, Business Division
Morie Okaaki

FY 2022 key points

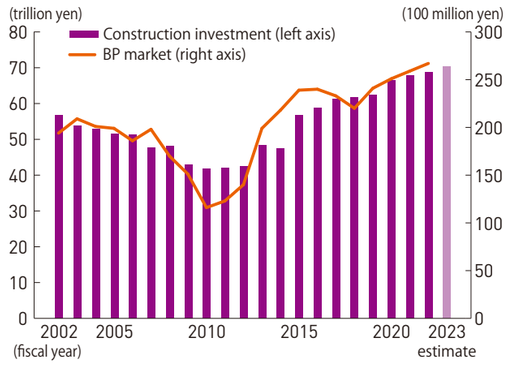
- The ready-mixed concrete price index, which is a leading indicator of the business environment, is showing a rising trend and the market is set to further rise in 2023.
- For FY 2022, the business posted an increase in net sales while its operating income declined due to the impact of unprofitable temporary projects. For FY 2023, we expect increased sales and double-digit growth in operating income.
- Ready-mixed concrete shipped in FY 2022 declined 2.2% from a year earlier to 7,445 m^3, while net sales of maintenance services increased 4.8% from a year earlier.
- We are maintaining the medium-term plan of 10.8 billion yen in net sales, 1.05 billion yen in operating income, and 9.7% in operating margin for FY 2024, but as per our forecasts for FY 2023, we will achieve the above targets one year earlier than planned.
- Our static share in the BP market for FY 2022 reached a record 33%, rising 3.4 pp in the past five years.
- We are also strengthening external sales of Nikko-manufactured control panels, and we secured 43% in the dynamic share for control panels in FY 2022.
- We participated in a GI Fund project to develop manufacturing technology for concrete, etc. using CO_2 and received an order for demonstration plant.
- We delivered mobile plants to users of precast concrete, which requires high quality performance.

Trend in construction investment and BP demand

Having declined to 42 trillion yen in FY 2010, construction demand subsequently continued on a recovery trend and is expected to have reached 68.79 trillion yen in FY 2022. In addition to steady private construction investment, we are expecting moves related to the Five-Year Acceleration Measures for Disaster Prevention and Mitigation and National Resilience in the future. Tokyo has already launched the Tokyo Resilience Project, in which it plans to invest 6 trillion yen over 10 years from 2023.

Since FY 2018, ready-mix concrete shipments have declined for four consecutive years and were 74.45 million m^3 in FY 2022. It is expected to decline again in FY 2023 to around 72 million m^3. Nevertheless, the market for concrete plant (BP) is closely linked to construction investment and the market continues to be steady also buoyed by expansion in business at ready-mixed concrete manufacturers. Along with the consolidation of ready-mixed concrete plants, there are signs of demand for larger plants and increase in unit price (about 15% increase compared to three years earlier).

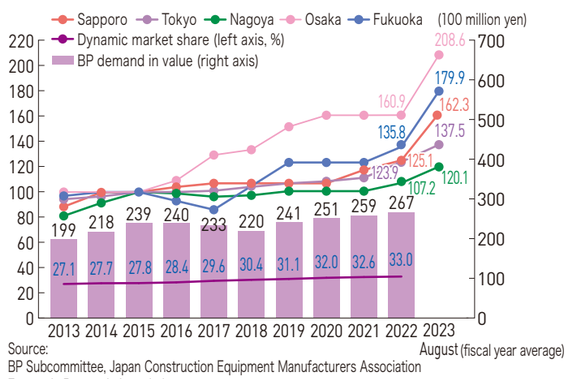
Trend in construction investment and BP demand



Trend in leading indicator (ready-mixed concrete price)

Prices of cement and aggregates, which are ready-mixed concrete raw materials, began rising around year 2000 and ready-mixed concrete manufacturers, who are customers of Nikko Group, have also made efforts to raise selling price of ready-mixed concrete to their clients. Osaka saw the largest increase in the price: price index, with FY 2015 set as 100, grew to 160.9 in FY 2022 and 208.6 in August 2023. Similarly in Tokyo, the index rose to 123.9 in FY 2022 and 137.5 in August 2023. The index showed rapid growth in all regions especially in 2023. The recent rise in ready-mixed concrete appears to be spreading throughout the country. (Source: Construction material price index by Economic Research Association)Ready-mixed concrete manufacturers appear to be performing strongly on the back of rising ready-mixed concrete price, and they continue to have steady appetite for capital investment. In addition to emerging demand for replacement, demand is expected to spread in the future to plant operation support services and other areas.

Ready-mixed concrete price index by city (FY 2015 = 100)



Source:
BP Subcommittee, Japan Construction Equipment Manufacturers Association
Economic Research Association

SWOT analysis	Details	Countermeasures by Nikko
Strength	The top market share in the Japanese market	Offering differentiating products that cannot be found at other companies such as predictive maintenance in addition to high-quality plants and equipment
	Solid in-house maintenance service structure and offering products that integrates machinery and electronics	
Weakness	Relatively high fixed cost ratio	Continuous price revision and strategy to increase maintenance revenue
Opptunity	Advancement in use of precast concrete for building components	Product development that satisfies high-level demands
	Needs of CO_2 absorbing concrete	Product development addressing customers' environmental needs and social implementation
	Increase in market share	Strengthening of external sales of Nikko-manufactured control panels and proposal of solutions
Threath	Decline in the number of ready-mixed concrete plants in operation	Strengthening of mobile plant sales
	Price war with rival companies	Provision of differentiated products and services

PEST analysis	Details	Countermeasures by Nikko
Politices	Risk of changes in public investment policy due to change of government	Expansion of market share and capturing of maintenance demand
	Re-evaluation of concrete for CO_2 absorption	Joint development with customers, etc.
Economy	Business performance improvement at customers following the improvement in the ready-mixed concrete market and growing replacement investment needs	Offering of values for improving output at customer plants
		Offering of services that address the shortage of operators at customers
	Soaring prices and difficulties in purchasing various materials and equipment	Revision of product prices
Society	Promotion of workstyle reform at customers	Strengthening of plant operation support service, etc.
Technology	Improvement of strength and diversification of concrete products	Development of next-generation mixers

Business overview	Details
Products	Concrete plants, etc.
Customers	Ready-mixed concrete manufacturers, construction companies, etc.
Market share	Static share in Japan: 33%
Sales composition and breakdown by region	28% of overall sales (Japan: 99%, China: 1%)
Operating margin	10.4%
Ratio of MS net sales	39.9%
Production bases	Akashi head office factory and Shanghai, China

MS: maintenance service

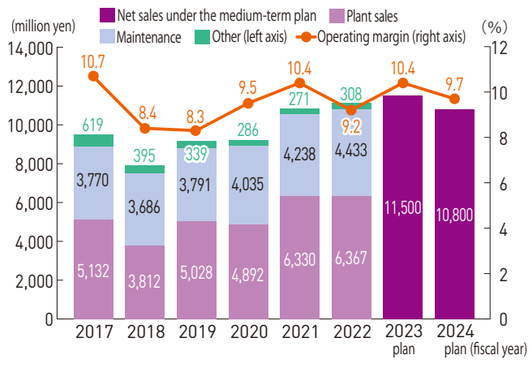
Values to be realized

- We will ensure the stable supply of high quality products that meet the standards of not only JIS standard-concrete but also special precast concrete and CO_2 absorbing concrete.
- We will offer highly efficient maintenance services that improve customers' profits through provision of predictive and preemptive maintenance services as well as stable operation support services for customer plants, which address workstyle reform and manpower shortage in the construction industry.

Source of strength

- We develop and manufacture control technology and control panels in-house, which are the brains behind plant facilities, and we have a track record of supplying more than 4,000 such units including AP products in Japan and abroad. It enables optimum operation and preventative maintenance based on various data analysis in addition to the remote monitoring and operation of ready-mixed concrete plants.
- Nikko is the only manufacturer that has high ability to propose technology and can offer from construction through maintenance as a package in addition to solid sales structure and customer base. We have established a customer support system that can promptly respond to electrical as well as mechanical problems.

Net sales by product, operating margin, medium-term plan numerical targets



Future business opportunities

Shipment of ready-mixed concrete is showing a declining trend as steel frame construction is increasingly adopted for buildings and more precast concrete manufactured at plants is used in place of ready-mixed concrete in order to shorten the construction period. Accordingly, the number of ready-mixed concrete plants in Japan has fallen by 395 in 10 years, from 3,456 locations in FY 2012 to 3,061 locations in FY 2022. However, demand for new BP increased in the same period from 55 to 71 units, and unit price also rose from 250 million yen to 380 million yen. The growing size of plants due to consolidation, an increase in the number of attached equipment, and the impact of product price increase are considered to be behind this trend. The need for plant operation support is expected to grow, reflecting the shortage of operators and the adoption of workstyle reform, on top of the expected demand for around 70 units per year mainly due to replacement demand.

Medium-Term Management Plan implementation strategy

We will strengthen customer plant operation support service including predictive maintenance as well as standardization of plants by accumulating and analyzing various operation-related information of customer plants. We will also aim to further increase the market share by capturing new demand resulting from consolidation of ready-mixed concrete plants. The areas to which a plant can supply ready-mixed concrete is limited as the concrete needs to be used within 90 minutes after production. We will strengthen the sales of mobile plants that can be easily transported to areas where it is difficult to supply ready-mixed concrete within 90 minutes due to consolidation of the plants. Further, we will also strengthen the sales of plants for high quality precast concrete building components. The key to quality of precast concrete is the performance of the mixer. We will expand the sales of mobile concrete plants for precast concrete while strengthening the development of mixers.

FY 2022 results		FY 2023 forecast		FY 2024 numerical targets	
Net sales	11.1 billion yen	Net sales	11.5 billion yen	Net sales	10.8 billion yen
Operating income	1.0 billion yen	Operating income	1.2 billion yen	Operating income	1.05 billion yen
Operating margin	9.2%	Operating margin	10.4%	Operating margin	9.7%

Business Strategies

- Data management and analysis using Nikko-developed control panels
- Customer plant operation support service
- Expansion of mobile plants to address consolidation of ready-mixed concrete plants
- Product development addressing customers' environmental needs

Environment- and Conveyor-Related Business

Making smooth progress towards achievement of the medium-term plan. We will expand into new fields and achieve stable growth while maintaining high profitability



Manager, Industrial Machinery Sales Department, and Manager, Sales Section 2, Industrial Machinery Sales Management Department
Yosuke Kojima

FY 2022 key points

- Inquiries related to large-scale projects such as Expo 2025 Osaka, Kansai and the integrated resort have been increasing.
- Demand in the conveyor business, which has a broad range of customers, is expected to be relatively stable.
- In FY 2022, net sales declined 4.3% compared with a year ago and operating income fell 11.2%. Net sales are expected to increase in FY 2023, while operating income is likely to continue declining modestly due to the residual impact of rises in material prices.
- We are maintaining the medium-term plan targets for FY 2024 of 2.7 billion yen in net sales, 0.55 billion yen in operating income, and 20.4% in operating margin.

Values to be realized

- Conveyors accurately and safely carry diverse materials by adapting to various tilt angles.
- In the environmental business, we will contribute to building a recycling-oriented society that is friendly to the earth's environment through soil improvement, recycling lithium batteries and plasterboards, biomass-related facilities, can and bottle separators, etc.

Source of strength

- We have the capability to modularize conveyors ensuring shortened delivery time, low cost, and easy assembly. We outstrip other companies in high quality maintenance services, product lineup, and capability to respond to complaints, and the total shipment volume reaches about 300,000 units.
- In the environmental business, we have an integrated system starting from development to maintenance services that satisfy customer requirements in addition to various original testing facilities based on Nikko's four unique core technologies (mixing and kneading, heating, material handling, and control).

Business overview	Details
Products	Various types of conveyors and environmental recycling equipment
Customers	Waste treatment, civil engineering, various manufacturing, etc.
Market share	Share of the portable conveyor market: 60%
Sales breakdown	8% of overall sales (conveyors: 75%, environmental equipment: 22%, service: 3%)
Operating margin	18.1%
Ratio of MS net sales	3.4%
Production bases	Akashi head office factory

MS: maintenance service

FY 2022 results		FY 2023 forecast		FY 2024 numerical targets	
Net sales	2.888 billion yen	Net sales	3.0 billion yen	Net sales	2.7 billion yen
Operating income	0.522 billion yen	Operating income	0.5 billion yen	Operating income	0.55 billion yen
Operating margin	18.1%	Operating margin	16.7%	Operating margin	20.4%

Business Strategies
- Modularization and customization of portable conveyors
- Strengthening of relationship with customers utilizing online services
- Offering stringer conveyors with short delivery times at low price
- Engineering proposals for conveyor lines

Business environment

Regarding the scale of conveyor market, the portable conveyor market, in which Nikko has a share of about 60%, is about 3.0 billion yen and the stringer conveyor market is 6.0–10.0 billion yen. The conveyor market has been shrinking due to reasons such as popularization of compact construction machinery, but net sales of our conveyor products have been stable at around 2.2 billion yen (including about 1.5 billion yen from portable products) for the past six years. Going forward, we will expand the share in the large stringer market and grow the target markets through sales activities based on value-addition proposals .

In the environment-related market, business negotiations of large-scale projects related to Expo 2025 Osaka, Kansai and the integrated resort have been increasing. The size of the market fluctuates depending on the project, but it is expected to grow reflecting the rising needs related to environmental issues and recycling.

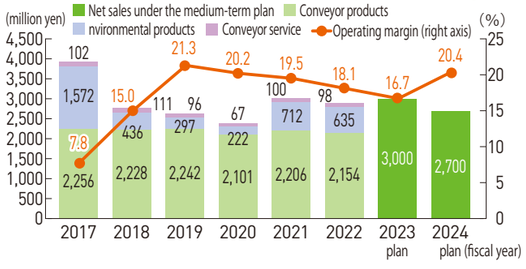
Medium-Term Management Plan implementation strategy

We will promote the mainstay portable conveyors through speedy proposal-based sales activities to improve customer satisfaction, and aim to establish the unique position of shortened delivery time of high-price products. In addition, in the stringer conveyor market, which is large and crowded with local rivals, we will introduce low-priced products with short delivery time leveraging our modularization capability and strengthen sales of conveyor and peripheral machinery in a package by promoting sharing of customer information with sales agents.

For the environmental business, we, while emphasizing on profitability, will advance new market development and business deployment that satisfy customer needs to achieve the numerical targets of the medium-term plan by leveraging Nikko's core proprietary technologies.

SWOT analysis	Details	Countermeasures by Nikko
Strength	Top share in portable conveyors in Japan	Increased market share through standardization and shorter delivery time
	Business operation combining manufacturing and sales as well as maintenance service	Proposal of synergies with crushers, etc.
	Product development based on the four core technologies	Comprehensive ability that includes testing facilities
Weakness	Growth potential of portable conveyor market	Expansion of product domains
	Calcination technology and human resource shortage	Expansion of synergies with the AP-related business
Opptunity	Entry into the stringer conveyor market, which is large	Proposal of short delivery time and low price through modularization
	New markets including lithium battery recycling	Product proposal in response to customer needs
Threath	Intensifying competition	Proposal of short delivery time and differentiation, capturing a niche market

Net sales by product, operating margin, medium-term plan numerical targets



Other Business

We aim for a 50% market share in mobile plants along with profitability improvement. We will realize synergies with companies that have become our subsidiaries



Director
Manager, Service Planning Department, and Manager, Mobile Plant Business Department, Business Division
Takeshi Sone

FY 2022 key points

- We received order for three mobile plants for restoration of Ukraine. We are also expecting additional orders.
- We are seeing continued rise in net sales as sales to new customers increase and as we expand our product lineup including Nikko-developed soil improving apparatus.
- For FY 2022, net sales increased 25.0% compared with a year earlier while operating income declined 2.7% partly due to the weaker yen. We expect both net sales and operating income to increase in FY 2023.
- In addition to creating synergy effects with Ube Kohki and Matsuda Kiko, which were made into subsidiaries, we will strengthen the environment and recycling business.
- We aim to achieve the medium-term plan targets for FY 2024 of 13.5 billion yen in net sales, 1.3 billion yen in operating income, and 9.6% in operating margin.

Values to be realized

- Mobile plants (mobile crushers) boast both world's highest fuel efficiency and high crushing performance and offer large advantages such as ease of installation and transport as well as sale as second hand machinery.
- Waterproof boards protect housing, building, and train stations from torrential rains.
- Temporary construction materials offer construction scaffold environment that is safe, secure, and efficient.

Source of strength

- We mainly offer high-performance mobile plants by KLEEMANN of Germany along with Nikko-made soil improving apparatus. We are leveraging our high sales and service capability as well as the network of existing businesses.
- We have an integrated structure from design to construction work for waterproof boards and a good track record.

Business overview	Details
Products	Mobile crushers, waterproof boards, floodgates, temporary construction materials, hand tools, etc.
Customers	Stone crushing, mining, civil engineering and construction companies, rental services, OEMs, etc.
Market share	Mobile crushers: 20% share in Japan; small-sized aluminum staircases: 40%
Sales breakdown	21% of overall sales (Ube Kohki: 26%, mobile: 22%, temporary construction materials: 17%, waterproof boards and floodgates: 14%, other: 21%)
Operating margin	12.5%
Ratio of MS net sales	20.0%
Production bases	Satte factory, Fukusaki factory, Mobile Center, Kakogawa factory, Tokyo factory, Akashi head office factory, Japanese subsidiaries Ube Kohki

Mobile = mobile crushers

FY 2022 results		FY 2023 forecast		FY 2024 numerical targets	
Net sales	8.324 billion yen	Net sales	10.0 billion yen	Net sales	13.5 billion yen
Operating income	1.044 billion yen	Operating income	1.25 billion yen	Operating income	1.3 billion yen
Operating margin	12.5%	Operating margin	12.5%	Operating margin	9.6%

Business Strategies
- Sales expansion of mobile plants and strengthening of profitability
- Enhancement of product lineup
- Strengthening of sales structure and promotion of maintenance service business
- Realization of synergies with Ube Kohki

Business environment

The scale of the Japanese market of mobile crushers is 100 to 120 units per year, that of soil improving apparatus is about 40 to 50 units, and that of automated screens is around 60 units, and these markets have been stable. In the future, the market is likely to steadily expand as customers switch from stationary machines to mobile machines, requirement for high-output machines to reduce work hours at customers increases, and steel mills increasingly adopt such machines. There is large potential demand for waterproof boards, but there has been some delay in delivery due to postponement of construction works caused by material shortage. The Five-Year Acceleration Measures for Disaster Prevention and Mitigation and National Resilience have started, which is expected to boost demand. The temporary construction materials market is a niche market, with an environment of strong demand. We are raising prices of our products in response to soaring prices of aluminum materials.

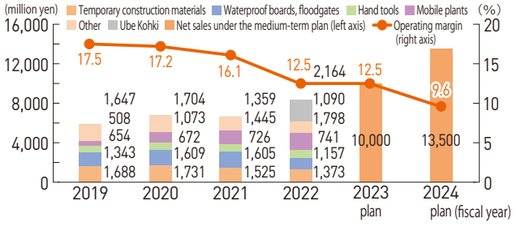
Medium-Term Management Plan implementation strategy

The mobile plant business has been enhancing its product lineup, in which we have introduced Mobix, an improved version of Nikko-developed mobile soil improving apparatus leveraging the core business. Further, we will take on the challenge of deepening the existing markets and exploring new markets such as mines and steel works through enhancement of sales force, strengthening of engineering and maintenance service structure, and expansion of sales network. We aim to achieve 50% in sales share (No. 1) and improve profitability through sales increase and growth in net sales of maintenance services.

Ube Kohki and Matsuda Kiko, which we made into subsidiaries, are highly profitable companies engaged mainly in contract-based manufacturing. We aim to maximize synergy effects with these companies to strengthen the environment and recycling business.

SWOT analysis	Details	Countermeasures by Nikko
Strength	The world's highest fuel efficiency and high crushing performance	Strengthening of expansion of product lineup and sales channels
	Ample experience and business ability starting from design to construction work	In-house product development capability
Weakness	A weaker yen is a disadvantage for mobile equipment, as they are imported	Expansion of the products we offer and price revision
Opptunity	Shift of demand from stationary machines to mobile ones	Offer large advantage from introduction
	Needs for automation and efficiency improvement in workstyle reform	Proposal of shortened work time through offering of high-output products
	An increase in natural disasters such as torrential rains	Securing a system for prompt delivery
	Development of new market such as steel works	Reinforcement of sales structure and human resource development
Threath	Entry of rival companies	Offering of products and services with higher customer satisfaction
	Intensifying price competition	Strengthen proposal of special products, which have high profitability, and value addition proposals

Net sales by product, operating margin, medium-term plan numerical targets





We aim to realize 2030 Vision by leveraging technologies contributing to environmentally friendly technologies for decarbonized society from our customers' perspective

Nikko Group places environmentally friendly products as a pillar of the differentiation strategy for achievement of 2030 Vision. Managers in charge of the AP- and BP-related businesses and technology development got together and discussed topics such as changes in customer needs on sites, Nikko's core technologies and their superiority, and future business expansion and contributions to business performance.

Session. 1 Capital investment in pursuit of decarbonization to gradually increase

Q What initiatives are the customers in the AP- and BP-related businesses taking for realization of a decarbonized society?

Miyake : I feel our customers are increasingly conscious of decarbonization initiatives, but in recent years profits at road pavement companies have been squeezed by surging asphalt prices, and the companies have been holding back on capital investment. It is difficult to raise the price of asphalt mixture products given the high dependence on public works, which is also contributing to the sluggish business performance. Some customers, who are major road pavement companies, have strong appetite for capital investment and they are introducing warm mix (foamed) equipment (it reduces CO_2 emissions by lowering the temperature for heating asphalt) that can be retrofitted to existing plants. The industry as a whole, however, places strong importance on profits. So, even though they do make some investments for decarbonization, they keep postponing investments in existing facilities. In addition to the decline in crude oil price, passing on the cost increases to selling price of asphalt mixture is required for any recovery in capital investment. Road pavement companies in general have a plan to halve their CO_2 by 2030 and make it net zero in 2050. At present, we are not yet in a situation where a company has to be environmentally friendly to win an order, but going forward, it is likely that environment-related initiatives will increase the disparity between customer companies.

Okamoto : In the concrete industry, weak alkaline calcium carbonate is manufactured by reacting strong alkaline calcium extracted from concrete waste materials and collected slightly acidic CO_2. There is a move to capture CO_2 in concrete by mixing and kneading the manufactured calcium carbonate in concrete. In this case, CO_2 will not be released into the air even when the concrete is broken up. There is tremendous room for capturing CO_2 using this method because concrete is the most widely distributed construction material in the society. The concrete industry as a whole also faces the issue of leftover concrete. Leftover concrete is disposed as industrial waste. Utilizing extracted calcium contributes to decarbonization while reducing disposal costs. Nevertheless, CO_2 emissions of ready-mixed concrete companies, who are customers of the BP-related business, is negligible when CO_2 emissions from the raw materials and transportation of ready-mixed concrete are excluded. More than 80% of CO_2 emitted in the manufacturing process of concrete, which mixes sand, water, admixture, etc. into cement comes from cement. For this reason, technology is being developed (with 20.84 billion yen in government funding) for capturing the CO_2 emitted in cement manufacturing process as well as for utilizing the captured CO_2 as carbonate in a GI Fund project of the New Energy and Industrial Technology Development Organization (NEDO) towards realization of carbon neutrality at cement manufacturers. The ready-mixed concrete and concrete secondary product industries are also driving forward development of materials for capturing CO_2, technology to capture calcium carbonate, and quality control system (government funding of 35.94 billion yen). Nikko Group has been enhancing its initiatives by participating in the GI Fund projects in the concrete field.

Kawamura : In June 2022, Tokyo Metropolitan Government for the first time approved use of low-carbon (warm mix) asphalt mixture for decarbonization of public works of the Tokyo Metropolitan Government. Tokyo aims to halve GHG emissions in the prefecture by 2030 compared with the level in 2020. If warm-mix asphalt mixture, which reduces the manufacturing temperature by 30°C, is used for works of the municipality, it is calculated to reduce CO_2 emissions by about 3,470 tons a year. This move has been spreading throughout the country and is resulting in expansion of the market for warm mix (foamed) equipment for asphalt. In addition to warm mix (foamed) equipment, some companies are switching burner fuel from heavy oil to city gas and propane but such movement has been sluggish given the stagnant business performances of road pavement companies. In the future, investment for decarbonization will gather pace if carbon credit (trading of the rights for reduced GHG emissions) becomes popular and the momentum for introduction of carbon tax increases. It is also necessary to lobby the involved industry organizations and participate in working groups. Formulation of a certain level of industry standards would promote environment-related investments.



Executive Officer and Manager of Development Department, Technology Division

Katsuhiro Kawamura

Directly joined Nikko in 1994 and currently serving as the Manager of Development Department, Technology Division. I have been long engaged in formulation of plans for asphalt plants in the AP-related business. I try to develop products and technologies from the customers' perspective by leveraging my experience of interacting with numerous customers.

Session. 2 We supply products from the customers' perspective by leveraging proprietary technologies

Q What are the strengths that Nikko Group relies on when supplying products for solving problems? What are the Group's value creating activities?

Kawamura: We have high market shares in AP and BP, and we are the only AP manufacturer who can supply a plant and control panel together. This is also highly rated by the customers. When introducing a new technology at a plant, Nikko Group's differentiating factors include the ability to offer our proprietary technology and propose optimal solutions for the entire plant. For example, the warm mix (foamed) equipment has features only Nikko can offer such as interlinking the plant with peripheral devices and controlling their operations. In the BP-related business also, we are planning to introduce and sell an overseas technology called CarbonCure to inject CO_2 into a concrete mixer and capture CO_2 in concrete. We are aiming to offer values that cannot be matched by other companies as we assemble the plant ourselves and understand the flow in the entire plant. Commercial application of ammonia and hydrogen burners in the AP-related business is long way off but we are pushing ahead with product development in an approach of offering what customers want so as to build an entry barrier and capture the first-mover advantage.

Miyake: The customers of the AP-related business are making necessary capital investment primarily for burner fuel transition and warm mix (foamed) equipment by carefully selecting investment targets. Our customers, both regional businesses and major companies, are increasingly shifting from heavy



Manager, AP Sales Management Department, Business Division

Toshimasa Miyake

I also joined Nikko in 1994. Initially I was engaged in sales in the AP-related business in Tokyo, and then got involved in establishment of the Environmental Business Department and Business Development Department. Subsequently, I gained experience in sales of industrial machinery, and in April 2022 I was appointed as manager of the AP Sales Management Department. My motto is carrying out sales activities that take into consideration mutual advantages of Nikko and its customers.

oil to city gas and propane, which are more environmentally friendly. In fact, a customer in an area where city gas is not available, adopted a propane burner with the aim of reducing CO_2 emissions by half by 2030. I believe that such moves would result in sustained replacement demand towards 2030 or 2050. Nikko Group is not considering entering into the fuel supply field but the Thai agent is currently considering a local biomass fuel supply business for asphalt burners. Nikko Group is considering making contributions by leveraging its core technologies, and there is also the possibility of the fuel supply business resulting in lock-in of plant projects.

Okamoto: The equipment offered by the BP-related business can play an active part in decarbonization by capturing CO_2 in aggregates of ready-mixed concrete, in water, or during the kneading process. For more than 10 years, Nikko Group, together with Nippon Concrete Industries Co., Ltd., has been producing calcium carbonate by having CO_2 react with highly alkaline sludge water generated in the concrete manufacturing process. Initially, the business was started to reduce waste treatment costs arising from disposing leftover concrete at construction sites, but we are currently promoting its decarbonization aspect.

Session. 3 We aim for business expansion with focus on profitability as well as environmental contribution

Q What kind of contributions and profitability do you expect from environmentally friendly products?

Miyake: This time, I had a fresh look at the net sales target of the environmentally friendly products (see p. 61). The target figure we were disclosing till last year was an estimate reflecting our expectations towards formulation of the medium-term plan two to three years ago. So, I once again calculated it based on actual business negotiations. In the AP-related business, we are anticipating investment projects through around 2026 based on business negotiations and capital investment plans of major road pavement companies. Investment projects may be postponed if the profit environment continues to worsen, but we feel that such projects have started moving forward from around July this year reflecting growing momentum for the bottoming of financial results of road pavement companies. Profitability of environmentally friendly products is relatively high compared with the existing businesses. We aim to expand the market share and improve profitability by promoting deployment of differentiated proprietary products while making optimum proposals from the perspective of the customers.

Kawamura: We can calculate the optimum selling prices for hydrogen and ammonia burners, which are long-term development projects, but we are not calculating their profitability. On the other hand, we are carrying out development taking into account customers' return on investment (ROI) in short-term development projects. Nikko Group has been working on product development in an approach based on customers' needs. I think we had a certain arrogance that customers have no choice but to purchase from Nikko Group because of our high market share. In an era that seeks new and different values, there may also be potential risks from newly entering companies. Going forward, we plan to pursue reforms aimed at organizational management focused on profitability by closely working with sales staff in addition to developing products and technologies based on the approach of offering what customers want.



Manager, Sales Section 3, Industrial Machinery Sales Management Department, Business Division, and Low Carbon Task Force, CEO's Office

Takeshi Okamoto

I also joined Nikko in 1994 and has been engaged in sales in the BP-related business. I was engaged in BP sales mainly in China for about six and a half years from year 2000, and I am the only one with overseas experience among the three today. I was assigned to the current department in 2020 and am marketing BP-related products to general contractors and precast concrete manufactures.

Okamoto: Calcium carbonate manufacturing equipment, which we are supplying to Nippon Concrete Industries, is an environmentally friendly product that is expected to contribute to the performance of the BP-related business. In the sales forecast of environmentally friendly products, we count it as part of carbon dioxide capture and utilization (CCU). Currently, Nippon Concrete Industries has a road map to introduce it at each plant of its group and we see investment projects through 2026 or 2027. We began recording sales in FY 2023 and they will double in FY 2025, and we are expecting the sales to further increase from 2027 onwards. For contributions to business performance after that, we are considering expansion of the customer base and new business deployment in collaboration with the AP-related business.

Session. 4 We will solve social issues including decarbonization in Japan and abroad

Q What are the technology and product strategies as well as regional strategies for the future?

Okamoto: The strategy of the BP-related business is to continue promoting the business with Nippon Concrete Industries. At the same time, we are considering business collaboration between customers who are located near to each other and have introduced Nikko Group BP- and AP-related products. In particular, ready-mixed concrete companies, who are the customers of the BP-related business, have calcium but they do not emit CO_2. Meanwhile, customers in the AP-related business emit CO_2 because they have burners, but do not have calcium. The two sides can collaborate to manufacture calcium carbonate by reacting calcium with CO_2. We want to contribute to environmentally friendly urban development by realizing such synergy effects going beyond the boundary of businesses, and this is something only Nikko Group can achieve. When capturing CO_2 in aggregates, it is necessary to break up concrete to increase the surface area. We are expecting demand increase for crushers and mobile plants (mobile crushers) offered by Nikko Group in the CO_2 capture process, although they are not directly an environmentally friendly product.

Kawamura: The target, for now, of the environmentally friendly products is the Japanese market. We will drive forward product development in accordance with the technology and product road map and steadily pursue development with focus on profitability as well as improvement in social value through environmental contribution. At the same time, we would like to actively expand sales overseas, especially ASEAN countries and Thailand, if the momentum for introducing environmentally friendly products is high, but right now the interest is weak. First, we would like to install a model plant locally and start promoting it. However, there is high level of interest in warm mix (foamed) equipment and we have been receiving inquiries from customers in Taiwan. We also have a track record of shipping it to Shanghai, China.

Miyake: We will implement sales strategy for environmentally friendly products at an optimum timing ahead of other companies by determining the trends in customer needs, various regulations, and stable procurement of hydrogen and ammonia fuels. In addition, we consider plant operation service (remote operation of plants) to address the lack of successors and labor shortage at customers as one of business strategies for profitability improvement. We have embarked on education of employees engaged in sales to strengthen proposal-based sales skills including ability to explain the value of not only the product but also the value created by the product to the customer and convince them, with the aim of instilling the measures and improving implementation capability.



Risks and Opportunities

Nikko identifies risks that could significantly impact the business activities in the future and pursues the development of a corporate culture resilient to crisis by grasping and managing those risks.
The key risks currently recognized by the management as likely to significantly impact the consolidated companies' financial status, operation results, and cash flow are listed below. By recognizing these risks, we believe that it is necessary for us to strive to avoid the occurrence of such situations, and respond to them if they occur.

Related risks and opportunities		Details of risks and opportunities
① Risks related to the asphalt plant (AP)-related business in Japan	Risk of insufficient differentiation with competitors	**Risk** The asphalt plant market in Japan is an oligopoly where two companies, Nikko and another company, together account for almost 100% of the market. Nikko's market share exceeds 70% and our position as the top manufacturer has not changed for a long time. However, our ability to showcase our differentiation to customers may weaken if we fail to carry out sufficient product development or if the other company develops a meticulous maintenance structure equivalent to ours. **Opportunity** The Company will pursue differentiation by developing new products that contribute to realizing carbon-neutral society and CO_2 reduction and through business model reform of the maintenance service business as well as provision of support for remote operation and automation to secure our position as the overwhelming top manufacturer.
	Risk of overseas manufacturers entering the Japanese market	**Risk** In recent years, no foreign manufacturer has entered the asphalt plant market in Japan, but Chinese and Korean manufacturers are gradually acquiring technical prowess and they may be planning to enter into the Japanese market. If foreign manufacturers enter into the Japanese market, the competition among manufacturers may intensify. **Opportunity** It is difficult for a foreign manufacturer without a sufficient maintenance structure to enter into the Japanese market. Therefore, if a customer, who purchased a product from a foreign manufacturer, realizes the excellence in our after sales service, we can expect it to boost our rating among customers.
	Risk of shrinking market due to reorganization of road pavement industry	**Risk** Major road builders are going through active reorganization, which may develop into reorganization of the road pavement industry in the future. If integration of asphalt plants advances due to the industry reorganization, the market may shrink. **Opportunity** If shipment from a plant increases because of integration, we can expect the amount spent on capital investment to increase in total.
② Risk related to Nikko's technological innovation not catching up with the initiatives for reducing environmental burden		**Risk** Asphalt plants primarily use fossil fuels as energy source. About 1.3 million tons a year of CO_2 is estimated to be emitted in Japan for manufacturing asphalt mixture, and 70% of the emissions are thought to be from Nikko-manufactured plants based on the market share. If the push towards reducing environmental burden globally advances faster than expected, there is a possibility that our technological innovation cannot keep pace with it. **Opportunity** In close collaboration with road pavement companies, who are the customers, Nikko is working on early social implementation of technological innovations such as combustion efficiency improvement and shifting of heat source at asphalt plants (carbon-neutral fuels, electrical heating technology, etc.), improvement of transportation efficiency through innovation of mixture transportation method, collection of CO_2 emitted by asphalt plants, and CO_2 absorption using ready-mixed concrete.
③ Risks related to the overseas business	Risk of intensifying competition in the high-end AP market in China	**Risk** In the asphalt plant market in China, Nikko has secured a certain position in the high-end model category and we are steadily recording sales and profits every year. In recent years, however, Chinese companies in general have gained technological capability and there is a possibility of many Chinese manufacturers entering the high-end model market in the future leading to intensified competition. **Opportunity** So far, the rivals in the high-end market are two European companies and one or two top Chinese companies, and the competition is not very tough. In the future, environmental restrictions and promotion of recycling will be strengthened also in China, which would lead to expansion of the high-end model market, and the Company expects to expand its share by leveraging the technologies it has developed in Japan.
	Risk of failing to achieve sales in accordance with the plan in the ASEAN market	**Risk** As part of the growth strategy, we established a manufacturing subsidiary in Thailand in FY 2020 and invested more than 1.0 billion yen in the factory. The premise of this investment is that we can stably sell asphalt plants every year in Thailand and other ASEAN countries. However, if our plants are not able to sufficiently gain the trust of customers in Thailand and other ASEAN countries contrary to the plan and sales volume falls short of the plan, the factory would post loss, resulting in risk of impairment of the factory. **Opportunity** The ASEAN market is not yet large enough for two European companies, Nikko's competitors, to invest resources. Hence, competition with European manufacturers is not intense, and we can expect to capture the market early on.
④ Risk of reduction in public investment budget		**Risk** In the past, when the Democratic Party of Japan replaced the Liberal Democratic Party, "from concrete to people" became a slogan and many of our customers shifted to limit capital investment. As a result, our sales declined significantly. In the future, if a party that holds up a policy to reduce public investment forms the government, our customers may shift to curb investment like they did during the previous Democratic Party of Japan regime. **Opportunity** The Fundamental Plan for National Resilience received a budget of 15 trillion yen for five years and there is little possibility of customers rushing to curb investment and we can rather expect expansion of investment.
⑤ Risk regarding securing of human resources to engage in on-site operations		**Risk** With our business model, we carry out the entire process from plant manufacture to installation on site and offering of maintenance service all in-house. In recent years, manpower shortages has made it difficult to hire on-site workers such as maintenance service staff and construction work staff. If we are unable to hire the required number of on-site workers, it may become difficult to maintain a competitive edge with our business model. **Opportunity** In maintenance service, we can solve the issue of securing human resources by promoting labor saving through systemization of maintenance services using IoT, etc.
⑥ Risk of spread of COVID-19		**Risk** COVID-19 infections have come down and its impact on daily lives has declined, and therefore the Company expects its impact in the future to be small. Nevertheless, risk of resurgence in infections caused by variants still remains, and large-scale infections and their spread may affect the Group's business. In overseas operations similarly, if the spread of COVID-19 in countries where we have operations restricts social activities, it may become difficult to carry out production and sales activities there. In particular, if the infection spreads in China, Thailand, and Taiwan, where the Nikko Group has business bases, it may have a direct impact. **Opportunity** The Japanese construction industry, in general, has not had any significant direct impact from the COVID-19 pandemic and has been performing solidly, and we expect minimal impact on the industry also in the future.
⑦ Risks related to increases in material prices		**Risk** Prices continue to rise around the world due to factors such as Russia's invasion of Ukraine and demand growth towards the end of the COVID-19 pandemic. While the central banks, primarily in the U.S. and Europe, have been implementing inflation countermeasures of monetary tightening such as interest-rate hike and there are some signs of slowing of price increases, concerns over prices and inflation remain strong. If this situation continues, prices of materials the Company purchases may increase, which may result in worsening of profits. Further, the impact of rising prices on our customers may cause them to postpone or suspend their capital investment plans, which may result in a decline in the Company's net sales. **Opportunity** Nikko reflects the material price increases in the quotations for AP and BP customers and this is expected to lessen the impact on profits in the future.
⑧ Risks related to the Russia-Ukraine situation		**Risk** Nikko has suspended business with Russia. The impact of the suspension of business with Russia is negligible, as they were limited to parts transactions worth several tens of millions of yen a year in the past. However, there is a possibility of capital investment plans at Nikko's customers getting affected by the increases in crude oil prices due to the Russia-Ukraine situation and the changes in the global economy. **Opportunity** The prolonged war destroyed buildings and infrastructure in Ukraine and the first thing for restoration in the future is the disposal of the enormous amount of rubble. Nikko's mobile crushers can be taken to the sites and can satisfy the restoration demand in Ukraine.
⑨ Risks related to exchange rate fluctuations		**Risk** The Company's mobile plant business imports its mainstay products from Europe and sells them. If foreign exchange hedge is not implemented, the Company may be affected by risks of exchange rate fluctuations. **Opportunity** We have been hedging risks related to foreign exchange fluctuations by purchasing foreign currencies or arranging exchange contracts in advance, and therefore such impacts are expected to be negligible.

Measures to Reinforce Platform for Delivering Value to Realize 2030 Vision

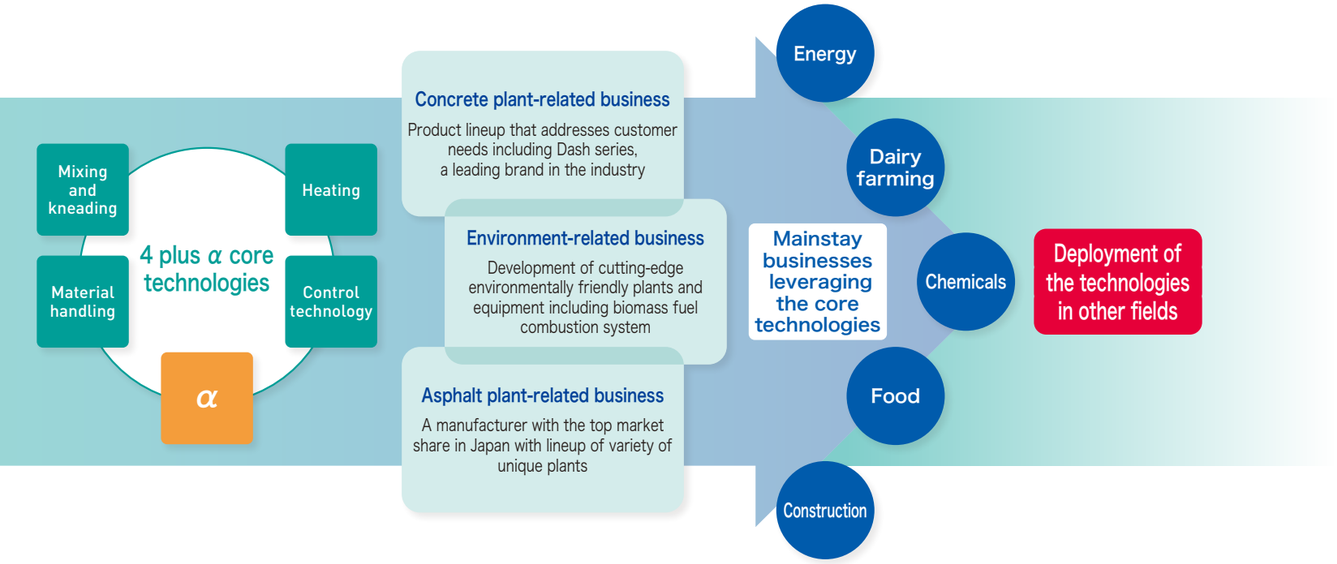
Nikko Group upholds a customer-first policy as its corporate philosophy. Our mission is to provide products and services that truly satisfy our customers while gaining widespread trust from society, and becoming a solution partner that grows with our customers.

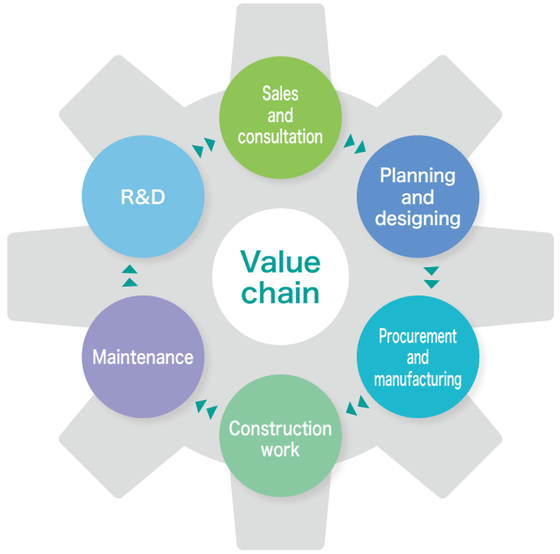
To realize the 2030 Vision, it is important to make the value co-creation platform strong and it is necessary to continue refining the four core technologies of mixing and kneading, heating, control, and material handling.

Measures to Reinforce Platform for Delivering Value to Realize 2030 Vision

Platform for delivering value

	Input (management resources)	Goals in 2030	Issues to be addressed (short, medium, and long term)	Measures (short, medium, and long term)	Progress, outlook	FY2022 evaluation
R&D Kawamura, Manager 	● R&D expenses: 0.75 billion yen ● Development division engineers: 28 people ● Joint development with customers and external organizations ● 4+α core technologies (drying, mixing and kneading, material handling, and control) + measurement	● Full-scale installation of low-carbon and environmentally friendly products ● Installation of automated products leveraging AI and IoT technologies ● Lateral deployment of environment-related equipment	● Human resource development for transfer and expansion of core technologies ● Short-term and medium- to long-term product development aimed at decarbonization ● Building a development platform for environment-related equipment ● Improvement of development speed for increasing the amount of social implementation	● R&D expenses from FY 2022 to FY 2024: 2.5 billion yen (2.1 times) ● The number of development personnel to be hired from FY 2022 to FY 2024: 12 ● Nurturing based on active implementation of human resource rotation ● Promotion of open innovation with customers and external organizations including universities ● Update of product development roadmap and redistribution of resources ● Establishment of a team specialized in product development and starting its operation	● Human resource rotation implemented: 2 employees ● FY 2022: Number of new graduates hired increased by 2 compared with FY 2021 and the number of foreign engineers rose by 1 ● Joint R&D: 6 projects being implemented ● Updating product development roadmap every six months	○
Sales and consultation Nakayama, General Manager 	● Establishment of a marketing division ● Adaptation of the organization for globalization ● Utilization of past and future data ● Support of comprehensive operation of plants	● Offering of environmentally friendly products for low carbonization ● Offering of products+operation through remote operation and automation ● No. 1 manufacturer in Asia	● Development of environmental products ● Acquisition of plant operation knowhow ● Acquisition of overseas partners (agents) ● Expansion of the ASEAN market ● Nurturing of human resources who will play the main role in developing fields	● Trade shows for new products ● Collaboration with customers (development, education) ● Establishment of overseas planning division and support for acquisition of products and partners ● Establishment of ASEAN Business Strategy Office at Nikko to pursue synergies with the Thai subsidiaries (NAT and NIC) ● Enhancement of the hiring of new graduates ● Arranging more environmentally friendly products by joining an industry association	● A trade show for new products in November 2022 ● Collaboration with customers: To be implemented for mutual education ● Conclusion of agent agreements with one company each in Thailand and Vietnam ● Review of supply chain and capturing the recycling AP market ● 1 GM and 2 overseas (1 for sales and 1 for Customer Support Center) ● Joined Japan Road Contractors Association (JRCA) as a support member	○
Planning and designing Uehara, Manager 	● Group of skilled engineers who respond to customer needs ● Core technologies (mixing and kneading, heating, material handling, and control) ● Accumulation of knowhow regarding plant design and technical bases ● Cooperation structure with technical design partner companies	● Plant solution provider ● Proposals that create values at both customers and society ● Comprehensive support of remote operation, automation, saving manpower ● Overseas expansion of global standard products	● Systematic human resource hiring, strengthening the knowledge of the workers through nurturing ● Enhancement of core standard products that respond to customer needs ● Improvement of customer satisfaction in quality, safety, and environment friendliness ● Proposal of suitable products that reflect customer requests and meeting the delivery date ● Improvement of design work efficiency and shift of resources to new expanding business fields	● The number of engineers to be hired from FY 2022 to FY 2024: 35 ● Promotion of standardization and development of products with high added values ● Building of engineering structure that combines sales and maintenance service ● Restructuring and development of global models and technological involvement in overseas production ● Promotion of outsourcing and digitization of operations	● Active investment in resources, placing engineers at the eastern and western bases ● A new block-type plant has been completed. The ratio of standardized plants is 70%. Deployment for further extension of the series ● Building an organization in charge of design quality control and development of engineering method ● Establishment of a team dedicated to overseas markets, hiring of human resources for overseas expansion ● Development of a new control panel model	○
Procurement Umezawa, Manager 	● Introduction of a new core system ● Construction of new materials warehouse ● Human resources to build procurement base	● Operation structure focused on stable purchasing and cost reduction ● Information sharing with suppliers and favorable relationship of trust with them ● Acquisition of ample knowledge of products and industry trends and enhancement of communications with suppliers and within the company ● Contribute to the mitigation of environmental burden	● Soaring prices and shortage of raw materials, etc. and sudden foreign exchange fluctuations ● Closure or scaling back of suppliers as well as their discontinuation or prolonged delivery ● Aging of core system and increasing burden of daily operations	● Cost reduction through centralized and distributed purchasing and averting risks ● Work with designing section and promote functional purchase ● Reconsider sustainable supply chain ● Shift to paperless and PDM using new system	● Cost reduction ⇒ rate of achievement in FY 2022: approx. 70% Rate of achievement in FY 2023: approx. 90% (estimate) ● Reconsider supply chain ⇒ Being implemented ● New system ⇒ Completed. Currently in the process of shifting to EDI, etc. for achieving paperless Shift to EDI FY 2022: approx. 50%; FY 2023: approx. 80%	△
Manufacturing Yamada, Factory Manager 	● 3 latest fiber laser processors, two warehouse blocks for shipment ● Integrated technology and skills for integrated in-house products from primary processing of materials to canning welding, machine processing, final assembly, and trial run as well as production and shipment control	● Further improving productivity by 10% ● Promotion of flexible delivery of a wide variety of products in short delivery time ● Achievement in both quality improvement and reduction of manufacturing cost ● Thailand subsidiary NIC to turn profitable in a stable manner ● Synergies with Ube Kohki, Matsuda Kiko, etc.	● Further improving productivity by 10% ● Flexible, large variety and enhancement of production corresponding to destinations ● Achievement in both quality improvement and reduction of manufacturing cost ● Thailand subsidiary NIC to turn profitable in a stable manner	● Expansion of the manufacturing factory block of head office factory ● Replacement of aged equipment ● Reconstruction of factory layout ● Promoting engineers to acquire multiple skills ● Utilization of foreign technical interns	● Human resource rotation ● Vitalization through appointment of young employees as group leaders ● Currently building an environmentally friendly plant ● Cooperation with Ube Kohki, etc.	○
Construction work Noguchi, Section Manager 	● Operation engineers: 20 including 8 field management engineers and 17 chief engineers ● Contractors around the country ● End-to-end structure from assembly to operation adjustment	● Operation engineers: 50 (up 20 from existing level) ● Increase field management engineers and chief engineers and take on all sorts of plant installation works ● Digitization of work plan, safety documents, etc. to enable a structure where anyone can handle them	● Actions for safe work and safety instruction ● Identifying new contractors and collaboration with other departments ● Easy-to-implement structure in the design and construction work stages	● Digitization of work plans and safety documents (conversion to online, and online work) ● Easy-to-construct unit structure, increasing the percentage of parts built in-house ● Promotion of structure designs that facilitates safe work ● Proactive negotiations with contractors throughout Japan	● Improvement of product finish, development of a mechanism for ensuring safe construction work ● Initiatives for reviewing construction work processes ● Two new contractors. Continued efforts for discovering more contractors ● Increasing operation engineers	○
Maintenance Sone, Planning Manager 	● Service staff: 120 employees ● Transfer of front office operation, strengthening of organization ● Development of workplace safety and machinery management system	● Plant management through asset management ● Start of operation service ● Global operation of customer support	● Switch from after-incident maintenance to preemptive maintenance ● Acquisition of on-site human resources ● Remote management of plant operation and utilization of operation data for prevention and prediction	● Predictive maintenance based on next-generation diagnosis and promotion of shift to next-generation preventative and predictive maintenance ● Hiring, reduction of emergency repair, and improvement of efficiency through division of labor ● Starting actual operations at cooperating factories and refining it	● Concluded agreements with 10 AP users and 25 BP users. Expecting 20 contracts a year from now on ● Plan to appoint employees who are in charge of area-based front office operations ● Start of data monitor operation	△





Nikko Group's business activities and value chain

Most of Nikko Group's business is B-to-B and our customers are road pavement companies and businesses related to infrastructure and construction. Our business consists of asphalt plant (AP)-related business, concrete plant (BP)-related business, environment- and conveyor-related business, and other business. Overseas net sales account for 14.7% of overall sales.
Each business department has production, sales, and engineering functions and they receive orders either directly from customers or through sales agents. For built-to-order products, which account for most of them, we prepare an estimate following meetings with the customer. Once a contract is signed, the business value chain starts with design and includes production, procurement, installation, delivery, collection of bills, and maintenance services. Nikko Group's value chain has safety and security, quality, and compliance included as standards and we combine them with our unique business activities to enable co-creation of values with customers.

Feedback from customers

To make the platform for value co-creation more resilient, we need to ask customers about their opinions and requests regarding their level of satisfaction with the plants and machinery that were delivered and the improvements they seek, and utilize them in improving quality of products and services as well as development.
We are also conducting operator training on a regular basis in response to requests for plant managers and engineers who can operate plants at customers and are well-versed in involved technology.

Customer's voice 1

Shibata Ready-Mixed Concrete, Shibata Shoten Ltd.

Shibata Ready-Mixed Concrete of Shibata Shoten Ltd. is a member of the Osaka Kouiki Ready-mixed Concrete Cooperative Association and has a plant in Harima Block. Himeji Castle was registered as a World Heritage site and redevelopment work for making the surrounding area a tourist attraction is underway. Meanwhile, the first generation batching plants (BP) constructed in 1984 are up for the third round of replacement. It turned out to be a difficult task, as the company purchased an adjacent plot to build the new plant while the old plant continued to function.

Q Why did you choose scrap and build (S&B) of BP?

A Originally, along with Chairman Shibata, we had a plan to implement S&B by 2028. In the spring of 2020, we purchased the adjacent land to the north, which we had been planning to purchase. With this as a starting point we requested Nikko to prepare a new plant scheme plan for the future. However, it became clear with the new scheme drawing that it was difficult to build the plant as we wanted, so we decided to change the contents. In 2020 winter, the adjacent land on the east side became available for purchase, and we decided to carry out S&B. In the spring of 2021, we once again requested a scheme drawing for new plant construction to Nikko, and we finalized the exterior drawing and began moving toward full implementation of S&B. Subsequently, the new BP started operating on February 1, 2023.

Q What are the points you considered upon construction? Please also tell us what you think of the equipment you have adopted.

A We aimed to shorten the plant downtime and began construction while shipping from the existing plant so as to avoid causing trouble to our customers. We placed the cement transport pipes inside the plant, and housing the pipes inside the building made it easier to perform inspections and carry out replacement work safely. Further, even if the pipe gets worn out and a hole is formed, it would not cause any trouble to people living in the neighborhood.

We are satisfied with the completed plant as it has incorporated a lot of the requests we made. Going forward, we plan to maintain it so that it will become even better.

Q We have heard that you have been proactively carrying out recruitment activities such as giving plant tour to students.

A We are also experiencing super aging of our employees. We need to hire young people to facilitate generational change and to sustain the company. We are visiting high schools to explain the ready-mixed concrete industry and the plant so that students will choose us as a place of employment. Students still think of working in the ready-mixed concrete plant as demanding and dirty and that it is hard to take days off, so we are preparing a plan to invite students to the new BP plant.

Q Finally, what are your opinions and requests for Nikko?

A We would like Nikko to put in place a structure that enables us to exchange various opinions so as to realize a plant that is easy to manage and use in terms of both infrastructure and operational aspects.

Customer's voice 2

Daioh Shinyo Co., Ltd.



Daioh Shinyo Co., Ltd. is located in Kochi City, Kochi Prefecture, which is famous as the place where Sakamoto Ryoma, Tosa's hero of Meiji Restoration, was born. We visited its Kochi Mixture Center, which had introduced the VP III successfully, and asked about the areas where the company had trouble while rebuilding the plant.

Q Why did you plan to rebuild the plant?

A Some 35 years had passed since we started operating our old plant and it was deteriorating. Its maintenance costs were also rising with each passing year. In addition, we were facing various issues such as insufficient capacity of the former recycling plant, inadequacy of asphalt tank, which is a peripheral equipment, and environmental consideration. Taking these points into account, we judged that it was time to rebuild the plant so as to reduce the burden on the local environment such as soot, increase the rate of recycled aggregates, and reduce CO_2 through improvement of fuel efficiency, and thereby contribute to the sustainable development of society, which is an SDG philosophy.

Q What is the reason behind adopting Nikko-made VP III?

A When planning to rebuild a plant within a limited space due to site restrictions, the fact that VP III can be built in a small space made it the number one reason to adopt it. As it became possible to install the plant and save space, we were also able to add asphalt tanks and install a recycling agent tank. Also, we selected VP III because the model met our needs such as improvement in safety performance and working environment in terms of specifications.

Q What are the problems you faced while rebuilding the plant?

A Drawing a layout plan including traffic lines was difficult because the plot is small, as we had problems with the shape and we were going to use the existing structures. We focused on safe and efficient operation and have repeated discussions with Nikko staff engaged in sales as well as design.

Q What do you think of VP III once it was installed and what are your opinions and requests for Nikko?

A Thanks to Nikko, construction of VP III was completed without any troubles. We are grateful to the company for ensuring safety management during the construction period and completing the work safely without any incidents. Going forward, we are determined to make further contributions to the development of the region and we would like to request your support more than ever.
We are yet to get used to VP III, and would like Nikko to provide appropriate advices. We also would like the company to support us more than ever in maintenance and also when there are problems.

SUSTAINABILITY AND MANAGEMENT FOUNDATION

Creating robust, people-friendly cities around the world.

04

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Sustainability Governance

As the world faces a wide range of environmental and social issues, creating social and environmental values is imperative to ensure sustainable improvement in the corporate value of Nikko Group. We aim to realize the Group's vision of "Making the world a resilient and gentle place" through continuous dialogue with stakeholders.

Nikko Group Sustainability Basic Policies

Responsibility to society

- We will respect human rights and support their protection, enhance our corporate ethics and share them across the entire value chain, and practice fair business activities in order to realize a sustainable society.
- We will promote new workstyles and create diverse, healthy, safe, and secure workplaces that offer job satisfaction.
- We recognize our role as a market leader, and will contribute to the realization of a prosperous future and resilient society through the products, services, and solutions we offer.

Responsibility to global environment

- We will act as a company responsible for the future of the global environment by promoting the shift to decarbonized economy and striving to improve the efficiency of material recycling and prevent pollution so as to contribute to the preservation of biodiversity.

Sustainability promotion structure

Nikko Group established the Sustainability Committee in June 2023 to summarize the Group's discussions regarding sustainability and to further improve the quality and speed of implementation in cooperation with the Compliance and Risk Management Committee.
The Sustainability Committee is chaired by the Director and Manager of Corporate Planning Department and has four other members from the upper management including the Director and Vice President supervising financial and human resources who chairs the Compliance and Risk Management Committee. The committee discusses Nikko's sustainability-related issues and report and make proposals to the Board of Directors. Its secretariat consists of five employees from the departments supervised by the committee chair and members. The committee meets four times a year as a rule.
The roles and functions of the Sustainability Committee are as follows.

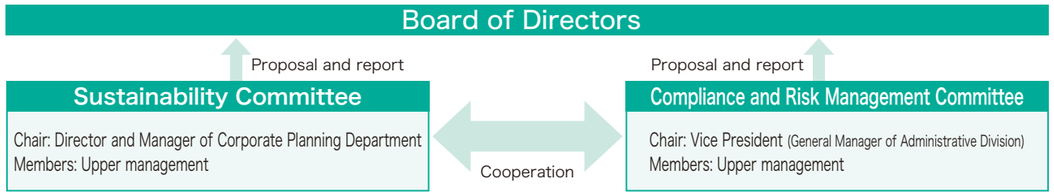
Roles

1. Identifying materiality for realizing the long-term vision
2. Identifying risks and opportunities of materiality and clarifying how to manage the progress (metrics and targets)
3. Preparing a draft of the Medium-Term Management Plan by backcasting from the long-term vision
4. Developing the structure for offering values to stakeholders
5. Cooperating with the Compliance and Risk Management Committee

Functions

1. Formulating the Sustainability Basic Policies
2. Formulating human rights policies and implementing human rights due diligence
3. Formulating anti-corruption (corporate ethics) policies
4. Promoting awareness-building activities based on the policies
5. Formulating environmental policies (decarbonization, material recycling, water resources, and biodiversity conservation)
6. Applying the policies to the supply chain (formulating procurement guidelines)
7. Enhancing human capital (engagement, diversity, life support, and health and safety)
8. Holding dialogues with stakeholders

Sustainability promotion structure



Cooperation between Sustainability Committee and other committees and taskforces

The five members of the Sustainability Committee have the following respective roles and cooperate with each other in the committee.

Sustainability Committee members

- Koichi Kawakami (chair): Corporate planning, DX, safety and health
- Hiroshi Fujii: Financial, human resources, compliance and risk management (chair)
- Tomomi Nakayama: Sales and overseas business
- Kazuhiro Yamada: Manufacturing and procurement
- Katsuhiro Kawamura: Development, GX (decarbonization)

Identification of materiality

Along with the formulation of the 2030 Vision, Nikko Group reviewed its materiality for sustainable creation of corporate values in 2022. We believe that solving material issues by bearing in mind "promoting self-reform to win the broad trust from society and fulfill our mission as a solutions partner that evolves with the customers" as stated in our Management Philosophy would lead to achievement of the 2030 Vision. The Group will set forth the most important KPIs for the following four materiality areas to raise effectiveness and strengthen monitoring by the Board of Directors.

Nikko Group's materiality

	Reference
● Realization of Carbon Neutrality	P58
● Establishment of recycling-oriented society	P63
● Creation of New Customer Values	P65
● Human resource development and improvement in job satisfaction	P67

Sustainability management at Nikko Group



Stakeholder Engagement

The business of Nikko Group is established on the relationship of trust with its stakeholders. The Group believes it is important to engage in active dialogue with all stakeholders to solve social issues through its business and raise its corporate value. Nikko Group aims to contribute to the sustainability of society and to achieve sustainable growth as a company, in line with the stakeholders' understanding regarding the direction it is pursuing and the path of its value creation.

Value co-creation with stakeholders



Relationship with stakeholders and main channels of dialogue

	Relationship with stakeholders	Stakeholders' main interests	Main dialogue channels
Customers	Nikko Group is contributing to business expansion and productivity improvement at customers through the provision of products and services. At the same time, it contributes to the development of a prosperous society together with customers through the development of social infrastructure.	● Offering of high-performance, high-quality products ● Service structure that offers safety and security ● Appropriate price setting ● Ability to propose solutions to issues ● Response to technological innovation ● Early restoration from natural disasters	● Daily sales and service activities ● Various trade shows (holding the 2022 Nikko Messe and participation in N-EXPO 2022) ● Offering of plant operator training ● Journals (editing and publication of NAP NEWS and BP EYES) ● Nikko website (One Nikko Platform)
Employees	Employees are the most valuable asset of Nikko. We focus our efforts on building an organization and nurturing our human resources so that we can quickly respond to all changes surrounding our business to make sustained contribution to society. We will strive to develop a workplace environment that offers job satisfaction by responding to the expectations of employees, who have diverse attributes and values.	● Respect to basic labor rights ● Offering opportunities for growth and self-realization ● Equal opportunities and fair evaluation ● Creating a workplace that is very safe mentally ● Ensuring safe operations and consideration for natural environment ● Realization of work-life balance ● Securing of diversity and workstyle options	● Direct dialogue between the president and groups of employees ● Intranet ● Company newsletter (*Tombo*) ● Target setting and progress confirmation, evaluation feedback ● English and special skill training, autonomous and elective development seminars ● Campaign to improve operating efficiency ● Whistleblowing system ● Allotting shares with restriction on transfer

		Relationship with stakeholders		Stakeholders' main interests	Main dialogue channels
Business partners	Materials suppliers	Nikko Group believes that it is essential to work on solving the social issues faced by its supply chain together with all business partners including material suppliers, sales agents, and contractors.	● Suppliers of outsourced products based on Nikko design (about 20 companies) ● General materials suppliers (about 100 companies)	● Equal, fair transaction terms ● Quality assessment ● Centralized purchasing ● Support for business succession, technology transfer	● Daily procurement activities ● Quality improvement support ● Factory, warehouse visits ● Quality audit
	Tombo-kai (sales agent network)		Members: 124 companies	● Proposal of new products ● Support for seeking new sales channels	● Holding general meetings and subcommittee meetings
	Akitsu-kai (contractors' network)		Members: 200 companies	● Safe work environment ● Advice regarding specialized skills and technologies ● Securing stable work load over the long term	● Safety and health meeting
Local community, future generation		For Nikko Group to develop and grow, it needs to contribute to raising the sustainability of society. Nikko considers the realization of carbon neutrality as its responsibility towards future generations.		● Co-existence with local communities ● Creation of employment ● Contribution to local development ● Preservation of the local natural environment ● Safe operation	● Offering of grant-type scholarship to students in the Kinki region ● Offering of research grants to researchers from Hyogo Prefecture ● Support for disaster prevention education at primary and special needs schools (14 of them) within Akashi city (offering of disaster prevention *tenugui* towels) ● Responsible responses to climate risks ● Company and plant tours for high school students in Akashi City ● Nikko Marche (exhibition and sale of disaster prevention and BBQ goods) ● Let's Protect Roads!, a game offered in a social experience app for children
Shareholders, investors		Shareholders and investors, who offer financial capital, support the growth of Nikko Group and has the role of monitoring its management. We will further strengthen our relationships of trust with them through our efforts in improving corporate value and enhancing information disclosure.		● Improving our corporate value ● Promotion of fair disclosure ● Capital policy that is conscious of capital efficiency ● Achievement of business returns that exceed the capital cost ● Strengthening of initiatives towards ESG and sustainability, and enhancement of information disclosure ● Improvement in effective governance	● General Shareholders' Meeting (attended by 6,835 people including online participants) ● Financial results briefing sessions (four times) ● Individual meetings with institutional investors (six meetings with 10 investors)

The figures are results for FY 2021.

Information disclosed based on TCFD framework

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate change caused by greenhouse gas (GHG) emission has an enormous impact on society and economy, and Nikko Group recognizes that it is the most pressing social issue the Group should work on. For the realization of a decarbonized society targeted in the Paris Agreement, Nikko Group is aiming to achieve a 50% reduction in CO_2 emissions (compared with FY 2021) from its business activities as well as operation of Nikko-made plants at customers as an interim target for FY 2030.

The Group is promoting the development of technologies for reducing CO_2 emissions and provision of related products and services towards achieving carbon neutrality in 2050. After endorsing the TCFD recommendations in October 2021, it has been disclosing information in accordance with the TCFD framework for smooth communication regarding climate change issues with stakeholders including shareholders and investors.

Status of the initiatives related to the four core elements of the TCFD recommendations

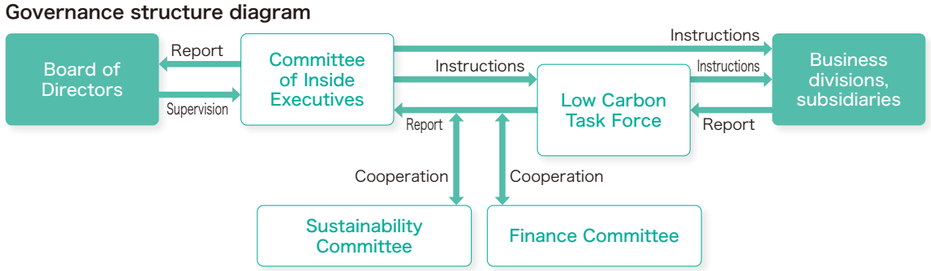
	Nikko Group's initiatives
Governance	● The Group has established the Low Carbon Task Force (LCTF) led by the managers of business and development divisions, which gathers and analyzes carbon neutrality-related information and carries out planning (once a month meetings). ● The Committee of Inside Executives sets forth targets based on the proposals by LTCF and formulates detailed strategies for achieving them (as necessary). ● The Sustainability Committee and the Finance Committee work together to identify risks and opportunities and discuss countermeasures (as necessary) ● Key measures and action plans formulated by the committee are promoted company-wide and the progress is reported to the Board of Directors. ● The Board of Directors deliberates on the validity of strategies and inherent risks and supervises the progress towards targets (twice a year or more).
Strategy	● Identify risks and opportunities in scenario analysis considering the 2°C and 4°C scenarios, decide on medium- to long-term measures, and manage their progress ● Analyze the impact of risks and opportunities on business and finance ● Formulate development plan for low-carbon and decarbonization-related products and their market introduction plans
Risk Management	● The Risk Management Committee chaired by Director and Executive Officer identifies and manages risks that have major impact on business and finance as priority management risks. ● The committee shares risk information with the Committee of Inside Executives and the Board of Directors and decides appropriate responses from the perspective of company-wide risk management.
Metrics and Targets	● Verification of CO_2 emissions by Nikko Co., Ltd. ● Switch to renewable energy-based electricity and establishment of RE100 target ● Verification of Scope 3 (in the entire supply chain) CO_2 emissions ● Setting of the FY 2030 interim target and the FY 2050 target based on scenario analysis 〈FY 2022 results〉 ● CO_2 emissions (Scope 1 and 2): 544t-CO_2 (down 79.8% vs. FY 2021) ● CO_2 emissions (Category 11 of Scope 3): 664,082t-CO_2 (down 16.4% vs. FY 2021) 〈FY 2030 emission targets〉 ● CO_2 emissions (Scope 1, 2, and 3): 436,970t-CO_2 (vs. FY 2021 results) 〈FY 2050 target〉 ● Aim for net-zero CO_2 emissions (Scope 1, 2, and 3)

Governance

Carbon neutrality promotion structure

Nikko established the Low Carbon Task Force (LCTF) led by the managers of the Business and Technology Development Divisions to promote the realization of carbon neutrality. Through its monthly LCTF meetings, it examines and discusses the issues in a cross-divisional manner for the realization of carbon neutrality based on data verification and evidence.
The Committee of Inside Executives discusses the plan proposal drafted by LCTF and formulates concrete target values and specific strategies for achieving the targets. It also works together with the Sustainability Committee chaired by the Director and Executive Officer as well as the Finance Committee as necessary. The Board of Directors, at its meetings, deliberates the investment plan, product development plan, and risk countermeasures formulated by the Committee of Inside Executives and supervises their adequacy and progress.

Governance structure diagram



Strategy

Climate change scenario analysis

Nikko assumes the future temperature rise scenarios in the range of 2°C and 4°C upon carrying out the scenario analyses for 2030 and 2050.

Reference scenarios: ■World Energy Outlook 2020 by IEA
- STEPS (current policy scenario)
- SDS (sustainable development scenario)

■IPCC AR5
- RCP2.6 (2°C scenario)
- RCP8.5 (4°C scenario)

Business and financial impact of climate-related risks and opportunities based on scenario analysis; medium- to long-term measures addressing risks and opportunities and results for FY 2022

	Risks	Impact on finance	Likelihood of occurrence	Countermeasures	FY 2022 results
2°C scenario (assuming progress in low-carbonization)	Rapid shift to decarbonized burners (plants)	High	Medium	Speed up product development.	● Completed demonstration tests of burners fired by decarbonized fuels such as hydrogen, ammonia, and powder biomass. ● Increased R&D expenses (700 million yen) ● Prepared a decarbonization technology roadmap. ● Revised the price table due to increase in procurement costs. ● The head office factory switched to green electricity. ● Sales of decarbonization-related products increased.
	Request from users to share the carbon tax burden (discount)	High	Medium	Tirelessly explain to and negotiate with customers	
	Market introduction of highly carbon-efficient roadbed materials alternative to asphalt	High	Low		
	Increase in R&D expenses and capital investment	Medium	High	Improve efficiency of development. Clarify priorities.	
	(decarbonized burners, CO_2 capture and storage technology, etc.)	Medium	High	Speed up product development.	
	New entry by boiler, burner, and electric furnace manufacturers	Medium	Medium	Strengthen analysis of expected new entrants. Acquire related intellectual properties at an early stage.	
	Decrease in the number of operating plants due to centralization to large plants	Medium	Medium	Identify users who will survive and recommend systematic maintenance to such users	
	Increase in the cost of procurement of raw materials (steel materials, etc.)	Low	High	Strengthen function-focused purchasing, etc.	
	Increase in the cost of electricity derived from renewable energy	Low	High	Streamline plant operations and pass on costs to product prices	
	Increase in the cost of procurement of alternative fuels	Low	High	Promote a wide range of fuel procurement methods	
	Opportunity	**Impact on finance**	**Likelihood of occurrence**	**Countermeasures**	**FY 2022 results**
	Demand for updating to low-carbon or decarbonized burners (plants)	High	High	Diversify fuels and enhance product lineup	● Increased number of business negotiations for CO_2-absorbing plants ● Promoted proposals for recycling plants targeting ASEAN ● Increased the number of employees engaged in technology development ● The number of patent applications increased.
	Growth in market share due to superiority in the R&D competition	High	Medium	Further strengthen technology development investment	
	Increase in demand for concrete products (roadbed materials alternative to asphalt)	Medium	Low	Transform plants to pavement concrete production	
	Growth in demand for recycling and low-carbon plants due to stricter environmental restrictions in China and Southeast Asian countries	Medium	Medium	Reinforce overseas production bases	
	Provocation of demand for new plants due to spread of CO_2 fixation concrete	Low	High	Enhance lineup of plants for CO_2-absorbing concrete	
	Increase in demand for lithium battery recycling equipment due to expansion of the EV market	Low	Medium	Enhance lineup of environmentally friendly and recycling products	

	Risks	Impact on finance	Likelihood of occurrence	Countermeasures	Results
4°C scenario (assuming low-carbonization scenario is not promoted)	Expansion of the new roadbed and construction material markets due to measures against heat island effect (shrinkage of the existing asphalt and concrete markets)	Medium	Low	Launch products developed using core technologies in the new construction material market	● Established a dedicated department for lateral deployment of the core technologies. ● Unearthed new suppliers mainly in the ASEAN region. ● Revised the price list as needed.
	Increase in the cost of procurement of materials due to suspension of supply chains	Low	Medium	Diversify supply chains including those overseas	
	Increase in BCP expenses	Low	High	Appropriately pass on costs to product prices	
	Opportunity	**Impact on finance**	**Likelihood of occurrence**	**Countermeasures**	**Results**
	Increase in demand for preemptive maintenance for stable operation	High	Low	Improve the efficiency of the maintenance business using IoT	● Promoted use of subscription service for maintenance. ● Established a production base in ASEAN. ● Acquired land for factories in Japan as needed. ● Increased the number of employees engaged in technology development ● The number of patent applications increased.
	Increase in demand for disaster prevention or mitigation models	Medium	Medium	Strengthen manufacturing capacity and reorganize manufacturing sites	
	Increase in demand for disaster prevention products (waterproof boards, temporary scaffolding, etc.)	Medium	High		
	Increase in demand for counter-disaster mobile plants	Low	Medium		
	Increase in demand for transferring plants to areas with low disaster risk	Low	Low		
	Increase in demand for concrete products (roadbed materials alternative to asphalt)	Medium	Low	Transform plants to pavement concrete production	
	Growth in demand for recycling and low-carbon plants due to stricter environmental restrictions in China and Southeast Asian countries	Medium	Medium	Reinforce overseas production bases	
	Provocation of demand for new plants due to spread of CO_2 fixation concrete	Low	High	Enhance lineup of plants for CO_2-absorbing concrete	
	Increase in demand for lithium battery recycling equipment due to expansion of the EV market	Low	Medium	Enhance lineup of environmentally friendly and recycling products	

The degree of financial impact is evaluated across three levels between high, medium, and low, depending on the likeliness of occurrence of the risks and opportunities and their impact on periodic income.

Four steps and seven approaches towards the realization of carbon neutrality

To grasp CO_2 emissions in Scope 1, 2, and 3 as accurately as possible, we have been verifying major categories by setting certain conditions since FY 2021. The results of the verification show that CO_2 emissions from the use of products such as Nikko-made plants sold were 664,000 tons (verified in FY 2022), accounting for 90.1% of overall emissions in Scope 3. The Group will offer products and services by identifying the most cost-effective methods for reducing CO_2 emissions, while sharing with customers the evidence extracted from verification data.

Four steps



To accurately understand the CO_2 emissions during the mixture manufacturing process, Nikko analyzed the energy consumption at the mixture plants. Since about 80% of energy is used to remove water and heat aggregates (recycled materials), reducing the water content has proved effective in reducing the energy consumption in the drying and heating process. Based on such verified data, Nikko has been taking seven approaches to developing products aimed at decarbonization as part of efforts to reduce emissions.

Seven approaches



Nikko is conducting product development by combining seven technologies for the realization of carbon neutrality.

1 Fuel transition

To replace heavy oil, which has high CO_2 emissions, the Group has embarked on the R&D of burners using ammonia and hydrogen, which are promising CO_2-free fuels, in addition to the development and improvement of burners that use city gas, natural gas, and biomass fuels.

2 Warm mix

Manufactures asphalt mixture at a temperature lower than the usual heating temperature by reducing the viscosity of asphalt by adding water to heated asphalt and foaming it. Use of warm mix reduces the energy consumption in heating, thus helping reduce CO_2 emissions.

3 Transformation of the material storage system

Reducing water in aggregate, which is the raw material of asphalt mixture, enables to lower energy consumption in the aggregate incineration process, thus reducing CO_2 emissions.

4 Reform of the plant system

CO_2 emissions can be reduced by lowering the amount of newly used consumption energy by recycling exhaust gas and heat from plant operation for heating and processing aggregate.

5 CCU

The external CO_2 emissions of a plant can be reduced by absorbing CO_2 emitted at the plant using the technology to absorb CO_2 with concrete. We are also promoting research and development for absorbing the CO_2 emitted from asphalt plants at concrete plants.

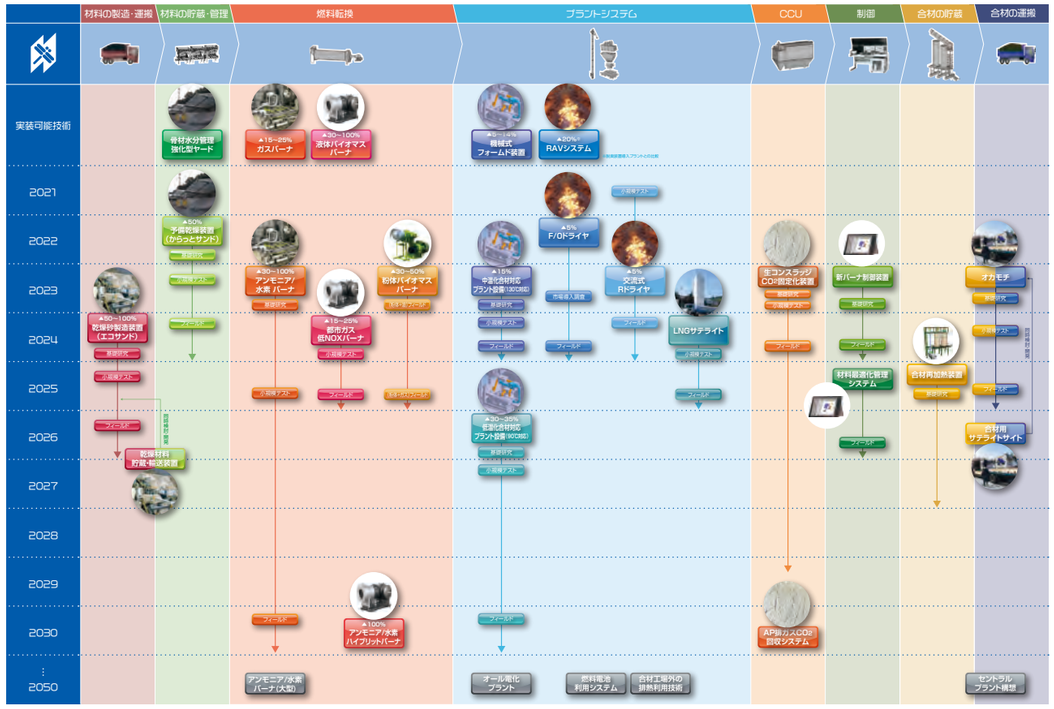
6 Transformation of the mixture delivery system

CO_2 emissions can be reduced by lowering energy consumption by improving production efficiency of mixture through establishment of technology for extending the distance of mixture transport and improving transport efficiency from the plant to the destination.

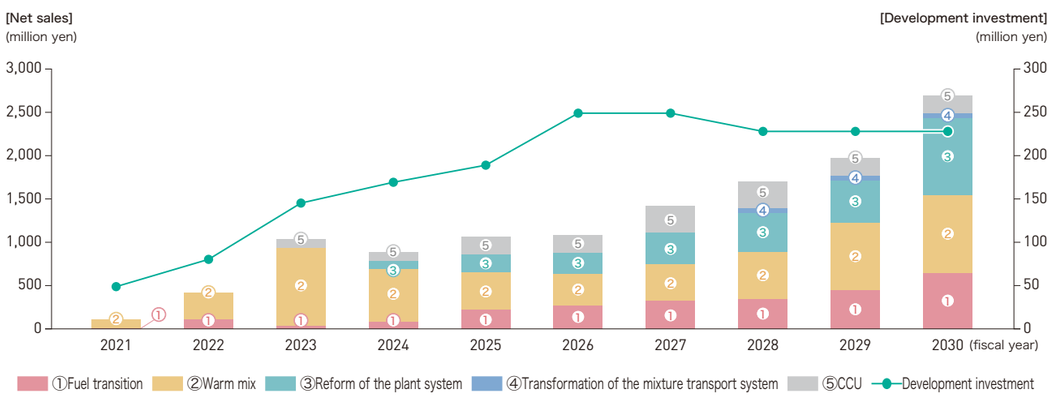
7 Electrification

Assuming that the use of CO_2-free electricity would spread, we are considering development of an all-electric plant to replace fossil fuels by promoting the electrification of drying and heating equipment.

Road map for the development of carbon-neutral AP products



Net sales target of decarbonization and low-carbon products and investment plan (the figures for FY 2021 and 2022 are results)



Risk Management

The Low Carbon Task Force (LCTF) formulates and drafts the carbon neutrality-related plans and promotes company-wide response to climate change.
The Risk Management Committee evaluates and identifies climate change-related impact on the Company and manages the effects. Furthermore, it plays the role of integrating the impact of climate change-related risks into company-wide risks by closely collaborating with the Committee of Inside Executives.
The Committee of Inside Executives discusses the impact of and response to climate change and evaluates them. It also formulates policies, key measures and targets, and action plans for minimizing climate risks. The contents of the discussion at the meetings of the Committee of Inside Executives are reported to the Board of Directors twice a year or more.
The Board of Directors performs the supervisory function, regularly receiving reports on climate change-related action plan and risk evaluation from the Committee of Inside Executives and the Risk Management Committee, and deliberating on those reports.

Metrics and Targets

Nikko Group aims to realize virtually zero CO_2 emissions from its business activities and Nikko products it sells in 2050. It promotes the development of products that contribute to the reduction of CO_2 emissions as well as thorough energy saving activities and proactive utilization of renewable energy. Including these responses, the Group has reduced the verified Scope 1, 2, and 3 CO_2 emissions to 56.8 in FY 2022 when the emissions in FY 2013 are set at 100. (There are discrepancies with previously verified figures, as we changed the conditions for service life for some asphalt plant-related products.)

Verified Scope 1, 2, and 3 CO_2 emissions (t-CO_2)

Category		Target activities	FY 2013	FY 2020	FY 2021	FY 2022
Scope 1 and 2						
1	Combustion of fuels	Emissions from manufacturing, processing, and experimenting	430	305	341	353
2	Use of electricity	Electricity use at all companies including dorms	2,639	2,454	2,354	191
Scope 3						
1	Purchased products and services	Emissions in upstream of the products purchased (including raw materials and office supply)	39,073	48,002	46,876	40,958
2	Capital goods	Emissions in upstream of capital investment that has been recently introduced	2,137	3,946	2,278	2,342
3	Fuel- and energy-related activities not included in Scope 1 and 2	Emissions from mining, refining, etc. of the fuel used for burning and generating electricity in Scope 1 and 2	367	328	321	314
4	Transport, delivery (upstream)	Procurement and transport of raw materials and parts, and shipment of products (costs borne by the company)	26,386	24,670	27,020	28,613
5	Waste from the business	Waste disposal, recycling of goods other than valuables, emissions from transport	115	61	42	41
6	Business trips	Emissions from business trips by employees (rail service and airplane)	84	83	85	91
7	Commuting by employees	Emissions from employees' commute (rail service, bus, ship, automobile, motor bike)	310	304	310	329
11	Use of products sold	Emissions from operating asphalt plants (AP) sold	1,091,313	620,840	718,339	559,136
		Emissions from operating batching plants (BP) sold	33,716	20,586	29,829	28,367
		Emissions from operating conveyors sold	101,819	57,075	46,052	76,581
		Total for Category 11	1,226,848	698,501	794,220	664,084
12	Disposal of products sold	Emissions from disposal of AP, BP, and conveyors sold	93	95	93	74
Total			1,298,482	778,749	873,940	737,390
Vs. FY 2013			100.0%	60.0%	67.3%	56.8%

Utilization of renewable energy-based electricity

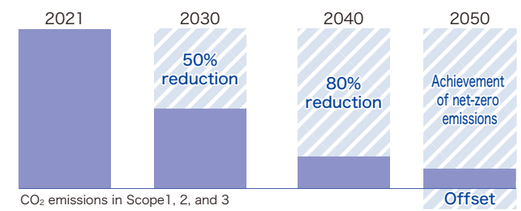
Nikko Co., Ltd. switched all electricity used at its head office factory to electricity generated from renewable energy sources in March 2022. The move significantly reduced the Scope 2 CO_2 emissions from 2,354t-CO_2 in FY 2021 to 191t-CO_2 in FY 2022. Going forward, we will pursue this initiative also at sales offices and group companies throughout Japan.

- **Ratio of introduction of electricity generated from renewable energy sources (green electricity) at Nikko (non-consolidated)**

FY 2021 7.9%　FY 2022 91.8%
RE100 achievement target: FY 2030 at the Nikko Group in Japan

Interim targets (2030) of CO_2 emissions (Scope 1, 2, and 3)

FY 2021 emission results: 2,695t-CO_2 (Scope 1 and 2); 873,940t-CO_2 (Scope 3)
2030 emission targets: 436,970t-CO_2 (Scope 1, 2, and 3; down 50% from FY 2021) 〈Nikko Co., Ltd.〉



Establishment of recycling-oriented society

Since the 1970s, the Nikko Group has been pursuing the development of plants capable of recycling construction and road waste materials for reducing the environmental burden, thus contributing towards improving resource productivity and establishing a recycling-oriented society. We have been proactively implementing various initiatives such as recycling of plaster boards and concrete sludge towards minimizing industrial waste.

1 Recycling of asphalt waste 〈more than 99% is recycled〉

To advance the recycling of asphalt mixture and concrete waste materials, Nikko in the 1970s commercialized asphalt mixture recycling plants and crushing plants that handled resource recycling. Since then, we have been continuously improving the products, and as a result, have been recycling almost all of the asphalt waste generated (more than 99%). Currently, about 75% of the asphalt mixtures used for paving roads are mixtures that use the aggregate recycled from asphalt waste as raw material.

Nikko Group offers plants for recycling asphalt waste and crushing plants.

Flow of recycling pavement waste



2 Recycling of plasterboards

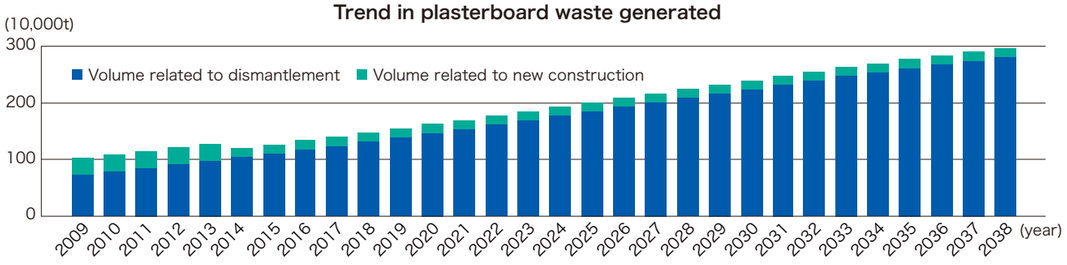
Plasterboards, which are used for walls and ceilings of a building's interior, are composite materials made of plaster molded into a board shape set between two sheets of paper. They have been used widely because they are cheap, easy to install, and superior in fire resistance and sound insulation. However, if they are disposed of directly into soil, their main raw material of calcium sulfate and other organic contents will be decomposed by microorganisms and may generate hydrogen sulfide, a substance harmful to humans. For this reason, plasterboards are required by law to be disposed as industrial waste at a controlled final disposal site.

With housing built during the high economic growth era beginning to be demolished, the plasterboard waste volume is estimated to reach 2 million tons in Japan in 2025, and exceed 3 million tons in 2039*. At the same time, the cost of disposal has been soaring especially in urban areas as there is only limited space available at controlled final disposal sites. *Estimate by Gypsum Board Association of Japan

Nikko developed and introduced a recycling plant that enables recycling of plasterboards as solidification agent used as soil improver at construction sites by applying its proprietary heating, mixing and kneading, and drying and other plant-related technologies. It contributes to a recycle-oriented economy by simultaneously achieving disposal of plasterboards and manufacture of solidifying agent.

See "Development of Manufacturing System for Hemihydrate Gypsum and Type II Anhydrous Gypsum," an academic paper by Nikko engineers, for details. https://www.nikko-net.co.jp/product/pdf/technical-report-2020_06.pdf

Trend in plasterboard waste generated



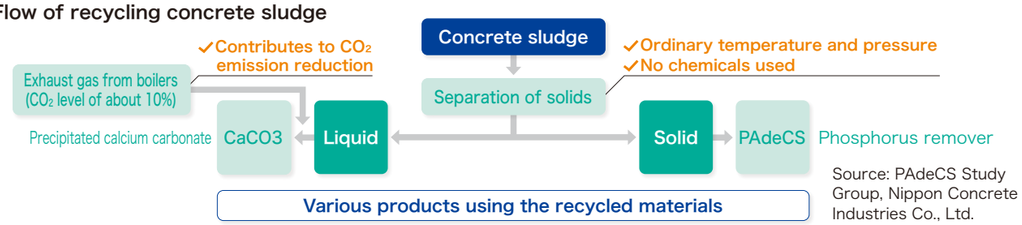
Prepared by Nikko based on the FY2013 Investigative Report for Discussion of Measures to Promote Recycling of Plasterboard Waste by Ministry of the Environment

3 Recycling of cement sludge

Cement sludge comes from residual concrete and returned concrete generated during the manufacture of ready-mixed concrete and secondary concrete products. Cement sludge requires specific processes, such as dewatering and drying, before being disposed of as industrial waste. Japan produces about 3.5 million tons of cement sludge every year, and the disposal cost is 5,000 yen to 10,000 yen per ton.

When cement sludge is separated into liquid and solid, precipitated calcium carbonate (CaCO3) is extracted from the liquid and phosphorus remover (PAdeCS) is extracted from the solid portion. Various products use precipitated calcium carbonate as a raw material: pharmaceuticals, paper, cosmetics, ferrite, condensers, optical glass, coatings, rubber, and plastics. Phosphorus remover is also expected to have many applications: rock phosphate substitute, neutralizer, night soil treatment agent, deodorizer, antiseptic, heavy metal remover, and water-bloom suppressant. Precipitated calcium carbonate absorbs CO_2 in the refining process that could reduce CO_2. Nikko will contribute to technology development for recycling cement sludge and its practical applications by closely working with the ready-mixed concrete, secondary concrete products, and cement industries.

Flow of recycling concrete sludge

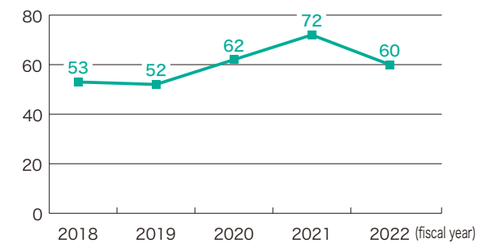


Source: PAdeCS Study Group, Nippon Concrete Industries Co., Ltd.

Early restoration from intensifying disasters

To recover from intensifying natural disasters such as large typhoons, severe rainstorms, and earthquakes, we start with a quick recovery work of the Group's damaged plants. In recent years, it has rained a lot unexpectedly around the country, frequently causing torrential damages. Natural disasters, including large-scale typhoons and frequent occurrence of linear precipitation zone, large earthquakes such as the Nankai Trough and Tokyo Metropolitan near-field earthquakes, and the resultant tsunamis and volcanic eruptions, are anticipated. The disaster risks facing Japan area moving into a new stage. As the top manufacturer of asphalt and concrete plants, Nikko Group focuses on ensuring early recovery from disasters by closely collaborating with customers so as to fulfill its supply responsibility.

Trend in natural disaster damage to Nikko plants



Co-existence with local communities

Our Head Office is located in Akashi City, Hyogo Prefecture—the place our factory was located when the company was established. The Nikko Business Foundation has been offering scholarships that do not require repayment since 1989 to domestic and overseas students enrolled in universities and institutes of technology offering a five-year program specializing in technology/engineering in Hyogo Prefecture and to students from Hyogo Prefecture studying in the Kinki region.

It is also offering research grants to those who are engaged in academic research related to technology development at universities and technology/engineering institutes in the Kinki region. The recipients of these grants are not obligated in any way to join the Nikko Group or to provide the results of their research to the Group. It incorporates the strong feeling of the Nikko Group "to contribute to the development of the local economy and communities by providing assistance for human resource development and technological innovations."

Number of scholarships and grants offered so far (cumulative from FY 1989 to FY 2022)

Number of scholarships awarded: 141
Number of research grants awarded: 197

New scholarships and research grants awarded in FY 2022

Number of scholarships awarded: Two
- Osaka Metropolitan University
- University of Hyogo

Number of research grants awarded: Two
- Kobe City College of Technology (Research theme: development of resistance fusion bonding process of carbon fiber-reinforced thermoplastic using carbon nanotube-added resistive heating element and evaluation of bonding strength)
- University of Hyogo (Research theme: development of plastic that dissolves in ocean)

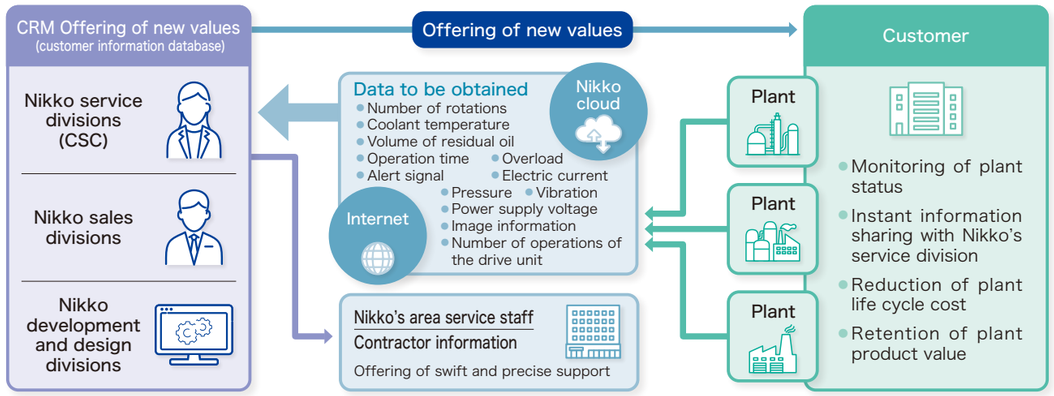
Creation of New Customer Values

Nikko Group offers solid after sales service so that customers can use the products with ease of mind. In addition to the nation-wide service network, we also carry out regular inspections to prevent troubles and provide plant operator training to nurture engineers. However, the analog-type plant maintenance service until now was based on post-incident maintenance where repair was carried out after malfunction and preventive maintenance that relied on the experience and intuition of the service personnel. We are currently working on establishing a next-generation preventive and predictive maintenance that utilizes advance measuring equipment and communication network, in addition to introducing a new service model, aiming to create new customer values. The other pillar of customer value creation is our responses to climate change led by CO_2 emission reduction. Customers of the Nikko Group led by the road pavement industry have been strengthening their initiatives for realization of low-carbon and decarbonized society and the Group supports problem solving at customers through technology and product development as well as offering of solutions towards its realization.

Creation of new values through DX

Stable operation of asphalt and concrete plants is indispensable for improving the productivity of road pavement and construction sites. To this end, it is important to detect the necessity of maintenance service in advance and take required action before the operation status of the plant becomes unstable. In order to resolve such issues, Nikko Group will remotely monitor the plant operation status, catch signs of malfunction based on data analysis, and replace parts and carry out repair in advance.

Next-generation preventive and predictive maintenance



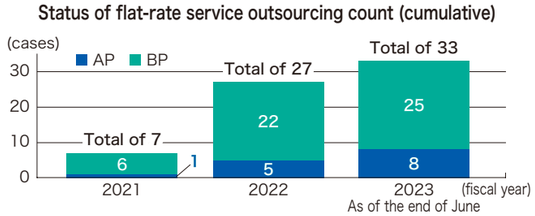
We can propose appropriate advance maintenance by accumulating various operation information, inspection data, and repair and work history of customer plants in the Nikko cloud and visualizing operation status. Taking action after the occurrence of malfunction requires suspension of plant operations, which significantly lowers productivity. In addition to the operation information of the plant, collecting and analyzing facility environment information enables to identify the cause of the problem. We also offer plant failure prediction reports by analyzing the accumulated data, which can be utilized to formulate a maintenance plan over the life cycle of the plant.

Visualizing the operation status allows to collect failure information and identify the location of the fault. It enables to examine the cause without waiting for an engineer to arrive and greatly shortens the time taken for recovery.

Introduction of flat-rate (subscription) service

For introduction of the next-generation predictive maintenance service, we have introduced a flat-rate charge to replace the existing charge system based on each recovery project. We aim to contribute to improved productivity and cost performance at customers by carrying out regular repairs and parts replacement in accordance with the long-term preliminary maintenance plan and by reducing maintenance cost as well as emergency post-incident repairs.

Status of flat-rate service outsourcing count (cumulative)



Nikko brand products contributing to realization of low-carbon and decarbonized society

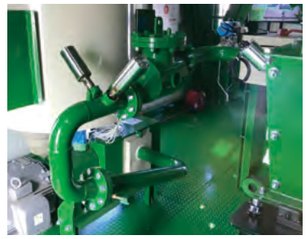
Customers who own asphalt and concrete plants have been driving forward various initiatives for realization of low-carbon and decarbonized society. As the leading brand in plant manufacturing, Nikko Group has been offering various products and solutions to jointly solve the issues faced by customers.

See the following pages for details of value creation in realization of carbon neutrality.
- Technology Roundtable Talk (pp. 43–46)
- TCFD recommendations-compliant disclosure (pp. 58–62)

1 Asphalt warm mix equipment (warm mix [foamed] equipment)

Nikko has developed Blue Cyclone, mechanical warm mix (foamed) equipment required for manufacturing warm mixture, and has been offering it to the road pavement industry, which has been actively incorporating warm mix as part of efforts to reduce CO_2 emissions. The use of the product enables*1 a 6% reduction in CO_2 emissions compared with a conventional plant.

*1 Nikko's calculation for the CO_2 emitted at a mixture plant.



Mechanical warm mix (foamed) equipment Blue Cyclone

2 Fuel transition

Nikko has completed testing a small-sized model of asphalt mixture manufacturing plant using a test burner fired by the next-generation fuel hydrogen instead of heavy oil. Similarly, it has completed the combustion test phase of an ammonia burner and has embarked on the development of a small-sized model. Nikko will continue developing these products to address new fuels aimed at reducing CO_2 emissions by considering the development status of fuel supply infrastructure.



Hydrogen burners (in development)

3 Enhancement of aggregate moisture management

The amount of water contained in aggregate has the biggest impact on CO_2 emissions in manufacture of asphalt mixture. Nikko has been developing a system device that reduces the amount of water in aggregate before the drying process, and it plans to make it available within the current fiscal year.

One Nikko Platform, which realizes new value creation

In the new CRM (customer information database) being built, we are aiming to create new values by developing a system that leverages IoT tools and AI to connect customers and Nikko. We are envisaging a future, where, in case of suspension of operations of a plant, we limit the downtime to the minimum by sending staff from a nearby Nikko Group base, utilize data from CRM in new product development, and enhance customer contacts also in digital space, while managing the life cycle of plants, which are customers' assets, in asset management through next-generation preventive and predictive maintenance.

One Nikko Platform, which connects customers and Nikko



Human Resource Development and Improvement in Job Satisfaction

To realize its vision of “Making the world a resilient and gentle place, ” Nikko has defined the following three types of human resources who would develop new markets, products, and services by leveraging the Company’s high technological prowess.

Human resource that reinvents for the future

Human resource that takes on challenges without fear of failure

Human resource that respects and collaborates with diverse coworkers.

Based on this, we have set forth policies for developing human resources and in-house environment and have been disseminating these policies in and outside the Company.

Human resource development policy

To realize its vision of “Making the world a resilient and gentle place, ” Nikko needs human resources who would develop new markets, products, and services by leveraging the Company’s high technological prowess. In particular, we believe it is an important factor for further growth of employees and realizing the Company’s vision that individual employees independently carry out reforms and take on challenges while respecting and collaborating with diverse coworkers and others outside the company. To this end, we will drive forward initiatives to develop mechanisms to nurture independent human resources, create connections with people inside and outside the company, and support cooperation for new reform and challenges.

Concrete initiatives

- Creation of opportunities for having dialogue with the management team and managerial employees for instilling the vision
- Improvement of training system
- Establishment and instilling of the concept of organization-wide human resource development

In-house environment development policies

As the pre-condition for engaging in human resource development towards realizing Nikko’s vision, we believe that it is important for employees to respect and feel respected by the diverse people in and outside the company, and to develop an environment where employees feel secure and energetically cooperate with each other. For this reason, we have been pursuing initiatives for developing a culture where individual employees respect the values of diverse coworkers and for improving the sense of safety, well-being, and job satisfaction of employees and their family as well as colleagues.

Concrete initiatives

Measures to support development of next generation

- Rehiring of employees who left for childbirth or child rearing and establishment of a rehiring system for them
- Measures to promote utilization of annual paid leave
- Introduction of workstyle that is not dependent on location such as work from home and telecommuting

Promoting active participation of women

- Active promotion towards job applicants, of being a workplace where women can play an active role
- Awareness building to create a workplace culture where men as well as women can contribute to both workplace and family
- Realization of a flexible workstyle such as shortened working hour system, work from home, telecommuting, etc. and consideration of flexible working hour system
- Spreading a strong message regarding the rectification of long working hours from those at the top of the organization
- Personnel evaluation with focus on hourly labor productivity
- Fair evaluation for the use of childcare leave, shortened working hours, etc.
- Proactive operation of the system to shift employees from non-regular positions to regular positions

Indicators and targets

Category	Indicators	Results (FY 2022)	Targets (FY 2030 or indicated)
Human resource development policy	Ratio of female managers	0%	7%
	Time spent on training	8.5 hours per employee (5,086 hours in total)	10 hours per employee
	Cost of training	49,586 yen per employee (29.751 million yen in total)	50,000 yen per employee
In-house environment development policies	Ratio of employees taking childcare leave	100% for female and 33.3% for male	100% for female and 50% for male (FY 2025)
	Ratio of female employees	14.5% *including executives	22.5%
	Attrition rate (new graduates)	One year from joining the company: 3.1% Three years from joining the company: 7.7%	One year from joining the company: 3.0% Three years from joining the company: 7.0%
	Number of occupational accidents	Accidents with lost workdays: 1 Accidents without lost workdays: 7	Accidents with lost workdays: 0 Accidents without lost workdays: 3 or fewer
	Number of death from occupational accidents	0	Zero deaths
	Training on health and work safety	● Central Safety Training ● Central Health Training ● Health classes	Same as left (to be held continuously)

Situation by gender (Nikko Co., Ltd.) (people)

	Male	Female
Career track	535	27
Clerical work	2	42
Contract employees*1	47	19
Master*2	22	0
Senior*3	9	0
Partner employees*4	0	14
Executive Officer	6	0
Total	621	102
Average age	42.8	44.0
Average years of service	17.9	10.7
Average wage (10,000 yen)*5	755	358

*1 Contract employees: rehired employees who are post-seniors or post-masters (non-regular employees) *2 Master: employees rehired after retirement (non-regular employees) *3 Senior: employees who are post-masters with extended employment (non-regular employees) *4 Partner: part-time employees with no fixed term (non-regular employees) *5 Male and female average wage: While there is no wage gap between men and women in the same position, wage gap does occur due to differences in office organization and lengths of service.

Trend of the number of hires (people)

fiscal year	New graduates		People with prior work experience		Total
	Male	Female	Male	Female	
2023 (as of the end of June)	27	5	3	2	37
2022	26	6	19	2	53
2021	26	3	17	5	51
2020	13	0	17	4	34
2019	14	0	3	5	22
2018	19	0	6	1	26

Retention rate three years after joining (%)

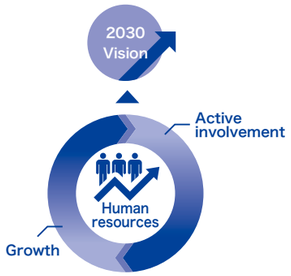
New graduates	92.3
People with prior work experience	81.0

Introduction and operation of a new personnel system

Based on the policies for developing human resources and in-house environment, Nikko in FY 2022 introduced a new personnel system aimed at promoting the growth and success of human resources who support the realization of the vision. We clarified employee treatment reflecting their duties and roles (Nikko Version Job-based Employment) and are operating the system to enable each employee to independently select their career paths.

What we aim to achieve through the system

Promote growth and success of human resources who support realization of 2030 Vision



Basic policies of the system revision

Basic policies

Persuasiveness / Fairness / Motivation

Key points of the revision

1	Adoption of personnel evaluation criteria that reflect characteristics of a job group
2	Clarification of personnel group for each grade
3	Strict implementation of promotion to section chief and above
4	A system where both demotion and pay cut are possible
5	Evaluation from the perspectives of results and process
6	Development of base pay and allowance system that are transparent and rational

Presentation of skill map and support for learning through training program

The new personnel system clarifies skills required of each grade and we actively support each employee to acquire skills suitable for their careers through various training programs.

Skill map for career track and managerial staff

G = grade JG = job grade

Item		G1	G2	G3	G4	JG1	JG2	JG3
Ability to raise concerns				Logical thinking ability			Critical thinking ability	
							Lateral thinking ability	
					Multifaceted perspective			
						Having insight, bird's-eye view		
Interpersonal skills			Communication skills				Ability to negotiate	
				Leadership				
				Listening skills				
					Presentation skills			
Job execution skills	Management strategies	Understanding Nikko's products and services			Formulation of functional strategies	Formulation of business strategies	Formulation of business strategies and resource distribution plan, future insight	
	Marketing			Marketing				
	Accounting, finance				Financial analysis		Business plan, corporate finance	
	People, organization	Business manner, communications		Team management		Organizational management	Corporate culture development, organizational development	
	Operations	Progress management and time management Understanding of laws, regulations, specs regarding job execution Understanding business processing procedure of the department						
			PDCA cycle			Risk management		
			Business improvement				BPR	

SMART goal setting and thorough goal management

In goal setting, we aim to ensure that each and every employee sets goals with SMART in mind to enable fair evaluation.

SMART in goal setting

	Requirements, meaning	Key points
S	Specific (Is it specific?)	The content is clear and easy to understand also for a third party.
M	Measurable (Can it be measured?)	The level of goal achievement has been converted into numbers or quantified
A	Achievable (Is it achievable?)	It describes procedures and steps towards achieving the goal.
R	Related (Is it linked to higher policies?)	It describes goals that are linked to those of the company and department.
T	Time-bound (Is the deadline clear?)	The deadline for achieving the goal is clearly presented and it is adequate.

The manager and the employee communicate through five one-on-one meetings a year regarding the established goal for close follow-up and goal management.

Meeting items	When	Purpose
Goal-setting meeting	April or May	● Set forth goals for the current fiscal year for each employee being evaluated taking into account company-wide and departmental goals.
Interim meeting	September	● The evaluator grasps the progress of the goals set forth at the beginning of the term, and consider measures as needed. ● If a situation that was not foreseen at the beginning of the term occurs and necessitates changes to the contents of the goals, the goals are reset to carry out the procedure for changing goals mid-term.
Fiscal year-end meeting	February	● The evaluator grasps progress towards the goals set forth at the beginning of the fiscal year. ● The evaluator communicates preparation for the evaluation meeting to the employee being evaluated.
Evaluation meeting	April of next fiscal year	● Confirm and evaluate the facts regarding achievement of the goals set at the beginning of the fiscal year and level of execution of the role.
Evaluation feedback meeting	June of next fiscal year	● Provide feedback on the evaluation ranks and basic pay for the next fiscal year after company-wide adjustment.

Allotment of treasury stock with restriction on transfer to employees

Commemorating the 100th anniversary of its foundation, Nikko allotted 100 shares in treasury stock to all employees of Nikko Group (worth 298,000 yen) in September 2019. Subsequently, the Company in 2021 introduced a system for allotting shares in treasury stock with restriction on transfer to its employees with the main aims of improving employee engagement and promoting their awareness as a shareholder for participating in management. Almost all employees have become Nikko shareholders and the Company expects their active contributions from a shareholder perspective to achieve 60.0 billion yen in consolidated net sales and operating margin of 10%, which are Nikko Group's 2030 Vision goals.

Status of allotment of shares in treasury stock with restriction on transfer

Implementation period	September 2019	August 2021	August 2022	August 2023
Target	857 employees (all employees including non-regular employees)	(1) Number of employees who received president's award (individuals, groups) (2) Employees who have achieved 10, 20, and 30 years in service (3) New hires (new graduates and mid-career hires) (4) Hires with prior work experience other than those allotted treasury stock in 2019	(1) Number of employees who received president's award (individuals, groups) (2) Employees who have achieved 10, 20, and 30 years in service (3) New hires (new graduates and mid-career hires) (4) Employees at affiliated companies other than those allotted treasury stock in 2019	(1) Number of employees who received president's award (individuals, groups) (2) Employees who have achieved 10, 20, and 30 years in service (3) New hires (new graduates and mid-career hires) (4) Employees at affiliated companies other than those allotted treasury stock in 2019
Target	857 people	106 people	169 people	140 people
Number of shares awarded (per person)	100 shares	100–1,000 shares	100–1,000 shares	100–1,000 shares
Price at which shares are awarded	2,980 yen	687 yen	649 yen	675 yen
Period of restriction on transfer	3 years	15 months	15 months	15 months

Development of environment ensuring occupational safety and health

Nikko Group is ensuring compliance with safety and health related laws and ordinances and improving its health and safety management level through company-wide training programs such as Central Safety Training and Central Health Training. It is also making sure to implement stress level tests and special health examination for employees with focus on improvement of personal as well as workplace environment. In the manufacturing divisions, which are associated with higher risks of accidents, the Group aims to achieve zero occupational accidents through the enhancement of education and support.

Annual targets

Accidents with lost workdays	0
Accidents without lost workdays	3 or fewer

Ratio of accidents with lost workdays (Nikko Co., Ltd.: FY 2022)

0.0

Trend of occupational accidents

(number of accidents)

		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Nikko Group	Severe accidents	0	1	1	0	0
	Accidents with lost workdays	3	1	1	2	1
	Accidents without lost workdays	5	4	3	10	6 (including 2 accidents during commute)
	Total	8	6	5	12	6
Contractors (Nikko-related local projects)	Severe accidents	0	1	0	2	2
	Accidents with lost workdays	0	2	7	6	4
	Accidents without lost workdays	6	8	6	9	3
	Total	6	11	13	17	9



Naoki Taniguchi
Quality Assurance Office, CEO's Office



Kohka Ning
Service Planning Department, Business Division

Employee Roundtable Talk

For Improvement of Job Satisfaction and Achievement of 2030 Vision



Nanako Kawasaki
Mechanical design department, Technology Division

In February 2022, volunteering employees started Nikko Mirai Project aimed at redefining Nikko's corporate philosophy. Based on the discussions at the project, the mission of Nikko Group was clarified as "Update the social infrastructure by leveraging engineering that is one step ahead of others." Group employees share "Making the world a resilient and gentle place" as the future (vision) the Group wants to realize through the mission. Small meetings of top management and employees also have been held and the new corporate philosophy has been shared and put into practice.
Along with redefinition of the corporate philosophy, Nikko revised the personnel system so that its employees can play active roles and feel their own growth towards achievement of 2030 Vision. Five employees discussed the formulation and instilling of the vision, how they perceive the operation of the new personnel system, their expectations on achievement of 2030 Vision, and the challenges they find in achieving it. (The talk was held in August 2023.)



Kumiko Kagawa
Development Department, Technology Division



Koji Shiozaki
Sustainability Committee Secretariat (Financial Department, Administrative Division)

Vision's and mission's connection with my work

Shiozaki: I am serving as a staff member of the Sustainability Committee Secretariat. I belong to the Fund Section of the Financial Department and am engaged in payment and collection of funds. First of all, please tell us the relationship of the vision and mission with your own work and how you perceive them.

Taniguchi: After stints at AP design and the Corporate Planning Department, I am now working in the Quality Assurance Office where I verify the quality and consider mechanisms for maintaining and improving quality. When I was working at the Corporate Planning Department, I participated in the project to formulate the vision and mission. I believe that the high quality of Nikko products is something that cannot be compromised because our vision "Making the world a resilient and gentle place" is achieved through customers using Nikko products. I would like to make contributions from the aspect of quality assurance as I feel "engineering that is one step ahead of others" means offering Nikko products and services, backed by technological prowess and quality, to customers at a reasonable price.

Kawasaki: I am engaged in the design of BP. Initially when I heard Nikko's vision, I felt the scale was big, but now I consider it as a future we can reach by fulfilling the mission. In design work, I repeat trial and error in pursuit of optimization including time and cost, as I believe that if we can design products addressing the increasingly diverse and sophisticated needs of customers, we will be closer to realizing "engineering that is one step ahead of others."

Kagawa: I analyze and measure machines using analysis equipment at the Development Department. I joined Nikko from a chemicals manufacturer in mid-career recruitment. When the Development Department or other departments find an issue with durability and other properties of a device, my main duty is to analyze the cause and offer tips to solve the issue. I believe it will be "engineering that is one step ahead of others" if the result of the analysis of my team can increase the added values of a product.

Ning: I am supporting customer plants in the Customer Support Center. Safe and secure operation of Nikko plants is indispensable for realization of the vision. I feel that monitoring the operations of AP, BP, and environmental plants right from the time they are shipped and offering complete support to customers is linked to the realization of "Making the world a resilient and gentle place." We also handle inquiries from employees engaged in service in Thailand and other bases in Asia, and I can very much relate to the mission "Update the social infrastructure by leveraging engineering that is one step ahead of others" when considering the local situation.

Expectations on the new personnel system

Shiozaki: In the last fiscal year, Nikko revised the personnel system, which was fully implemented in April 2023. The revised system is aimed at improving the persuasiveness and fairness of the personnel evaluation and raising the motivation of employees. What kind of changes would you like to see in the future? I hope that flexible workstyle will be promoted further and that the evaluation will become more convincing based on the achievement compared with the goal.

Taniguchi: I am hoping that the evaluation will become more convincing because the method of setting goals, which is the base of evaluation, was standardized company wide. I am sure that managers have difficult tasks but I hope goals will be set in such a way so that there are no disparities in the levels between divisions in order to make the evaluation results more convincing.

Kagawa: I am not paying too much attention to personnel evaluation because what is most important to me is that I can enjoy the work I want to do (laughter). I was able to clearly state six goals from the medium- to long-term as well as short-term perspectives considering my growth and ability development, and it became clearer as to what I want to do and what I should do, and by when. I feel it would be easier to evaluate because what I achieved becomes clearer as the time passes. In my previous job also I set goals and had a goal management meeting every six months, so I feel comfortable with this, but I find Nikko's goal setting meticulous.

Kawasaki: The design division also had semi-annual goal setting, but I did not feel that it was closely linked to personnel evaluation. We are now required to set personal goals that are linked to departmental goals, so promoting standardization of products and development of database, which are the issues of the department, are also my personal goals. I have strong motivation to contribute to the achievement of the developmental goals, but I am a little concerned about how much I can do because of the time constraints due to childrearing.

Taniguchi: It would be good if it can remove worries that the time restrictions from childrearing or other reasons may work negatively in evaluation. I also took childcare leave, and the number of male employees taking childcare leave is also increasing. Even after returning to work, the time we can work decreases temporarily because we use shortened working hour system depending on the situation. I think productivity will improve if the recognition spreads that we are evaluated in a fair manner based on the level of achievement compared to the goals and processes rather than the time we worked. The new system includes five one-on-one meetings a year with the manager for close goal management.

This will offer a forum for communication including own requests between manager and subordinate on a regular basis and I hope this will lead to improved employee satisfaction.

Shiozaki: The Administrative Division tends to set goals that attach importance to the policies of the Company at the top, so I feel it is better if the team has an opportunity to discuss the departmental goals for the Fund Section of the Financial Department. I think I understand the issues and goals of the department to a certain extent, but it probably becomes easier to incorporate the team's goals in individual goals if all members discuss the team goals together and share them.

Ning: In customer support, the departmental goals were announced in advance, so I was able to refer to them when setting my own goals. My ultimate goal is to raise customers' satisfaction with swift and meticulous support.

Kawasaki: I have been involved in design for a long period of time, so I also feel like trying something new. While I would like to try the job of chief or section chief, I feel the burden may be heavy while I am engaged in childrearing. I would like to convey my independent idea of career in detail in one-on-one meetings.

Learning opportunity and independent career choice

Shiozaki: The new personnel system presents position-based skill map showing what is required of career track and managerial staff. It is indispensable to improve your skills for achieving growth. What are the training programs and learning opportunities you wish to have? Also, what are your opinions regarding career selection?

Kawasaki: I am in the ninth year with the Company and I did not have many opportunities to interact with employees of other divisions after the new hire training and follow-up training. So, I feel I do not know much about the situation outside of the design division. If you become managerial staff, you will probably have more opportunities for cross-divisional training, but it would be nice if there are opportunities to learn based on the same theme before becoming managerial staff. Personally, I want to exchange opinions with employees in similar positions in other divisions regarding nurturing of young employees, which I am yet to get a grip of.

Taniguchi: The other day, I had a meeting with members of the manufacturing division of Ube Kohki, and I gained insights regarding manufacturing technology as they had an approach different from Nikko. We may come up with some interesting ideas from diverse concepts if there are opportunities to learn technologies and skills of not only Nikko but also Group companies. Also, though there is the issue of language, it would be stimulating if local employees of overseas group companies also can participate.

Nei: It has been four years since I started engaging in customer support, and I am interested in learning skills necessary for providing thorough support. If I am well versed in PLC circuits of plant control panel, machine, and electricity, I can respond to customers more quickly. Currently, the Company is developing a new control panel, so I would like to have an opportunity to gain knowledge regarding the new control panel, machine, and electricity.

Kagawa: I joined the Company with prior job experience so I fully understand that the Company expects me to be work-ready. However, it was my first time to engage in development of construction machinery such as AP and BP, so I was initially perplexed as my knowledge of industry terminology and product specs was limited. It is something that can be solved after some time, but if there are opportunities to participate in lectures on industry knowledge and technical terms, and opportunities for asking questions together with other employees who joined the Company as mid-career hires at around the same time, we would be able to start communications smoothly also with other departments. The number of employees joining in mid-career hiring is also increasing and if they flood original employees with questions, it would affect their work. So, I would appreciate if the Company considers having introductory training for mid-career hires.

Ning: I have been in customer support for about three years now, and I feel great satisfaction when I solve a customer's trouble. As a future career, I hope to gain more specialized knowledge and skills such as control program. Going forward, I will be taking calls from group companies in China and other Asian countries, so I want to gain the knowledge and skills I will need for that. I have not really had opportunities to discuss my career with my superior, so I will do so in the one-on-one meetings.

Taniguchi: I have experience working in different departments of AP such as corporate planning, and quality assurance and I feel my views have widened. There are cases where employees left the Company because their transfer wishes did not come true, so I hope the one-on-one meetings with managers would boost freedom of career selection. Meanwhile, it is not realistic that all employees transfer to departments of their choice. So, it would be good to have a procedure in place for transfer between departments such as open application system or FA system. If you can dedicate yourself to the work you want to do, you will be able to feel your growth, and the job satisfaction also increases.

Kagawa: I want to contribute to the growth of Nikko by training myself as a professional of analysis, so I wish to work in the current department for a long time. In my previous job also I was engaged in analysis, but they closed down that department, and I chose to change jobs rather than transferring within the previous company, and joined Nikko. I would like to hone my career further as a specialist.

For achievement of 2030 Vision

Shiozaki: Your workplaces must be implementing various initiatives toward achievement of 2030 Vision. What support do the individual employees need to execute their daily duties while being clearly aware of achievement of the vision? This is something I felt when I attended a group meeting with the president. Directly talking to the president boosted my motivation. I was able to confirm the direction the Company is heading and clarify the relationship between that and my job. I feel that the sense of unity of Nikko will increase if we have more opportunities to directly talk to the upper management in addition to direct superiors.

Taniguchi: I understand that we are in the internal investment phase towards 2030 Vision. I feel it is necessary to make investment to resolve the issue of jobs becoming dependent on individuals. Especially in manufacturing and design, there are many operations that only certain individuals can handle, which results in a situation where the employees cannot take leave or transfer to another department. If we prepare manuals for operations so that anyone can achieve a certain level of results, it becomes easier for male employees to take childcare leave, and this increases the chance of getting a transfer to a desired department or organization. We are increasing the number of employees for the business expansion phase, so I would like to accelerate the company-wide initiatives.

Kawasaki: As Kagawa also pointed out, it is not clear who would teach what to those who join the company in mid-career hiring when they come to the workplace. It is difficult to address this only through OJT. It is not so often that people well versed in AP or BP join the company even if they join through a system similar to job-based hiring, so it would be good if they are given a certain level of knowledge before assigning them to the sites. The number of veteran employees with lots of experience and engaged in training on site is also declining due to retirement, therefore it would be a good start to prepare introductory manuals for employees with prior job experience.

Ning: In customer support, the number of remote maintenance contracts has been increasing and we can swiftly confirm where the trouble is. However, if there is no remote contract, we can respond only through telephone calls and it takes time to solve the problem because the amount of information regarding the cause of the trouble is limited. I am hoping that the Company would continue investing, as securing experienced operators and enhancing remote support service are indispensable for improving customer satisfaction.

Shiozaki: Thank you all for your valuable opinions today. This roundtable talk was new and very beneficial because my work experience is limited only to the Administrative Division. I will share your opinions today with the Sustainability Committee Secretariat and personnel and general affairs divisions and utilize them in improving employees' job satisfaction.



CORPORATE GOVERNANCE

Creating robust, people-friendly cities around the world.

05

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Initiatives for Achieving 2030 Vision and Improving Corporate Value

At Nikko, we have positioned the 2024 Medium-Term Management Plan as the investment phase for achieving 2030 Vision, aiming for business expansion from FY2025. The three outside directors of the Company discussed how to monitor the initiatives aimed at realizing the 2030 Vision as well as the effectiveness of the Board of Directors (held in August 2023).



Shigeru Sadakari
(Appointed in 2022)
Outside Director
Nomination and Remuneration Committee Member

Rika Saeki
(Appointed in 2021)
Outside Director
Nomination and Remuneration Committee Member

Masafumi Ishii
(Appointed in 2021)
Outside Director

Effectiveness of Board of Directors and quality of discussions

Sadakari: From the current fiscal year, there are three outside directors, and the percentage of outside directors on the Board of Directors is slightly down from 44% last year. Outwardly, it looks as if the Board of Directors' independence has come down, but including the three outside Audit & Supervisory Board members there are six outside officers, who have been able to oversee the management based on their respective experiences and insights. So, I feel there has been no substantial changes to its independence.

Ishii: Some of the Outside Audit & Supervisory Board members have experience in managing manufacturing enterprises, and the percentage of outside officers including them is 46%, close to half, which I think is an adequate level of independence. The six outside officers, more than half of whom have experience in managing organizations including companies, also possess specialized knowledge in ICT, finance, global matters, financial accounting, and legal and risk management. So, there is sufficient diversity. As for quality of discussions, outside officers express their views freely and actively without pandering to the management, and fulfill the function of management supervision in my opinion.



Saeki: Two years have passed since I was appointed as the first female director of Nikko. From this fiscal year I am also a member of the Nomination and Remuneration Committee. There are also meetings for outside officers to exchange opinions with Audit & Supervisory Board members and opportunities for outside officers to exchange information with executive officers who supervise the business divisions. The Company also holds preliminary briefings of the proposals to be presented to the Board of Directors meetings, which is a progress in term of establishing an environment for us to gain information useful for decision-making discussions prior to the Board of Directors meetings. At the time when I was appointed, I used to be given a large volume of materials just before the Board of Directors meetings, which was often difficult to process fully, but now I have a deeper understanding of the issues faced by Nikko, and I am able to proactively suggest a path to solving them from an outside perspective.

Sadakari: Regarding the improvement in the independence of Board of Directors sought by shareholders and investors, from a long-term perspective, I don't think it will be a problem for Nikko if outside directors have a majority. Even now the major part of decision-making discussions is carried out by the president, chairman, CFO, and the outside officers including Audit & Supervisory Board members. Internal directors responsible for the execution of specific businesses have a thorough discussion at the executive officers' meetings in advance, so they sometimes tend to make the same statements at the Board of Directors meetings. I believe that the best decision can be made through discussions from an outside perspective over whether there are any overlooked risks and whether there are any other options, after proposals are refined by the management and presented to the Board of Directors.

Ishii: A simple question from an outside perspective often triggers further discussions. The rising global inflation following Russia's invasion of Ukraine meant that the precedents set under the deflationary economy so far are no longer applicable, and proposing flexible pricing strategies in response to rising raw material and labor costs will not work with a deflationary mindset. There have been many situations where outside perspectives and ideas provide new insights during significant changes. I feel mutual trust has grown as the Company responds to outside officers' questions and views and the management provides appropriate answers.

Saeki: To be honest, right after my appointment, I had the impression that the Company was a male-centered organization as I could not see any female faces. Recently, I have had an opportunity to directly talk with a group of female employees and I was able to listen to various requests from them. I reported the outcome of the meetings at a Board of Directors meeting, and made suggestions regarding work style of female employees and their fair evaluation. The Company has already embarked on promoting flexible workstyles and revising the personnel evaluation system, although this is not an easy task as it requires a change in the prevailing mindset. Active participation of women is indispensable for revitalization and growth of the organization and I am looking forward to definitive actions on this high priority theme. I would also like Nikko to actively promote hiring of foreigners, but providing support to their families is imperative for them to play an active role. It is also necessary to raise understanding regarding LGBT community and be considerate of religions, so I would like to strive to foster a corporate culture that embraces diversity and inclusion.

Ishii: It may take some time before we see natural born female managers, but the ratio of newly hired female graduates and female mid-career hires has increased, and the Company also has built an impressive dormitory for female employees. The Company will also need to hire talented international students from countries such as Thailand, Indonesia, and Vietnam in order to accelerate the expansion into Southeast Asia. I would like Nikko to consider increasing personnel exchanges with overseas bases in order to develop a workplace where diverse employees can demonstrate their abilities to the fullest.

Sadakari: Ensuring diversity is indispensable for sustainable improvement of corporate value. So, it will be good to increase cross-border learning opportunities including interactions with a different culture also for Japanese employees. While classroom-based programs such as language training have been put in place, you learn more things through actual experiences and therefore it is necessary to firmly nurture the soil for fostering global human resources through actual practice at overseas bases. With the source of growth shifting to overseas markets, I am looking forward to that as a pillar of the human resources strategy. As for the quality of discussions at the Board of Directors meetings, we set aside time for continuous deliberations to repeatedly report on important management issues, and also discuss new measures. The Board of Directors continuously deliberates on the important issues and risks disclosed in the notice of convocation of the general meeting of shareholders and securities report to ensure awareness of the issues.

Ishii: Accurately understanding the progress in important management issues is indispensable for overseeing management. Since initiatives for eliminating occupational accidents and the progress of DX are taken up as subjects for continuous deliberations with detailed progress reports, outside officers also have a grasp of the overall picture, and this leads to deep discussions on measures necessary for the next stage. Saeki: The progress of DX is followed up in detail as a subject for continuous deliberations so that it can be discussed thoroughly at the Board of Directors meetings. We cannot have individual discussions regarding Nikko's DX without understanding the actual situation, even if we can offer general opinions. The information gap between the inside and outside directors is reduced through preliminary briefing of agenda items and initiatives on subjects for continuous deliberations.

Sadakari: From the current fiscal year, Nikko has started regular interaction of executive officers supervising business divisions with outside officers as part of efforts to reduce the asymmetry in information between management and outside officers. This is an attempt to confirm the progress of concrete initiatives and receive suggestions and advices from outside officers in order to achieve the 2030 Vision and the 2024 Medium-Term Management Plan goals. I hope it will be implemented in a way that is beneficial to both sides in order to achieve the medium- to long-term management goals.

Ishii: I would like to thoroughly understand its processes as well as the reports of its results so as to be able to discuss the progress of the medium- to long-term management goals. I can now listen to the people who are in charge of executing measures that are successful or are facing new challenges, so I believe I am now able to express opinions that are more to the point. In February this year, the six outside officers visited the production site in Thailand with the aim of understanding the situation at overseas subsidiaries as accurately as possible for future discussions of strategies. Achieving profits at the Thai subsidiary, which is at the core of the ASEAN business strategy, is an important task that we cannot afford to overlook for achieving the long-term targets. We interviewed local Thai staff there to grasp the actual situation. The subsidiary employs many foreign workers including Cambodians, and we have understood that the impact of the COVID-19 pandemic, which restricted the flow of people, was greater than imagined.

Sadakari: The way public works are carried out there is different from that in Japan, and we had been told that simply following the Japanese way of doing things will not work well. Hearing directly from local staff enabled us to deepen our understanding of the business environment. Labor market is also different from Japan, so it is necessary to aim for early profitability by raising the competency of human resources management.

Saeki: As a new initiative that began in the current fiscal year, there is a forum for outside officers to exchange opinions. The full-time Audit & Supervisory Board member also attends as an observer, and the seven people responsible for audit and supervision of management will now be holding regular discussions. As for the sharing of information and issues, in addition to the meetings between the president and outside officers that are held for some time, steady progress is being made in developing an environment that serves as a monitoring board such as meetings between outside and executive officers and preliminary briefings of agenda items.

Ishii: Personally, the details I hear in meetings with the Audit & Supervisory Board members are really helpful. I am now able to confirm minute details on individual issues being faced.



Role of the Nomination and Remuneration Committee

Sadakari: Two years have passed since the establishment of the optional Nomination and Remuneration Committee, and I think it is now in the development phase. The achievements so far are that the Company has started discussions on what the design of officers' remuneration system should be, and that there is a mechanism in place now for committee members to express their opinions freely on the appointment of executive officers or directors in response to proposals from President Tsuji, the chairperson of the committee. Issues are that sufficient discussions are yet to be held regarding how to align corporate value improvement with performance-based remuneration and that there are fewer opportunities for committee members to interact with manager-level employees who are candidates for executive officers.

Saeki: It has not been long since I became a committee member, but I would surely like Nikko to increase opportunities to have contact with executive officer candidates. Regarding nomination of the next CEO also, I feel there is a need to deepen the discussions bit by bit as to what method is the best for Nikko to raise its corporate value in a sustainable manner.

Sadakari: At present, the main evaluation indicator for officers' remuneration is the consolidated operating income. I feel there is a tendency now to emphasize quantitative evaluation including single-year sales performance of not only officers but also employees. I think it would be good to consider steady initiatives towards GX and DX from the medium- to long-term perspectives and the efforts to improve employee engagement and other such measures as axes of evaluation. Financial performance for a single year does have the advantage of being easy to understand as an evaluation indicator, but personally I would like to make changes so that we can evaluate the steady planting of seeds for the future and progress of structural reforms. The outside members of the Nomination and Remuneration Committee also have changed and I would like to carry out deliberations with responsibility and awareness so that I will be able to say with confidence that "These are the findings of the committee" regarding remuneration and nomination.

Monitoring towards achieving Vision 2030 goals



Saeki: Progress of DX is also a topic for continuous deliberations and therefore I monitor it closely. As a result of Nikko having adopted separate IT tools for each division, there was a delay in information sharing between divisions using differing tools. In order to improve that situation, the Company is building an IT platform called One Nikko Platform that can be used in common globally. It allows information to be shared across the entire value chain of Nikko Group, streamlining operations and increasing the speed of customer service. I also have expectations regarding reduction of overtime and promotion of flexible workstyles, and these are imperative for achieving the 2030 Vision.

Ishii: In overseas business, I am paying attention in particular to the implementation status of the ASEAN strategy centered on Thailand. I am also looking at the Company's forays into Vietnam, where the population exceeds 100 million, and Indonesia, which has a large market, by leveraging the production base in Thailand. While trying to make the Thai subsidiary profitable quickly, it is also necessary to continuously invest in the surrounding countries. The key to ensure success, of course, is human resource development. In addition to language skill acquisition by Japanese employees, I would like to see Nikko establish a nurturing program in a systematic way including hands-on training at the overseas site. Focus should be on hiring and education as active participation of foreign employees is also indispensable. I expect the Thai business model to have established itself with prospects of entering into Indonesia by the final fiscal year of the 2030 Vision.

Sadakari: I am also paying attention to the efficiency of the domestic business and return on invested capital in terms of monitoring the progress of 2024 medium-term plan and 2030 Vision. I would like to see Nikko break out of the situation where it cannot become the price leader in Japan although we face limited competitors and hold a 70% share of the market. Though the Company is implementing measures such as standardization of plants, the problem is that it is not receiving adequate compensation for meeting the customization demands. Strengthening the profitability of the domestic business is essential also for continuing the investments in the growing Asian markets. Towards achieving the ROE target of 8%, people will become more conscious of capital productivity in the operation process if invested capital and capital efficiency are managed by individual business divisions.

Saeki: Human resources strategy linked to management strategy will become important for achieving the targets of 2030 Vision. In the past two years, Nikko has improved personnel system and leave management system, and I recognize that it is making some progress, but there is still significant room for improvement. It is especially necessary to change the workstyle, including for male employees, by establishing a flexible and employee-friendly work environment where female employees, who could be temporarily restricted due to life events, will be able to demonstrate their abilities fully. Active participation of senior employees is also indispensable and therefore I would like Nikko to focus on health management so that employees can work long and healthy. I would like the Company to work on improving health literacy of managerial staff and employees. When you think of expansion into Asia, strengthening hiring of foreign employees also should be given importance from the perspective of human resource strategy.

Sadakari: Contributions to carbon neutrality is an important challenge in Nikko's sustainability strategy, and therefore it is necessary to steadily lay the groundwork including technological innovations. I look forward to Nikko making major contribution towards solving the issues in the environmental field given its position as a pioneer of the resource recycling economic model in recycling asphalt and concrete waste. If the Company can communicate its cutting-edge initiatives in carbon neutrality and resource recycling more to the stakeholders, it would generate more interest in Nikko. Active public relations activities have helped in increasing exposure in local media, and the Company's presence in the local community has grown. I would like to see the circle of communication expand from Hyogo prefecture to the Kinki region and further to the entire nation.

Ishii: Conducting business in emerging nations is accompanied by unforeseen risks such as political uncertainties and supply chain confusions. It is important to prepare countermeasures in advance assuming all kinds of situations. Currently Nikko has two business bases: Shanghai in China and Thailand. Extending these points into lines, and then to expand them to a wider area will, in my opinion, help in dispersing the risks.

Saeki: The Company will have to further bolster the service division if it is to increase profitability. In addition to offering the next-generation preventive and predictive service based on DX at a fixed rate, raising customer satisfaction through close collaboration of sales and service using the One Nikko Platform is also indispensable for boosting profitability. If remote operation of plants in Asia can be carried out from Japan, it could lead to improvements in customer convenience while also reducing operation risks. I believe Nikko's risks and opportunities lie in DX, GX, and overseas markets, and therefore I would like to contribute towards achieving the goals of the 2030 Vision by controlling the risks and supporting the acquisition of business opportunities.

Basic approach

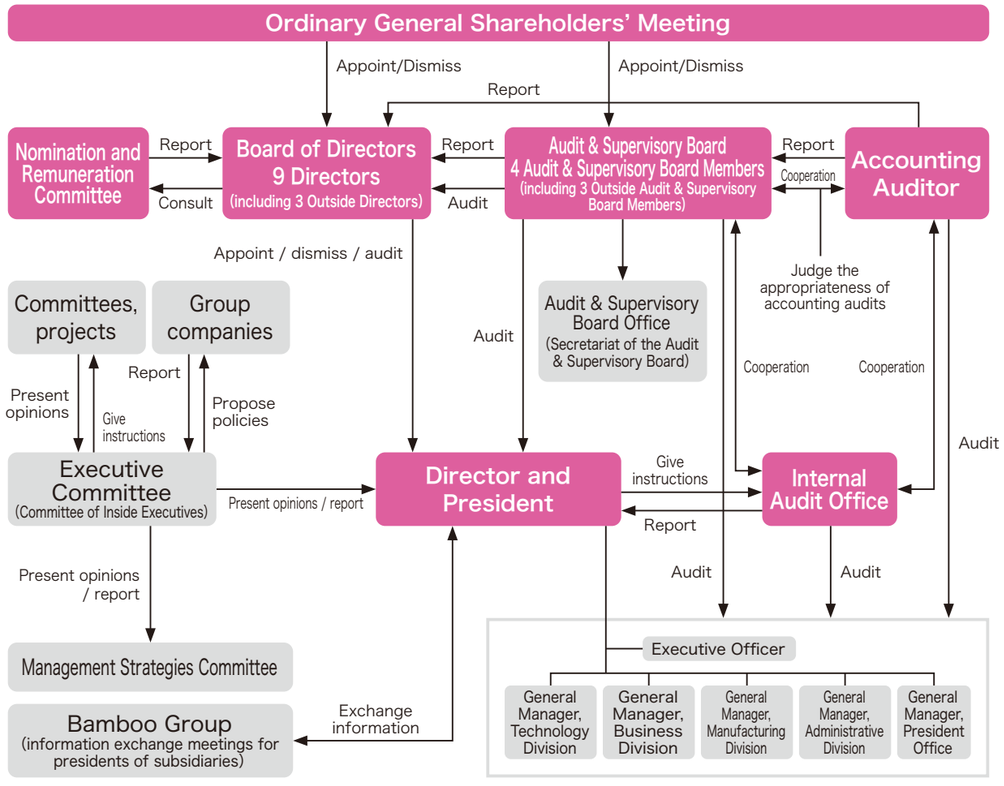
Nikko positions corporate governance as "the management governance function for maximizing corporate value for our shareholders and other stakeholders." Under the Executive Officer system built upon the Board of Directors and the Audit & Supervisory Board, we endeavor to clarify management accountability, speed up business execution, increase the transparency of management decision-making, and strengthen compliance in order to ensure sound business management.

Reason for adopting a corporate structure with the Audit & Supervisory Board structure

The Company's decisions based on the on-site situation are made in an appropriate manner by human resources who understand and are capable of putting into practice the Nikko Group's Management Philosophy. We have set the term of directors and executive officers as one year to clarify management responsibilities while striving to separate the execution and supervision of duties. Further, Nikko appoints three outside directors as independent officers to enhance corporate governance. The three Outside Audit & Supervisory Board members are respectively a person with management experience, a certified public accountant, and a lawyer and are well-versed in the contents of Nikko's business. They closely cooperate with the outside directors, full-time Audit & Supervisory members, and Internal Audit Division to provide appropriate advices and thus ensure the objectivity and neutrality of management and supervision functions.

Governance structure

Nikko is a company with the Audit & Supervisory Board. To smoothly execute business, we have a committee of internal executives and other various committees as consultative organs for the President. A full-time Audit & Supervisory Board member and relevant staff members of Internal Audit Office attend the meetings of these committees.



Roles and composition of supervisory bodies

Organization	Board of Directors	Audit & Supervisory Board	Nomination and Remuneration Committee
Composition	Chair ● 6 inside members + 3 outside members ● Representative Director and President is the chair	Chair ● 1 inside members + 3 outside members ● Internal, full-time Audit & Supervisory Board Member is the chair	Head ● 1 inside members + 2 outside members ● Representative Director and President is the head
Purpose and authority	● Resolution of matters including determination of the basic management policies ● Supervision of the execution of duties by Executive Officers, etc.	● Supervision of the duties of Directors and Executive Officers ● Preparation of audit reports ● Determination of the agenda details regarding the appointment and dismissal of an accounting auditor	● Deliberation of agenda details regarding appointment and dismissal of Directors to be submitted to Ordinary General Shareholders' Meeting ● Formulation of successor nurturing plan ● Deliberation of policies regarding remuneration, etc. of Directors and Executive Officers ● Deliberation of policies regarding performance evaluation of Directors and Executive Officers
Ratio of independent outside officers	33%	75%	67%
Number of meetings in FY 2022	13	15	3
Office	Corporate Planning Department	Audit & Supervisory Board Office	Corporate Planning Department

Inside directors　Independent outside officers

Main decision-making bodies

〈Meeting bodies on the monitoring side〉

- **Board of Directors** 9 Directors (including 3 Outside Directors) + 4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members)
  Chair: Masaru Tsuji (Representative Director and President)
- **Audit & Supervisory Board** 4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members)
  Chair: Nobutaka Yasuda (Full-time Audit & Supervisory Board Member)
- **Nomination and Remuneration Committee** 3 Directors (including 2 Outside Directors) + 1 Full-time Audit & Supervisory Board Member (observer)
  Head: Masaru Tsuji (Representative Director and President)
- **President and Outside Officers Meeting** (1 Inside Director + 6 Outside Officers) + 1 Full-time Audit & Supervisory Board Member (observer)
  Chair: Masaru Tsuji (Representative Director and President)

〈Meeting bodies on business executive side〉

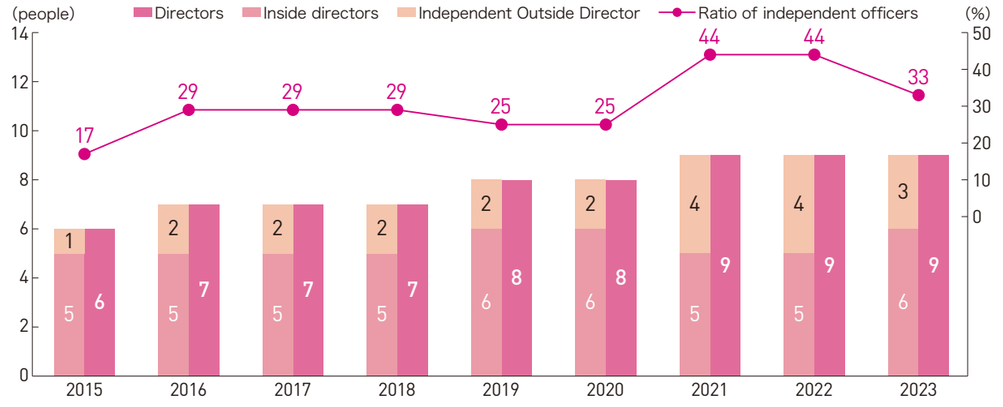
- **Committee of Inside Executives** 6 Inside Directors + 1 Full-time Audit & Supervisory Board Member + 4 Executive Officers + Internal Audit Office
  Chair: Masaru Tsuji (Representative Director and President)
- **Management Strategies Committee** Internal directors involved in strategic themes + Executive Officers + Divisional General Managers
  Chair: Masaru Tsuji (Representative Director and President)

- **Compliance and Risk Management Committee**
  Head : Hiroshi Fujii
- **Sustainability Committee**
  Head : Koichi Kawakami
- **M&A Examination Committee**
  Head : Hiroshi Fujii
- **Finance Committee**
  Head : Hiroshi Fujii
- **Development Technology Committee**
  Head : Katsuhiro Kawamura
- **Safety and Health Committee**
  Head : Koichi Kawakami
- **Personnel Evaluation Committee**
  Head : Hiroshi Fujii
- **Reward and Punishment Committee**
  Head : Hiroshi Fujii
- **Personnel System Committee**
  Head : Hiroshi Fujii
- **Improvement Activity Committee**
  Head : Kazuhiro Yamada
- **Tombo-kai Vitalization Committee**
  Head : Morie Okaaki
- **Product Commercialization Committee of each business**
  Head : General Manager of each business division
- **Bamboo Group (information exchange meetings for presidents of subsidiaries)**
  Chair: Masaru Tsuji

History of ensuring management transparency and strengthening of governance

2000	Carried out reform of the Board of Directors, introduced the executive officer system
2004	Increased the number of outside Audit & Supervisory Board members from two to three
2006	Established the Internal Audit Office and developed internal control system Established the Compliance and Risk Management Committee
2007	Shortened the term of directors from two years to one year
2015	Appointed an outside director
2016	Increased the number of outside directors to two
2017	Carried out the effectiveness evaluation of the Board of Directors
2018	Introduced the performance-linked bonus and stock compensation (shares with restriction on transfer) system
2021	Increased the number of outside directors to four including a female director (three outside directors including female director in 2023) Established the Nomination and Remuneration Committee (optional)
2023	Established the Sustainability Committee

Trend in ratio of independent outside directors at Board of Directors



Main deliberation items at the Board of Directors Meeting in FY 2022

In FY 2022, Nikko formulated a new three-year Medium-Term Management Plan towards achievement of 2030 Vision. The meeting repeatedly discussed expansion of the overseas (ASEAN) business, the first pillar of the Company's growth strategies, from various aspects, while outside officers carried out visiting audit of local sites. The Board also deliberated intensively and received reports on the following matters.

- Examining strengthening of human capital
- Deliberation and review of M&As
- Revision of internal rules regarding remuneration and bonuses for officers and executive officers
- Revision of whistleblowing rules
- Internal control evaluation policies
- Self-evaluation questionnaire survey regarding effectiveness of the Board of Directors
- Review of strategically-held shares
- Status of reports based on the whistleblowing rules
- Concrete measures for promoting active participation of female employees
- Supervision regarding initiatives for safe work

Members of Board of Directors Meeting (as of July 2023)

Director candidate number	Name	Title	Attendance (Board of Directors Meeting in FY 2022)	Appointed in	Number of Nikko shares held	Main expertise and experience: Independence (outside officers alone)	Insight and experience(*1) expected: Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT(*2)	Technical experience	Administrative experience	Delegation of authority of chair and head
1	Takahisa Nishikawa	Director and Chairman	11/13	June 2008	120,200 shares		●	●			●			●		
2	**Masaru Tsuji**	Representative Director and President	13/13	June 2008	108,900 shares		●	●				●	●	●		Chair of Board of Directors Head of Nomination and Remuneration Committee
3	**Hiroshi Fujii**	Director and Vice President	13/13	June 2011	66,400 shares		●		●	●	●					
4	Tomomi Nakayama	Managing Director (General Manager of Sales Division)	12/13	June 2019	42,800 shares		●	●				●		●		
5	**Takeshi Sone**	Director (newly appointed)	(Not applicable)	June 2023	8,400 shares		●	●				●		●		
6	Koichi Kawakami	Director (newly appointed)	(Not applicable)	June 2023	3,700 shares		●	●			●	●	●			
(Outside/Independent) 7	**Masafumi Ishii**	Director	13/13	June 2021	2,500 shares	●				●	●				●	
(Outside/Independent) 8	**Rika Saeki**	Director	13/13	June 2021	None	●	●						●			Nomination and Remuneration Committee member
(Outside/Independent) 9	**Shigeru Sadakari**	Director	10/10	June 2022	2,500 shares	●	●		●	●						Nomination and Remuneration Committee member

Members of Audit & Supervisory Board (as of July 2023)

Audit & Supervisory Board Member candidate number	Name	Title	Attendance (Upper row: Audit & Supervisory Board Meeting in FY 2022) (Lower row: Board of Directors Meeting in FY 2022)	Appointed in	Number of Nikko shares held	Independence (outside officers alone)	Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT(*2)	Technical experience	Administrative experience	Delegation of authority of chair and head
–	Nobutaka Yasuda	Full-time Audit & Supervisory Board Member	13/13 15/15	June 2016	45,800 shares		●	●				●				Chair of Audit & Supervisory Board
(Outside/Independent) 1	**Naoki Ota**	Audit & Supervisory Board Member	13/13 15/15	June 2019	300 shares	●	●				●					
(Outside/Independent) 2	**Tsuyoshi Fukui**	Audit & Supervisory Board Member	13/13 15/15	June 2019	300 shares	●			●							
(Outside/Independent) 3	**Koji Yoneda**	Audit & Supervisory Board Member	13/13 15/15	June 2022	300 shares	●				●						

*1 The above list does not indicate all insights and experiences the officers possess.
*2 ICT in the above list stands for information and communication technology.

Reasons for appointment and expected roles of Outside Officers

Outside officer	Name	Appointed in	Date of birth	Career background	Reasons for appointment and expected roles
Independent Outside Director	Masafumi Ishii	June 2021	November 3, 1957	Diplomatic official	Ishii possesses extensive insight into international affairs, nurtured through his rich international experience including long service in various key positions at the Ministry of Foreign Affairs, as well as knowledge of the Asian region where Nikko aims to expand in the future. He is expected to provide diverse and broad range of advice and contribute to realization of sustainable growth in corporate value of Nikko.
Independent Outside Director	Rika Saeki	June 2021	February 27, 1961	Corporate management	Saeki will reflect her abundant knowledge and experience, nurtured through founding of a business company and her ongoing engagement in corporate management as a business manager, in Nikko's management. The Company believes that Saeki's knowledge of ICT, which is her main field of business, as well as the opinions from diverse perspectives she brings in are necessary for the company's future development, and expects her to supervise and advise Nikko on its business execution. As a Nomination and Remuneration Committee member of the Company, she is engaged in the selection of officer candidates and decision on the remunerations among other matters from an objective and neutral standpoint.
Independent Outside Director	Shigeru Sadakari	June 2022	September 22, 1957	Corporate management	Sadakari will reflect his abundant experience and broad knowledge, nurtured through his long engagement in corporate management at financial institutions and business companies, in Nikko's management. The Company also believes that incorporating diverse opinions regarding capital policies and financial accounting is important for its future development, and expects him to supervise and advise Nikko on its business execution. As a Nomination and Remuneration Committee member of Nikko, he is engaged in the selection of officer candidates and decision on the remunerations among other matters from an objective and neutral standpoint.
Independent Outside Audit & Supervisory Board Member	Naoki Ota	June 2019	March 1, 1955	Corporate management	Ota will audit and provide instructions regarding the soundness and transparency of management execution from an objective and neutral standpoint, leveraging his abundant experience in overall corporate management and broad knowledge gained in his long engagement in corporate management at a business company.
Independent Outside Audit & Supervisory Board Member	Tsuyoshi Fukui	June 2019	July 24, 1965	Certified Public Accountant of Japan	Fukui will audit and provide instructions regarding the soundness and transparency of management execution from an objective and neutral standpoint, leveraging his professional position as a Certified Public Accountant. Fukui has been demonstrating high performance from a specialist perspective as a Certified Public Accountant and also has deep insight in management, and he is expected to appropriately execute his duty as an Outside Audit & Supervisory Board Member.
Independent Outside Audit & Supervisory Board Member	Koji Yoneda	June 2022	February 17, 1957	Attorney	Yoneda will audit and provide instructions regarding the soundness and transparency of management execution from an objective and neutral standpoint, leveraging his professional position as an attorney. Yoneda has been demonstrating high performance from a specialist perspective as an attorney and also has deep insight in management, and he is expected to appropriately execute his duty as an Outside Audit & Supervisory Board Member.

Activities of Nomination and Remuneration Committee

From the perspective of enhancing corporate governance by raising the fairness and objectivity of the functions of the directors, the Nomination and Remuneration Committee deliberates the nomination, remuneration, nurturing of candidates, and other matters regarding directors and executive officers, which is then decided through a resolution by the Board of Directors. In FY 2022, the Nomination and Remuneration Committee held three meetings.

Head	Position	Name	Attendance and attendance ratio of the Nomination and Remuneration Committee Meeting(number of meetings attended)
●	Director and President	Masaru Tsuji	100%(3/3)
	Outside Director	Noriaki Nagahara (retired in June 2022)	100%(1/1)
	Outside Director	Tsutomu Yuasa (retired in June 2023)	100%(3/3)
	Outside Director	Shigeru Sadakari	100%(2/2)

Main deliberation matters in FY 2022

- Personnel affairs of directors, executive officers, and advisors
- Bonuses for officers
- Candidates for officers for the next fiscal year, successors
- Nomination and Remuneration Committee member candidates
- Remuneration for officers
- Treatment of officers after retirement

Basic policy regarding determination of director's remuneration

●Basic policy

Nikko set out a basic policy to develop a system of remuneration of its directors that adequately functions as an incentive to sustainably improve corporate value while paying attention to the interests of shareholders, and to decide remuneration of each director at an appropriate level based on their duties in accordance with the Internal Regulations on Remuneration and Bonuses of Executives set by the Board of Directors. Specifically, remuneration of executive directors comprises basic compensation as fixed compensation, performance-linked compensation, and stock compensation. To outside directors whose main function is supervision, basic compensation, performance-linked compensation, etc. are paid.
From April 2021, Nikko established the optional Nomination and Remuneration Committee, and remuneration is revised as necessary based on reports from the committee.

Basic remuneration system for executive directors

Composition ratio of remuneration types for executive directors is set at 7 : 2 : 1 for basic compensation, performance-linked compensation, and non-monetary compensation. Performance-linked compensation is the bonus for officers, while shares with restriction on transfer form the non-monetary compensation. The Nomination and Remuneration Committee will discuss the basic remuneration system and deliberate and review appropriate ratios.

Breakdown of director's remuneration

① Basic compensation 70% + ② Performance-linked compensation 20% + ③ Stock compensation (shares with restriction on transfer) 10%

(Standard case)

Main evaluation indicators ● Consolidated operating income ● Level of achievement of the management plan

〈Performance-linked compensation〉

To raise awareness regarding growth and performance improvement of the overall group for each fiscal year, performance-linked compensation is determined based on the consolidated operating income, which is considered as the basic performance indicator, and taking into account the non-consolidated performance of Nikko, dividends to shareholders, and bonuses to employees. It is provided as bonuses for officers.
From April 2021, Nikko established the Nomination and Remuneration Committee, and remuneration is revised as necessary by the Board of Directors based on reports from the committee.

Performance evaluation indicators and inter-relation

Bonuses for officers consists of performance evaluation and contribution evaluation. In performance evaluation, the bonus amount for each officer rank is decided based on the achievement of 2.5 billion yen in consolidated operating income and 2% is added to or subtracted from the amount for each 0.1 billion increase or decrease. In the contribution evaluation with respect to the management plan, the committee adds to or subtracts up to 20% from the evaluations of individual officers. The results of both performance and contribution evaluation are then finalized at a Board of Directors Meeting. In the case of large amount of extraordinary gain or loss also, the committee deliberates it and the Board of Directors makes the decision.

Total remunerations by officer rank (results for FY 2022)

Officer ranks	Total amount of remuneration (million yen)	Total amount of all types of remuneration (million yen)			Number of officers
		Fixed compensation	Performance-linked compensation	Non-monetary compensation	
Directors (excluding outside directors)	148	113	22	12	5
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board members)	23	18	3	1	1
Outside officers	46	43	3	–	9

Note: Performance-linked compensation is the bonus for officers, while shares with restriction on transfer form the non-monetary compensation.

Initiatives for improving the effectiveness of Board of Directors

As initiatives for improving the effectiveness of Board of Directors, Nikko has been evaluating the effectiveness of the Board of Directors every year since FY 2017.

〈Evaluation method〉

Method for effectiveness evaluation

- Anonymous questionnaire survey of all directors and Audit & Supervisory Board members (12 in total)
- The survey consists of 48 questions over seven items and a free description section.
- Multiple choice questions are scored across four levels (anonymous)

1. Overall evaluation of the Board of Directors ··· nine questions
2. Composition of the Board of Directors ····· five questions
3. Operation of the Board of Directors ····· eight questions
4. Agenda items of and discussions at the Board of Directors Meetings ····· eight questions
5. Provision of information and training ····· eight questions
6. Utilization of the internet ····· seven questions
7. Matters for continued deliberation ····· three questions
8. Free description

Evaluation results

The evaluation following the above process found that there were no problems regarding the current corporate governance structure and operation of the Board of Directors of Nikko, that they were functioning appropriately, and the effectiveness of the Board of Directors is ensured. The directors of the current fiscal year will work on improving newly recognized issues.

Issues identified in the survey of the effectiveness of Board of Directors in FY 2022 and initiatives for improvement

	Issues identified in Board of Directors in FY 2022	Initiatives in 2023
Issue 1	Provision of information regarding executive officers' execution of duties to outside officers (status of the initiatives regarding the Medium-Term Management Plan, understanding of and status of responses regarding the business environment, etc.)	●Meetings between outside officers (directors and Audit & Supervisory Board members) and executive officers on a regular basis from FY 2023 (every quarter)
Issue 2	Provision of information regarding the status of subsidiaries and affiliates outside Japan (overseas affiliated companies) to outside directors	●Outside officers carried out visiting audit of a Thai subsidiary in February 2023 ●They plan to carry out visiting audit of the Chinese subsidiary (and its local affiliated companies) as soon as the situation normalizes in China
Issue 3	Setting up a forum for exchange of opinions among outside officers	●Started holding meetings with only outside officers (directors and Audit & Supervisory Board members) on a regular basis from FY2023 (semiannual)
Issue 4	Provision of materials to the Board of Directors Meetings	●Promotion of digitization

Functions and roles of the Audit & Supervisory Board

The Audit & Supervisory Board consists of one full-time Audit & Supervisory Board member and three part-time members, and three of them are outside members. The Audit & Supervisory Board Meeting is usually held monthly prior to the Board of Directors meeting, and also held as necessary. It was held a total of 15 times in FY 2022, and the time spent per meeting was about 1.5 hours. The following resolutions, discussions, deliberations, and reports were made at the meetings through the course of the year.

Resolutions	Audit & Supervisory Board audit policy, audit plan, segregation of duties, budget; selection of full-time Audit & Supervisory Board member; audit report by Audit & Supervisory Board; re-appointment of accounting auditor; and consent for the audit fees of accounting auditor
Discussions	Remuneration for Audit & Supervisory Board members
Deliberation	Audit & Supervisory Board audit policy draft, audit plan draft, draft for segregation of duties, budget draft, and Audit & Supervisory Board audit report draft; decision on the contents of the agenda item regarding appointment, dismissal, and non-reappointment of accounting auditor; audit plan and audit report of accounting auditor
Report	Monthly activity report by Audit & Supervisory Board members, report on cooperation with accounting auditor and internal audit division, report on whistleblowing, etc., report on activities of the executive divisions (in the current fiscal year, the Board received reports from employees in charge of engineering, development, general affairs, and internal audit divisions)

Procedure of Audit & Supervisory Board audit and division of roles

Audit & Supervisory Board members led by the full-time member implement systematic and exhaustive audit of overall operations of the Company and its consolidated subsidiaries based on the audit plan formulated by the Audit & Supervisory Board.
The full-time Audit & Supervisory Board member participates in important meetings including the Board of Directors Meeting, Audit & Supervisory Board Meeting, and Executive Committee Meeting, inspects important documents, visits branches and warehouses, holds interviews with employees of operating divisions, and conducts visiting audit. Part-time Audit & Supervisory Board members mainly participates in important meeting such as the Board of Directors Meeting and Audit & Supervisory Board Meeting and actively express their opinions. Together, they form a structure that enables monitoring of execution of operations by the directors.

Key audit items and activity results (FY 2022)

Development and operation structure of internal control system of the group companies in Japan and abroad	Activities of the two Thai subsidiaries, which were delayed due to the COVID-19 pandemic, have started in full-swing, while one Japanese company has joined the Nikko Group. The Audit & Supervisory Board members held visiting audit of the said company as well as the existing group companies and interviewed officers and other employees, strived to grasp the current situation and share information in cooperation with the internal audit divisions and accounting auditors, and expressed their opinions whenever necessary. The number of visiting audits, interviews, and meetings in which the members participated: 74 for Japanese business entities, 57 for Japanese subsidiaries, and 17 for overseas subsidiaries
Initiatives for elimination of occupational accidents	The members strived to grasp the situation by confirming the progress made in initiatives by participating in safety meetings, etc. (six times), Board of Directors Meetings (13 times), and Executive Committee Meetings (24 times) and gathering information during visiting audits at business entities and subsidiaries, and expressed opinions whenever necessary.
Initiatives towards Medium-Term Management Plan	The members confirmed the progress by participating in the Board of Directors Meetings, Executive Committee Meetings, and Initiative Progress Meetings (seven times) and holding interviews at visiting audit of business entities and subsidiaries and expressed their opinions whenever necessary.

Status of reducing strategically-held shares

The Board of Directors annually examines whether or not to continue holding strategically-held shares and facilitates the gradual sales of the shares if it determines that there is no rationale to keep holding them. To make this decision, the Board looks into the purpose of holding the shares, their risks, Nikko's relationship with the issuers, and capital cost. In the last five years, we sold a total of 30 issues (12 sold-off issues) at a total value of 2.52 billion yen. We aim to achieve the ratio of market capitalization to shareholders' equity of 9%.
We judge exercise of voting rights upon comprehensive consideration of not only short-term results and stock price of the issuers but also Nikko's relationship with them.

Status of reducing strategically-held shares

(million yen)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Number of shares sold	6(1)	6(2)	9(5)	7(4)	2(0)
Amount sold	194	720	506	691	371
Book value	106	272	469	376	192
Gain on sales	88	448	38	314	178
Ratio of market capitalization to shareholders' equity(%)	17.2	11.6	11.8	12.7	9.6

() denotes the number of shares that have been completely sold off.

Dialogues with shareholders and investors

We position the building of long-term, trusting relationships with our shareholders and investors as an important management issue. We proactively work on improving constructive dialogues through the appropriate information disclosure in both Japanese and English and regular information dissemination by our management staff. The opinions of our Japanese and overseas shareholders and investors we have learned through meetings with them are reported to the Board of Directors and shared with relevant sections to reflect them in our management decisions and reports for investors.

Results of dialogues with shareholders and investors

Event types	FY 2019		FY 2020		FY 2021		FY 2022	
	Number of events	Number of participants	Number of events	Number of participants	Number of events	Number of participants	Number of events	Number of participants
Financial results briefing session	4	69	4	90	4	134	4	111
Individual meetings	23	28	17	23	10	18	6	10
Small group meetings by Nikko	2	8	0	0	0	0	0	0
Ordinary General Shareholders' Meeting	1	21/3,303	1	19/4,709	1	23/5,062	1	40/6,795

(attendance in person/attendance in writing)

Compliance and risk management

The Nikko Group believes that it is important to clarify management responsibility, accelerate the speed of execution of duties, and strengthen compliance to secure soundness of management, and has been driving forward development of a system and measures for ensuring compliance in the Group.

The Code of Conduct of Nikko Group lists compliance as the top priority and all employees share it as their identity. In addition, the Group has been striving to practice fair, transparent, and sensible corporate activities conscious of social norms and company rules.

Code of Conduct

① Compliance
We shall follow our conscience, comply with laws and orders, social norms, company rules, refrain from engaging in malpractice, and carry out sensible corporate activities.

② Provision of better products and services
We shall offer good-quality products and services, with full attention paid to safety and quality, by enhancing research and technology development.

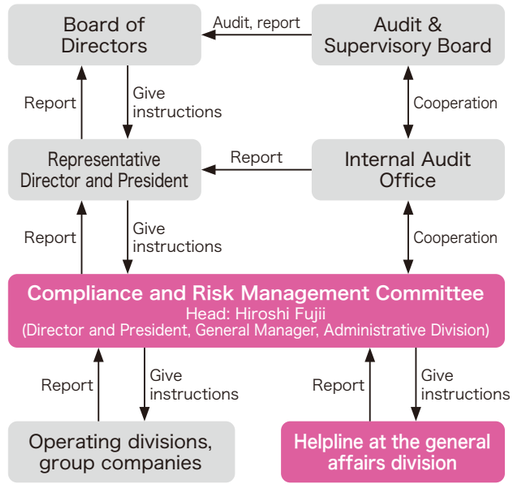
③ Communication with society
We shall strive to communicate with customers, shareholders, business partners, and local communities to ensure transparency of management and fulfill accountability.

④ In search of safety and abundance
We shall place utmost priority on safety, improve workplace environment and work conditions, and strive to ensure that each and every employee feels at ease and has a sense of prosperity.

⑤ Environmental preservation
We shall promote environmental conservation initiatives and contribute to creation of favorable environment.

⑥ Elimination of anti-social forces
We shall have no involvement with anti-social forces or organizations that threaten the order, safety, and security of citizens.

Legal compliance promotion structure



Operation of the corporate ethics helpline

The group companies in Japan have in place a whistleblower system that is compliant with the revised Whistleblower Protection Act and are disseminating the information to directors, executive officers, and other employees.

Main information disseminated regarding the operation of helpline

1	In many cases, we recognize that officers and employees commit misconducts, which affect a company's existence, for the benefit of the company and organization rather than to gain unfair profits for themselves without being aware of their illegality.
2	It is important that departments with specialized knowhow are available for consultation at any time so that officers and employees would not make wrong judgments.
3	A whistleblowing system would put psychological pressure on the employees and act as a deterrent to commit fraud.
4	It is necessary to develop a mechanism where a misconduct always comes to light → Thorough compliance awareness
5	Whistleblowers are protected by the Whistleblower Protection Act (Act No. 122 of 2004) enacted on April 1, 2006.
6	Issues related to employee treatment such as transfer and promotion or defamation are not included in the system.
7	The user can report the issue through a letter or via the portal or email using his or her own name or anonymously → Those involved in receiving the report have the duty of confidentiality.
8	Upon responding to whistleblowers, the investigation policy and schedule are disclosed first, and a promise is made to provide a reply within a certain period of time.

The number of reports to the helpline

	FY 2020	FY 2021	FY 2022
Number of reports	0	1	5

Director



Takahisa Nishikawa
Born on March 31, 1959

April 1982 Joined Nikko Co., Ltd
June 2007 Executive Officer
June 2008 Director
June 2011 Managing Director
June 2012 Director and President
April 2019 Director and Chairman (current)
Affiliates in-charge and General Manager of Manufacturing Division (current)



Masaru Tsuji
Born on June 4, 1960

September 1987 Joined Nikko Co., Ltd.
June 2007 Executive Officer
June 2008 Director
June 2011 Managing Director
June 2015 Senior Managing Director
April 2016 General Manager, Business Division
April 2019 Director and President (current)
Internal Control in-charge and General Manager of Technology Division (current)



Hiroshi Fujii
Born on January 16, 1959

April 1982 Joined Taiyo-Kobe Bank Limited (current Sumitomo Mitsui Banking Corporation)
April 2009 Manager of Kansai Corporate Solution Sales Department, SMBC Consulting Co., Ltd.
June 2011 Director and Manager of Financial Department, Nikko Co., Ltd.
June 2018 Managing Director and General Manager of Financial Division
April 2020 Managing Director, General Manager of Financial Division, and Security Export Control in-charge
April 2021 General Manager of Management Division and Security Export Control in-charge
May 2021 General Manager of Management Division and Security Export Control in-charge (current)
June 2021 Senior Managing Director
April 2023 Director and Vice President (current)

<Important concurrent position>
Representative Director and President, Nikko Kosan Co., Ltd.
Representative Director and President, Nikko Baumaschinen GmbH



Tomomi Nakayama
Born on January 10, 1963

April 1982 Joined Nikko Co., Ltd.
January 2011 Branch Manager of Chubu Branch
July 2013 Manager of Asphalt Plant Sales Management Department, Tokyo Head Office
June 2015 Executive Officer, Manager of Business Planning Department, Business Division, and Manager of Asphalt Plant Sales Management Department, Tokyo Head Office
April 2016 Manager of Business Planning Department, Business Division, Manager of Asphalt Plant Sales Management Department, and Director of AP Technology Center
April 2018 Executive Officer, Manager of Business Planning Department, Business Division, Manager of Asphalt Plant Sales Management Department, Director of AP Technology Center, and Manager of Mobile Plant Business Department
April 2019 General Manager of Business Division, Manager of Business Planning Department, and Manager of Asphalt Plant Sales Management Department
June 2019 Director
June 2022 Managing Director (current)
April 2023 General Manager of Business Division, Manager of Business Planning Department (current)



Takeshi Sone
Born on February 25, 1970

April 1990 Joined Nikko Co., Ltd.
June 2012 Director, Tokyo Service Center, Service Planning Department
October 2013 Director of Tokyo Service Center and Director of Wangan Service Station, Service Planning Department
April 2015 Deputy Manager of Service Planning Department and Director of TSC Center, Business Division
April 2016 Branch Manager of Chubu Branch
April 2018 Branch Manager of Kanto Branch
April 2019 Branch Manager of Kanto Branch and Manager of Mobile Plant Business Department, Business Division
June 2019 Executive Officer
June 2022 Senior Executive Officer (current)
April 2023 Manager, Service Planning Department, and Manager, Mobile Plant Business Department, Business Division (current)
June 2023 Director and Executive Officer
Manager, Service Planning Department, and Manager, Mobile Plant Business Department, Business Division (current)



Koichi Kawakami
Born on July 8, 1965

December 1988 Joined Nikko Co., Ltd.
March 2003 General Manager of Corporate Planning Office, Administrative Division
April 2010 General Manager of International Planning Office, International Business Department
October 2014 General Manager of General Affairs Office, General Affairs Department
April 2018 Branch Manager of Chubu Branch
April 2021 General Manager of President Office, Manager of Corporate Planning Section, Manager of Secretary Section, and General Manager of Quality Assurance Office
June 2021 Executive Officer (current)
January 2022 Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO), Manager of Corporate Planning Section, Manager of Secretary Section, and General Manager of Quality Assurance Office
October 2022 Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO), Manager of Corporate Planning Section, and Manager of Secretary Section
April 2023 Deputy General Manager of Administrative Division, Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO) (current)
June 2023 Director and Executive Officer, Deputy General Manager of Administrative Division, Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO) (current)



Masafumi Ishii
(Outside/Independent)
Born on November 3, 1957

April 1980 Joined the Ministry of Foreign Affairs
February 2002 Private Secretary to the Minister for Foreign Affairs
January 2004 Minister, Embassy of Japan in the UK
July 2006 Minister, Embassy of Japan in the USA
January 2013 Director-General, International Legal Affairs Bureau, Ministry of Foreign Affairs
July 2014 Ambassador Extraordinary and Plenipotentiary, Embassy of Japan in Belgium
March 2017 Ambassador Extraordinary and Plenipotentiary, Embassy of Japan in Indonesia
January 2021 Retired from the Ministry of Foreign Affairs
June 2021 Outside Director, Nikko Co., Ltd. (current)



Rika Saeki
(Outside/Independent)
Born on February 27, 1961

April 2002 Established Usystem Limited (current Usystem Co., Ltd.)Representative Director and President, Usystem Co., Ltd. (current)
June 2021 Outside Director, Nikko Co., Ltd. (current)
June 2022 Director, Kobe Commerce, Industry and Trade Center (current)

<Important concurrent position>
Representative Director and President, Usystem Co., Ltd.
Director, Kobe Commerce, Industry and Trade Center



Shigeru Sadakari
(Outside/Independent)
Born on September 22, 1957

April 1980 Joined Taiyo-Kobe Bank Limited (current Sumitomo Mitsui Banking Corporation)
April 2010 Executive Officer and Manager of Internal Audit Department, Sumitomo Mitsui Banking Corporation
May 2011 Managing Executive Officer, The Minato Bank, Ltd.
April 2013 Senior Representative Managing Director and Senior Managing Executive Officer, The Minato Bank, Ltd.
June 2015 Representative Director and Vice President, Kobe Tochi Tatemono Co., Ltd.
June 2016 Representative Director and President, Kobe Maintenance of Building Co., Ltd.
June 2019 Outside Audit & Supervisory Board Member, Nikko Co., Ltd.
June 2022 Outside Director, Nikko Co., Ltd. (current)

Audit & Supervisory Board Member



Nobutaka Yasuda
(standing)
Born on September 27, 1959

April 1982 Joined Nikko Co., Ltd.
June 2010 Executive Officer and Branch Manager of Chubu Branch
January 2011 Executive Officer and Manager of Batching Plant (BP) Business Department
June 2012 Executive Officer and Manager of Business Planning Department
June 2013 Executive Officer, General Manager of the Tokyo Head Office, Business Division, and Manager of Business Planning Department
June 2015 Audit & Supervisory Board Member
June 2019 Standing Audit & Supervisory Board Member (full-time) (current)



Naoki Ota
(Outside/Independent)
Born on March 1, 1955

April 1979 Joined Nittoseiko Co., Ltd.
February 2009 Representative Director and President, Wacoh Corporation
March 2011 Director, Nittoseiko Co., Ltd.
March 2013 Director and Manager of Fasteners Business Department, Nittoseiko Co., Ltd.
March 2016 Full-time Audit & Supervisory Board Member
June 2019 Audit & Supervisory Board Member, Nikko Co., Ltd. (current)



Tsuyoshi Fukui
(Outside/Independent)
Born on July 24, 1965

October 1991 Joined the Kobe Office of Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
August 1995 Certified as Certified Public Accountant of Japan
April 2018 Joined the Kobe Office of RSM Seiwa (current)
June 2019 Outside Audit & Supervisory Board Member, Nikko Co., Ltd. (current))

<Important concurrent position>
Partner, RSM Seiwa



Koji Yoneda
(Outside/Independent)
Born on February 17, 1957

April 1990 Certified as attorney
Joined Motohara & Tanaka Law Office (current Tamon Law Office) (current)
June 2022 Outside Audit & Supervisory Board Member, Nikko Co., Ltd. (current)

<Important concurrent position>
Representative Partner, Tamon Law Office
Executive Officer

Executive Officer

Morie Okaaki
Senior Executive Officer
Born on November 2, 1963

April 1986 Joined Nikko Co., Ltd.
April 2004 Manager of Kitakanto Sales Office
January 2007 Manager of BP Business Department
April 2009 Manager of BP Business Department and Business Expansion Promotion Team
April 2010 Manager of BP Business Department, and Conveyance & Environmental Business Department, Special Environment Sales Section, Conveyance Sales Department
July 2013 Manager of BP Sales Management Department
April 2016 Manager of BP Sales Management Department, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center
June 2016 Executive Officer, Manager of BP Sales Management Department, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center
April 2017 Executive Officer, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center
April 2021 Senior Executive Officer
Manager, Industrial Machinery Sales Management Department, Business Division (current)

Kazuhiro Yamada
Senior Executive Officer
Born on December 16, 1970

April 1995 Joined Nikko Co., Ltd.
December 1995 Development Team, Development Research Center
April 2006 Business Development Promotion Office
April 2008 (Transfer) Representative Director and President, Maekawa Kogyosho Co., Ltd.
April 2019 (Reinstatement) Manager of Head Office Factory, Manufacturing Division, Nikko Co., Ltd.
June 2020 Executive Officer, Manager of Head Office Factory, Manufacturing Division, General Manager of Manufacturing Technology Office, and General Manager of Quality Assurance Office, Nikko Co., Ltd.
June 2022 Executive Officer
Manufacturing Division Head Office Factory Manager, General Manager of Manufacturing Technology Office, Nikko Co., Ltd., and Representative Director and President, Ube Kohki Co., Ltd. (current)

Toyokazu Uehara
Executive Officer
Born on July 3, 1969

April 1990 Joined Nikko Co., Ltd.
April 2009 Product Development Group Leader, Chief of Production Sales Section, Market Development Department, and Business Development Promotion Office, R&D Center
June 2012 Acting Manager of Development Sales Department and Chief of Production Sales Section, R&D Center
April 2016 Vice Director of R&D Center and Manager of Business Development Department
April 2019 Manager of Engineering, Techno Center, Technology Division
April 2021 Manager of Technology Management Department, Technology Division
June 2021 Executive Officer
Manager of Technology Management Department, Technology Division (current)

Katsuhiro Kawamura
Executive Officer
Born on February 26, 1968

April 1994 Joined Nikko Co., Ltd.
April 2009 Chief of Design Section I, Design Department
April 2016 Manager of Tokyo Technology Department, General Manager of Tokyo Technology Office, and Chief of Tokyo Design Section, AP Technology Center
April 2019 Manager of Development Department, Techno Center, Technology Division
April 2021 Manager of Development Department, Technology Division
June 2021 Executive Officer and Manager of Development Department, Technology Division (current)
June 2022 Manager of Development Department, Technology Division and Low Carbon Task Force, CEO's Office

CORPORATE DATA

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06

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FY 2022 Construction investment overview

Steady investment by the private sector, while public investment continues to stagnate

In FY 2022 (fiscal year ended March 2023), construction investment in Japan (nominal value) is expected to have increased 1.5% compared with the previous fiscal year to 68.79 trillion yen. While it is 82% of the record 84 trillion yen of FY 1992, there has been a steady expansion from the bottom of 42 trillion yen recorded in FY 2010. Breakdown of the investment shows that private construction investment, which accounts for 65% of the investment, is expected to have risen 1.8% to 44.54 trillion yen, while government investment, which accounts for the remaining 35%, is expected to have increased 0.9% to 24.25 trillion yen.

By region, investment in Hokkaido is expected to have risen 11.4%, Hokuriku 3.6%, Chubu 3.8%, Kinki 5.6%, Chugoku 6.9%, and Kyushu 2.8%, while that in Tohoku probably fell 3.9%, Kanto 1.0%, Shikoku 6.2%, and Okinawa 15.3%. Construction investment in Hokkaido turned positive for the first time in two years and that in regions from Hokuriku to Chubu, Kinki, and Shikoku are on a stable expansion track. By contrast, there appears to be a lull in Tohoku and Kanto, which had led construction investment in the past. In recent years, some construction projects are being delayed or postponed citing soaring prices of various construction materials, labor shortage, and heat waves in summer.

Labor shortage in construction industry and workstyle reform bill bolster investment in automation and manpower saving

While construction investments grew on one hand, the number of workers in the construction industry decreased on the other by 1.2% from a year earlier to 4.79 million people in 2022, falling to 70% of the 1997 peak of 6.85 million. Of that, those above 55 years in age accounted for a record 35.9% (in comparison, it was 24% in 2001 and 33% in 2010). With construction investment expected to remain steady, the decline in the number of workers in the industry coupled with their aging is becoming a structural issue in the medium- to long- term. On top of this, the workstyle reform bill for the construction industry will take effect in April 2024. It is expected to facilitate the introduction of five-day workweek in the industry and the evolution of i-Construction for productivity improvement while expanding the need for automation and labor-saving of mobile plants and other construction machinery as well as asphalt plants and concrete plants.

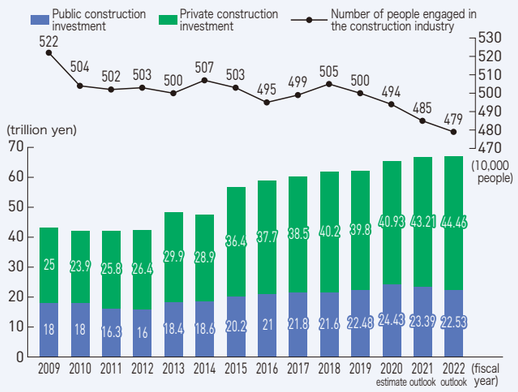
Business performance in FY 2022

The results for the first fiscal year of the Medium-Term Management Plan fell short of the plan

In FY 2022, new orders and net sales at Nikko Group were steady, with the former increasing 2.5% to 40,849 million yen compared with a year earlier and the latter rising 2.1% to 39,665 million yen, and BB ratio (new orders received / net sales) came to 1.03 times. As a result, order backlog at the end of the fiscal year increased 7.1% to 17,656 million yen (about 5.3 months' worth of the annual sales). Despite increased revenues, operating income decreased 49.9% year on year to 1,028 million yen, and operating margin also fell 2.7 pp to 2.6%. The main factors for the profit decline are an increase in expenses intended to enhance human capital, loss on valuation of inventory at Nikko Nilkhosol Co., Ltd., a Thai consolidated subsidiary, an increase in selling, general and administrative expenses including R&D expenses and costs of holding Nikko Messe, and a decline in net sales of maintenance service. Ordinary income fell 44.8% from a year earlier to 1,255 million yen partly due to recording of foreign exchange gains. Net income attributable to owners of parent declined 38.1% from a year earlier to 1,020 million yen, partly reflecting the 564 million yen in proceeds from sale of investment securities recorded as an extraordinary income.

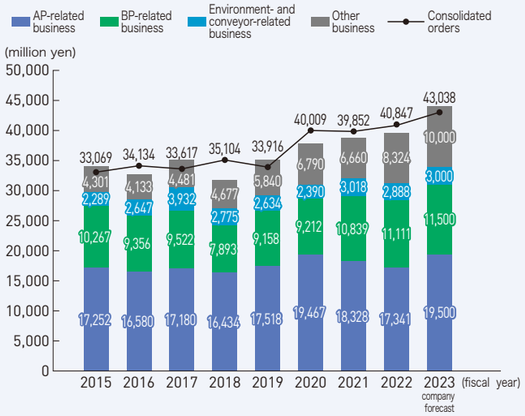
FY 2022 was the first fiscal year of the three-year Medium-Term Management Plan, and both net income and operating income results fell short of the plan (net income plan: 42.0 billion yen → result: 39.6 billion yen; operating income plan: 2.3 billion yen → result: 1.0 billion yen. Particularly, the increase in asphalt price caused by the rise in heavy oil price accelerated the deterioration in business performance of road pavement companies, which subsequently postponed asphalt plant-related capital investment, causing the downward swing in earnings at the Group.

● Amount of construction investment and number of people engaged in the construction industry



Note: The number of people engaged in the industry is on a calendar year basis and its source is the *Construction Handbook*.

● Net sales by segment and consolidated orders



Shareholder returns

Dividend payment for payout ratio of 112.5%, which exceeds pledged ratio of 60% or higher

Regarding shareholder returns, the dividend of 30 yen per share (mid-term dividend of 15 yen and year-end dividend of 15 yen), which translates to a dividend payout ratio of 112.5% given the 1,020 million yen in net income attributable to owners of parent (26.67 yen per share). The payout ratio exceeded the target of 60% or higher presented in the Medium-Term Management Plan.

Business overview by segment

Businesses other than AP-related business posted steady results in general

In the AP-related business, new orders in FY 2022 declined 3.1% from a year earlier to 17,614 million yen, net sales fell 5.4% to 17,341 million yen, while BB ratio, derived by dividing orders with net sales, came to 1.01. Some large-scale projects were postponed in Japan, while orders were stagnant in Thailand. In terms of net sales, overseas net sales grew 30.3%, but net sales of products in Japan decreased 28.8% and those of maintenance services also fell 11.4%. Order backlog at the end of fiscal year was 7,998 billion yen (5.5 months' worth of net sales for the fiscal year). In the meantime, operating income of the business decreased 91.3% year on year to 49 million yen, and operating margin fell 2.8 pp to 0.3%. The large profit decline was unavoidable given the soaring prices of supplies, investment burden in Thailand, and an increase in personnel expenses among other reasons.

The BP-related business recorded new orders of 11,461 million yen, down 5.2% year on year, and its net sales were steady at 11,111 million yen, up 2.5% year on year. The business's BB ratio came to 1.03 times, stably maintaining ratio of 1. While the volume of ready-mixed concrete shipment was weak, down 2.2% in FY 2022, the market is maintaining a high level and users' appetite for investment continues to be high. Order backlog at the end of the fiscal year increased 6.1% to 6,105 million yen (6.5 months' worth of net sales for fiscal year). However, operating income of the business decreased 9.4% year on year to 1,017 million yen, and operating margin also fell 1.2 pp to 9.2%. Low profitability of some unit products reflecting soaring raw material prices temporarily pushed down profits.

In the environment- and conveyor-related business, new orders declined 18.5% year on year to 2,456 million yen, net sales fell 4.3% year on year to 2,888 million yen, and order backlog totaled 182 million yen. Delivery of coke drying system, for which the Group received order in the previous fiscal year, required manpower, which led to subdued order and sales activities. While operating income decreased 11.2% year on year to 522 million yen, and operating margin fell 1.4 pp to 18.1%, the business is maintaining a high profitability.

In the other business, new orders increased 41.8% year on year to 9,316 million yen and net sales rose 25.0% to 8,324 million yen. Order backlog also increased significantly by 41.7% to 3,369 billion yen (4.8 months' worth of net sales for fiscal year). Orders for and sales of mobile plants, which account for 22% of net sales, expanded steadily. By contrast, net sales of waterproof boards, which had been strong, fell 27.8% and are entering the adjustment phase. Operating income of the other business decreased 2.7% year on year to 1,044 million yen owing mainly to the sales decline of waterproof boards and operating margin fell 3.6 pp to 12.5%.

ROE and ROIC

Decline in net income had an impact despite the progress in reducing net assets

ROE in FY 2022 declined 2.0 pp to 3.2% from a year earlier, falling short of 4.9%, the plan. Net assets declined 399 million yen year on year to 31,604 million yen (average net assets for the past two fiscal year were 31,827 million yen) as the Group made progress in reducing them, while net income attributable to owners of parent remained at 1,020 million yen, falling short of the plan. Return on invested capital (ROIC) declined 2.3 pp to 1.3% from a year earlier. NOPAT (operating income subtracted by income taxes) fell 791 million yen year on year to 277 million yen, while invested capital rose 1,855 million yen to 35,760 million yen as interest-bearing debts increased.

Financial position

Net cash status maintained

Net assets as of the end of FY 2022 increased 48 million yen year on year to 52,127 million yen. Net assets as of the end of FY 2022 totaled 31,604 million yen, down 446 million yen, and equity excluding non-controlling interests of -40 million yen was 31,644 million yen, which resulted in equity ratio of 60.7, derived by dividing equity with total assets, down 0.8 pp from a year earlier. Current assets came to 33,723 million yen, and non-current assets totaled 18,404 million yen. Main items that increased include notes and accounts receivable-trade including electronically recorded monetary claims, which rose 203 million yen to 11,235 million, inventory, which increased 1,219 million yen to 10,874 million yen, and property, plant and equipment, which increased 1,170 million yen to 11,839 million yen. Main items that decreased include cash and cash equivalents, which fell 2,118 million yen to 10,317 million yen, and investment securities, which declined 848 million yen to 3,488 million yen.

Current liabilities were 15,338 million yen, and non-current liabilities were 5,184 million yen. Main items that increased include interest-bearing debts, which were up 1,949 million yen from a year earlier to 5,761 million yen. Main items that declined include contract liabilities, which fell 691 million yen year on year to 3,713 million yen, and accounts payable-factoring, which decreased 428 million yen to 2,355 million yen.

Cash and cash equivalents as of the end of FY 2022 declined 2,119 million yen from a year earlier to 10,317 million yen and net cash derived by subtracting interest-bearing debts of 5,761 million yen from cash and cash equivalents came to 4,556 million yen (8,624 million yen as of the end of FY 2021).

Cash flows

FCF became negative, while cash remained at a high level

Cash used in operating activities totaled 1,644 million yen, down 3,868 million yen. While depreciation and amortization increased 199 million yen year on year to 944 million yen, net income before income taxes declined 906 million yen to 1,693 million yen, inventories increased 1,156 million, gain on sale and valuation of investment securities came to 564 million yen, and contract liabilities declined 708 million yen.

Cash used in investing activities totaled 1,226 million yen, down 939 million yen. Main factors include expenditure of 2,174 million yen for purchase of property, plant and equipment and intangible assets and proceeds from sales and redemption of investment securities of 1,002 million yen. As a result, free cash flow derived by subtracting investing cash flow from operating cash flow came to negative 2,870 million yen, compared with 59 million yen in FY 2021.

Cash used in financing activities totaled 710 million yen. Main items included a 968 million yen increase in short-term loans payable and 1,084 million yen in proceeds from long-term loans payable as well as 1,147 million yen in cash dividends paid. The balance of cash and cash equivalents at the end of FY 2022 was 10,270 million yen, down 2,119 million yen from a year ago.

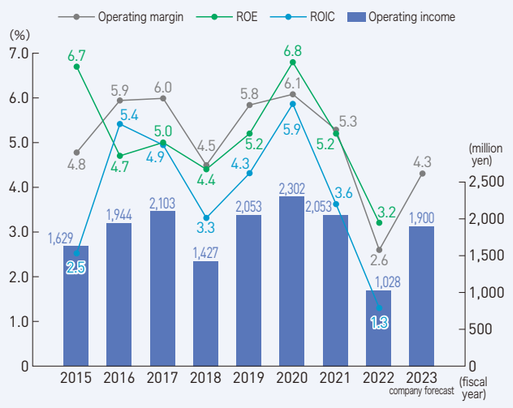
FY 2023 performance outlook

FY 2023 financial results to be dependent more on second half than usual

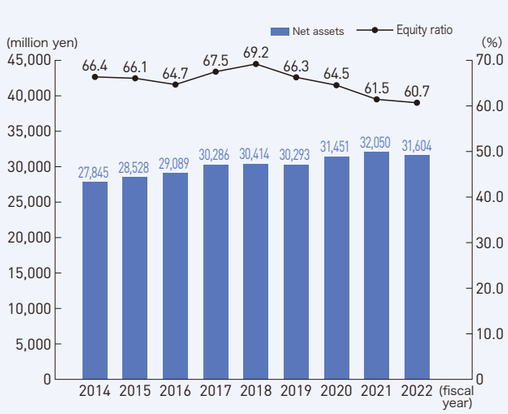
FY 2023 (fiscal year ending March 2024) is the second fiscal year of the Medium-Term Management Plan, whose final fiscal year is FY 2024 (fiscal year ending March 2025). In the final fiscal year of the plan, Nikko Group expects net sales of 50,000 million yen, operating income of 3,000 million yen, and operating margin of 6.0%. For FY 2023, it expects orders to increase 5.3% from a year earlier to 43,000 million yen and net sales to rise 10.9% to 44,000 million yen. It expects operating income to increase by 84.8% to 1,900 million yen with operating margin of 4.3%, net income per share of 31.36 yen, and dividend of 30 yen per share (payout ratio of 95.7%).

When broken down, it assumes net sales of 17,000 million yen in the first half and 27,000 million yen in the second half; operating income of 50 million yen in the first half (operating margin of 0.2%) and 1,850 million yen in the second half (operating margin of 6.8%). In the second half, the Group expects to record sales from the projects that have been delayed from the first half and it also anticipates the impact from raising product prices and a recovery in sales of highly profitable maintenance services.

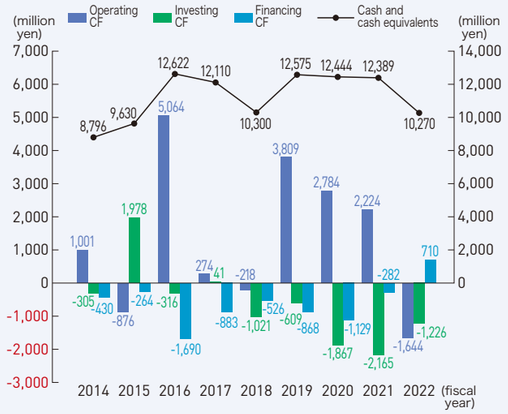
● Operating income and margin, ROE, and ROIC



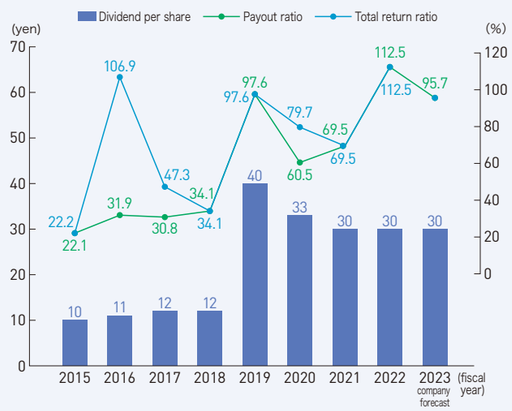
● Net assets and equity ratio



● Cash flow and cash and cash equivalents



● Dividend per share, payout ratio, total return ratio



Financial Data of the Past 10 Years

			2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (fiscal year)
Key results	Net sales	(million yen)	32,073	30,707	34,110	32,717	35,114	31,780	35,151	37,866	38,846	39,665
	Cost of sales	(million yen)	23,736	22,683	25,825	24,131	26,301	23,485	25,512	27,675	28,346	29,348
	Gross profit	(million yen)	8,337	8,024	8,285	8,586	8,812	8,295	9,639	10,191	10,500	10,317
	Selling, general and administrative expenses	(million yen)	6,087	6,192	6,655	6,641	6,708	6,868	7,585	7,889	8,447	9,288
	Operating income	(million yen)	2,249	1,832	1,629	1,944	2,103	1,427	2,053	2,302	2,053	1,028
	Ordinary income	(million yen)	1,982	1,582	1,648	1,993	2,239	1,576	2,142	2,973	2,274	1,255
	Net income before income taxes	(million yen)	1,987	1,800	2,940	1,878	2,299	1,933	2,440	3,045	2,599	1,693
	Net income attributable to owners of parent	(million yen)	888	1,348	1,896	1,340	1,490	1,345	1,588	2,082	1,649	1,020
	Net income per share	(yen)	21.1	32.1	45.2	34.3	38.7	35.1	41.2	54.3	43.1	26.6
	Number of consolidated subsidiaries	(companies)	8	8	8	8	8	8	9	10	11	11
	Number of affiliates accounted for using equity method	(companies)	2	1	—	—	—	—	—	—	—	—
Profitability	Operating margin	(%)	7.0	6.0	4.8	5.9	6.0	4.5	5.8	6.1	5.3	2.6
	ROA	(%)	2.2	3.3	4.5	3.0	3.3	3.0	3.5	4.4	3.3	2.0
	ROE	(%)	3.4	4.8	6.6	4.6	4.9	4.4	5.2	6.8	5.2	3.2
Segment results	Japan	(million yen)	29,403	27,881	31,130	29,761	31,148	27,941	30,761	34,130	34,099	34,061
	Overseas	(million yen)	2,669	2,825	2,980	2,956	3,965	3,838	4,390	3,735	4,746	5,604
	China	(million yen)	1,684	2,072	2,220	2,026	3,389	3,357	3,637	3,509	3,670	4,829
	Other	(million yen)	984	753	760	930	576	481	1,083	226	1,076	775
	Ratio of net sales outside Japan	(%)	8.3	9.2	8.7	9.0	11.3	12.1	12.5	9.9	12.2	14.1
Net sales by business	Asphalt Plant-Related Business	(million yen)	17,258	15,071	17,252	16,580	17,179	16,434	17,518	19,467	18,328	17,341
	Concrete Plant-Related Business	(million yen)	8,577	8,287	10,267	9,356	9,521	7,893	9,158	9,212	10,839	11,111
	Environment- and Conveyor-Related Business	(million yen)	1,944	2,853	2,289	2,647	3,931	2,775	2,634	2,390	3,018	2,888
	Other Business	(million yen)	4,292	4,495	4,301	4,133	4,480	4,677	5,840	6,796	6,660	8,324
Operating income (loss)	Asphalt Plant-Related Business	(million yen)	2,125	1,214	1,234	1,253	1,348	963	1,118	1,239	562	49
	Concrete Plant-Related Business	(million yen)	678	712	878	1,006	1,015	666	761	879	1,123	1,017
	Environment- and Conveyor-Related Business	(million yen)	166	527	337	369	308	417	562	482	588	522
	Other Business	(million yen)	388	451	277	417	462	502	1,020	1,170	1,073	1,044
	Amount after elimination of transactions between segments	(million yen)	—	—	—	—	—	—	—	—	—	—
	Corporate expenses	(million yen)	(1,109)	(1,074)	(1,097)	(1,102)	(1,031)	(1,122)	(1,409)	(1,469)	(1,293)	(1,605)
Orders	Total new orders received	(million yen)	33,915	34,500	33,284	34,134	33,616	35,103	33,915	40,009	39,852	40,849
	Total order backlog	(million yen)	7,246	11,039	10,212	11,629	10,132	13,454	12,219	14,361	16,490	17,656
Financial conditions	Total assets	(million yen)	40,348	41,964	43,189	44,976	44,876	43,969	45,677	48,697	52,079	52,127
	Net assets	(million yen)	26,167	27,845	28,528	29,089	30,286	30,414	30,293	31,451	32,050	31,604
	Interest-bearing debts	(million yen)	2,212	2,206	2,362	1,987	1,799	1,718	1,787	2,492	3,812	5,761
	Equity ratio	(%)	64.9	66.4	66.1	64.7	67.5	69.2	66.3	64.5	61.5	60.7
	Net assets per share	(yen)	624.2	664.3	680.7	749.2	791.1	793.7	780.6	823.0	837.2	826.7
Dividends	Dividend per share	(yen)	7.0	9.0	10.0	11.0	12.0	12.0	40.0	33.0	30.0	30.0
	Total dividend	(million yen)	293	376	418	426	458	459	1,550	1,260	1,146	1,147
	Payout ratio	(%)	33.1	27.9	22.0	31.9	30.8	34.2	97.6	60.5	69.5	112.5
	Dividend on equity	(%)	1.1	1.4	1.5	1.5	1.5	1.5	5.1	4.0	3.6	3.6
Capital investment, etc.	Capital investment	(million yen)	844	815	877	1,261	550	1,889	1,483	2,748	1,907	2,214
	Depreciation and amortization	(million yen)	392	419	483	478	468	508	611	677	745	944
	R&D expenses	(million yen)	295	276	227	271	291	211	379	392	449	576
	R&D expenses to net sales	(%)	0.92	0.90	0.67	0.83	0.83	0.66	1.08	1.04	1.15	1.45
Cash flows	Cash flow from operating activities	(million yen)	2,641	1,001	(1,040)	5,064	274	(218)	3,839	2,784	2,224	(1,644)
	Cash flow from investing activities	(million yen)	(936)	(305)	2,142	(316)	41	(1,021)	(609)	(1,867)	(2,165)	(1,226)
	Free cash flow	(million yen)	1,705	696	1,102	4,748	315	(1,239)	3,200	917	59	(2,870)
	Term-end balance of cash and cash equivalents	(million yen)	8,506	8,796	9,630	12,622	12,110	10,300	12,575	12,444	12,389	10,270

Consolidated Financial Statements

Consolidated Balance Sheet

(million yen)

Assets	2021	2022 (fiscal year)
Current assets		
Cash and cash equivalents	12,436	10,317
Notes receivable-trade	2,163	2,357
Accounts receivable-trade	7,275	6,645
Electronically recorded monetary claims	1,594	2,233
Merchandise and finished goods	990	1,794
Work in process and partly-finished construction	6,970	7,423
Raw materials and supplies	1,695	1,657
Forward exchange contracts	–	14
Other	1,002	1,279
Allowance for doubtful accounts	(0)	(1)
Total current assets	34,127	33,723
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	5,227	5,945
Machinery, equipment and vehicles (net)	1,256	1,292
Tools, furniture and fixtures (net)	399	405
Land	3,577	3,878
Lease assets (net)	1	0
Right-of-use assets (net)	72	81
Construction in progress	134	236
Total property, plant and equipment	10,669	11,839
Intangible assets		
Goodwill	266	130
Other	769	889
Total intangible assets	1,036	1,020
Investments and other assets		
Investment securities	4,336	3,488
Investments in capital	15	7
Long-term loans receivable	8	14
Deferred tax assets	864	981
Other	1,152	1,183
Allowance for doubtful accounts	(131)	(130)
Total investments and other assets	6,246	5,544
Total non-current assets	17,951	18,404
Total assets	52,079	52,127

(million yen)

Liabilities	2021	2022 (fiscal year)
Current liabilities		
Notes and accounts payable-trade	3,132	3,012
Electronically recorded obligations	868	858
Accounts payable-factoring	2,783	2,355
Short-term loans payable	2,229	3,312
Income taxes payable	518	265
Accounts payable-other	664	644
Down payments	17	17
Contract liabilities	4,405	3,713
Provision for bonuses	483	417
Provision for directors' bonuses	76	76
Provision for loss on order received	35	172
Other	559	492
Total current liabilities	15,774	15,338
Non-current liabilities		
Long-term loans payable	1,583	2,449
Deferred tax liabilities	7	0
Provision for directors' retirement benefits	182	235
Retirement benefit-related liabilities	2,126	2,166
Other	354	333
Total non-current liabilities	4,254	5,184
Total liabilities	20,029	20,523

Net assets	2021	2022 (fiscal year)
Shareholders' equity		
Capital stock	9,197	9,197
Capital surplus	7,925	7,934
Retained earnings	13,755	13,628
Treasury stock	(784)	(760)
Total shareholders' equity	30,093	29,999
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,453	1,177
Foreign currency translation adjustment	560	582
Accumulated retirement benefit-related adjustment	(104)	(115)
Total accumulated other comprehensive income	1,910	1,644
Non-controlling interests	46	(40)
Total net assets	32,050	31,604
Total liabilities and net assets	52,079	52,127

Consolidated Statement of Income

(million yen)

Assets	2021	2022 (fiscal year)
Net sales	38,846	39,665
Cost of sales	28,346	29,348
Gross profit	10,500	10,317
Selling, general and administrative expenses	8,447	9,288
Operating income	2,053	1,028
Non-operating income		
Interest income	2	2
Dividends income	123	104
Foreign exchange gains	77	158
Outsourcing service income	49	–
Other	82	64
Total non-operating income	335	330
Non-operating expenses		
Interest expenses	50	77
Loss on disposal of non-current assets	0	–
Compensation for damage	14	6
Dismantlement and removal costs	24	–
Other	25	18
Total non-operating expenses	114	102
Ordinary income	2,274	1,255
Extraordinary income		
Gain on sales of investment securities	326	564
Total extraordinary income	326	564
Extraordinary loss		
Loss due to COVID-19	–	23
Impairment losses	–	104
Loss on sales of investment securities	0	–
Total extraordinary loss	0	127
Net income before income taxes	2,599	1,693
Income taxes-current	944	745
Income taxes-deferred	40	6
Total income taxes	985	751
Net income	1,614	941
Loss attributable to non-controlling interests	(34)	(78)
Net income attributable to owners of parent	1,649	1,020

Consolidated Statement of Comprehensive Income

(million yen)

	2021	2022 (fiscal year)
Net income	1,614	941
Other comprehensive income		
Valuation difference on available-for-sale securities	(139)	(275)
Foreign currency translation adjustment	290	13
Retirement benefit-related adjustment	10	(11)
Total other comprehensive income	161	(273)
Comprehensive income	1,775	667
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,804	755
Comprehensive income attributable to non-controlling interests	(28)	(87)

Consolidated Statement of Cash Flows

(million yen)

	2021	2022 (fiscal year)
Cash flow from operating activities		
Net income before income taxes	2,599	1,693
Depreciation and amortization	745	944
Amortization of goodwill	14	46
Increase (decrease) in allowance for doubtful accounts	(5)	(0)
Increase (decrease) in retirement benefit-related adjustment	71	22
Increase (decrease) in provision for directors' retirement benefits	(9)	52
Interest and dividends income	(126)	(107)
Interest expenses	50	77
Foreign exchange losses (gains)	(72)	(15)
Loss (gain) on sales and valuation of investment securities	(325)	(564)
Decrease (increase) in notes and accounts receivable-trade	1,653	(196)
Decrease (increase) in inventories	(1,583)	(1,156)
Increase (decrease) in notes and accounts payable-trade	(28)	(204)
Impairment losses	–	104
Increase (decrease) in contract liabilities	1,172	(708)
Other	(1,006)	(696)
Subtotal	3,150	(709)
Interest and dividends income received	126	139
Interest expenses paid	(50)	(77)
Income taxes paid	(1,002)	(997)
Cash flow from operating activities	2,224	(1,644)
Cash flow from investing activities		
Payments into time deposits	(47)	(47)
Proceeds from withdrawal of time deposits	47	47
Purchase of investment securities	(423)	(22)
Proceeds from sales and redemption of investment securities	754	1,002
Purchase of property, plant and equipment and intangible assets	(1,697)	(2,174)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(733)	–
Payments for acquisition of businesses	(127)	–
Payments of loans receivable	(4)	(10)
Collection of loans receivable	7	5
Other	60	(26)
Cash flow from investing activities	(2,165)	(1,226)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(125)	968
Proceeds from long-term loans payable	1,099	1,084
Repayment of long-term loans payable	(46)	(187)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	51	–
Purchase of treasury stock	–	(0)
Repayments of finance lease obligations	–	(7)
Cash dividends paid	(1,260)	(1,147)
Cash flows from financing activities	(282)	710
Effect of exchange rate changes on cash and cash equivalents	168	41
Net increase (decrease) in cash and cash equivalents	(54)	(2,118)
Cash and cash equivalents at beginning of year	12,444	12,389
Cash and cash equivalents at end of year	12,389	10,270

Stock overview (as of March 31, 2023)

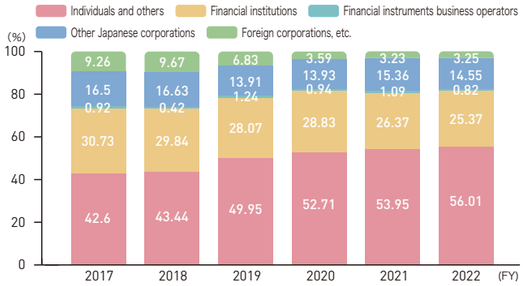
Financial instruments exchange where the stock is listed
Tokyo Stock Exchange Prime Market
Securities code 6306
State of issuance Total number of shares authorized for issuance: 150,000,000 shares
Total number of outstanding shares: 40,000,000 shares
(including 1,723,300 treasury shares)
Number of shares per unit 100 shares
Number of shareholders 14,541
Transfer agent Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212
Fiscal year From April 1 to March 31
Ordinary General Shareholders' Meeting
June (record date: March 31)
Registration deadline for year-end dividend payment :
March 31
Registration deadline for interim dividend payment :
September 30

Major shareholders (top 10)

Name	Number of Nikko shares held (1,000 shares)	Shareholding ratio (%)
Nikko Trading-Partner Shareholding Association	6,027	15.75
The Master Trust Bank of Japan, Ltd. (trust account)	3,848	10.05
Nikko Employees' Shareholding Association	1,776	4.64
Sumitomo Mitsui Banking Corporation	1,203	3.14
Custody Bank of Japan, Ltd. (trust account)	938	2.45
Nippon Life Insurance Company	855	2.23
Sumitomo Life Insurance Company	745	1.95
The Hyakujushi Bank, Ltd.	683	1.78
Meiji Yasuda Life Insurance Company	648	1.69
Nakanishi Electric Co., Ltd.	621	1.62
Total	**17,345**	**45.31**

Nikko holds treasury shares totaling 1,723,000, which are excluded from the above major shareholders. Shareholding ratios are the number of shares held divided by the total number of outstanding shares less the number of treasury shares, rounded off to second decimal place.

Composition of shareholder types (%)



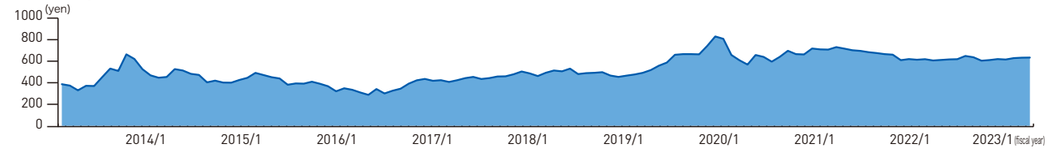
Stock performance comparison (TSR: total shareholder return, %)

Investment period	1 year (End of Mar. 2022 to end of Mar. 2023)	3 year (End of Mar. 2020 to end of Mar. 2023)	5 year (End of Mar. 2018 to end of Mar. 2023)	10 year (End of Mar. 2013 to end of Mar. 2023)
Nikko shares	9.4	19.4	68.7	132.1
TOPIX	5.8	53.4	31.8	142.1
Machinery index	8.6	67.1	29.3	152.6

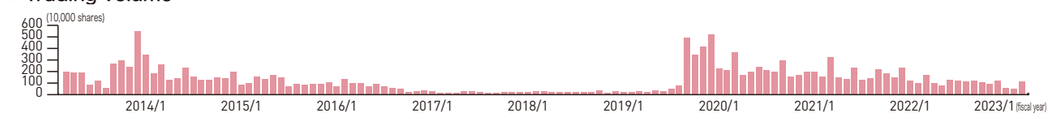
The above table shows total shareholder return including dividends as of the end of March 2023 in the cases of investment made a year ago, three years ago, five years ago, and 10 years ago.

Trend of share price and trading volume over the past 10 years (March 2013 - March 2023)

● Share price



● Trading volume



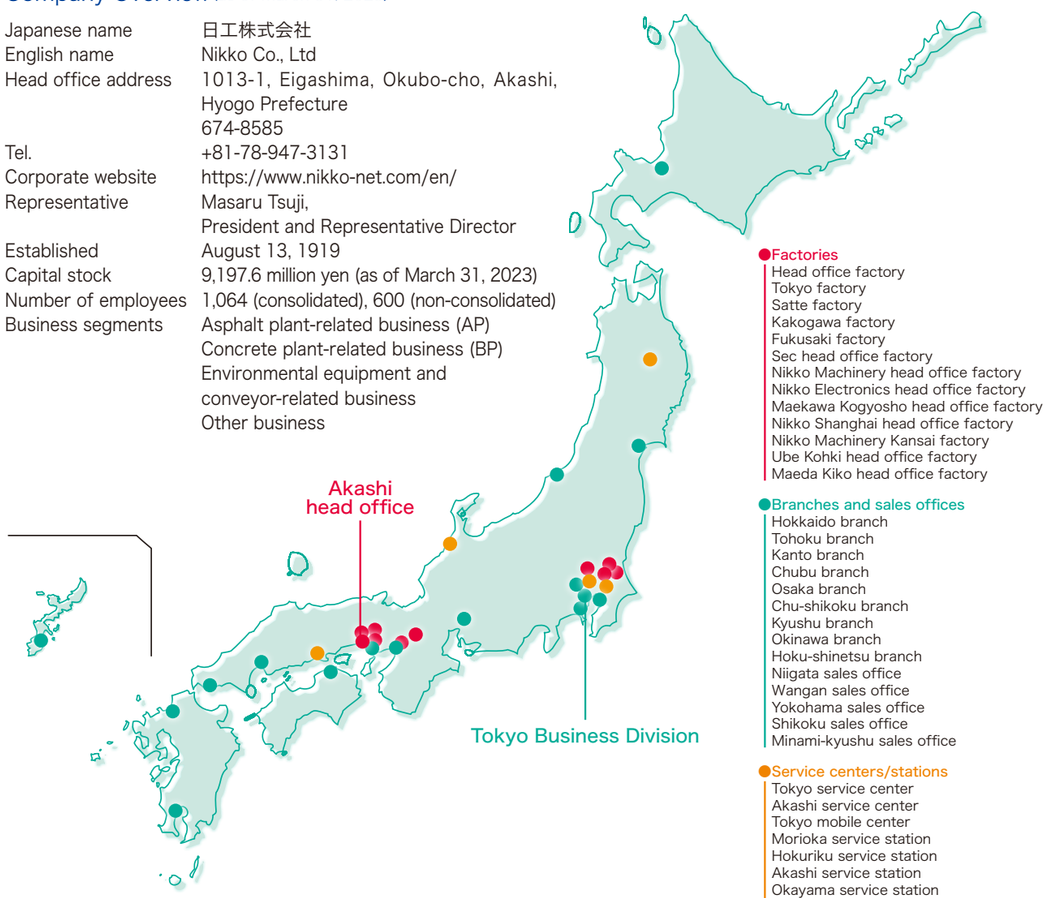
● Valuation of share price

	Mar. 2019	Mar. 2020	Mar. 2021	Mar. 2022	Mar. 2023
Year-end share price (yen)	481	609	731	607	634
PBR (times)	0.6	0.8	0.9	0.7	0.8
ROE (%)	4.4	5.2	6.8	5.2	3.2
PER (times)	13.7	14.8	13.5	14.1	23.8
Dividend yield (%)	2.5	6.6	4.5	4.9	4.7
Year-end market cap (mil. yen)	19,240	24,360	29,240	24,280	25,360

Company Overview and Offices and Sites

Company Overview (as of March 31, 2023)

Japanese name	日工株式会社
English name	Nikko Co., Ltd
Head office address	1013-1, Eigashima, Okubo-cho, Akashi, Hyogo Prefecture 674-8585
Tel.	+81-78-947-3131
Corporate website	https://www.nikko-net.com/en/
Representative	Masaru Tsuji, President and Representative Director
Established	August 13, 1919
Capital stock	9,197.6 million yen (as of March 31, 2023)
Number of employees	1,064 (consolidated), 600 (non-consolidated)
Business segments	Asphalt plant-related business (AP) Concrete plant-related business (BP) Environmental equipment and conveyor-related business Other business

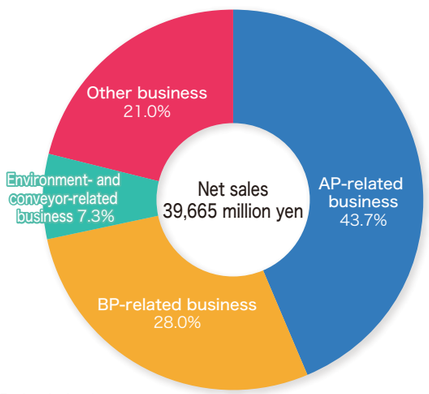


●Factories
- Head office factory
- Tokyo factory
- Satte factory
- Kakogawa factory
- Fukusaki factory
- Sec head office factory
- Nikko Machinery head office factory
- Nikko Electronics head office factory
- Maekawa Kogyosho head office factory
- Nikko Shanghai head office factory
- Nikko Machinery Kansai factory
- Ube Kohki head office factory
- Maeda Kiko head office factory

●Branches and sales offices
- Hokkaido branch
- Tohoku branch
- Kanto branch
- Chubu branch
- Osaka branch
- Chu-shikoku branch
- Kyushu branch
- Okinawa branch
- Hoku-shinetsu branch
- Niigata sales office
- Wangan sales office
- Yokohama sales office
- Shikoku sales office
- Minami-kyushu sales office

●Service centers/stations
- Tokyo service center
- Akashi service center
- Tokyo mobile center
- Morioka service station
- Hokuriku service station
- Akashi service station
- Okayama service station
- Shimonoseki parts center

Net sales breakdown by business segment (FY 2022)



AP: Asphalt plant
BP: Batching plant (concrete plant)

Group companies
- Nikko Electronics Corp.
- Nikko Machinery Co., Ltd.
- Tombo Industry Co., Ltd.
- Nikko Sec Co., Ltd.
- Nikko Kosan Co., Ltd.
- Maekawa Kogyosho Co., Ltd.
- Ube Kohki Co., Ltd. (a group company since March 2022)
- Matsuda Kikou K.K. (a group company since July 2022)
- Nikko (Shanghai) Construction Machinery Co., Ltd.
- Nikko Asia (Thailand) Co.,Ltd
- Nikko NilKhosol Co., Ltd. (established in June 2020)



Overseas bases
- Taiwan branch (Taiwan) Opened in February 1997
- Nikko (Shanghai) Construction Machinery Co., Ltd. Established in April 2001
- Nikko (Shanghai) Construction Machinery Co., Ltd. Beijing office (opened in August 1998)
- Nikko Asia (Thailand) Co., Ltd. (established in February 2020)
- Nikko NilKhosol Co., Ltd. (established in June 2020)

Summary of Subsidiaries

Nikko Electronics Co., Ltd.
Manufacture and sale of control systems, covering processes from circuit designing to manufacturing of control panels, switchboards and monitoring panels

Net sales (mil. yen)

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
1,669	1,727	1,661	1,642	1,726

Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2021	Percentage of sales to Nikko in FY 2022
7	1	94	80.1%	79.4%

Nikko Machinery Co., Ltd.
Manufacture and sale of construction equipment and flooding preventive equipment, including floodgates and waterproof boards

Net sales (mil. yen)

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
1,765	2,124	2,391	2,416	1,816

Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2021	Percentage of sales to Nikko in FY 2022
5	0	46	32.9%	35.1%

Nikko Sec Co., Ltd.
Manufacture and sale of temporary equipment and machinery for construction work, material handling machines, and computer-related equipment

Net sales (mil. yen)

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
1,519	1,692	1,738	1,531	1,377

Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2021	Percentage of sales to Nikko in FY 2022
5	0	30	2.2%	0.1%

Tombo Industry Co., Ltd.
Manufacture and sale of soil farming tools and gardening supplies, including shovels and scoops, and concrete mixers for mixing and kneading

Net sales (mil. yen)

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
688	660	690	743	757

Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2021	Percentage of sales to Nikko in FY 2022
5	0	15	1.1%	0.8%

Maekawa Kogyosho Co., Ltd.
Manufacture and sale of crushing plant, equipment, etc.

Net sales (mil. yen)

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
439	466	361	353	432

Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2021	Percentage of sales to Nikko in FY 2022
4	0	16	3.1%	2.7%

Nikko Kosan Co., Ltd.
Services related to housing renovation, property insurance agency, life insurance agent and real estate

Net sales (mil. yen)

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
471	471	420	476	460

Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2021	Percentage of sales to Nikko in FY 2022
3	1	11	33.9%	35.9%

Ube Kohki Co., Ltd.
Manufacture and installation of various plant facilities, design, manufacture and sale of gas holders, and development, manufacture and sale of solar LED lightings, etc.

FY 2022 Net sales (mil. yen)	Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2022
2,175	5	0	47	0.5%

Nikko (Shanghai) Construction Machinery Co., Ltd.
Manufacture and sale of asphalt / recycling plants and anti-pollution devices

Net sales (mil. yen)

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
3,468	3,756	3,632	3,956	4,990

Number of directors	Number of employees concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2021	Percentage of sales to Nikko in FY 2022
4	2	106	3.4%	3.2%

Nikko Asia (Thailand) Co., Ltd.

FY 2021 Net sales (mil. yen)	FY 2022 Net sales (mil. yen)	Number of directors	Number of employees concurrently holding position at parent	Number of employees
162	377	4	2	11

Nikko Nilkhosol Co., Ltd.

FY 2021 Net sales (mil. yen)	FY 2022 Net sales (mil. yen)	Number of directors	Number of employees concurrently holding position at parent	Number of employees
28	193	4	0	88

Making the world a resilient and gentle place.

For inquiries about this report, please contact:
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October 2023

VEGETABLE OIL INK