"Create the future with n"

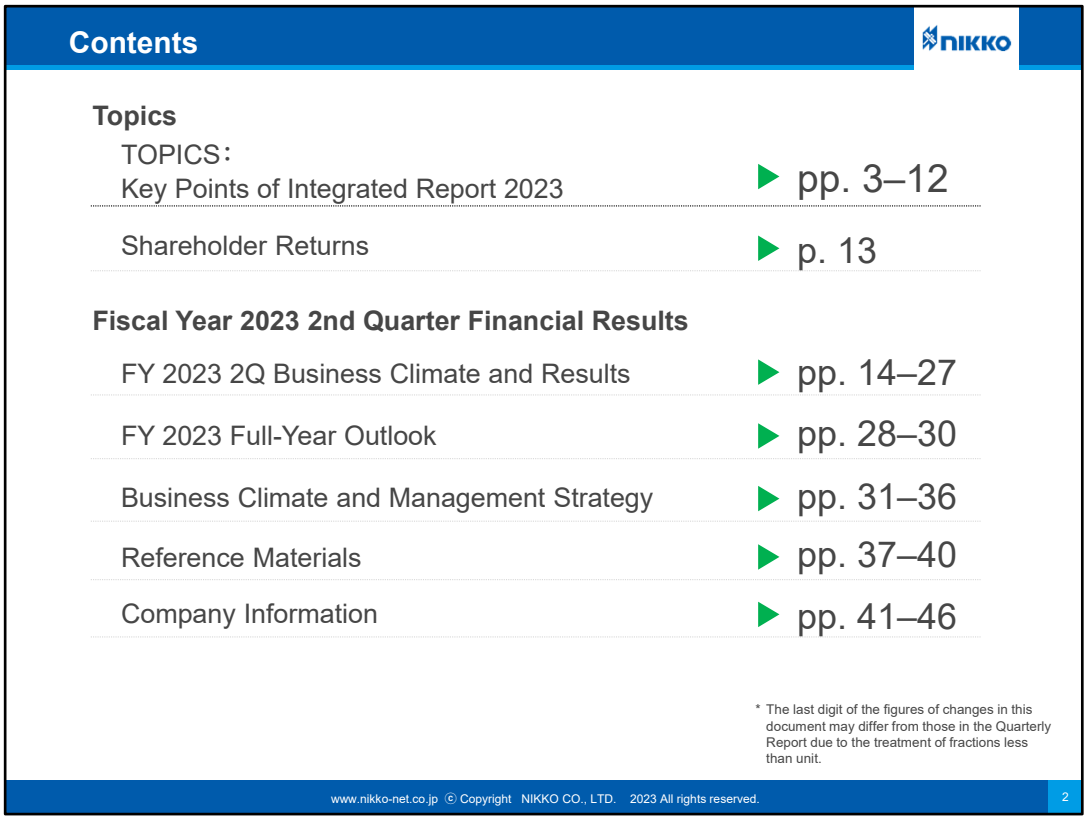
Fiscal Year 2023 (Ending March 31, 2024) 2nd Quarter Financial Results Briefing Session Materials

Tokyo Stock Exchange Code: 6306

Nikko Co., Ltd.

Hiroshi Fujii, Representative Director and Vice President

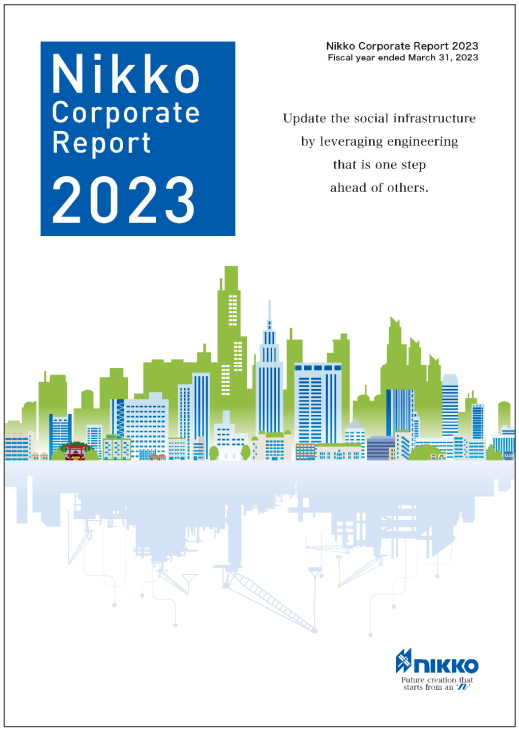
December 12, 2023



Fujii: Good evening, ladies and gentlemen. I am Hiroshi Fujii of Nikko Co., Ltd.

- Today, I would like to explain the key points of our integrated report and our business results for the first half of fiscal year ending March 2024, as we had announced the Nikko Group Integrated Report 2023 the other day.

TOPICS: Key Points of Integrated Report 2023





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- “Update the social infrastructure by leveraging engineering that is one step ahead of others. ” shown on the left is our mission that we stipulated last year in 2022. We have printed it on the cover page of the Integrated Report.

Key Points from the Top Message

- Development status of carbon neutrality (CN)-related products for AP customers such as road pavement companies who are committed to address the issue






From left
・Foamed equipment
・Asphalt mixture manufacturing test plant equipped with a hydrogen-only burner
・Hydrogen burner
・Hydrogen burner

- Approach being taken to address customer requests for unmanned operation of plants to realize workstyle reform and solve labor shortage




SiiLO, remote shipment system for mixture silos
See p. 10 of this briefing session material

- **Review of the first year of the Medium-Term Management Plan and new businesses**
- Business strategies of the two companies that became group companies through M&A

UBE KOHKI ✕ ㈱松田機工 → Existing contract-based manufacturing + Business to manufacture environment and recycling products

- Initiatives for sustainability transformation

Carbon neutrality ✕ Initiatives involving related industries in the market ✕ Human capital management

- ・Stakeholder engagement and improvement in corporate value

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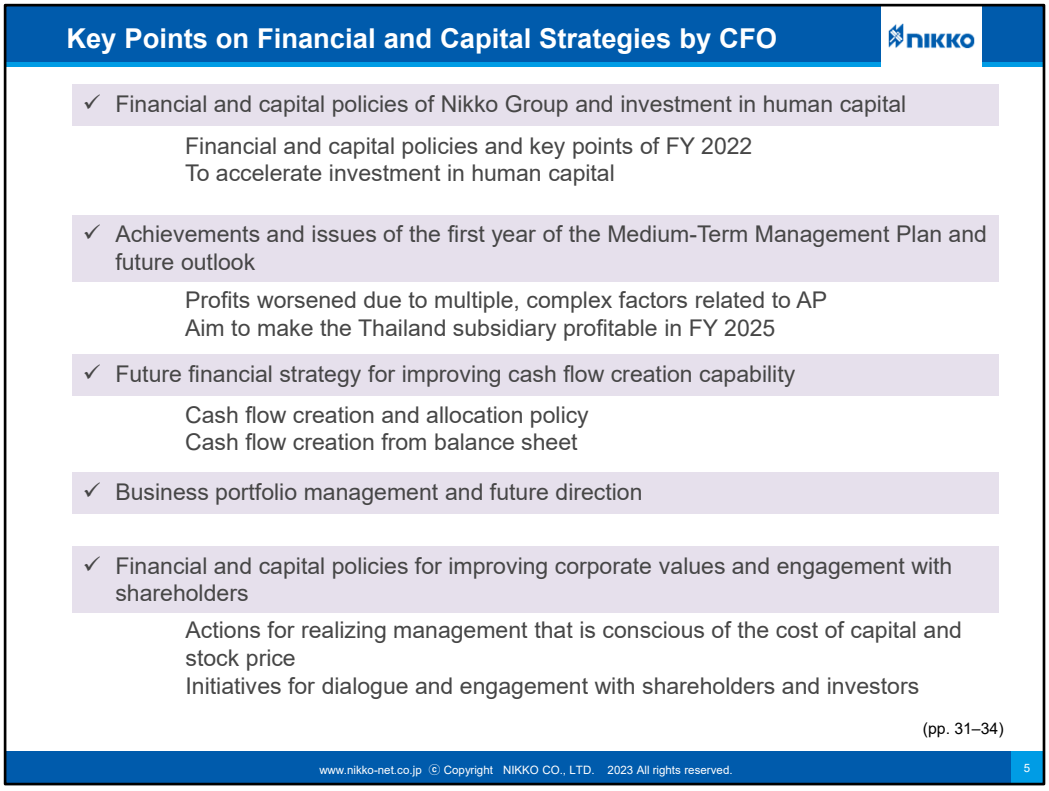
- I would like to begin my explanation, starting with the key points from the Top Message There are two key points that we are currently focusing on in particular. One is our actions towards carbon neutrality.
- Nikko is working on reducing the CO2 emitted from asphalt plants with the goal of achieving carbon neutrality by 2050. Specifically, we have been developing and marketing foamed equipment for warm-mix asphalt and are expecting about 60 units to be introduced in the current fiscal year. We are also focusing on fuel conversion and driving forward development for the shift towards hydrogen and ammonia.
- In addition, we are also working on unmanned plants to realize workstyle reform at customers and solve their labor shortage issue. In the current fiscal year, Nikko introduced a remote shipment system for mixture silos at asphalt plants and began delivery.
- We made progress in the Medium-Term Management Plan and purchased two companies, Ube Kohki in 2022 and Matsuda Kiko in 2023. The two companies are contract-based manufacturers and Nikko aims to expand the environmental business with the help of these companies.
- We are also placing emphasis on human capital management and planning a net increase of about 150 employees during the period of the Medium-Term Management Plan. We are also making efforts towards human resource development and aim to increase engagement with employees.



Next, I will explain the key points from the perspective of financial and capital strategies.

- To achieve the 2030 Vision, we will actively make investment in facilities, R&D, and human capital during the current Medium-Term Management Plan. Operating cash flow in FY 2022 was negative but it was something temporary and will not change our core policy of 2030 as we steadily work towards it.
- We developed an asphalt plant suitable for the ASEAN market with the aim of making the Thailand business profitable as soon as possible. We will introduce it in FY 2024 and aim to make the business profitable in FY 2025.
- Profitability of the asphalt plant business in Japan worsened due to the deteriorating appetite for capital investment caused by the soaring crude oil price, but it has been gradually heading toward recovery. Going forward, we will focus on improving our ability to make profits by leveraging our sufficient net assets and stable financial base for improving the ability to create cash flow.
- Our core businesses of asphalt plants and ready-mixed concrete plants are matured businesses in Japan but we believe there is potential for expanding the sales of the maintenance service business, so we aim to expand the number of employees engaged in maintenance service from our current number of 100 to 130 people.
- We will also strengthen our dialogue and engagement with shareholders and aim to realize an ROE that exceeds the cost of shareholders' equity.

Materiality, KPI, and What the Group aspires to be and how it is related

	Materiality	What the Group aspires to be and how it is related	KPI	SDG goals to be contributed
Sustainability of society	Realization of Carbon Neutrality	About 70% of CO2 emissions from APs in Japan (approx. 1.3 million tons a year) is estimated to be from Nikko plants. While it will become a major risk if Nikko is late to respond to this, the Group believes that there are also opportunities from various aspects starting from fuel conversion to electrification, as it is also an important social issue.	● CO2 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	
	Establishment of a resource recycling-oriented society	The arrival of a global recycling-oriented society is beneficial for Nikko in terms of the anticipated increase in recycling APs in China, as Nikko boasts a 99% recycling rate of asphalt waste and has a 70% share in APs in Japan. Nikko 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	
Nikko's Sustainability	Creation of new customer values	In its 2030 Vision, Nikko Group aims to become a "management partner of the customer through operation and maintenance service." The Group will not only improve customer satisfaction by leveraging DX and AI but also need to pursue subscription contracts of service and maintenance.	● Creating new values through DX ● Number of outsourced flat-rate service	
	Human resource development and improvement in job satisfaction	The importance of leveraging human capital will further increase in order to solve the materiality of 1 to 3. For Nikko to achieve the 2030 Vision, it is necessary to have human resources that includes diversity and inclusion, and improving motivation by nurturing them, as well as improving their work-life balance and well-being will also be important.	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) ● Turnover rate within three years of joining the company: 7%	

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Next is materiality and KPI, and What the Group aspires to be and how they are related.

- Nikko aims to realize carbon neutrality by FY 2030 and achieve sales of 2.7 billion yen in carbon-neutrality-related products.
- We are also working on human resource development and improving job satisfaction. Our targets are to have 7% in ratio of female managers, 10 hours of training time and 50,000 yen worth of training expenses per employee, 50% in ratio of acquisition of childcare leave by male employees, and reducing the turnover rate within three years from joining the company.

Human Resource Development and Improvement in Job Satisfaction: Human Capital Management and Specific Initiatives

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

Along with the Human Resource Development Policy, we formulated in-house environment development policies such as
・Measures to support the nurturing of the next-generation, and
・Promote the active participation by women

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Human Resource Development and Improvement in Job Satisfaction: Human Capital-related KPIs

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)

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

Retention rate three years after joining (%)

New graduates	92.3
People with prior work experience	81.0

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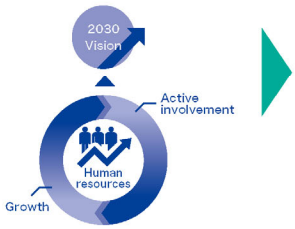
Human Resource Development and Improvement in Job Satisfaction: Key Points of the New Personnel System

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

★ Present a skill map and support for learning through a training program (every year)

★ Smart goal setting and thorough goal management

★ Managers have five one-on-one meetings a year regarding an established goal, in order offer a detailed follow-up and goal management

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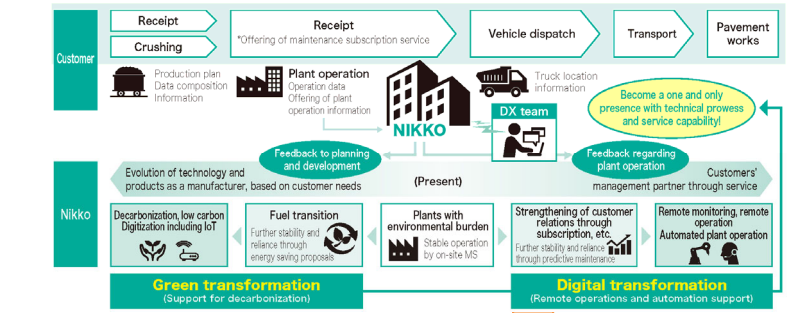
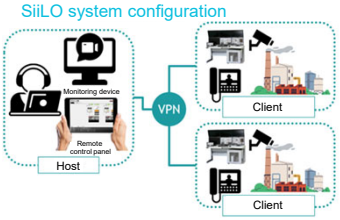
Creation of New Customer Values: Labor Shortage in the Civil Engineering Industry (1)



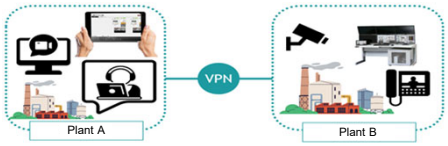
SiiLO, the first remote shipment system for mixture silos aimed at labor saving and DX solution in shipment of asphalt mixture, was completed and supplied to a customer

We aim for four plants a year from the next fiscal year and the first target is delivering to 20 plants

SiiLO system configuration



Mixture silos can be remotely operated regardless of location



An operator at Plant A can carry out shipment from a plant that has low shipment during night time (Plant B)
It also contributes to workstyle reform at Plant B, which until now had to station an operator even though the shipment volume was low

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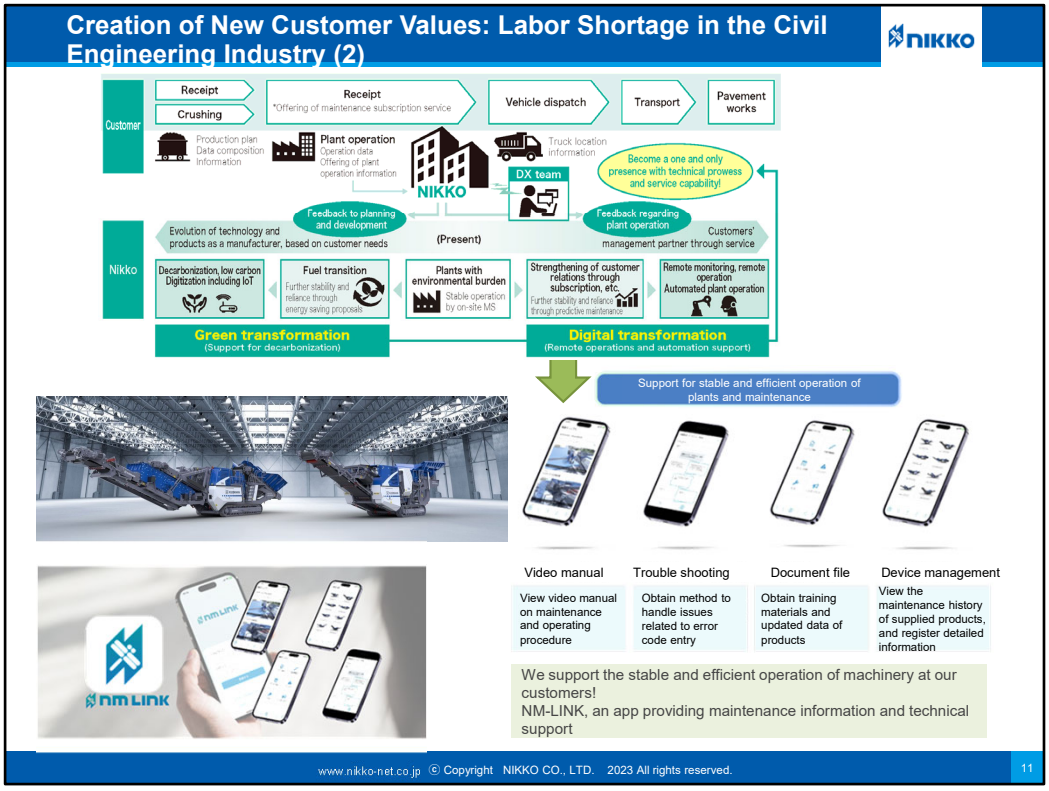
- We developed specific products to create new customer values and respond to labor shortages in the civil engineering industry, and recently introduced them in the market. In the future, our aim is to realize automated operation, in which we automate customer plants that are outsourced to us.
- By introducing the remote shipment system for mixture silos, which we developed and launched recently, it allowed the operation of multiple plants from one place. This enables significant optimization and manpower saving compared to conventional situations where workers needed to be dispatched to plants for shipment operations during night time and for small lot shipments.



- Another point is the mobile plant business, of which our mainstay product is crushers. We developed a system that enables troubleshooting and viewing materials using smartphones to promptly solve troubles and operation-related problems of crushers in the mobile plant business. This is expected to promote the self-maintenance of equipment by customers and improve the efficiency of the work carried out by Nikko employees.

Mobile Plant Business Contributing to the Emergency Restoration Plan for Ukraine

Nikko to **supply products to support Ukraine as part of Japan's emergency restoration plan for Ukraine**
Mobile crushers and screens manufactured by KLEEMANN

Phase 1: Models to be provided
◇ Jaw crushers: 2 units of MC110i EVO2 and MR110ZSi EVO2 (sales were recorded in March of FY 2022)
◇ Screen: 1 unit of MSC953i EVO (sales were recorded in May)

Phase 2: Models to be provided (to be shipped in Nov.–Dec.)
◇ Jaw crushers: 2 units of MC120 Pro
◇ Impact crushers: 2 units of MR130 EVO2
◇ Screen: 2 units of MSC953 EVO

* Jaw crushers: Crush raw materials between a fixed jaw and a movable jaw. For primary crushing.
Impact crushers: Crush raw materials by hitting with a hammer against a striking plate (iron plate). For secondary crushing.



Reference: Crushers by KLEEMANN

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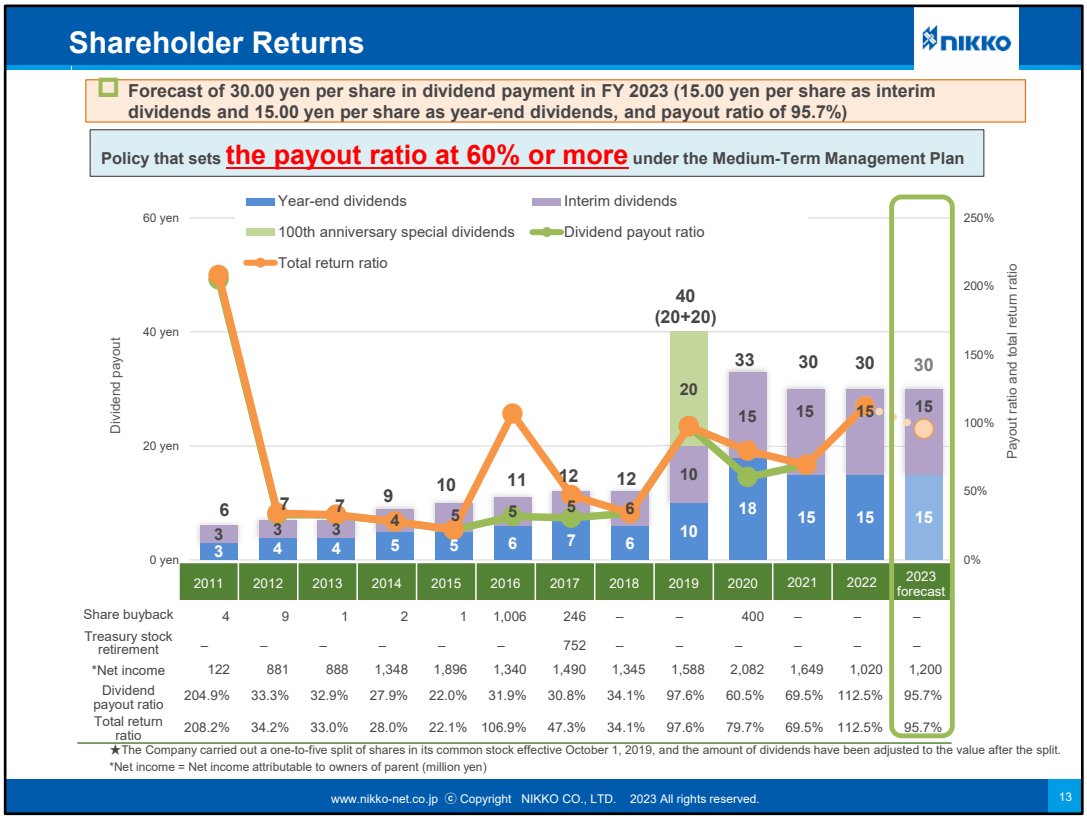
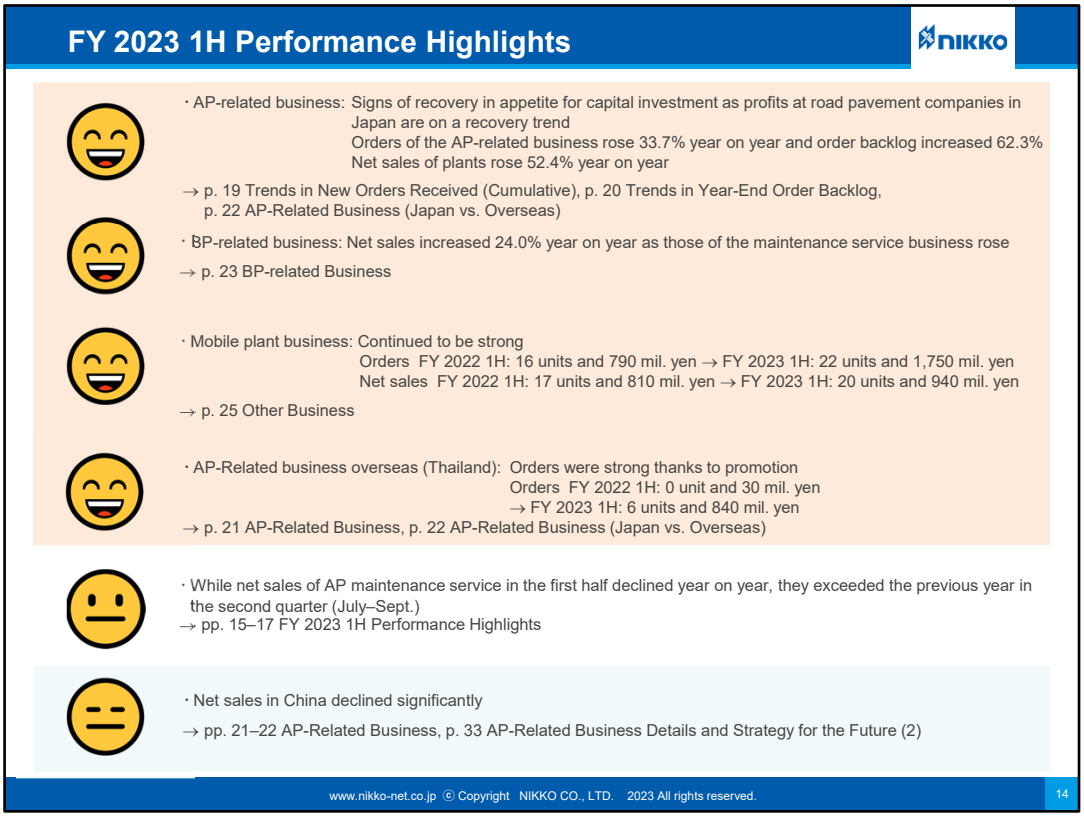
- Moving on to the next topic. These are the mobile crushers we offer. These were chosen as part of the Japanese government's support for Ukraine. We have shipped two jaw crushers in the fiscal year ended March 2023, and subsequently one screen in May 2023.
- In the second batch, we shipped two jaw crushers and one screen and in FY 2023 a total of six units consisting of two jaw crushers, two impact crushers, and two screens, cumulatively worth almost 1 billion yen.



Next is shareholder returns.

- In the current medium-term plan, we are working toward a target of 60% in payout ratio. Net income for FY 2023 is currently expected to be 1.2 billion yen. Regarding dividends, we paid 33 yen per share in FY 2020 and have been continuing with 30 yen per share since FY 2021. Before that, FY 2019 was our 100th anniversary and it included a commemorative dividend of 20 yen per share. We have been maintaining a reasonably high level of dividends.
- For FY 2023 also, as of now we are planning to pay 30 yen per share, the same as FY 2022, and not an amount that will make the payout ratio close to 60%.



From here on, I am going to discuss the business results.

- In the first half of FY 2023, our business performance was poor in the first quarter, and it was not very good either in the second quarter. Nevertheless, we are expecting major increases in both sales and profits for the full year. We are affected by seasonality, which means we have lower sales and profits in the first half compared with the second half.
- Highlights of the first half business results are that new orders received for AP in Japan increased more than 30% year on year, sales of BP maintenance rose 24% year on year, the mobile plant business was strong, and the Thailand business received orders for six units compared with zero in the previous fiscal year.
- By contrast, issues include a decline in sales of AP maintenance and a significant fall of sales in China. There is a downturn in the Chinese market due to the impact of the real estate slump and investment in infrastructure has been thinning, with customers refraining from buying plants.
- In terms of future outlook, we expect both sales and profits to grow in the second half and major increases in sales and profits for full year as well.

Business Climate in 1H FY 2023

Results for 1H of FY 2023

(million yen)

1H (Apr.–Sept.)	Results	YoY change (amount)	YoY change (%)
Net sales	16,982	(1,778)	(9.5%)
Operating income	269	(130)	(32.5%)
Quarterly net income attributable to owners of parent	348	+88	+33.9%
New orders received	25,128	+6,179	+32.6%

- Sales of AP-related business: Sales of plants in Japan greatly increased while those of maintenance service fell. Sales of the overseas business declined significantly. The segment ratio declined 17.8% year on year
- Sales of BP-related business: Sales of products in Japan declined, while those of maintenance remained roughly unchanged from a year earlier. The segment ratio fell 5.0% year on year

Business climate

AP-related business

1H of FY 2023 (Apr.–Sept.)	Results (10,000 tons)	YoY change
Mixture output	1,582	(5.1%)
Virgin mixture	389	(8.6%)
Recycled mixture	1,193	(3.9%)

Share of recycled mixture	75.4%

Source: Japan Asphalt Mixture Association

BP-related business

1H of FY 2023 (Apr.–Sept.)	Results (10,000m3)	YoY change
Ready-mixed concrete shipment	3,526	(4.7%)

Source: ZENNAMA (National Federation of Ready-Mixed Concrete Industrial Associations and National Federation of Ready-Mixed Concrete Cooperatives Association)

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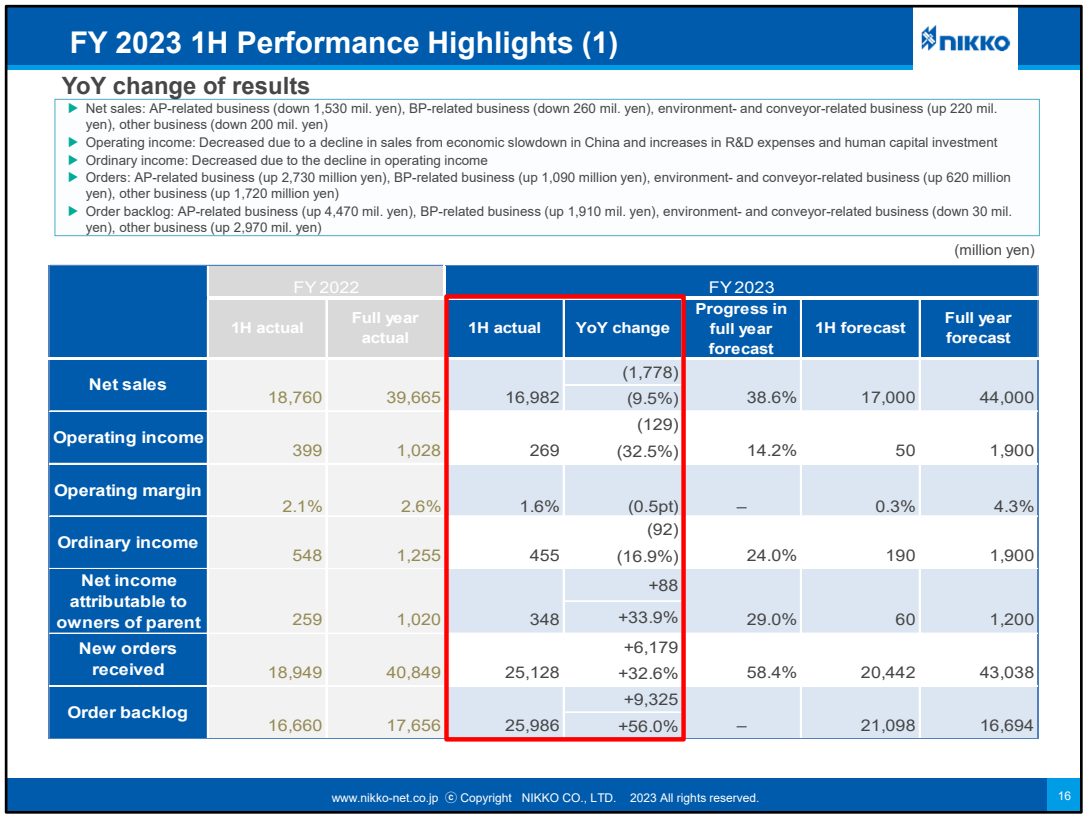
- When the figures are summarized, sales and operating income in the first half fell significantly year on year while net income increased slightly.
  New orders received rose more than 30% year on year. As for the business environment, the industry shipment volume of asphalt mixture and ready-mixed concrete declined year on year. New orders received increased more than 30% year on year, and the domestic business has been solid.



FY 2023 1H Performance Highlights (1)

YoY change of results

- Net sales: AP-related business (down 1,530 mil. yen), BP-related business (down 260 mil. yen), environment- and conveyor-related business (up 220 mil. yen), other business (down 200 mil. yen)
- Operating income: Decreased due to a decline in sales from economic slowdown in China and increases in R&D expenses and human capital investment
- Ordinary income: Decreased due to the decline in operating income
- Orders: AP-related business (up 2,730 million yen), BP-related business (up 1,090 million yen), environment- and conveyor-related business (up 620 million yen), other business (up 1,720 million yen)
- Order backlog: AP-related business (up 4,470 mil. yen), BP-related business (up 1,910 mil. yen), environment- and conveyor-related business (down 30 mil. yen), other business (up 2,970 mil. yen)

(million yen)

	FY 2022		FY 2023				
	1H actual	Full year actual	1H actual	YoY change	Progress in full year forecast	1H forecast	Full year forecast
Net sales	18,760	39,665	16,982	(1,778) (9.5%)	38.6%	17,000	44,000
Operating income	399	1,028	269	(129) (32.5%)	14.2%	50	1,900
Operating margin	2.1%	2.6%	1.6%	(0.5pt)	–	0.3%	4.3%
Ordinary income	548	1,255	455	(92) (16.9%)	24.0%	190	1,900
Net income attributable to owners of parent	259	1,020	348	+88 +33.9%	29.0%	60	1,200
New orders received	18,949	40,849	25,128	+6,179 +32.6%	58.4%	20,442	43,038
Order backlog	16,660	17,656	25,986	+9,325 +56.0%	–	21,098	16,694

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I have explained previously that the highlights of the first half business results included new orders received.

- Full-year net sales are expected to be 44.0 billion yen, operating income 1.9 billion yen, and net income 1.2 billion yen. New orders received were 25.0 billion yen in the first half and we are expecting new orders worth 18.0 billion yen in the second half for a total of 43.0 billion yen for the full year. However, new orders received have been more than expected judging from the current situation and we expect it to exceed 43.0 billion yen. Order backlog was 26.0 billion yen as of the end of the first half, which is up 10.0 billion yen year on year. While the order backlog includes sales for the next fiscal year, sales in the current second half are expected to become quite high.

FY 2023 1H Performance Highlights (2)

(million yen)

		FY 2022		FY 2023				
		1H actual	Full year actual	1H actual	YoY change	Progress in full year	1H forecast	Full year forecast
AP-related business	Net sales	8,652	17,341	7,114	(1,538) (17.8%)	39.5%	9,500	18,000
	Operating income	132	49	29	(103) (78.0%)	5.8%	300	500
	Operating margin	1.5%	0.3%	0.4%	(1.1pt)	–	3.2%	2.8%
BP-related business	Net sales	5,314	11,111	5,049	(265) (5.0%)	41.4%	4,500	12,200
	Operating income	505	1,017	504	(1) (0.2%)	38.8%	500	1,300
	Operating margin	9.5%	9.2%	10.0%	+0.5pt	–	11.1%	10.7%
Environment- and conveyor-related business	Net sales	1,222	2,888	1,450	+228 +18.7%	46.8%	1,350	3,100
	Operating income	236	522	332	+96 +40.7%	51.1%	200	650
	Operating margin	19.3%	18.1%	22.9%	+3.6pt	–	14.8%	21.0%
Other business	Net sales	3,571	8,324	3,367	(204) (5.7%)	31.5%	3,650	10,700
	Operating income	253	1,044	215	(38) (15.0%)	19.5%	200	1,100
	Operating margin	7.1%	12.5%	6.4%	(0.7pt)	–	5.5%	10.3%

- Net sales of AP-related business: Net sales of products in Japan were up 52.4% YoY and maintenance services fell 7.5%, while overseas net sales declined 66.6%
- Net sales of BP-related business: Net sales of plant products declined 24.6% YoY and maintenance services rose 24.0%
- Environment- and conveyor-related business: Net sales of environmental products were up 24.3% YoY and those of conveyor products increased 17.9%
- Net sales of other business: Net sales of mobile plants rose 17.3% YoY, waterproof boards rose 80.9%, temporary construction materials declined 1.7%, crushers decreased 33.3%, hand tools rose 3.3%, and Ube Kohki decreased 65.2%

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Next is forecast by segment.

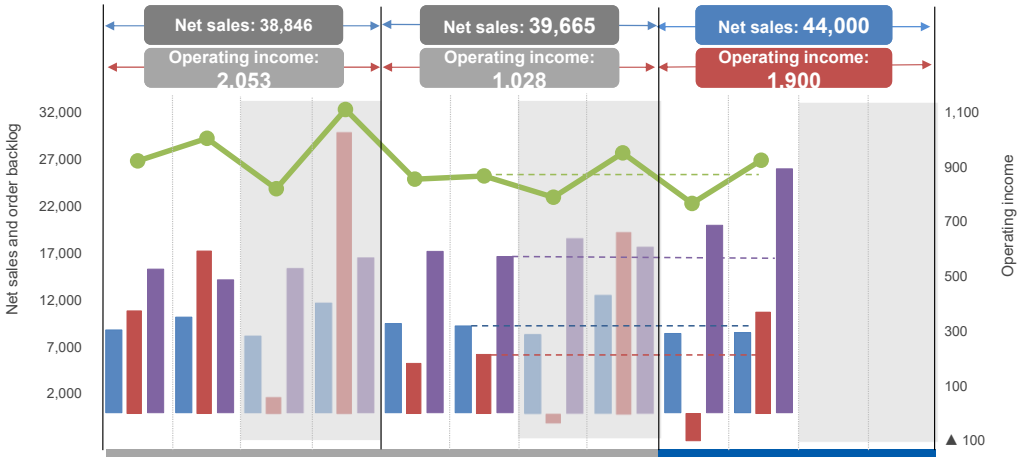
- Both sales and profits of the AP-related business declined in the first half, but they are expected to grow significantly in the full year reflecting the recovery in Japan. In the first half, results in the BP-related business were similar to the previous fiscal year, and we expect both sales and profits to increase significantly for the full year. The environment- and conveyor-related business was strong in the first half and it is expected to grow significantly for the full year. The other business saw a decline in both sales and profits in the first half, but those are expected to increase greatly for the full year with 10.7 billion yen in net sales and 1.1 billion yen in operating income.

- I am skipping the explanation for the next page. This is the three-year trends of quarterly sales and operating income. The next slide shows the annual changes in new orders received for about 10 years since FY 2014, and I will also be skipping the explanation for this page.

FY 2023 Quarterly Performance Trend

Quarterly net sales and operating income trends

(million yen)



	FY 2021				FY 2022				FY 2023			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net sales	8,817	10,191	8,157	11,681	9,504	9,255	8,368	12,536	8,446	8,536		
Operating income	375	593	58	1,026	183	215	(32)	660	(99)	368		
Operating margin	4.2%	5.8%	0.7%	8.8%	1.9%	2.3%	(0.4%)	5.3%	(1.2%)	4.3%		
Order backlog	15,298	14,155	15,342	16,490	17,202	16,660	18,560	17,656	19,987	25,986		

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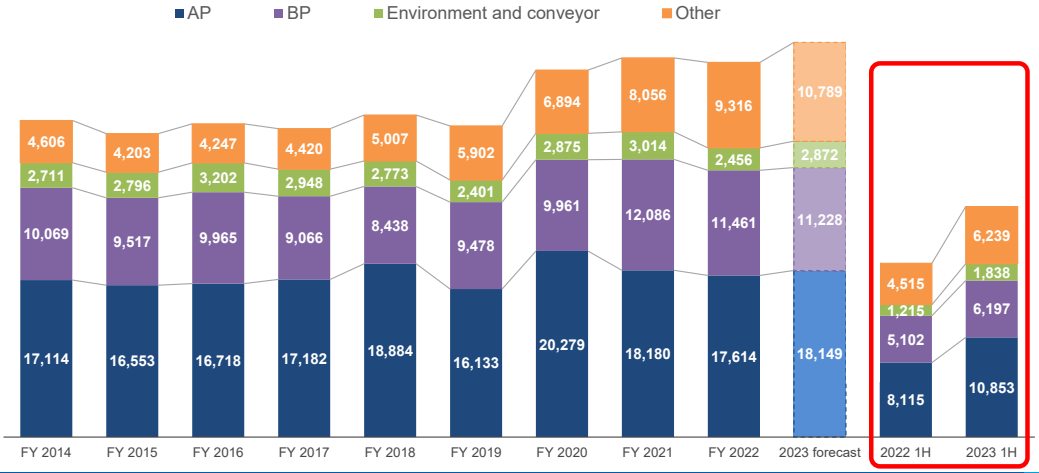
Trends in New Orders Received (Cumulative)

(million yen)

Full-year trend

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 forecast	FY 2022 1H	FY 2023 1H	YoY change
AP	17,114	16,553	16,718	17,182	18,884	16,133	20,279	18,180	17,614	18,149	8,115	10,853	+33.7%
BP	10,069	9,517	9,965	9,066	8,438	9,478	9,961	12,086	11,461	11,228	5,102	6,197	+21.5%
Environment and conveyor	2,711	2,796	3,202	2,948	2,773	2,401	2,875	3,014	2,456	2,872	1,215	1,838	+51.3%
Other	4,606	4,203	4,247	4,420	5,007	5,902	6,894	8,056	9,316	10,789	4,515	6,239	+38.2%
Total	34,501	33,069	34,134	33,616	35,103	33,915	40,009	41,337	40,849	43,038	18,949	25,128	+32.6%



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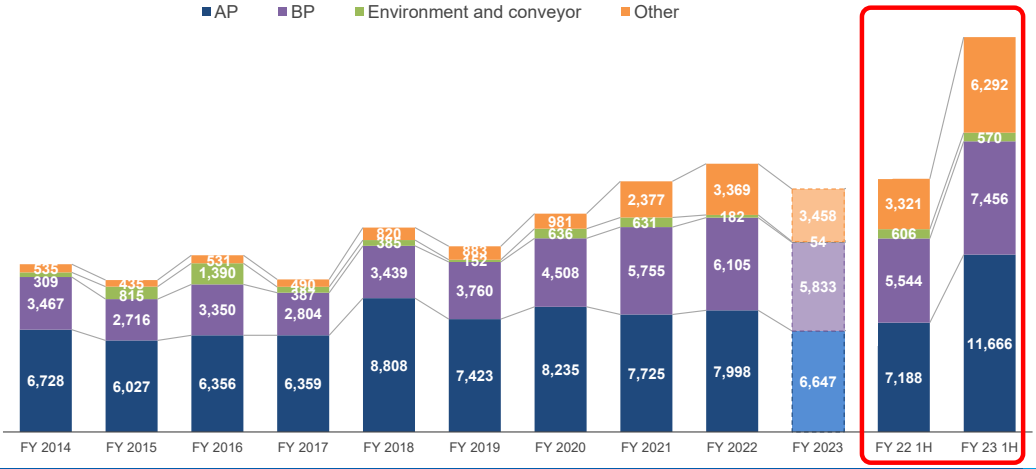
Trends in Year-End Order Backlog

(million yen)

Full-year trend

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 forecast	FY 2022 1H	FY 2023 1H	YoY change
AP	6,728	6,027	6,356	6,359	8,808	7,423	8,235	7,725	7,998	6,647	7,188	11,666	+62.3%
BP	3,467	2,716	3,350	2,894	3,439	3,760	4,508	5,755	6,105	5,833	5,544	7,456	+34.5%
Environment and conveyor	309	815	1,390	387	385	152	636	631	182	54	606	570	(5.9%)
Other	535	435	531	490	820	883	981	2,377	3,369	3,458	3,321	6,292	+89.5%
Total	11,039	9,997	11,629	10,132	13,454	12,219	14,361	16,490	17,656	15,992	16,660	25,986	+56.0%



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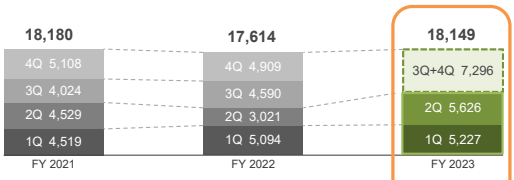
- Next, this is the trend of order backlog as of the end of the fiscal year. It has been gradually and steadily increasing, but the order backlog suddenly increased at the end of the first half of FY 2023.
- From the next slide on, it is about the AP-related business. I am skipping it as I have explained it to a certain extent. In overseas, China and Thailand are the countries we currently recognize as management issues.

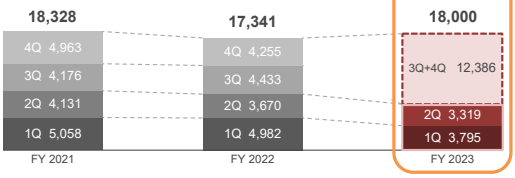
AP-Related Business

New orders received

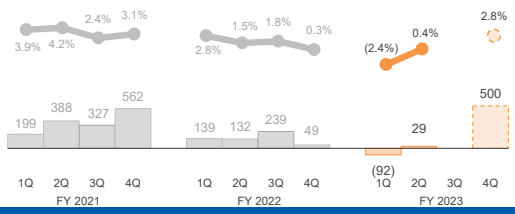
(million yen)



Net sales



Operating income and operating margin (cumulative)



▶ New orders received

・Up 33.7% YoY

Positive factors: [Japan] Foamed equipment required for manufacture of warm-mix asphalt for reducing CO2 emissions was strong

[Thailand] Orders increased thanks to the promotion sales strategy

Negative factors: [China] While the sharp decline in demand due to economic measures by the government seems to be bottoming out, outlook is unclear. Recovery is likely to take time

[Japan] Maintenance service declined 7.5% YoY. Recovery in capital investment requires some more time, though profitability of the industry is showing a recovery trend

▶ **Net sales**

・Down 17.8% YoY

Positive factors:

[Japan] Sales of foamed equipment required for manufacture of warm-mix asphalt for reducing CO2 emissions were strong (31 units)

Negative factors:

Overseas: [China] Sales declined greatly due to a fall in demand for plants for construction work as large-scale road works completed a cycle in addition to a decline in orders reflecting a sudden decrease in demand

[Thailand] Declined due to stagnation in construction work orders triggered by political reform

[Taiwan] Replacement demand completed a cycle in 2Q; orders have been steady

▶ **Operating income**

Negative factors:

・[Japan] Passing on of the soaring costs was being gradually accepted, but it is being delayed due to the worsening profitability in the industry

・[China] Posted operating loss due to a significant decline in orders and sales caused by a fall in demand and delays in purchase in addition to intensified selling-price competition

・[Thailand] Investment for improving factory facilities and measures for reducing costs are in progress

・[Taiwan] Passing on of soaring raw material prices did not make progress

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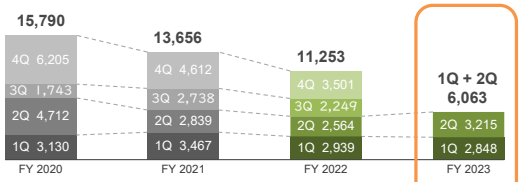
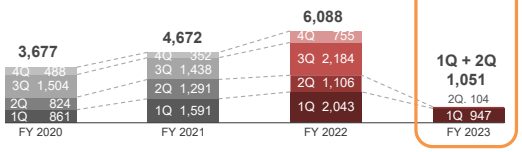
AP-Related Business (Japan vs. Overseas)

Domestic net sales

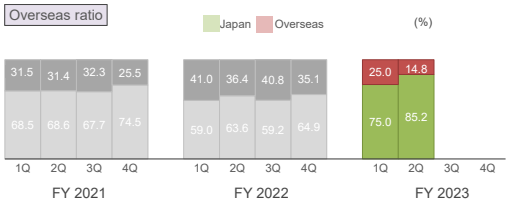
(million yen)



Overseas net sales



Overseas ratio



▶ **Japan**

・Up 10.2% YoY

・Plant products rose 52.4% YoY

・Maintenance services fell 7.5% YoY

▶ **Overseas**

・Down 66.6% YoY

・Exports: Down 70.7% YoY

・China: Down 62.8% YoY

・Thailand: Down 94.7% YoY

○China

There were no product shipments after the Chinese New Year in February due to a sudden decline in plant orders, and net sales in the second quarter significantly declined

○Thailand

No sales in the first half, but sales of 8 units (including recycling plants) are expected in the second half (1 unit order backlog from the previous fiscal year)
Planning promotion sales in the second half

○Exports (China and ASEAN other than Thailand)

[Taiwan] Replacement demand completed a cycle in 2Q; orders are steady

▶ **New overseas orders received and order backlog**
(New orders received are YoY and order backlog is vs. the end of FY 2022)

	New orders receive	Order backlog
China (Nikko Shanghai)	1,800 mil. yen (-35.3%)	2,190 mil. yen (+53.3%)
Thailand	840 mil. yen (+2632.2%)	870 mil. yen (– %)
Exports	570 mil. yen	700 mil. yen

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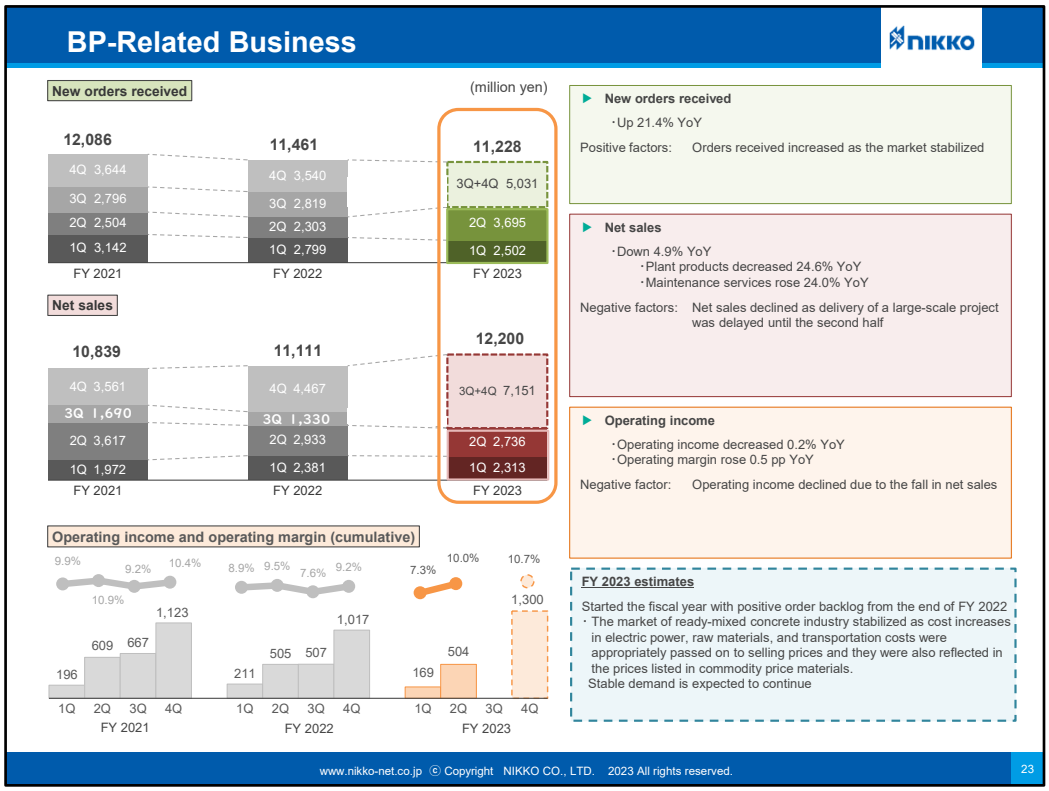
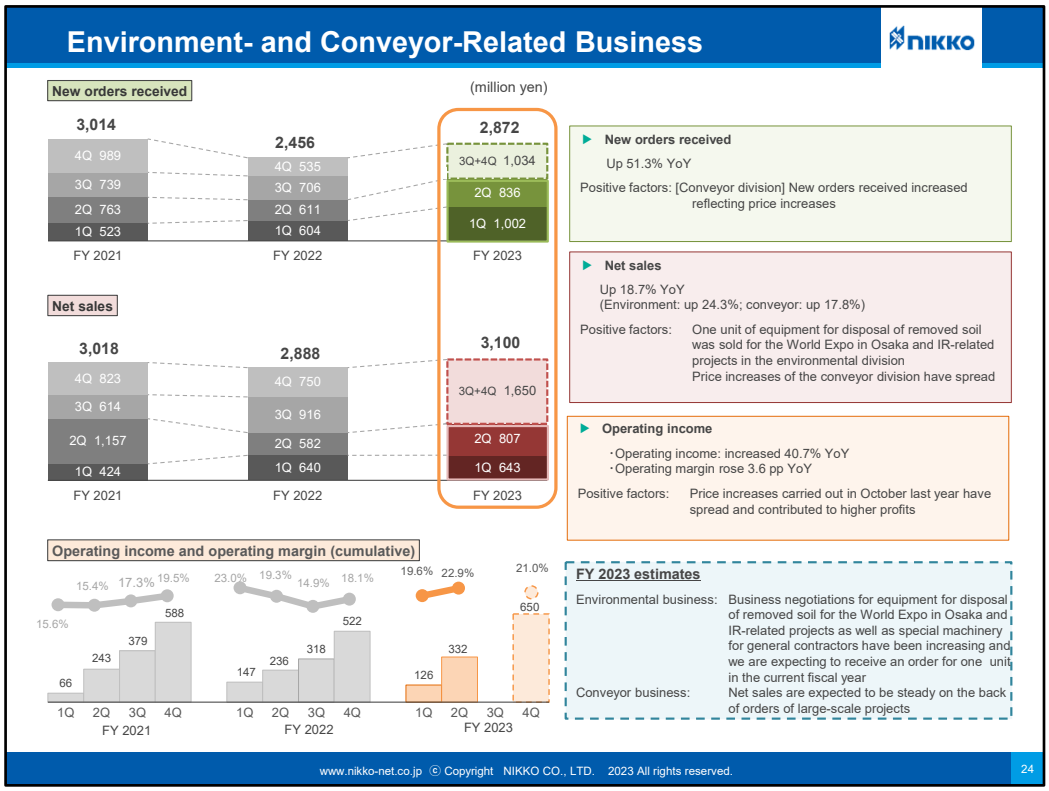


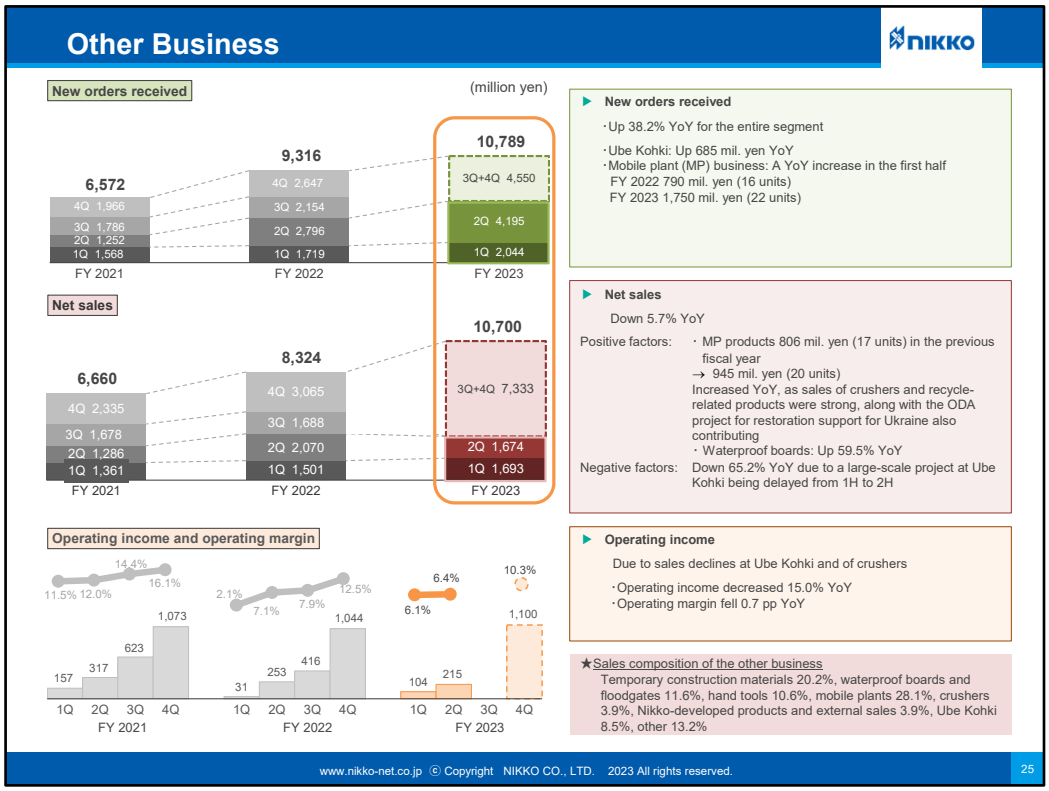
Next is the BP-related business.

Orders for BP again rose in the first half of the current fiscal year by 21%. We are expecting the BP-related business to be solid also for the full year. The stabilization of ready-mixed concrete price and the further rise in its price is behind this, so customers have extra capacity for capital investment.



This is about the environment- and conveyor-related business.

For conveyors, the effect of price hikes was quite significant. The number of units is roughly unchanged but the impact of price rises has been conspicuous.



Next is the other business.

The other business includes the two companies we acquired in M&A, and the figure for the other segment therefore is expected to greatly increase in the current fiscal year compared with the previous fiscal year.

Analysis of Factors Contributing to Changes in Ordinary Income in 2Q FY 2023



Item	Impact	Content
Contribution from net sales	(466)	Decline in net sales 1,778 million yen
Cost-of-sales ratio	+604	Improvement in cost-of-sales ratio 73.8%→70.2%
Personnel costs	(144)	Increases in number of employees and base pay
R&D expenses	(31)	Increase in development expenses
Travel and transportation expenses	(47)	An increase in business trips
Acquisition expenses	(60)	Expenses related to acquisition of Matsuda Kiko shares
Sales commissions	+54	A decline in sales commissions in Shanghai. Down 44 mil. yen
Other	(3)	An increase in dividends income +26 An increase in interest expenses -23, etc.

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Next, this is the analysis of factors contributing to the changes in ordinary income in the first half.

- Operating income in the same period a year ago was 548 million yen and it was 455 million yen in the first half of the current fiscal year. The largest negative factor is a decline in net sales. However, gross margin rate and cost-of-sales ratio significantly improved. Furthermore, personnel expenses and R&D expenses, which are forward-looking investments, have greatly increased from a year earlier.

Balance Sheet Trends

(million yen)

		End of FY 2022	FY 2023 2Q	Change	Main factors in year-on-year change		
Assets	Current assets	33,723	36,762	+3,039	Increase:	Cash and cash equivalents	+2,995 mil. yen
						Merchandise and finished goods	+153 mil. yen
						Work in process	+2,455 mil. yen
					Decrease:	Notes and accounts receivable-trade	(1,992 mil. yen)
						Electronically recorded monetary claims	(212 mil. yen)
						Other	(345 mil. yen)
	Property and equipment	11,839	12,733	+894	Increase:	Buildings and structures	+200 mil. yen
						Land	+329 mil. yen
						Construction in progress	+390 mil. yen
	Intangible assets	1,020	1,182	+161		Software in progress	+147 mil. yen
	Investments and other assets	5,544	6,447	+903		Investment securities	+1,196 mil. yen
					Decrease:	Machinery, equipment and vehicles	(106 mil. yen)
						Deferred tax assets	(393 mil. yen)
Total assets		52,127	57,127	+4,999			
Liabilities	Current liabilities	15,338	17,061	+1,723	Increase:	Electronically recorded obligations	+268 mil. yen
						Short-term loans payable	+284 mil. yen
						Contract liabilities	+1,691 mil. yen
						Long-term loans payable	+2,503 mil. yen
					Decrease:	Notes and accounts payable-trade	(203 mil. yen)
						Accounts payable-factoring	(106 mil. yen)
						Accounts payable-other	(141 mil. yen)
	Long-term liabilities	5,184	7,693	+2,508			
Total net assets		31,604	32,372	+768	Increase:	Valuation difference on available-for-sale securities	+852 mil. yen
						Foreign currency translation adjustment	+101 mil. yen
					Decrease:	Shareholders' equity	(225 mil. yen)
						Retained earnings	
Net assets per share (yen)		826.73	846.50	+19.77			

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This shows the balance sheet trends.

- Overall, total assets increased about 5.0 billion yen compared with the end of the fiscal year ended March 2023, which is six months ago. There was a special factor of cash and cash equivalents being high as of the end of September, and this was also due to the acquisition. Also, orders have been very strong. A major feature is the significant increase in work in process.

- This is the full-year forecast. I had read out the full-year figures earlier, so I am omitting it here. I have explained the segments previously, so I will skip it here.

FY 2023 Full-Year Forecast (1)

(million yen)

	FY 2022			FY 2023		
	1H	2H	Full year	1H	2H forecast	Full year forecast
Net sales	18,760	20,905	39,665	16,982	27,018	44,000
Operating income	399	629	1,028	269	1,631	1,900
Operating margin	2.1%	3.0%	2.6%	1.6%	6.0%	4.3%
Ordinary income	548	707	1,255	455	1,445	1,900
Net income attributable to owners of parent	259	761	1,020	348	852	1,200
New orders received	18,949	21,900	40,849	25,128	17,910	43,038
Order backlog	16,660	17,656	17,656	25,986	16,694	16,694

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FY 2023 Full-Year Forecast (2)

(million yen)

		FY 2022 results			FY 2023 forecast			
		1H	2H	Full year	1H actual	Progress in full year forecast	2H forecast	Full year forecast
AP-related business	Net sales	8,652	8,689	17,341	7,114	39.5%	10,886	18,000
	Operating income	132	(83)	49	29	6%	471	500
	Operating margin	1.5%	–	0.3%	0.4%	–	4.3%	2.8%
BP-related business	Net sales	5,314	5,797	11,111	5,049	41.4%	7,151	12,200
	Operating income	505	512	1,017	504	38.8%	796	1,300
	Operating margin	9.5%	8.8%	9.2%	10.0%	–	11.1%	10.7%
Environment- and conveyor-related business	Net sales	1,222	1,666	2,888	1,450	46.8%	1,650	3,100
	Operating income	236	286	522	332	51.1%	318	650
	Operating margin	19.3%	17.2%	18.1%	22.9%	–	19.3%	21.0%
Other business	Net sales	3,571	4,753	8,324	3,367	31.5%	7,333	10,700
	Operating income	253	791	1,044	215	19.5%	885	1,100
	Operating margin	7.1%	16.6%	12.5%	6.4%	–	12.1%	10.3%
Corporate expenses		(727)	(878)	(1,605)	(812)		(838)	(1,650)

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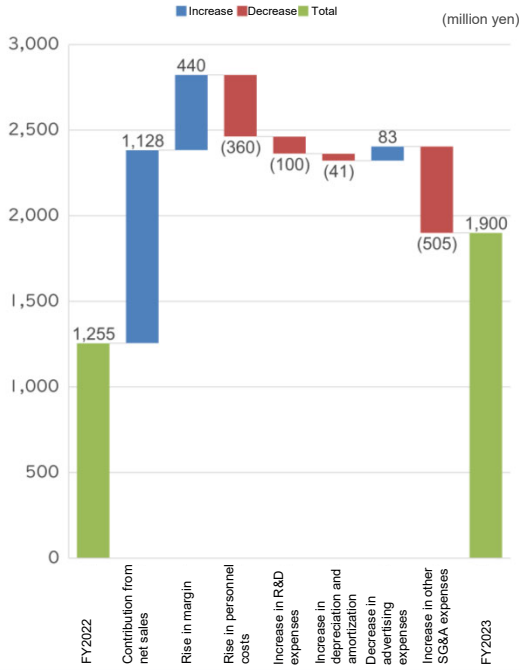
Factor Analysis of Changes in Ordinary Income for FY 2023 (Forecast)



(million yen)

Item	Impact	Content
Contribution from net sales	+1,128	Increase in net sales +3,154
Margin	+440	1% improvement from price increase
Personnel costs	(360)	Increase in wage (200) Increase in number of employees (160)
R&D expenses	(100)	
Depreciation and amortization	(41)	
Advertising expenses	+83	Absence of Nikko Messe portion seen in FY 2022
Other SG&A expenses	(505)	

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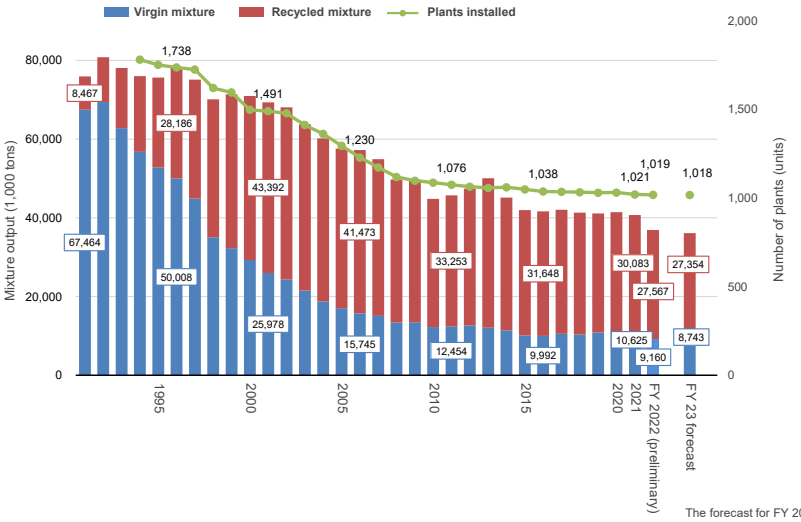
This is the comparison between the full-year ordinary income and that of the previous fiscal year through the year.

- The ordinary income for the previous year was 1.255 billion yen, which was very poor. We are forecasting 1.9 billion yen for the current fiscal year. You might have doubts looking at the figures for the first half, but order backlog is 10 billion yen more compared with the same period a year earlier and profits are expected to grow strongly in the second half.
- Factors boosting profits include contribution of net sales, and sales will increase significantly in the second half. Cost-of-sales ratio improved 3 pp in the first half alone, but we are expecting an improvement of about 1 pp for full year. On the other hand, investments such as personnel expenses, R&D expenses, and depreciation and amortization will certainly increase, so they are negative.

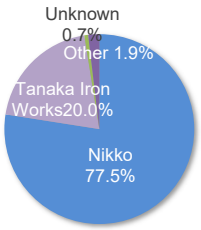
AP-Related Business Climate and Outlook

Asphalt mixture output and number of asphalt plants installed



The forecast for FY 2023 was made by Nikko

AP steady-state share



FY 2022 Nikko survey

- The industry has been pursuing price increase of asphalt mixture and business performance of the industry as a whole and is expected to improve gradually in the second half
- There is latent demand for replacing aged facilities and appetite for capital investment is expected to recover along with an improvement in business performance of the industry as a whole
- Inquiries for decarbonization-related products has been increasing and the Group is placing hope on continued growth of such products.

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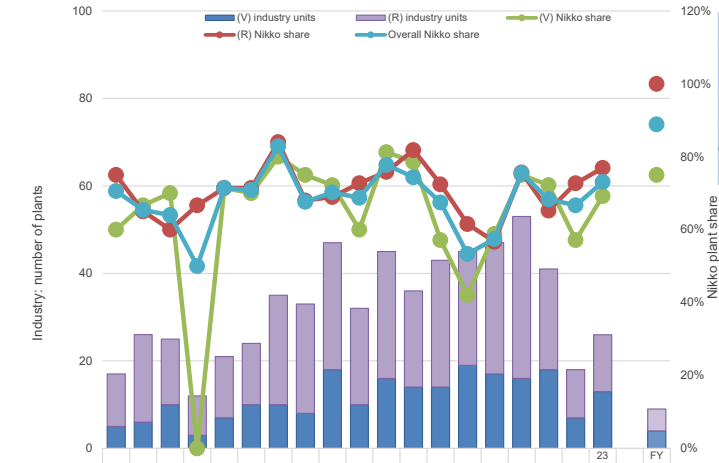
AP-Related Business Details and Strategy for the Future (1)

AP demand and Nikko share



	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23 prediction		FY 23 1H
(R) industry units	12	20	15	9	14	14	25	25	29	22	29	22	29	26	30	37	23	11	13		5
(V) industry units	5	6	10	3	7	10	10	8	18	10	16	14	14	19	17	16	18	7	13		4
(V) Nikko share	60%	67%	70%	0%	71%	70%	80%	75%	72%	60%	81%	79%	57%	42%	59%	75%	72%	57%	69%		75%
(R) Nikko share	75%	65%	60%	67%	71%	71%	84%	68%	69%	73%	76%	82%	72%	62%	57%	76%	65%	73%	77%		100%
Overall Nikko share	71%	65%	64%	50%	71%	71%	83%	68%	70%	69%	78%	74%	67%	53%	57%	75%	68%	67%	73%		89%

V: Virgin mixtures
R: Recycled materials

Source: Nikko

New product performance in AP-related business

(units)

	18	19	20	21	22	FY 23 1H
Number of new model APs (VP and MBD)	3	5	2	3	2	1
Number of crushing plants	0	2	2	1	1	0
Number of decarbonization -related products	3	2	2	9	19	31

★Decarbonization-related products
(Foamed asphalt device, biomass burner, etc.)

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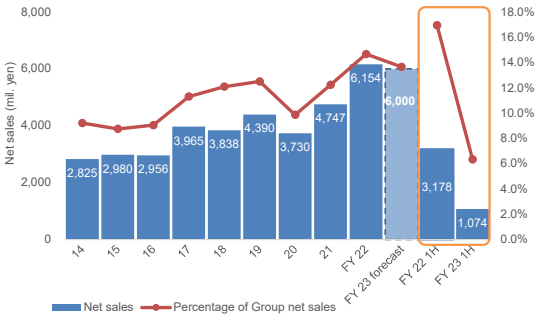
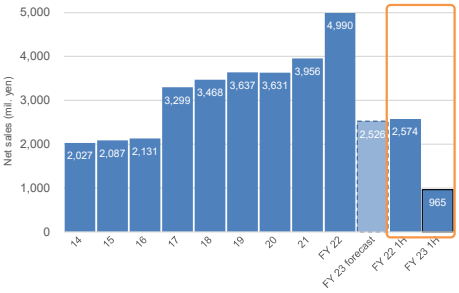
AP-Related Business Details and Strategy for the Future (2)

Nikko's overseas net sales and overseas sales ratio



Nikko Shanghai net sales

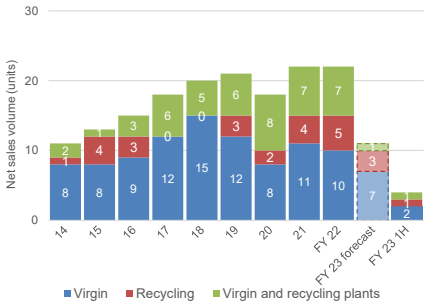


[China (Nikko Shanghai)]
In the Chinese market, the real estate industry has been sluggish and demand continues to be significantly lower for construction machinery in general. The outlook largely depends on the economic measures by the government. At present, we cannot expect it in this year but capital investment plans for next year have been slowly increasing and we will strive to recover sales through cost reduction and the promotion of superiority of product performance even though there is intense price competition

[Thailand]
Budget is expected to focus on maintenance works and expansion works for existing roads. Inquiries have been increasing for the use of recycled materials for existing road works and also due to environmental needs. We estimate mixture volume to be high in the north and northeastern areas, which will be the main target from the next fiscal year onwards

[Taiwan]
Business negotiations for parts and partial replacement are expected to continue and we will strengthen our sales structure.

Nikko Shanghai AP unit sales



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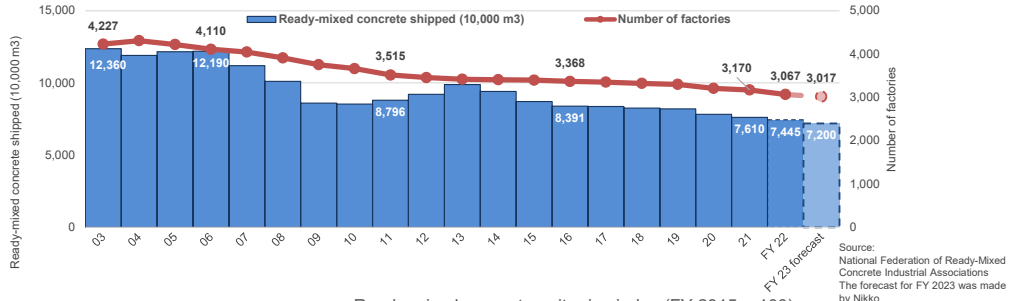
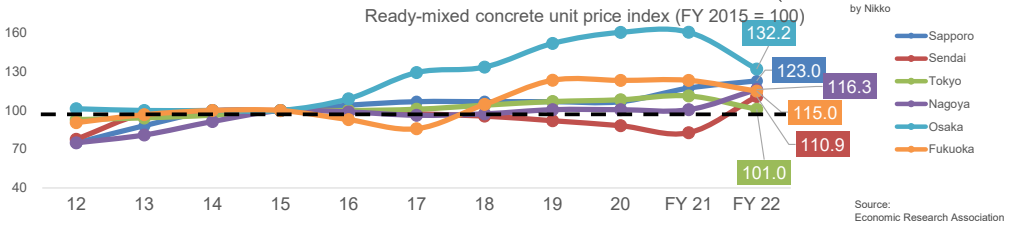
BP-Related Business Climate and Outlook

Trends in ready-mixed concrete shipments, price, and number of factories



Source:
National Federation of Ready-Mixed Concrete Industrial Associations
The forecast for FY 2023 was made by Nikko



Source:
Economic Research Association

▶ Ready-mixed concrete shipment in Japan was 74.45 million m3 in FY 2022 according to National Federation Ready-Mixed Concrete Industrial Associations and it was slightly below the level a year earlier. While private demand regained strength throughout Japan, prolonged slump in public demand continues to stand in the way of recovery in demand. Under such circumstances, the ready-mixed concrete industry adequately passed on the increases in costs of electricity, raw materials, and transportation to the selling prices despite the declining number of ready-mixed concrete plants reflecting the downward trend in shipment volume, and price of ready mixed concrete price has increased

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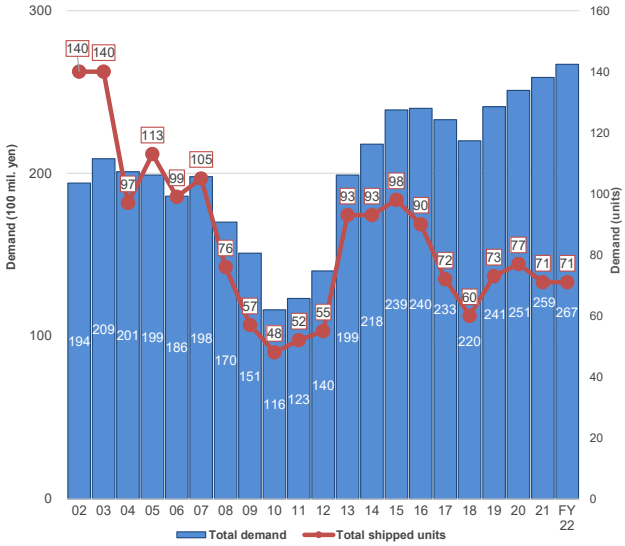
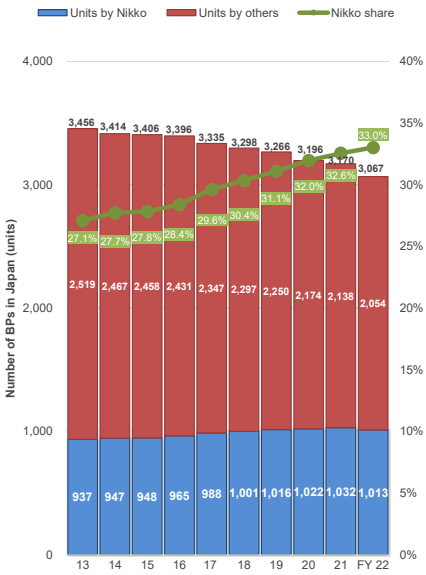
BP-Related Business Details and Strategy for the Future

Total BP demand (value and number of units)



Source:
Japan Construction Equipment Manufacturers Association's BP Subcommittee
(Maintenance services included in demand amount)

BP steady-state share trends



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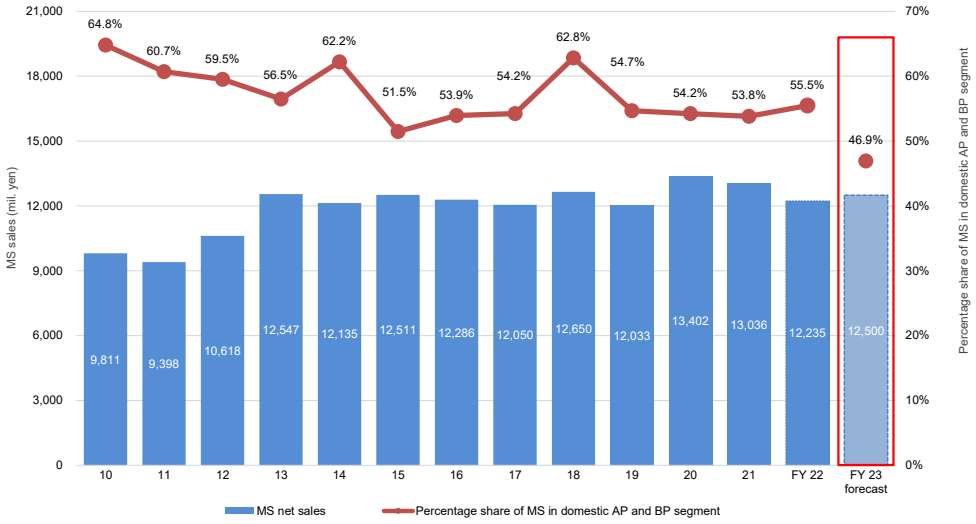
Maintenance Service Business Net Sales Level and Share

AP and BP maintenance service: Net sales level and share



*The ratio of MS is expected to decline in FY 2023 due to a significant increase in the sales of plants.

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Trends in Net Sales, Profit, Cash Flows, and Other Indicators

(million yen)

	FY 21				FY 22				FY 23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net sales	8,817	10,191	8,157	11,681	9,504	9,256	8,369	12,536	8,446	8,536		
AP-related business	5,058	4,131	4,176	4,963	4,982	3,670	4,433	4,256	3,795	3,319		
BP-related business	1,972	3,617	1,690	3,561	2,381	2,933	1,330	4,467	2,313	2,736		
Environment- and conveyor-related business	424	1,157	614	823	640	582	916	750	643	807		
Other business	1,361	1,286	1,678	2,335	1,501	2,070	1,688	3,065	1,693	1,674		
Operating income	375	593	59	1,026	183	216	(32)	661	(99)	368		
AP-related business	199	189	(61)	235	139	(7)	107	(190)	(92)	121		
BP-related business	196	413	58	456	211	294	2	510	169	335		
Environment- and conveyor-related business	66	177	136	209	147	89	82	204	126	206		
Other business	157	160	306	450	31	222	163	628	104	111		
Corporate expenses	(244)	(345)	(382)	(322)	(345)	(382)	(388)	(490)	(407)	(405)		
Ordinary income	519	586	89	1,079	326	222	(19)	726	67	388		
Net income attributable to owners of parent	378	489	16	766	140	119	(35)	796	27	321		

Cash flow from operating activities	2,224				(1,644)				–			
Cash flow from investing activities	(2,165)				(1,226)				–			
Total dividend	687	–	573	–	573	–	574	–	574	–	–	–
Share buyback	0				0				–			

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Trends in New Orders Received and Order Backlog per Business Segment (Cumulative)

(million yen)

New orders received (cumulative)	FY 21				FY 22				FY 23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
AP-related business	4,519	9,048	13,072	18,180	5,094	8,115	12,705	17,614	5,227	10,853		
BP-related business	3,142	5,646	8,442	12,086	2,799	5,102	7,921	11,461	2,502	6,197		
Environment- and conveyor-related business	523	1,286	2,025	3,014	604	1,215	1,921	2,456	1,002	1,838		
Other	1,568	2,820	4,606	6,572	1,719	4,515	6,669	9,316	2,044	6,239		
Total	9,753	18,802	28,146	39,853	10,217	18,949	29,217	40,849	10,777	25,128		

End-of-term order backlog	FY 21				FY 22				FY 23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
AP-related business	7,696	8,094	7,942	7,725	7,837	7,188	7,344	7,998	9,430	11,666		
BP-related business	5,678	4,565	5,672	5,755	6,173	5,544	7,032	6,105	6,295	7,456		
Environment- and conveyor-related business	734	341	466	631	596	606	396	182	540	570		
Other	1,187	1,154	1,261	2,377	2,595	3,321	3,787	3,369	3,720	6,292		
Total	15,298	14,155	15,342	16,490	17,202	16,660	18,560	17,656	19,987	25,986		

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Trends in Capital Investment, Depreciation and Amortization, R&D Expenses, and Nonfinancial Data

(million yen)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Capital investment	844	815	877	1,261	550	1,889	1,483	2,748	1,907	2,214
Depreciation and amortization	395	422	487	482	472	508	611	677	759	990
R&D expenses	295	276	227	271	291	211	379	392	449	576

(persons, years old, or years)

Number of employees (consolidated)	767	796	803	797	807	799	838	861	1,038	1,064
Average age of employees (non-consolidated)	43.3	43.1	42.2	42.3	42.2	40.9	41.1	41.1	40.8	40.3
Average years of service (non-consolidated)	20	19.3	18.2	18.5	18.3	16.0	15.8	15.4	15.3	14.7
Female employees (non-consolidated)	31	33	39	42	42	45	51	55	59	69
Number of new-graduate hires (non-consolidated)	21	21	30	17	19	15	14	13	29	32
Number of female new-graduate hires (non-consolidated)	1	3	1	2	0	0	0	0	3	6
Percentage of female hires (non-consolidated)	4.7%	14.2%	3.3%	11.7%	0%	0%	0%	0%	10.3%	18.8%
Number of foreign-national hires (non-consolidated)	6	0	0	0	1	1	0	1	0	8
Number of foreign-national employees (non-consolidated)	8	6	6	6	7	8	5	5	6	13
Foreign national employees (consolidated)	91	95	94	93	101	98	116	116	194	205
Overseas employees (consolidated)	91	95	92	91	101	98	123	121	197	214

New products for reducing environmental impact

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2022
New products	[Sand dryer] [High-temperature preheating burner]	[NTB-II burner]	[Newly designed bag filter]	[VP Series APs]	–	[Foamed asphalt manufacturing equipment]	[Powdered fuel burner]
Features reducing environmental impact	・Higher plant production efficiency ・Energy saving	・Energy saving ・Higher combustion efficiency in combustion range	・Space saving ・Energy saving ・Exhaust gas reduction ・Low noise	・Preventing diffusion of recycled material odorous gas	–	・Support for manufacture of warm-mix asphalt	・Aimed at burning powdered biomass fuels ・Reduce CO2 emissions from burners

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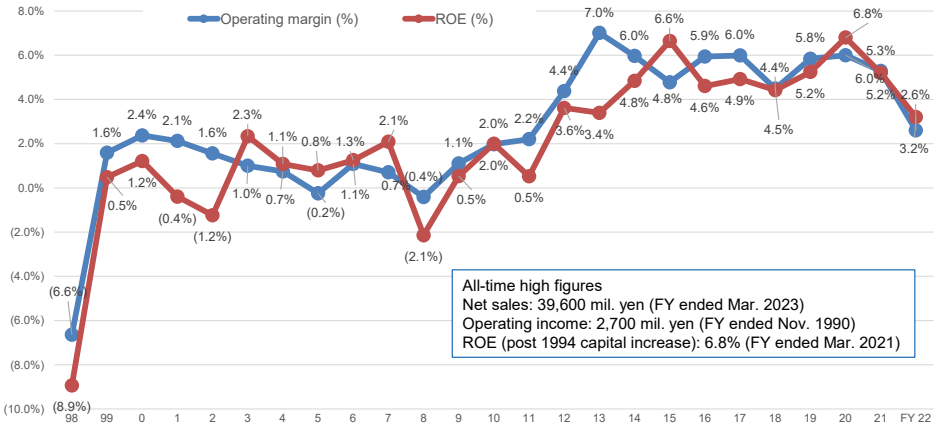
Trend in Key Financial Data

Operating margin and ROE



(million yen)

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	FY 22
Net sales	22,595	23,170	24,307	24,812	24,864	22,175	25,035	26,942	23,856	23,971	23,803	24,553	27,087	32,073	30,707	34,110	32,717	35,114	31,780	35,151	37,866	38,846	39,665
Operating income (loss)	536	492	379	248	185	(55)	271	189	(98)	265	470	541	1,186	2,249	1,832	1,629	1,944	2,103	1,427	2,053	2,302	2,053	1,028
Ordinary income	846	664	688	492	537	350	699	545	482	899	812	621	1,108	1,982	1,582	1,648	1,993	2,239	1,576	2,142	2,973	2,274	1,255
Net income (loss)	298	(93)	(284)	567	265	203	315	513	(499)	124	461	122	881	888	1,348	1,896	1,340	1,490	1,345	1,588	2,082	1,649	1,020

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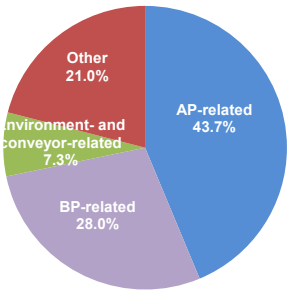
Company Overview

Company name	Nikko Co., Ltd.	
Head office	1013-1, Eigashima, Okubo-cho, Akashi, Hyogo Prefecture	
Established	August 13, 1919	
Capital	9,197 mil. yen	(as of March 31, 2023)
Consolidated net sales	39,665 mil. yen	(FY 2022)
Consolidated operating income	1,028 mil. yen	(FY 2022)
Ratio of net sales outside Japan	14.7%	(FY 2022)
Subsidiaries	11 companies	(FY 2022)
Number of employees (consolidated)	1,064	(as of March 31, 2023)
Governance structure:	Company with Audit & Supervisory Board Directors: 9, of which 4 are outside directors Audit & Supervisory Board Members: 4, including 3 outside auditors (as of March 31, 2023)	

Net sales breakdown by business segment (FY 2022)



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



Management Philosophy

Adopting a “Customer-First Policy,” the Nikko Group provides customers with truly satisfactory products and services, while continually promoting self-reform aimed at winning broad trust and fulfilling our mission as a solutions partner evolving with customers.

Representative Director and President 辻 勝

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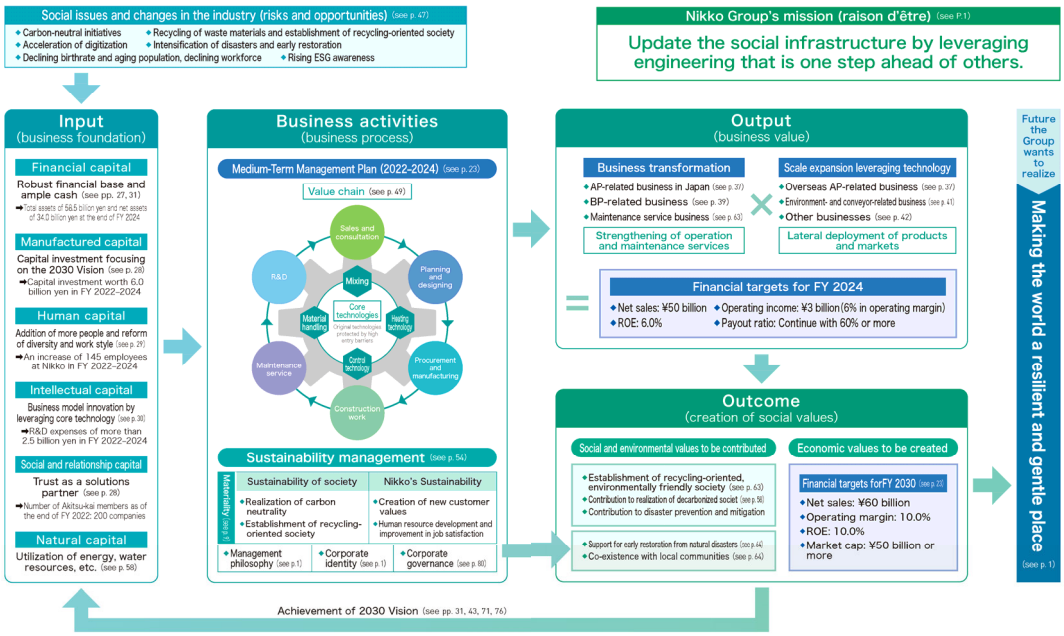
Process of Value Creation



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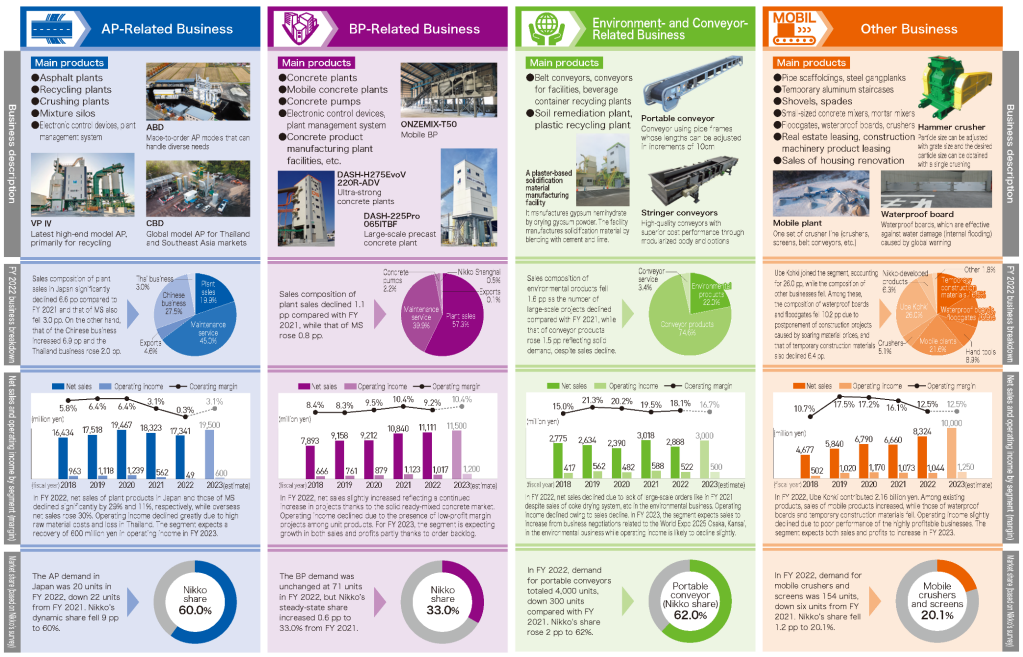
Business Segments



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History

Products		Production Sites		Overseas Expansion		Group Expansion in Japan (including acquisitions and transfer of business)	
1919	Established TOMBO brand farming tools	1919	Head Office Plant	1994	Nikko Baumaschinen (Germany)	1968	Ichiishi Kogyosho (M&A)
1951	Concrete mixers and winches	1938	Industrial machinery factory	1997	Taipei branch (Taiwan)	1971	Nikko Electronics Co., Ltd. established
1956	Ready-mixed concrete plant	1968	Tokyo factory	2001	Nikko (Shanghai) Construction Machinery	1983	Nikko Machinery Co., Ltd. established
1958	Asphalt plants	1994	Satte factory	2020	Nikko Asia (Thailand) Co., Ltd.	1994	Tombo Industry Co., Ltd. established
1962	Telescopic steel props	2004	Shanghai Jiading factory	2020	Nikko Nilkhosol Co., Ltd. (Thailand)	1995	Nikko Sec Co., Ltd. established
1963	Pipe scaffolding	2014	Kakogawa factory			2002	Niigata Engineering (transfer of business)
1966	Conveyor system	2016	Fukusaki factory			2006	Mitsubishi Heavy Industries, Ltd. (transfer of business)
1983	Floodgates					2008	Maekawa Kogyosho (M&A)
2000	System for cleaning oil-polluted soil					2022	**Ube Kohki (M&A)**
2001	Waste plastic treatment system					2023	**Matsuda Kiko (M&A)**
2007	Concrete pumps						
2015	Crusher (import and sales)						

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Corporate Identity of Nikko Group

VISION
The future we want to realize

Making the world a resilient and gentle place.

SLOGAN

Future creation that starts from an 'n'

Future axis

Symbolization

MISSION
Mission Nikko must fulfill in daily operations

Customer axis

Employee axis

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

VALUE
Values 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 to 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.

SPIRIT
Spirit we treasure

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.

Company Motto
Long-standing values since our establishment

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

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Nikko Group Business Vision

nからはじまる未来創造

We strive to remain the leading company of asphalt and batching plants.

We aim to expand our overseas business and become the top manufacturer in the Asian market.

We will work to brush up on our core technologies in “heating,” “mixing,” “material handling” and “control” as we expand business.

We will strive to remain a future-creating company ready to contribute to society.

Representative Director and President 辻 勝

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

Please feel free to contact us if you desire a meeting or have other requests.

Tel: +81-78-947-3141 E-mail: IR-nikko@nikko-net.co.jp

Contact: Hachiken, Finance Department, Nikko Co., Ltd.

- Future projections and other forward-looking statements in this material were prepared based on information currently available to the management.
- These statements contain risks and uncertainties, such as changes in performance outlook due to the financial situation for the Company in Japan and abroad, industry trends, product demand and supply, advances in new technology, and other factors. Accordingly, investment decisions should not be made based only on the forward-looking statements in this material.
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