The Nikko Group is working on achieving sustainable growth and improving its corporate value. Under the management philosophy that has been continuously passed on since our foundation in 1919, we have established the Code of Conduct comprising six items as the basis on which we make decisions in our workplace.

Each of our employees will strive forward to contribute to future society through the daily performance of their duties embracing Nikko Group’s mission, “future creation that starts from an ‘α’” close to their heart.
Introduction

As you are taking the President’s post, please share with us your background briefly.

I worked for a large shipbuilding company for a short period after completing a graduate course before joining Nikko in September 1987. I was initially assigned to the Design Section in the Concrete Plant-Related Business (BP), where I joined a team promoting introduction of CAD. I was then assigned to the President’s office, where I engaged in system-related duties and designing of new business models as the leader of the Corporate Planning Division. I then served as Manager of Construction and Procurement Departments, and also of Business Development Department (New Business), before becoming an Executive Officer. After becoming General Manager of Sales Department in 2011, I became Representative Director, President and CEO on April 1 this year.

I think I have deep knowledge about people in each division at the company’s Head Office, as I have experienced a broad range of areas including technology, construction, manufacturing, sales and corporate planning.

Please explain the position of Nikko in its industry (AP and BP).

Our unit share in the domestic asphalt plant (AP) market is over 70%, and Tanaka Iron Works is the only rival in direct competition with us. We take pride in our superior product technology and development potential, and maintenance service structure compared to rivals. Our users are mainly large road-paving companies, but none of them use Nikko products for all of their asphalt plants. So, I do not think there is much room for our APIs to grow in terms of the domestic market share. Meanwhile, in the Chinese AP market, Nikko and two European companies, i.e. Ammann and Marini, have largely equal shares in the high-end machine segment whose market size is 100 to 150 units a year. We think the tighter environmental regulations in China and growing use of recycled mixture should drive our growth.

The Batching Plant (BP) market used to be largely equally split between five companies including us, which have since decreased to three, i.e. KYC Machine Industry, Kitagawa, and us.

Nikko’s steady-state share is the third largest at about 30%, but our dynamic share is the largest at about 40%. We are aiming for a 50% dynamic share.

![Graph: Nikko's shares in domestic AP and BP markets](image)

- Nikko’s shares in domestic AP and BP markets
  - Domestic AP market share
  - Domestic BP market share
  - AP market share target
  - BP market share target

![Graph Data](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>AP Market Share</th>
<th>BP Market Share</th>
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Session 2

Our Strategy

Please give us a rundown on the Previous Medium-Term Management Plan which ended in FY2018.

Our performance during the previous Medium-Term Management Plan (FY2016-FY2018) was fairly good, with sales reaching a level close to the target. This was driven by great effort by the staff in the existing business areas. However, we failed to achieve the target. When we reviewed the results, net sales in the new areas, which we call development areas, were insufficient. Specifically, these include Mobile Plant Business, and sales in overseas markets, especially ASEAN countries, significantly fell short of targets. Political uncertainty and falling local currencies in the ASEAN region, and the presidential elections had a negative impact, but it also made us aware of the limitations of doing sales activity from Tokyo.

Please give us an overview of the New Medium-Term Management Plan and background to the long-term group Basic Policy.

The New Medium-Term Management Plan was finalized in 2019, the year in which we are marking our 100th anniversary. In our previous medium-term management plans, we first estimated demand for individual business areas and then set targets for them based on the estimated demand levels. When we worked out the New Medium-Term Management Plan, we already had the overarching goal of boosting sales by 50% to 50.0 billion yen over the next decade. So, for the first three years (FY2019-FY2020), we set targets for net sales, operating income, etc., based on what we need to achieve for the overall goal. For the FY2021 performance targets, we set 38.0 billion yen in sales (vs. 31.8 billion yen in FY2018), 3.0 billion yen in operating income (vs. 1.4 billion yen in FY2018) and 2.1 billion yen (vs. 1.34 billion yen in FY2018). We aim to achieve 100.0 billion yen in net sales from our new businesses, including those we may acquire, in a decade from now. Details of the growth scenario are not much different from what we assumed in the previous medium-term management plan. Our aim is to double the net sales from the new Mobile Plant Business and overseas operations from the level in FY2018 to 9.0 billion yen in 10 years. In order to expand overseas sales, we are discussing options for setting up operations in the ASEAN region. These are areas we failed to achieve in the previous medium-term management plan.

In terms of key performance indicators in the New Medium-Term Management Plan, we aim for ROE of at least 8% (vs. actual FY2018 figure of 4.4%). In FY2021, the final year of the New Medium-Term Management Plan, we aim for a little less than 7% in ROE, and we do not expect to achieve 8% or higher, but we aim to keep capital costs in mind by limiting growth in net assets (by expanding shareholder returns, for example). We have publicly pledged to achieve dividend payout ratios of at least 60% as part of our goal to expand shareholder returns. We plan to conduct a five-for-one stock split of common shares effective Sept. 30. By reducing prices per investment unit, we aim to increase liquidity of shares and expand our shareholder base.

Session 3

Message For Our Stakeholders

Please talk about the initiatives on human resources management and operational reforms.

There is no doubt education is a key part of human resources management, and, to me, to do it by having external instructors is an easy way out. So, we aim to create a structure in which employees can learn by acquiring skills and improve them through work. To achieve this, we need to change the work processes and the way work is done. This is what we are trying to do right now. As a specific example of our work-process reform efforts, we assigned five tech staff to the Tokyo office so that they can visit customers with sales staff and offer advice while they work out product specifications. In the past, our sales staff just conveyed what customers told them to tech staff (designers). If a customer asked for five sheets of plant design, our head-office designers created five sheets. Currently, however, our tech staff who accompany the sales staff listen to what the customer wants, and if they recognize any unnecessary designs, they explain that to the customer.

What is your view about changing criteria for listing stocks on the Tokyo Stock Exchange, which has been in discussion behind the scenes?

We must protect our brand image which our predecessors have built over the first 100 years in the history of Nikko. Likewise, we must protect our listing in the first section of TSE. This is an issue that could affect the morale of our employees. The 10-year vision we worked out recently and our earnings targets are built on the basis that we are going to maintain the listing on the first section. A market capitalization of 25.0 billion yen or over is a reachable level for us. So, we aim to increase our corporate value for the stakeholders by enhancing shareholder returns and transparency of management information, and sincerely engage in dialogue with our shareholders. So, a lot of thoughts are invested in our slogan, “Future creation that starts from an [ ]”. We are determined to meet your high expectations.
100-year history of Nikko Group

Our origins trace back to 1919, when our founders launched a business of manufacturing and selling shovels, scoops and pickaxes. Since then, we have grown into a pioneer in asphalt and concrete plants, while having helped create Japan’s roads and towns over a century. We have evolved along with the changing times and are now contributing to making our society more comfortable and with more value.

1919 ~ 1970

1919 *Nihon Kogyo Product Co., Ltd. was established
Establishes August 13th as foundation day
* "Tombi" registered as trademark
1920 *Extraordinary general shareholders meeting held
Matsuehiro Yasu appointed as Senior Managing Director
First product, a shovel, goes on sale.
1922 *Head Office relocated to Akashi
* Supplied materials for reconstruction following major earthquakes that devastated the Kanto region

1930 ~ 1980

1930 ~ 1950

1940 ~ 1960

1950 ~ 1970

1980 ~ 2000

1990 ~ 2010

2011 *Major earthquake and tsunami disaster in northeastern Japan: Nikko launches emergency headquarters project
* Develops large soil decontaminating plant
* Develops plant especially for quake-disaster recovery project
* Develops NBD series for recycled materials
* Develops DASH/Hyper mixer
* "Nikon Tech" Center in Akashi head-office property
* "Nikon Tech" Center on the first floor of the Head Office; strengthens CSC
* "Nikon Tech" Center in Akashi

2016 *Major earthquake and tsunami disaster in northeastern Japan: Nikko launches emergency headquarters project
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Key person of Nikko
Matsuehiro Yasu

Takato era (1926~1932)
Showa era (1926~1989)
Heisei era (1989~2019)
Reiwa era (from 2019)

1919 ~ 1970

2019 ~

*Nikon Kogyo Product Co., Ltd. was established
Establishes August 13th as foundation day
* "Tombi" registered as trademark

2020 ~

* Develops soil decontaminating plant
* Establishes Nikko (Shanghai) Construction Machinery Co., Ltd
* "Nikon Tech" Center in Akashi head-office property
* "Nikon Tech" Center on the first floor of the Head Office; strengthens CSC

1920 ~

* Extraordinary general shareholders meeting held
Matsuehiro Yasu appointed as Senior Managing Director

1922 ~

* Head Office relocated to Akashi
* Supplied materials for reconstruction following major earthquakes that devastated the Kanto region

1930 ~

* Establishes Nikko Co. in Maitani, present-day Shenyang (in China)
* Establishes Matsushita Machinery Manufacturing Co., Ltd

1940 ~

* Establishes Nikko Co. in Maitani, present-day Shenyang (in China)
* Establishes Matsushita Machinery Manufacturing Co., Ltd

1950 ~

* Approves plans to construct firsting plant, install new machinery, and construct warehouses for wooden handle material, all in existing property
* Construction of rolling mill decided

1960 ~

* Completes first asphalt plant that uses state-of-the-art control system
* Ties up with Mitsubishi Heavy Industries, Ltd.

1970 ~

* Relocates Head Office to Egashima Plant
* Establishes Nikko Electronics Co., Ltd.

1980 ~

* Signs "key life human" agreement with Daimler-Benz AG
* Develops "key life" product with DAIMLER AG

1990 ~

* Signs technology tie-up with Bengenmann, a leading industrial burner maker from Italy based in West Germany, and the Dutch company, Philips

2000 ~

* Signs "key life human" agreement with Daimler-Benz AG
* Develops "key life" product with DAIMLER AG

2010 ~

* Signs "key life human" agreement with Daimler-Benz AG
* Develops "key life" product with DAIMLER AG

Takato era (1926~1932)

Showa era (1926~1989)

Heisei era (1989~2019)

Reiwa era (from 2019)
A century of providing "machines that build cities," helping to create a recycling-oriented society

Nikko manufactures plant machinery that makes asphalt and concrete, indispensable materials for infrastructure development. The company’s share in Japan’s asphalt plant market reaches 70%, and our plants supply over 90% of asphalt used in the construction of airports and expressways in the country. We support projects of wide-ranging sizes, from huge infrastructure projects, including Akashi Kaikyo Bridge, Haneda Airport and Kansai International Airport, to residential roads.

In addition to infrastructure development projects in Japan, we have constructed over 1,000 plants for projects in 50 countries since our establishment in 1919. Presently, we are supporting efforts to create comfortable cities in China and Southeast Asia, where there is strong demand for infrastructure development.

We develop high value-added products that are environmentally friendly, using our four core technologies for kneading, heating, controlling and conveyance. The four core technologies, which provide solutions to issues faced by customer companies, are the source of Nikko’s competitive advantage.

We have an integrated production process including from planning/designing to construction and maintenance. We are currently focused on strengthening a remote maintenance system in which the customer support center at our Head Office monitors operation of plants at customer companies and dedicated staff address any issues that may crop up at any time.

We are working to improve values in a sustainable way with an aim to contribute to creating future society, which is part of our mission, with diversity of social values and creation of economic values in mind.
Asphalt Plant-Related Business

We started manufacturing asphalt plants in 1962 and supported a past period of rapid land development, introducing the first domestically manufactured AP for expressway projects in 1965, when demand for larger APs surged. After about a decade-long beginning period since we first identified demand for recycling plant in 1977, we saw a significant growth in APs with heat-recycling equipment following the 1993 introduction of the TCP series. In 2002, our share in the Japanese market exceeded 70%, driven in part by a business purchase from Niigata Engineering. More recently, this has led us to develop new plants that use recycled mixtures, including the VP and MBD series. About 80% of the customers of our asphalt plants are large road paving companies. Asphalt mixture output, which has direct bearing on earnings of road paving companies, fell slightly below 40 million tons in FY2018. We expect the figure to remain in a range between 3 million tons above and below the current levels for a midterm term, accounting for a slow growth in public works spending. Demand for asphalt plants in Japan will remain on a plateau for a foreseeable future, considering the expected impact of update projects that have been postponed.

As a result, we expect the growth driver will be overseas markets, including China, where we have Nikko Shanghai, and the ASEAN countries, especially Thailand and Indonesia. In particular, we aim to focus on Thailand, where many second-hand asphalt plants by Nikko is in operation.

Advantages of Asphalt Plant Business

The strengths of our APs lie in the broad range of products that are backed by our technology and development capacity, in-house production of key devices, including control panels and burners, and strong maintenance service capability. In overseas operation, we plan to focus on high-end areas in China, which we see as the centerpiece of our overseas strategy. We expect business chances will emerge in China, as there is a growing demand for environmental technologies we have developed in Japan, including recycling and deodorizing technologies.

Measures under the New Medium-Term Management Plan

We target net sales of 20.0 billion yen for AP-related business in FY2021, the final year of the New Medium-Term Management Plan (vs. 16.4 billion yen in FY2018). As we expect only a small increase in Japan for AP, growth in overseas business is the key. For new crushing plants, we target 0.5 billion yen in FY2021. The KPI target for the AP business is to improve margin by expanding the combined sales share of VP and MBD, our strategic products, to over 50% from the FY2018 level of 37.5% by the end of FY2021. We estimate the market size for our new crushing plants is about 10.0 billion yen. It is an area we see a significant potential for synergy with APs and MS. In order to narrow the gap in price competitiveness with top rivals, we plan to start internally manufacturing the existing medium-grade impact crusher models and expand our scope to include high and low grade models, for a total sales target of crushing plants of 3.0 billion yen, a half of which will be from maintenance service. In addition, we plan to introduce new products to follow VP and MBD, and expand maintenance service by taking advantage of expected growth in energy-conserving products and introduction of work-style reforms.

Issues for AP business

A key issue for the AP business is our weak position in price negotiations with our customers, who are large road-paving companies, which has led to small margins. We regard expansion of sales of VP and MBD, our strategic products, as the key. We aim to achieve synergy between crushing plants and asphalt plants by starting to internally manufacture impact crusher series products, which are key devices. In overseas markets, we plan to work out plans for setting up a local office and starting local production in Thailand, where 180 second-hand units are in operation.

Key macroeconomic indicators of AP-Related Business performance

- Nominal construction investment
- Public works budgets
- Asphalt mixture output volume

Business development and future outlook

"We aim to increase the combined share of the strategic AP products, including VP and MBD, to 50% of the overall unit domestic plant sales by the end of FY2021, and implement work process reforms in order to improve profitability. In overseas operations, we aim to boost growth through an initiative to develop offices in ASEAN countries, especially Thailand, where we see strong growth potential. We also plan to aggressively seek growth in new business areas. For example, we aim to expand sales of new crushing plants which have great potential to achieve synergy with AP and MS."
Concrete Plant-Related Business

“By focusing on the new BP DASH-Progress, we are able to utilize all available resources in this area, including sales expansion in the precip concrete industry, where sales growth is anticipated to expand demand, and differentiation measures through introduction of new products that can fill the gap and the positive impact from the new Customer Support Center. We also address environmental issues, including the increasingly serious issues associated with returned concrete and sludge water treatment.”

Executive Officer in Charge of Business Development Manager, Industrial Machinery Sales Department
Morie Okaaki

Business development and future outlook

We started to develop concrete mixers, which form our core technology, in 1951, and announced the SP double-spindle mixer in 1980. The DSF mixer, introduced in 1998, played a key role in expanding our market. The model had the mixer capacity of 100 times per hour, compared to the 60 times per hour of existing products. Needs for batching plants subsequently drove our manufacturing of high-strength, more durable, and simplified production, which led to the development of the DASH-Hyper mixer that addresses both these needs. Other key batching plant products include DASH-Progress and Cyber Advance.

Majority of batching plant customers are construction companies. However, percentage of concrete secondary products, including construction materials, segments and piles, in the products for precast concrete (PC) is gradually rising (13.6% in FY2018), and we expect this trend to remain over the medium to long term. The number of Japan’s concrete plants totaled 3,298 at the end of March 2019, continuing a decreasing trend since the end of March 2013, when it totaled 3,456. We think consolidation of plants could accelerate after a demand surge driven by large projects ahead of the 2020 Tokyo Olympics runs its course.

Key macroeconomic indicators of BP-Related Business performance

Nominal construction investment
Cement shipment volume
Number of ready-mixed concrete plants and their shipment volume

SWOT of BP-related business

Strength
Coordination between manufacturers and sales
- Enhance maintenance service structure

Weakness
Relatively high fixed cost ratio

Opportunity
Increasing introduction of precast concrete in construction materials

Threat
Decrease and consolidation of ready-mixed concrete plants in operation

Advantages of Batching Plant Business

The key advantage of our batching plants is our Customer Support Center, which can reduce downtime for plants of our users by remotely monitoring their operation. Since we manufacture control panels in-house, we are able to replace those manufactured by other companies with ours to help boost BF update orders in the future. Our share in the control panel market has exceeded 50%, higher than the share of the main baking plants, which is slightly over 40%.

Measures under the New Medium-Term Management Plan

We target 9.4 billion yen in sales for BP-related area in FY2021, the final year of the New Medium-Term Management Plan (vis-à-vis 7.9 billion yen in FY2018), Japan Construction Equipment Manufacturers Association estimates the value of batching plant shipment, including maintenance fees, will decrease to 20.0 billion yen in FY2023 from 22.0 billion yen in FY2018, but we aim to increase our industry share to 47% in FY2023 from 35% in FY2018. As a KPI target for the batching plant business, we aim to achieve a unit share of over 50% by FY2021.

In order to boost our share, key measures will be to: (1) steadily capture repeat demand and (2) expand sales to concrete secondary product plants. We aim to expand repeat customers by efforts through the new Customer Support Center and strengthen measures to increase replace orders for control panels by other companies, to tide over the difficult period of plant consolidation moves. Amid the progress of work-style reforms and introduction of i-Construction, we need to expand the increase of precast concrete. We aim to focus efforts on segment, construction materials, piles and anti-disaster product industry.

Issues for BP business

A key issue for the batching plant business is a relatively high fixed costs due partly to our operating manufacture, sales and maintenance service function in-house. A key theme over the medium to long term is to expand business areas with growth potential. Specifically, we aim to expand granular material and coordinate efforts with the mobile business (crushers and soil improvers). In the area of environmental conservation, we aim to introduce measures for crushing of returned waste concrete and processing of sludge water from concrete truck mixers, while closely monitoring developments leading to J1S revisions.
Environment- and Conveyor-Related Business

“We aim to shorten delivery turnaround time for the mainstay modular conveyors, as the key theme of the conveyor-related business, while seeking to create a high quality and low-cost production structure. We also aim to eliminate the risk of having prolonged turnaround time on custom orders, one of our weaknesses. In the environment business, we aim to reduce emissions of greenhouse gas by producing carbonated fuel from dust coal burn under development for small to medium-sized garbage processing facilities, and use it for asphalt plant fuel.”

Development and advantages of Conveyor-Related Business

Conveyor-Related Business started selling modular belt conveyors, our mainstay product, in 1979, and subsequently introduced the super modular conveyor products. Our share was the largest in the portable conveyor product industry at 62% in 2018. One prominent characteristic of the Conveyor-Related Business in sales aspects is that we sell products to machinery traders and plant makers as components, rather than directly to final users.

Our advantage is in our ability to establish mass-production structure through modular configuration, which allows manufacture of high-quality, low-cost products in short period. In the market for ship bottom-shaped 8C, demand has shrunked to about 5,000 units currently, from slightly less than 5,800 units in FY2013 and from 25,000 units in FY1989, with rival companies decreasing in number.

Conveyor-Related Business outlook and issues

We aim to shorten delivery turnaround time to about 10 days from the current figure of about two weeks as a way to improve profitability as demand remains flat in the conveyor-related business.

Specifically, we set the target industry share of 60% in FY2021 (vs. 62% in FY2018) and sales of 3,000 units. We target 2.3 billion yen in sales for Conveyor-Related Business in FY2021, the final year of the New Medium-Term Management Plan (vs. 2.13 billion yen in FY2018), and improve gross margin by 5 points from the level in FY2018.

A key issue is for our delivery turnaround to become prolonged for custom orders, which affects profitability.

Development and advantages of Environment-Related Business

Environment-Related Business started in 2006 with a purpose to take advantage of Nikko’s core technologies, including conveyance, mixing and kneading and heating, in an effort to expand business into various areas. Its key customers include large steelmakers, power utilities and industrial waste processing companies. We have won customer trust by conducting realistic tests using demo units and performance evaluation. Net sales in FY2018 was 0.5 billion yen. The strength for the Environment-Related Business is in its integrated processes to A5, by utilizing our core technologies. We are seeing customers in industries other than asphalt plants or batching plants, leading us to believe there is strong potential for further growth.

Environment-Related Business outlook and issues

We think the industry climate for the Environment-Related Business will remain solid in the medium to long term as new regulations, including FIT, have been introduced as part of effort to create a recycling-oriented society and a growing need for resolving climate change issues, including reduction in CO2 emissions. We have had booths at trade shows and ran promotions on the website and ads, and impact of these efforts started to be felt since a few years ago.

Specifically, we have high expectations for growth in the areas of recycling, including recycling of waste plasterboards and drink bottles, CO2 emission reduction, including reuse of biomass energy, and soil decontamination. For the mainstay multi-dryer, we aim to strengthen sales of a new product that improves on the existing product. We also focus our effort on technology to turn waste plastics, cattle manure and chaff into bulk fuels and environment-related products aimed at reducing CO2 emissions. We aim for an Environment-Related Business net sale of 1.1 billion yen in FY2021, the final year of the New Medium-Term Management Plan.

A key issue for us is the difficulty to have clear outlook due to the long time it takes to conduct tests, exercises outcomes and then decide specifications. We also need to take measures for many deals that require continued servicing due to developed No.1 unit products.

SWOT of Conveyor-Related Business

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<th>Strength</th>
<th>Weakness</th>
<th>Opportunity</th>
<th>Threat</th>
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<tr>
<td>Capable of meeting customer need for short turnaround time</td>
<td>Risk of prolonged turnaround time when accepting custom orders</td>
<td>Demand in industry remains flat</td>
<td>Increasing import of cheaper products</td>
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SWOT of Environment-Related Business

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<th>Strength</th>
<th>Weakness</th>
<th>Opportunity</th>
<th>Threat</th>
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<tbody>
<tr>
<td>Integrated operation of design, manufacture, sales and after-sales service</td>
<td>Accumulated core technologies</td>
<td>Expansion of legal requirements related to FIT system and use of waste plastics</td>
<td>Speed at which legal measures change and failure to implement with them</td>
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Five Basic Policies established for the next 100 years

**Long-term Basic Policies in New Medium-Term Management Plan**

Nikko has established the New Medium-Term Management Plan covering a period from FY2019 to FY2021. The New Medium-Term Management Plan is different from the past medium-term management plans in that we first painted a vision of what the Nikko Group wants to be in 10 years and then set numerical targets that need to be achieved in the first three years. Specifically, we aim to increase net sales by about 50% from the current level to 50.0 billion yen in 10 years. The New Medium-Term Management Plan has five long-term Basic Policies. Specifically, they are: (1) Strengthen revenue base in Japan; (2) Establish overseas sales; (3) Promote new businesses (M&A); (4) Carry out work-style reforms; and (5) Include ROE in our KPIs. In addition, we will strengthen corporate governance and implement business management that is highly transparent and vibrant (see pages 3-6).

**New Medium-Term Management Plan Long-term (10-year) Basic Policies**

1. **Strengthen revenue base in Japan**
   - We aim to increase profitability by broad product appeal by raising the level of all divisions of sales, service, engineering, and manufacturing (profit margins of 10%).

2. **Establish overseas sales**
   - We aim to establish new overseas bases to spread Nikko products, which are the best in the world, in the ASEAN region including overseas sales to 8.0 billion yen from the current 4.6 billion yen.

3. **Put work-style reform into practice**
   - We will implement cutting-edge and significantly boost labor productivity and control management costs.

4. **Promote new businesses (M&A)**
   - We aim to implement management resources in the new business and service products that will become new pillars of the industrial and construction machinery fields (generating 5.0 billion yen in sales from new businesses).

Setting these five policy items at the center, we will strengthen corporate governance and implement business management that is highly transparent and vibrant.

**Review of previous Medium-Term Management Plan**

During the period covered by the previous Medium-Term Management Plan (FY2016-FY2018), shipment volumes of asphalt mixture and concrete remained on a gradual downward trend in Japan, but the capital expenditure appetite of road-paving and ready-mixed concrete companies, our key customers, remained strong, driven in part by a surge in update demand. Average net sales of 32.0 billion yen and average operating income of 7.0% were targeted over the three years covered by the previous medium-term management plan, and the actual figures were 33.2 billion yen and 5.7%, respectively. Net sales remained solid mainly in the existing business areas, but results from the new, development areas, including ASEAN- and mobile-related businesses, fell significantly short of targets.

However, we were able to confirm strong interest in our products, especially VP, an asphalt plant that mainly produces recycled mixture, at NIKKO Messe 2018 product exhibition held at the head office plant in October 2018. This led us to form positive outlook on the earnings in FY2019 and beyond.

**Key aspects and specific measures of the New Medium-Term Management Plan**

Let us explain the KPI targets we set for the five Basic Policies of the New Medium-Term Management Plan in order to achieve them. In terms of measures to bolster the domestic revenue base, we aim to achieve 10% in operating margin. This requires us to enhance the functions of sales, service, technology and manufacturing, as well as make our products more appealing. In the mainstay AP-Related Business, we expect a gradual downturn in shipment volume of asphalt mixture to remain, but see a major business chance in the expected arrival of update demand for asphalt plants that were installed in large numbers in 1994 and before. Taking advantage of this opportunity, we aim to improve profitability by raising the combined share of MBD and VP, our new AP models that mainly produce recycled mixtures, to over 50% of the overall domestic plant sales (FY2021). We also aim to boost sales of crushing plants, a new business area (see pages 11-12).

In batching plant business, we expect a drop in the number of ready-mixed concrete plants due to consolidation, but see the possibility that this may lead to a renewed appetite for capital spending as consolidation runs its course to optimum levels. As we expect demand for batching plants to remain flat, we aim to take advantage of the DASH brand’s strength to boost the market share to 50% from the current 40%. We also aim to boost sale of concrete secondary products, including precast concrete, for which demand is increasing, by differentiating our products by developing and the new, high-performance mix that forms the core of our BP products (see pages 13-14).

In terms of key performance indicators in the New Medium-Term Management Plan, we aim for ROE of at least 8% in the long term. Furthermore, we pledge a dividend payout ratio of at least 60%, aiming to enhance shareholder returns (vs. 4.4% ROE and 34.1% dividend payout ratio in FY2018). The ROE target in FY2021, the final year of the New Medium-Term Management Plan, is 6.5%, still short of 8%, but we aim to further improve the figure by controlling increases in net assets and keep capital costs in mind in making management decisions (see pages 25-26).
Mobile Plant Business aims to establish operation early

History of business development and features of products

Mobile Plant Business started in 2015 when we signed a contract for a distributorship in Japan with Kleemann, a German company whose mobile crusher commands the second largest global share. We launched a department specializing in the business in April 1, 2018. Our lineup also includes mobile belt conveyors by Northern Ireland’s TrackStack, with which we have a Japanese distributorship contract, and small mobile crushers by Britain’s Red Rhino, in addition to Mobi, our mobile soil Improver. In October 2018, we opened a Mobile Center in Yoshikawa, Saitama Prefecture, where we hold stocks and perform maintenance service. Main customers of Mobile Plant Business are stone crusher companies, companies recycling aggregates and steelmakers. According to the Japan Construction Equipment Manufacturers Association, the market size of mobile crushers was annual 120 units, increasing 20% from a year earlier, in FY2018 and it is expected to further expand, driven by the superior efficiency they provide, Nikko currently has about 1% to 2% of the market, but aims to expand it to 3% over the next five years. Our rivals in Japan include Komatsu, Nakayama Iron Works, Ube Industries and Kurimoto.

The advantage of Kleemann’s mobile crushers lies in their superior performance, including their sturdy construction, high crushing efficiency and low fuel efficiency (a half to one-third of rival product levels) thanks to the use of a direct engine driven mechanism that allows for minimal loss in energy conversion. We can sell them in combination with TrackStack’s belt conveyors. Red Rhino’s products are offered customers needing small mobile crushers. However, our weaknesses of this business include our relatively low recognition in the domestic market due to us being a latecomer and relatively high pricing compared to rivals. We also need to enhance our service so that we can better perform maintenance work on engine and hydraulic components.

Plans and Measures under the New Medium-Term Management Plan

We set the target of 1.3 billion yen in sales of mobile products by the end of FY2021, the final year of the New Medium-Term Management Plan (vs. 0.12 billion yen achieved in FY2018). Crushing plants in Japan, our main target, are experiencing aging of equipment noticeably, loading us to expect an increase in demand for mobile plants. Going forward, we plan to carry out measures including: (1) strengthening sales forces and build up service structure; (2) enhancing management and backup structures; and (3) enhancing functions of Mobile Center.
Strong appetite in China and ASEAN
Overseas AP-Related Business capturing infrastructure demand

Fact and future

Overseas business represents 12.1% of Nikko’s net sales in FY2018, after growing rapidly over the past few years. Nikko Shanghai, our Chinese subsidiary established in 2001, and the key driver of the business, completed the Shanghai Jading Factory in 2004 and opened the Shanghai office in 2006. In China, which represents 88% of our overseas sales, we are focused on high-end asphalt plants as a strategy to differentiate from local rivals. Due to the growing need to address tighter local environmental regulations, there is an increased demand for recycling plants. We also recognize a shift from mobile to static systems. ASEAN and Russian Far East operations, the remaining part of overseas business, represented only 12% of overseas sales in FY2018. The New Medium-Term Management Plan aims to boost this figure significantly.

Medium-term outlook on overseas business net sales

We aim to increase overseas net sales to 6.1 billion yen in FY2021, the final year of the New Medium-Term Management Plan, from 3.8 billion yen in FY2018. We expect only a slight increase in net sales to 3.6 billion yen at Nikko Shanghai (vs. 3.5 billion yen achieved in FY2018), accounting for the output nearing its full production capacity. But we aim for an increase to 2.5 billion yen in net sales from the ASEAN operations, led by Thailand (vs. 0.6 billion yen achieved in FY2018) in order to ensure the sales boost in the ASEAN region, we are planning to open a new local office. In Thailand, 180 secondhand units of Nikko asphalt plants, aged over 30 years, are in operation. We thus aim to step up sales efforts to capture the opportunity when these units are replaced with new ones. We also plan to launch a secondhand product business.

Asphalt plant demand in Thailand holds key to overseas business expansion

Nikko’s overseas business started with the start of asphalt plant export to Thailand in 1967. Since then, we signed a tie-up deal with South Korea’s Dongsan Construction Industrial and a technology tie-up on burners with Germany’s Benninghoven. Our overseas business centered on deals mediated by trading companies through the 1990s, but shifted to deals through the local office in China in the 2000s. We set up International Business Department in 2001, and opened the Beijing office and set up Nikko Shanghai in 2002. Outside China, sales to Thailand, Indonesia, Taiwan and Far East Russia are growing. For overseas business excluding China, we target 1.4 billion yen in net sales in FY2019 and 2.0 billion yen in FY2021, the final year of the New Medium-Term Management Plan, compared to 0.6 billion yen achieved in FY2018. Over a longer term, we aim for 6.0 billion yen in FY2029. We think growth of Thai business and increase in used units are essential for achieving this target. In particular, sales growth in Thailand is important as we expect a demand increase in the country as local customers currently using 180 used units of Nikko-made asphalt plants start to replace them with new models. We are thinking of setting up a local subsidiary in Thailand to take advantage of the expected demand growth, with a target to increase sales to 10 units per year, from current levels of two to three units per year. Demand in Thailand is mainly for standard products in medium sizes, with no special options.

Characteristics of China’s asphalt plant industry and Nikko Shanghai’s strategy

China’s asphalt plant users are mainly comprised of state-owned construction companies. There are no private-sector road paving companies. These companies mainly use NB3230 and 400, asphalt plants designed for urban projects, and TCP120 and 166 recycling plants. There is an observed tendency for them to use larger units. They also seek better outward appearance. Share of recycled mixtures used in China is estimated at 10% to 20% in China, compared to 75% in Japan, and the ratio of recycled mixtures mixed in is estimated at 20% to 30% in China, compared to 50% in Japan. We expect the use of recycled mixture to increase, driven by the difficulty to obtain virgin mixtures and the need to reduce production costs. As environmental regulations are expected to be tightened and this includes tighter odor control, we expect demand for deodorizing equipment will increase, a positive factor for Nikko Shanghai’s earnings. We also aim to boost sales from maintenance service, which currently represent about 10% of Nikko Shanghai’s sales. Nikko’s strength in the Chinese market include our ability to provide viable environmental measures and achieve catalog performance, low occurrence of troubles, product durability, high fuel efficiency and easy-to-service designs. Our issues include the need to improve brand recognition, find new subcontractors, and hire more talents.

Visit to local customer

“We chose Nikko Shanghai as we wanted to build an asphalt plant that has the best environmental performance in China.”

We manufacture paving materials for expressway construction in Shandong Province. When we built a plant here, our focus was environmental, recycling and energy-saving features, and that is why we chose a Nikko Shanghai product. This is a composite plant that has 320 tons of virgin mixture and 120 tons of recycled mixture, and it is working without a problem now, after two years since it was installed. It in particular excels in energy conserving performance, and it has highly regarded for its output that meets the catalog performance. As the Chinese government requires high environmental performance, we want Nikko Shanghai to work to improve their products especially in the area of dust control.

CEO, Shandong H-Zhao Lu Bin

NBD205ABD-AR

Asphalt plant for adding waste recycling function targeted at Thai market, first delivered in 2016

CDL1054WHD

Standard asphalt plant model designed for Indonesian market, first delivered in 2016

Nikko Corporate Report 2019

Nikko Corporate Report 2019
Maintenance Service Business that supports solid customer base

Fact and future

Maintenance service (MS) business represents about 60% of combined sales of AP and BP businesses. It works to improve plant management at our customers. Our maintenance service is provided through our service network consisting of 180 staffs in 17 locations nationwide as well as “Akitasu,” an organization comprised of 200 subcontractors nationwide. In October last year, we set up a new Customer Support Center (CSC) on the first floor of our Head Office where we aim to establish a “Nikko One CRM Platform” under a variety of initiatives over a medium to long term.

The advantages of MS are its high flexibility, which is supported by Akitasu, and wide-ranging information on plants in operation, collected at CSC, while its weakness is declining skills due to a generational change of staffs engaging in maintenance service.

Maintenance service: Net sales and medium-term forecasts

Sales of MS reached 12.6 billion yen in FY2018, but growth has remained slow since FY2013. We target sales of 11.5 billion yen to 11.8 billion yen in the period covered by the New Medium-Term Management Plan (FY2019-FY2021), and do not expect net sales to increase. The major reason for this is a relative decrease in budget for maintenance and service as we plan to focus more on capturing strong user demand Nikko expects for plant equipment, led by asphalt plants, Maintenance of components and various repairs represent a combined 66% in the sales of MS. But we expect no sales from this area due to construction of new plants.

Nikko’s Strategy for MS

Under the circumstances, Nikko is implementing a new strategy in the MS business. Specifically, we are introducing what we call a “Nikko One CRM Platform,” under which we aim to establish a new business model for the maintenance service business by connecting with customers and equipment. In this concept, “One” reflects views and philosophy for Nikko as a whole. We aim to look at customers from all angles on a customer relationship management (CRM) platform. To achieve this, we aim to centrally manage information required for our service activity and share it among divisions within the company and introduce a remote support system using wearable devices and an online conferencing system in the company. The final target vision for Nikko’s CRM is work-style reforms that take advantage of systems, which will include creation of a free call center and customer portal site, customer equipment maintenance system, parts order center, “before” maintenance using AI voice recognition and translated translation, robotic processing of formulaic work processes. It is necessary to respond to a trend where customers outsource maintenance.

Nikko One CRM Platform

We expect profitability of MS to improve during the New Medium-Term Management Plan period. For this to happen, a shift from the current “after,” or “after-the-fact” maintenance to “before,” or preemptive, maintenance regime is essential. For the expansion of “before” maintenance regime, we think it is necessary to increase remote maintenance contracts with customers by, for example, expanding sales of new control panels and boost skills of all service personnel, including a shift to asset management, we aim to boost Nikko’s net sales, which currently represent only 50% of customer MS, to 70% to 100% (= expansion of MS territory).
CFO’s Message

We aim to simultaneously work to increase growth investment and shareholder returns, with the next 100 years in mind. We set ROE as a financial KPI, actively seek to sell strategic shareholdings and improve cash conversion cycle, and target an ROE of 6.3% in the New Medium-Term Management Plan.

Managing Director
and General Manager of Financial Division
Hiroshi Fuji

Let me discuss four points from my capacity as CFO.

We target net sales of 38.0 billion yen and operating income of 3.0 billion yen in FY2021, the final year of the New Medium-Term Management Plan, and net sales of 50.0 billion yen and ROE of at least 8% in 10 years. These are not the figures we came up with through extrapolation of the current levels of these indicators. Instead, we aim to achieve these ambitious targets by seeking growth in new business areas and overseas markets. In other words, these targets are our message that we have decided to focus on growth strategies with the next 100 years in mind, on the occasion of our 100th foundation anniversary, even if that means we must take some risks. I am determined to support financial aspects of these growth strategies.

Capital + financial strategy: We will liquidate assets lying dormant on balance sheet into cash.

Nikko currently has assets totaling 44.0 billion yen, net assets totaling 30.0 billion yen and cash and deposits totaling 11.0 billion yen, meaning it has ample capacity to continue making investments. But there are still dormant assets on our balance sheet, and we are going to dig into them. Specifically, we aim to squeeze out cash of about 2.0 billion yen by selling strategic shareholdings and about 3.0 billion yen by improving cash conversion cycle (CCC). The policy for the sale of strategic shareholdings is to sell all shares in business partners with whom we do not have strong relationship. We believe we can improve CCC by asking customers, in principle, to make down payment when we receive orders for plants and eliminating bills whose repayment deadlines exceed 120 days.

As explained above, we are ready to carry out new investment of about 10.0 billion yen without taking out loans or raising capital. If we find an opportunity to acquire a business that will help our growth, we aim to actively pursue such opportunity even if the purchase price was as large as 10.0 billion yen. Although, of course, we will examine the risk and opportunity before doing so.

We will also aggressively take on opportunities for investment that we regard as leading to our growth by considering use of loans, if our existing funds are short. We do not see any cause for concern about our financial position, considering the about 30.0 billion yen in net assets we currently have.

Increasing both growth investment and shareholder returns: We set ROE as financial KPI

In terms of shareholder returns, we targeted a dividend payout ratio of around 30% until FY2018. In the period under the New Medium-Term Management Plan through FY2021, however, we aim for at least 60%. Our dividend payout target of 200 yen per share in FY2019 translates to an estimated 76%, 100 yen of which is a commensurate dividend. As we said above, we will be aggressive in pursuing growth investment opportunities, but as we have a high level of retained earnings currently, we will seek to increase both growth investment and shareholder returns at the same time.

In terms of financial KPI, we aim to focus on ROE. ROE remained above 4% during the period of the previous medium-term management plan, but we aim for an average 6.3% for the three-year period of the New Medium-Term Management Plan. We aim to achieve ROE of at least 8% in 10 years, and for this, we think it is essential to make profit in the new business areas. We aim to use our funds actively on investments that can lead to making profits.

IR and SR policy: We aim to enhance information disclosure and commit further to dialog with shareholders.

Finally, I am going to discuss IR. As we operate on a B2B business model, our recognition among individual investors is low. Our shares have had low liquidity on the stock market due partly to a large percentage of strategically held shares. Recognizing that active information disclosure and active engagement with shareholders are a key part of investor relations, we aim to bolster information disclosure and dialog with shareholders starting in FY2018. Specifically, we started to hold telephone conferencing in the first and second fiscal quarters, in addition to results briefings which have been held twice each fiscal year. At NIKKO Moise 2018 held at the end of October last year, we also provided an opportunity for individual and institutional investors and analysts to visit our plants and see new products. Furthermore, we have started to disclose summary of our presentations and question and answer sessions at results briefings and telephone conferences, as part of efforts to provide a variety of information to institutional and individual investors in a timely manner. These down-to-earth initiatives, we believe, have led to a significant improvement in our shares’ liquidity in the current fiscal year. We are determined to keep these improvements going and commit further to improving information disclosure and maintaining dialog with shareholders.
Sustainability Initiatives

To achieve our mission, future creation that starts from an "if" contribute to future society through corporate activities, it is essential that we co-exist with society and have a harmonious relationship with the environment.

We identify the following four themes as key items in our efforts to achieve sustainability based on the interest society has and the level of their importance for the corporate value of the Nikko Group.

1. **Provide solutions for social issues and pursue business opportunities.**

   - **SDG 11**: Make cities and human settlements inclusive, safe, resilient, and sustainable
   - **SDG 12**: Ensure sustainable consumption and production patterns
   - **SDG 13**: Take urgent action to combat climate change and its impacts

2. **Pursue customer satisfaction**

3. **Pursue employee satisfaction**

4. **Co-exist with local communities**

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**Key Items for sustainability**

- Customer Satisfaction
- Employee Happiness
- Environmental Protection
- Social Responsibility

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**Impact on the Nikko Group’s corporate value**

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**Improve R&D Management Know-how and Expedite Product Development**

The Development Department is at the core of Nikko’s technologies. The New Medium-Term Management Plan identified the following as the important goals of the Development Department: (1) develop products in the existing areas; (2) cultivate new businesses; (3) expedite development; and (4) overseas strategy. As its KPIs, the Development Department aims to achieve a 9.6% share in net sales of new products in the fiscal year ending March 2022 (compared to 4.8% in FY2018) and to maintain a 40% share in the medium-term themes in the R&D budget (compared to 12% in FY2018).

To achieve these KPIs, it is essential that we develop human resources for the Development Department. Under the New Medium-Term Management Plan, we consider it necessary to not only improve our technological know-how through four core technologies (heating, mixing and kneading, machinery, control) but also enhance management skills to make adjustments across different areas depending on development themes. For further development of the core technologies, we will create a roadmap for the development of each core technology, clarify priorities, and concentrate resources in priority areas. We will also actively facilitate joint development with other industries and companies to make up for what is lacking in our company. To expedite product development, it is important that we raise the efficiency of testing and experiments. At the same time, we will promote the digitalization of operations and the systematization and visualization of the existing technologies. Of the 102 staff members in the Technology Division, 26 are assigned to the Development Department (as of March 31, 2019), which comprises five teams specializing in AP, IB, plant engineering, control, and intellectual properties. The Development Department and Engineering Department, which used to be in different locations, moved to the same office when Techno Center was built on the site of the Head Office in September 2018. This led to the strengthening of their collaboration for product development.
Pursuit of Customer Satisfaction

We regularly offer operator training programs to provide managers and engineers of our corporate customers with training on the operation of machines and technologies used in their plants.

Q&A

Q: Can you explain why your company upgraded its plant facilities?
A: Our old plant was purchased in 1992 when our company was established and was 27 years old. We decided that it was time to upgrade the aged plant to a plant that would serve customers and so that we could continue supply high-quality asphalt mixtures.

Q: Was there anything that you particularly found difficult, needed to be careful, or place importance when rebuilding your plant?
A: Because our site is extremely small and the land is sloping, we decided to use the top-drum recycling unit and the BonD type which has a bag filter on top of the dryer to achieve a very compact layout. We also re-planned the circulation flow in the site. By reviewing the traffic line of dump trucks and the waiting position of tanker trucks, we tried to improve the safety and efficiency of plant operation.

Q: What kind of improvements have been made compared to the previous plant? How do you evaluate the new plant?
A: The previous plant was installed in 1992. It used the dual motor dryer (DMD) manufactured by Nippon Tekko. Replacing it with the direct heating recycling unit has raised the production of recycled materials with less time and increased the mix rate of recycled mixtures. Furthermore, the back-wash bag filter we purchased at the same time was not a pulse-type. As it uses a blower to remove dust, it only produces a very small noise and does not blow off much dust. We are happy with it. The new burner is also fuel efficient and low noise, which is better for nearby residents. Despite the compact layout, there is a large maintenance space and wide paths for each equipment. Feeders with fins to stop spillage is also well-received within the plant.

Finally, can you give us a brief message?
A: We greatly appreciate Nikko Co., Ltd. and others involved in the building of our plant for their efforts to safely complete the building of the plant as scheduled without any accident in a site with a limited space. We will appreciate your support for many years to come.

Showa Hodou K.K.

Showa Hodou K.K. upgraded their aggregate supply unit, virgin dryer, back wash bag filter, top-drum recycling unit AS tank, and heavy oil tank in 2016 and replaced their asphalt plant and skip elevator in May 2019.

Q&A

Q: What was the key point when your company decided to upgrade your plant?
A: The main reason was the ageing of the plant. Our plant was built in the Showa era (except for the mixer and scale which were renewed in 2002). We were spending a sizeable sum on the maintenance and repair for its facilities. In addition, we aimed to achieve consistency in quality through the upgrading to the latest models.

Q: How do you feel now that the upgrade work was completed?
A: The defects of machinery have reduced dramatically. We are now able to supply ready-mixed concrete with consistent quality. The mixer also achieves high performance in mixing high-strength, high-flow concrete with less mixing time, which allows us to ship products efficiently.

Q: How do you find Cyber advance, which is the latest-model console equipped with a tablet?
A: We were initially puzzled by it because the layout of buttons differs from that of our previous console. But once we have got used to it, it was easy to use and learn it. We normally use the tablet as a display monitor for slump testing. When maintenance work is taking place, we bring the tablet into the plant and use it to operate machinery from there. We find it very useful because one person can now safely manage the work that used to be done by two or more people.

Q: Lastly, can you tell me if you have any opinion on or request to Nikko?
A: We want Nikko to develop even better products that consider the ease of use for end users. We especially hope them to create products that focus on the ease of maintenance such as daily cleaning. We are already using remote maintenance and other services and look forward to further advancement in trouble prevention technologies.

Ozawa Corporation

Ozawa Corporation, a group member company of the Kanto Ube Concrete Corporation, introduced a batching plant equipped with Nikko’s latest-model 2.75 cubic meter mixer (DASH-Hyper) and the latest-model network console (Cyber advance) in 2018.

Q&A

Q: What was the key point when your company decided to upgrade your plant?
A: The main reason was the ageing of the plant. Our plant was built in the Showa era (except for the mixer and scale which were renewed in 2002). We were spending a sizeable sum on the maintenance and repair for its facilities. In addition, we aimed to achieve consistency in quality through the upgrading to the latest models.

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A: We want Nikko to develop even better products that consider the ease of use for end users. We especially hope them to create products that focus on the ease of maintenance such as daily cleaning. We are already using remote maintenance and other services and look forward to further advancement in trouble prevention technologies.
All employees are the most valuable asset for Nikko. The workplace environment where each person is able to unleash their abilities to the maximum and to endeavor to improve the quality of life is a source that creates new values. Six people of the Millennials generation who drive the next generation of Nikko have come together to discuss workstyles and a sense of fulfillment gained from work. Although the participants were initially a little shy, they gradually got to know each other and started revealing their true feelings.

Tachiki: This is the seventh year since I joined Nikko. I am currently responsible for recruitment in the General Affairs Office. Workstyle reform is an important management theme. We launched a system reform project in April this year and are currently examining specific measures that are unique to Nikko and will go further than simply complying with laws and ordinances. Can you tell me what changes are occurring in your workplace?

Higuchi: This is my fourth year in Nikko and I belong to the Quality Assurance Office. There is a strong awareness about promoting the use of annual leave entitlements and there is an atmosphere to come up with ideas to enable everyone to take ten days of annual leave each year.

Sawaguchi: This is my eighth year in Nikko and I work in the Production Control Office. We used to sometimes work until 9 or 10 or 11 at night, but currently, we are working on reducing after-work hours and are encouraged to take one day of annual leave a month.

Kitaume: This is my fifth year in Nikko and I work on designing conveyors in Techno Center Design Department. In the Techno Center Design Department, there is a stronger awareness about leaving work early. But there has been no change to our workload. This means we need to change the way we work. We are currently working on standardizing drawings and reducing the number of drawings we prepare. This, however, makes it harder for the manufacturing section to understand the drawings. We need an understanding and cooperation from different departments.

Taketugu: It has been three months since I joined Nikko. I moved to Kanai after my marriage and joined Nikko as a mid-career recruit. I currently work for the Legal Section in the Financial Division. We are strongly encouraged to leave office on time. To do this, we are making efforts such as clearly prioritizing our duties and setting a deadline for each task and writing it down in our schedule.

Motivation and a sense of fulfillment gained from work

Tachiki: We have heard various opinions about how to make your work easier. What do you think is needed to give you a greater sense of fulfillment from work?

Sawaguchi: In Production Control, we look at figures such as an output of each project or profit margins. Recently, we received an award in the company for our achievement in an operation improvement process. I felt that we were rewarded for our efforts. I was very happy to hear words of encouragement and praise from my supervisors.

Imada: When we prepare quotes, we do not necessarily get contracts; as a result, we do not feel a sense of achievement often. But when I can produce a quote in a shorter time using my experience, I feel that I have grown. I think a simple word of “Thank you” from people in sales sections will raise my motivation even higher (laugh).

Sawaguchi: It will be great to have opportunities for employees and their families to get together to enjoy communication at workplace easier. It is said that people in my generation tend to avoid participating in drinking sessions with bosses or colleagues or events organized by the company. But personally, I want more opportunities to talk with people in my workplace in a more casual atmosphere. I would appreciate support for leisure activities of each workplace.

Tachiki: I am still single, but I support family events! (Laugh)

Imada: I am working shorter hours after returning to work from maternity leave and will be happy to see more options in terms of work hours and career paths. Nikko has a strong image as a conservative, male-centered, building machinery manufacturer. If we can communicate that women are working in Nikko with various options, I think we can change that image slightly.

Taketugu: If we have a flexible human resources system with many options such as flexible work hours, it will be much easier for women to work. It may be difficult to introduce this to the manufacturing site, but there seems a scope for maneuvering.

Imada: I was able to imagine that I would be able to continue working after childbirth because there was an option of working shorter hours as long as I worked six hours a day. I hope that there are structures to continue working for only women but also employees who have some restrictions to continue working and that many people use them.

Tachiki: I value your input as we have an uphill battle recruiting new female graduates. Thank you for sharing valuable opinions on workstyle and a sense of fulfillment from work today. I would like to create an opportunity like this again and deliver the honest voice of younger employees to our management. I appreciate your participation in today’s talk.

Reality and challenges of workstyle reform

Tachiki: This is my fifth year in Nikko. I prepare quotes for asphalt plants (AP) in the Cost Management Department. I returned to work this April after taking maternity leave. Because we have more members in our team, I am well supported even when I have to suddenly take a day off due to my child’s illness or other reasons. Quote preparation for AP is standardized to a certain extent. I myself try to support other staff members when I have time so that specific people do not shoulder an excessive share of the workload.

Kitaume: Designing relies heavily on individual work and it is currently difficult to share work within a team. In many cases, a person in charge of a certain job is the only person who can answer inquiries about it. It would be better if we can make each person’s work more visible.

Imada: This is my fifth year in Nikko. I prepare quotes for asphalt plants (AP) in the Cost Management Department. I returned to work this April after taking maternity leave. Because we have more members in our team, I am well supported even when I have to suddenly take a day off due to my child’s illness or other reasons. Quote preparation for AP is standardized to a certain extent. I myself try to support other staff members when I have time so that specific people do not shoulder an excessive share of the workload.

Tachiki: Each workplace seems to have different challenges. If you are doing anything to work efficiently within the stipulated work hours, can you share it with us?

Higuchi: Quality Assurance receives many requests from relevant sections. If I am not sure whether a particular request falls under the scope of our duties, I will seek advice from my supervisor. When I first joined Nikko, I just doggedly did whatever work I was given, partly because I did not understand the scope of our duties well. But now I feel it is necessary to be brave enough to say “No” when a lot of high-priority tasks are waiting to be processed.

Sawaguchi: Production Control is also an indirect section for the production site and handles a wide range of work. As I have some experience now, I can prioritize tasks from the viewpoint of how it will contribute to improving the efficiency of the entire plant.

Kitaume: The Techno Center Design Department is asking sales sections to provide supplementary information when they give us design requests. If we are asked to do a task urgently without any information, we cannot judge whether we should prioritize their request or the work that we are doing at the moment. This will suddenly increase our workload and force us to work long hours.

Taketugu: The Legal Section is working on preparing manuals for what we do so that we do not depend on particular individuals for certain work. We are recording the work we have done and organizing manuals so that other staff members can handle it without stress.

Tachiki: Information technology is essential for raising operational efficiency. Are you doing something about this?

Higuchi: Quality Assurance is working on the digitalization of the inspection result report. We believe that being able to search inspection records as data will raise efficiency.

Imada: We are looking into upgrading the quotation system. We are hoping that digital processing of data will make input operation unnecessary, reduce errors, and dramatically improve efficiency.

Higuchi: There is an ongoing project to work on the introduction of 3D CAD. When we prepare drawings using the existing 2D CAD, subtle discrepancies often arise between the drawings and customer needs. We then have to revise the drawings. With 3D CAD, we can show a 3D image while we are designing. This will make it easier for sales staff to talk about products with customers and we expect that there will be less do-over work like this. Having said that, we are concerned that using 3D CAD may lower our operation efficiency in a short term because we are not used to using it. It will be of a great help if there is a specialized support team that helps us from the introduction of a new system to training.

Sawaguchi: I totally agree! Please make an IT support team that dedicatedly itself to raise operational efficiency (laugh).
To reduce greenhouse gas emissions from asphalt plants, Nikko is mobilizing its technological knowhow and accelerating the development of new products, contributing to the creation of a low-carbon society by reducing their emissions. A major challenge Nikko faces is developing new asphalt ingredients. To meet this goal, they use a variety of ingredients, including rice hull ash and other byproducts of paper production.

Nikko’s efforts in combating climate change challenges using environmental technologies

The reduction of environmental stress caused by diesel engines used in mining and construction machinery, including reduction in greenhouse gas emissions, has been rapidly progressing due to the tighter global emission control. In this situation, asphalt plants produce over 40 million tons of mixtures in Japan and use 10 liters of fuel (heavy oil) to produce 1 ton of asphalt mixtures. The emission volume of CO2, which is one of the greenhouse gases, from asphalt plants is estimated at 1 million tons a year. Of construction machinery, asphalt plants are the largest CO2 emitters. While road paving companies are trying to reduce CO2 emissions by reducing a plant’s heating temperature, this has not produced a satisfying outcome. Nikko, together with Kawasaki Heavy Industries, Ltd., is working on the “evaluation project of pioneering waste management systems, etc., in small- and medium-sized waste management facilities,” sponsored by the Ministry of Environment, under a three-year plan covering FY2018 to FY2020. The project aims to develop “carbonized fuel burner” to burn carbonized fuel (harmless fuel created from garbage) generated in garbage processing facilities (whose processing volume is 100 tons or less a day) of local governments spread in Japan. Using this burner in facilities that use fossil fuel will reduce CO2 emissions. Using this carbonized fuel burner through this project, we aim to reduce CO2 emissions of asphalt plants located in approximately 1,100 places throughout Japan.

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Roundtable Talk on Governance

Discussion points in the Board of Directors

“The lack of aggressiveness might reflect the shortage of human resources.” …… Yuasa

“Learning from the mistakes made in the past management decisions is also important.” ……………… Nagahara

“I am aware that human resources development is a management theme we need to urgently deal with.” ……………… Tsuji

Tsuji  The Board of Directors wants to discuss now for the future. In other words, we want to clarify Nikko’s vision in ten years’ time and what we should do in the short- and medium-term to approach this vision. Your perspectives and advice as Outside Directors are very helpful because you set the course of the Board’s discussions right, which tend to be rather skewed if we only rely on the internal perspectives.

Yuasa  I believe I express honest opinions based on my experience in managing listed companies including a home appliance maker and ready-made food producer. In-house directors sincerely listen to my opinions. I feel there is an open atmosphere that makes it easy to express different views. However, if I may give one scrupulous opinion, I feel that there is a lack of speed when implementing what the Board has decided to do.

Nagahara  I utilize my experience as a lawyer to actively voice my opinions on governance required by law. I am also endeavoring to respect the position of minor shareholders. I also feel that Nikko’s Board respects opinions of outsiders.

Tsuji  When the Board was discussing the contents of the Medium-Term Management Plan, which would start afresh this term, I felt that we somewhat lacked the gumption to boldly take risks to achieve growth.

Yuasa  I think the lack of aggressiveness might reflect the shortage of human resources. In my previous workplace, I was taught to create people before making things. I think Nikko urgently needs to enhance the development of internal human resources and recruit from outside.

Tsuji  As you pointed out, it is true that we tend to lack personnel who can oversee the whole, partly due to the segmentation of the operation process for productivity improvement. Even if we do M&A, our problem will be who we should dispatch as management. I am aware that human resources development is a management theme we need to urgently deal with.

Nagahara  Aiming to achieve growth through M&A is a major management challenge. With respect to M&A, however, learning from the mistakes made in the past management decisions may also be important. I think Nikko has the past cases that it should reflect on.

Yuasa  When we conduct M&As in overseas markets, we need to overcome racial and cultural differences. We need to work on the diversification of our human resources together with human resource development.

Masaru Tsuji

President & Representative Director

Tsutomu Yuasa

Independent Director

Noriaki Nagahara

Independent Director

President Tsuji (Chair of the Board of Directors) and two Outside Directors (Independent Directors) spoke about enhancing governance, which is a foundation for Nikko’s sustainable growth.

The talk took place in the Nishi Office on July 25, 2019.

President Tsuji (Chair of the Board of Directors) and two Outside Directors (Independent Directors) spoke about enhancing governance, which is a foundation for Nikko’s sustainable growth.

35 Nikko Corporate Report 2019

36 Nikko Corporate Report 2019
**Board of Directors’ Independence**

“Nikko should organize a structure from the level of Executive Officer candidates so that Outside Directors can be involved in the selection of the next generation of management staff.”

“I believe we are not allergic to changing ourselves into a structure that can increase effectiveness.”

“We need to reconstruct the personnel evaluation system for successor candidates.”

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**Sustainability Initiatives**

“I believe we are gutsy enough to think that we cannot contribute to society if we can’t even give back to our employees.”

“Simply hoarding money cannot be called management.”

“I feel that the culture of gaining profits as the consequence of services to society is embedded in the organization.”

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We currently have two Outside Directors. We have also appointed two new Outside Corporate Auditors, who are independent Directors. In total, four out of twelve, i.e., one-third of the Board, are Independent Directors. I have followed the precedents and became the Chairman of the Board when I became the President. However, I believe we are not allergic to changing ourselves into a structure that can increase the effectiveness of the Board of Directors by listening to the opinions of Independent Directors.

We need to reconstruct the personnel evaluation system for successor candidates to allow Outside Directors to get involved in the selection process. Unless we have objective numbers at the individual level, for instance, the degree of one’s contribution to achieving the management plan, it may be difficult to make an accurate decision from the position of outsiders.

The Board also does not have a younger person in their 40s. I want to see diversity in terms of age in addition to gender and nationality. However, I think it is an issue that we should work on patiently through, for instance, expanding the scope of candidates for the Board members, while valuing the characteristics of Nikko, instead of rushing into it to simply make it appear better.

One of Nikko’s company mottos is to serve society through business. This still resonates deeply with my heart even at my age. For Nikko to survive, it is essential that society needs us. The first thing we need for disaster rehabilitation efforts is our plants. In addition, asphalt mixtures are almost fully recycled through our long years of efforts to reduce environmental burdens and build a recycling-oriented society.

Nikko’s business purpose is deeply related to society and the environment. I think we are in a privileged position when it comes to sustainability because we have no choice but to move together with society. As an outsider, I feel that the culture of gaining profits as the consequence of services to society is embedded in the organization.

As our efforts to combat climate change, we are accelerating our efforts to develop technologies and commercialize products for significantly reducing greenhouse gas emissions from asphalt plants. Asphalt plants largely rely on fossil fuel for their operation and produce approximately 1 million tons of greenhouse gases a year. We want to develop alternative fuels that will significantly reduce greenhouse gas emissions and produce plants that can be operated with alternative fuels as soon as possible to contribute to the building of a low-carbon society.

I think it is important that each employee can feel that their daily work leads to the creation of social values. You are right. If we just prepare drawings in the Head Office, we want to become insensitive to the demands of society. To sincerely face social issues that our customers have, we transferred five staff members from the technology section in the Head Office to our Tokyo office. They work with their customers to provide solutions for their problems by directly listening to their customers’ concerns and challenges and discuss them as engineers.

That is a very good attempt. There are always social demands behind customers. Thinking about them together will make Nikko employees more confident and raise their motivation if they can feel that their work helps society.

We uphold customer-first policy as our corporate philosophy. We aim to gain their trust and become their solution partners. One of the challenges facing our customers is Workstyle reform. They are working on improving the work environment for operators working in asphalt or concrete plants. If the accuracy of the remote maintenance service Nikko offers increases, it can reduce the burden on operators. Going forward, we have our sights set on the introduction of unmanned plants. The introduction of unmanned plants that can completely guarantee safety will significantly reduce our customers’ personnel and repair expenses. I think this will literally lead to a win-win relationship.

Workstyle reform is a major management theme for Nikko as well.

I think investing in people is most important. Workstyle reform is synonymous to operation reform. We need to fundamentally review how we work and create an environment where workers can exercise their independence. We have launched a project related to operation reforms. We will invest where we should make investment to achieve results. As a company whose mission is to serve society, I believe we are gutsy enough to think that we cannot contribute to society if we can’t even give back to our employees.

I will say something that may sound a little harsh. Isn’t it true that simply hoarding money cannot be called management? It is important that funds are circulated through investments in growth areas in Japan and overseas and investments in human resources. I understand the urge to accumulate cash to prepare for the time when the management environment becomes tough. However, I think money should be used where it should be used including M&As for future growth.

There is no doubt that a solid financial foundation is an important management resource. I disagree with taking risks recklessly following the prevailing trend. There have been numerous examples of M&As that have gone wrong. To reward Nikko’s shareholders who expect stable growth, I think we should have exhaustive discussions on this issue.

All our Directors are well aware that our shareholders expect a return that exceeds the cost of capital. Under the Medium-management Plan that starts from this fiscal year, we have introduced new indicators on the rate of return, capital productivity, and shareholder return. We will endeavor to empathize with our stakeholders more and meet the mandate given by our shareholders, while listening to the honest opinions of Outside Directors.
Nikko positions corporate governance as the management function for maximizing corporate value for our shareholders and other stakeholders. Under the Executive Officer system built upon the Board of Directors and the Board of Corporate Auditors, 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.

Overview of the Governance Framework

Nikko is a company with the Board of Corporate Auditors. To smoothly execute business, we have a committee of internal executives and other various committees as consultative organs for the President. Full-time Corporate Auditors and relevant staff members in the Internal Control Office and Internal Audit Office attend the meetings of these committees.

Organization Status of Internal Control System

Our basic approach to internal control system is to flexibly plan for and implement the organization of rules and employee education and first ensure its effectiveness in order to achieve appropriate and efficient business execution and to maintain a structure that enables oversight and control.

Status of reducing strategically-held shares

The Board of Directors annually examines whether or not to continue holding strategically-held shares and facilitate the gradual sales of the shares if it determines that there is no rational cause for holding them. To make the decision, the Board looks into the purpose of holding the shares, their risk, Nikko’s relationship with the issuers, and the balance vis-à-vis their capital cost. In the last three years, we sold a cumulative total of 1.8 billion shares at the total value of 792 million yen. We aim to further sell shares worth approximately 2.0 billion yen in the next three years.

Status of reducing strategically-held shares (in million yen)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of shares</th>
<th>Sale value</th>
<th>Unit price</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2015</td>
<td>5</td>
<td>223</td>
<td>44.6</td>
</tr>
<tr>
<td>FY2016</td>
<td>4</td>
<td>223</td>
<td>55.4</td>
</tr>
<tr>
<td>FY2017</td>
<td>6</td>
<td>253</td>
<td>42.2</td>
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</table>

Dialogues with Shareholders and Investors

We position the building of long-term, trusting relationships with our shareholders and investors as an important management task. 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 are being heard through meetings with them reported to the Board of Directors and shared with relevant sections to reflect them in our management decisions and B & S activities.

Shareholder/Investor Dialogues (FY2018)

<table>
<thead>
<tr>
<th>Financial Results &amp; Business Strategy</th>
<th>Shareholders</th>
<th>Number of dialogues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>122</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>123</td>
<td></td>
</tr>
</tbody>
</table>

Executive Officer

- Minoru Tanaka
- Masao Natori
- Morie Okaaki
- Takeshi Sone

Corporate Governance Framework

- Directors
  - Takahisa Nishikawa
  - Masaru Tsuji
  - Hiroyuki Sakurai
  - Hiroshi Fuji

- Corporate Auditors
  - Toshifumi Kinugasa
  - Noriaki Nagahara
  - Tetsuji Matusita
  - Tomomi Nakayama
  - Tsutomu Yusa
  - Nobutaka Yasuda

- Executive Officer
  - Minoru Tanaka
  - Masao Natori
  - Morie Okaaki
  - Takeshi Sone
**FY2018 Business Summary and FY2019 Outlook**

**FY2018 Profit and Loss Situation**

In FY2018, the global economy slowed down in some parts due to concerns on the overseas business conditions including the US-China trade war. The Japanese economy remained on a gradual recovery track as corporate earnings and the employment and income environment improved, supported by the government and the Bank of Japan’s ongoing regulatory policies.

Under such circumstances, the construction-related industry, which has strong bearing on our group business, remained on a solid ground, with construction investment in the private sector increasing significantly. We note, however, the construction-related industry remains in uncertainty as it faces a prolonged labor shortage and higher material prices. Asphalt Plant-Related Business, our mainstay, suffered a net sales fall of 4.3% compared with the previous year. This was attributed to a decrease in asphalt mixture shipment volume, affected by a fall in orders for road-related public works across Japan and a major road paving company being suspended from operating for a period after it was found to have violated the Anti-Monopoly Act. On the other hand, new orders and order backlog for the Asphalt Plant-Related Business increased sharply compared with the previous year. This was attributed to a more active spending on upgrades of large asphalt mixture plants in urban areas and a strong popularity of the VP series, our strategic products designed to improve productivity of recycled mixtures.

**Net sales of the Concrete Plant-Related Business decreased by 17.1% year on year. This was due to a low order backlog at the beginning of the fiscal year. The business’ order backlog, however, increased at the end of the fiscal year. We expect user appetite for capital expenditure will remain strong, driven by higher ready-mixed concrete prices and a wave of large projects related to the World Expo in Osaka and redevelopment in the Tokyo metropolitan area, which are expected to continue beyond the Tokyo Olympics and Paralympics. Overseas, net sales for the Asphalt Plant-Related Business in China was supported by active infrastructure investment from the Chinese government and tighter environmental regulations to exceed the figure in the previous year, which had increased significantly. In contrast to what we observed in China, our business in Thailand and Indonesia fell short of expectations despite our focused effort in the ASEAN countries, which we positioned as a key market in our strategy. The net result was a 4.4% increase in new orders received to 35,103 billion yen, a 9.5% decrease in net sales to 31.78 billion yen, a 32.1% decrease in operating income to 1,427 billion yen, a 9.7% fall in net profit attributable to the parent to 1.345 billion yen, all compared with the previous year. We note, however, that net sales and operating income grew by 3.6% and 24.2% year on year respectively in the fourth quarter of the fiscal year.**

**Financial Situation and Free Cash Flow**

In terms of current assets on the balance sheet at the end of FY 2018, a notable change in current assets was a 0.9 billion yen increase in inventories year on year. Property and equipment investment increased by 1.26 billion yen due to capital investment totaling 1,889 billion yen for construction of a techno center and acquisition of a mobile center, in addition to spending to update production equipment. In terms of investments and other assets, investment securities decreased by 1.09 billion yen from the previous year due partly to aggressive sale of cross-held shares. In liabilities, notes and accounts payable-trade, a current liabilities item, decreased by 1.008 billion yen year on year. The net result of the above was a negative free cash flow (FCF) of 1.239 billion yen. The cash conversion cycle (CCC) was 178 days, significantly deteriorating from 145 days in FY2017. This was attributed to an increase in inventories due to a sales decline and delays in some deals. We aim to improve CCC going forward.

**FY 2019 Estimated Profit and Loss**

In FY 2019, uncertainties linger in the global economy, but for the construction-related industry, a key business area for our group, is expected to be driven by solid construction investment from the government and businesses as various projects will continue to be carried out beyond the Tokyo Olympics and Paralympics. Overseas, there is a risk that infrastructure investment may slow in China, our key market. But still, we see the country as a market where we can take advantage of the technologies we have developed over the years in Japan, as environmental regulations have been tightened and recycled mixtures are starting to be used more widely in China. In the growing market of the ASEAN region, we aim to start a new round of in-depth market research and develop products suited to local user needs and consider options for setting up local offices. For the full fiscal year, we expect net sales of 35.7 billion yen, up 12.3% year on year, operating income of 2.3 billion yen, up 61.2% year on year, and a 48.7% increase in net income attributable to owners of parent to 2.0 billion yen. We plan to pay out dividends of 200 yen, including a 100th anniversary dividend of 100 yen, for a payout ratio of 76.6%, for the full fiscal year. Going forward, we aim to further enhance shareholder returns and information disclosure.

**Outlook for Each Segment**

In FY 2019, we expect the Asphalt Plant-Related Business’ net sales and operating income to increase by 13.8% and 63.0% respectively year on year. The favorable estimate is based on an ample order backlog of 8,808 billion yen at the beginning of the fiscal year, which had grown by 2,449 billion yen year on year, and the impact from large, unprofitable deals in FY2018 running its course. For the Concrete Plant-Related Business, we expect net sales to grow by 16.6% year on year to 9.2 billion yen and operating income to increase by 12.6% year on year to 750 million yen. Operating income for the Environment- and Conveyor-Related Business is expected to increase by 19.9% to 500 million yen, and the Other Business is expected to book an operating income of 510 million yen, up 1.6% year on year. We thus expect all four business segments to see an increase in both net sales and operating income.
## Financial Indicators of the Past 10 Years

### Key results

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales (mln yen)</th>
<th>Cost of sales (mln yen)</th>
<th>Gross profit (mln yen)</th>
<th>Selling, general and administrative expenses (mln yen)</th>
<th>Operating income (mln yen)</th>
<th>Ordinary income (mln yen)</th>
<th>Net income before income taxes (mln yen)</th>
<th>Net income attributable to owners of parent company (mln yen)</th>
<th>Net income per share* (yen)</th>
<th>Number of consolidated subsidiaries</th>
<th>Number of affiliates acquired using equity method</th>
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<tbody>
<tr>
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### Profitability

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<th>Operating margin (%)</th>
<th>ROA (%)</th>
<th>ROE (%)</th>
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### Segment results

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<tr>
<th>Region</th>
<th>Year</th>
<th>Sales (mln yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>2009</td>
<td>21,933</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>21,169</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>22,464</td>
</tr>
<tr>
<td>Overseas</td>
<td>2009</td>
<td>2,038</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2,633</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2,088</td>
</tr>
<tr>
<td>China</td>
<td>2009</td>
<td>1,752</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>1,684</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2,072</td>
</tr>
<tr>
<td>Other</td>
<td>2009</td>
<td>510</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>740</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>753</td>
</tr>
</tbody>
</table>

### Financial position

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets (mln yen)</th>
<th>Total debt (mln yen)</th>
<th>Total equity (mln yen)</th>
<th>Current ratio</th>
<th>Interest-bearing debts (mln yen)</th>
<th>Equity ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>34,613</td>
<td>32,858</td>
<td>3,755</td>
<td>1.88</td>
<td>3,096</td>
<td>1.15</td>
</tr>
<tr>
<td>2010</td>
<td>34,989</td>
<td>30,348</td>
<td>4,641</td>
<td>1.97</td>
<td>3,096</td>
<td>1.15</td>
</tr>
<tr>
<td>2011</td>
<td>41,964</td>
<td>34,189</td>
<td>7,775</td>
<td>1.85</td>
<td>3,096</td>
<td>1.15</td>
</tr>
</tbody>
</table>

### Dividends

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend per share (yen)</th>
<th>Dividend payout ratio (%)</th>
<th>Dividend on equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>30</td>
<td>205</td>
<td>1.1</td>
</tr>
<tr>
<td>2010</td>
<td>30</td>
<td>205</td>
<td>1.1</td>
</tr>
<tr>
<td>2011</td>
<td>30</td>
<td>205</td>
<td>1.1</td>
</tr>
</tbody>
</table>

### Capital investment, etc.

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital investment (mln yen)</th>
<th>Depreciation and amortization (mln yen)</th>
<th>R&amp;D expenses (mln yen)</th>
<th>R&amp;D expenses to net sales (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>569</td>
<td>452</td>
<td>211</td>
<td>0.89</td>
</tr>
<tr>
<td>2010</td>
<td>492</td>
<td>486</td>
<td>239</td>
<td>0.97</td>
</tr>
<tr>
<td>2011</td>
<td>292</td>
<td>345</td>
<td>239</td>
<td>0.97</td>
</tr>
</tbody>
</table>

### Cash flows

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash flow from operating activities (mln yen)</th>
<th>Cash flow from investing activities (mln yen)</th>
<th>Free cash flow (mln yen)</th>
<th>Term-end balance of cash and cash equivalents (mln yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1,452</td>
<td>235</td>
<td>1,687</td>
<td>6,550</td>
</tr>
<tr>
<td>2010</td>
<td>890</td>
<td>(895)</td>
<td>1,503</td>
<td>6,789</td>
</tr>
<tr>
<td>2011</td>
<td>574</td>
<td>299</td>
<td>1,102</td>
<td>6,618</td>
</tr>
</tbody>
</table>

*The Company conducted a one-for-five reverse stock split of common shares effective October 1, 2016. Net assets per share and net income per share are calculated based on the assumption that the reverse stock split was executed at the beginning of FY 2016.
**Stock Information**

**Stock overview** (as of March 31, 2019)

- **Stock listing**
  - Tokyo Stock Exchange (first section)
  - TSE code: 6306

- **State of issuance**
  - Total number of shares authorized for issuance: 30,000,000
  - Total number of outstanding shares: 8,000,000
    - Including 336,569 treasury shares

- **Number of shares units**: 100
- **Number of shareholders**: 2,606

- **Shareholder registry administrator**
  - Mitsubishi UFJ Trust and Banking Corporation
    - 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8112

- **Fiscal year**
  - From April 1 to March 31

- **Annual General Meeting of Shareholders**
  - June

- **Registration deadline for year-end dividend payment**: March 31
- **Registration deadline for interim dividend payment**: September 30

**Major shareholders** (top 10)

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares (in thousands)</th>
<th>Shareholding ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikko Trading Partner Shareholding Association</td>
<td>1,072</td>
<td>13.99</td>
</tr>
<tr>
<td>The Wester Trust Bank of Japan, Ltd. Trust accounts</td>
<td>462</td>
<td>6.03</td>
</tr>
<tr>
<td>Nikko Employees’ Shareholding Association</td>
<td>360</td>
<td>4.71</td>
</tr>
<tr>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>240</td>
<td>3.14</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust accounts)</td>
<td>235</td>
<td>3.08</td>
</tr>
<tr>
<td>MISO Customer Securities</td>
<td>216</td>
<td>2.83</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>170</td>
<td>2.23</td>
</tr>
<tr>
<td>Yasumitsu Shigeta</td>
<td>157</td>
<td>2.06</td>
</tr>
<tr>
<td>Sumitomo Life Insurance Company</td>
<td>149</td>
<td>1.94</td>
</tr>
<tr>
<td>MISP Client Securities</td>
<td>140</td>
<td>1.83</td>
</tr>
</tbody>
</table>

Notes:
1. Numbers of shares are rounded down to the nearest 1,000 shares.
2. Nikko holds treasury shares totaling 3,363,569, but is excluded from the calculation of shareholding ratio.
3. 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 two decimal places.

**Composition of shareholder types (%)**

<table>
<thead>
<tr>
<th>Type</th>
<th>2018 (as of March 31)</th>
<th>2017 (as of March 31)</th>
<th>2016 (as of March 31)</th>
<th>2015 (as of March 31)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals and others</td>
<td>49.6%</td>
<td>49.8%</td>
<td>52.3%</td>
<td>49.6%</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>9.9%</td>
<td>9.9%</td>
<td>9.9%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Financial industry business companies</td>
<td>31.9%</td>
<td>31.9%</td>
<td>31.9%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Other domestic corporations</td>
<td>4.9%</td>
<td>4.8%</td>
<td>4.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Foreign corporations, etc.</td>
<td>5.7%</td>
<td>5.7%</td>
<td>5.7%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Treasury stocks</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

**Stock performance**

- **Period held**
  - 1 year (4/18-3/19)
  - 3 years (4/16-3/19)
  - 5 years (4/14-3/19)

<table>
<thead>
<tr>
<th>Company</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikko</td>
<td>+5%</td>
<td>+56%</td>
<td>+5%</td>
</tr>
<tr>
<td>TDX</td>
<td>-7%</td>
<td>+24%</td>
<td>+31%</td>
</tr>
</tbody>
</table>

**Machinery Index**

- **Period held**
  - 3 years (4/16-3/19)
  - 5 years (4/14-3/19)

<table>
<thead>
<tr>
<th>Index</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikko</td>
<td>+50%</td>
<td>+55%</td>
</tr>
<tr>
<td>TDX</td>
<td>+55%</td>
<td>+60%</td>
</tr>
</tbody>
</table>

**Share prices and trading volume in the past five years** (weekly figures) (July 18, 2014 - July 19, 2019)

![Graph showing share prices and trading volume over the past five years]
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Tel: +81-78-947-3141
Email: IR-nikko@nikko-net.co.jp
September 2019