

August 27, 2019

Summary of Questions and Answers at FY 2019-2021 Medium-Term Management Plan Briefing Session

1. I would like to ask about the market share of Nikko's AP plants for expressways and general roads in China.

--> There are various grades of plants and we are unable to grasp the number of units in all markets. Our plants are positioned as high-end plants, but the market for such plants is small and it is estimated at 100 to 150 units a year. In such a market, we deliver 20 units a year, which is the maximum production capacity of our local subsidiary in Shanghai (Nikko Shanghai). The high-end plant market is estimated to be roughly divided among Nikko Shanghai, two European companies and a few Chinese companies.

2. I would like to ask whether the loss that occurred in the last fiscal year in AP was in China or Japan.

--> The loss was due to a domestic project. However, since we place importance on maintenance service, there are some orders that we take knowing right from the beginning that it would be an unprofitable project. As we distribute maintenance service staff throughout Japan and maintenance service has higher profits, there are cases where service efficiency deteriorates when another company wins the order. There were slightly more projects which we won for such policy reasons in the previous fiscal year.

3. How much does maintenance service account for in sales?

--> Maintenance service is 60% and plants account for 40% for both AP and BP. In a roughly 10 year period, the ratio has not really changed.

4. You said that you were able to secure profits because the ratio of maintenance service is increasing even as the plant sales are declining, but I would think that the volume of maintenance would eventually fall if the plant sales decline. What do you think?

--> The plant life has almost doubled compared with earlier because they implement significant upgrading such as replacing half of the equipment or adding new functions. Although the number of plants has been slightly declining, roads have to be repaired constantly and some expect the number of plants not to fall any further. Asphalt cannot be supplied to a given area if there are no plants within a certain range, so there is a limit to how far the number of plants can decline. The same can be said about ready-mixed concrete.

--> There are some areas with overcapacity and the number of plants in such areas will come down

in the future due to consolidation. Also, consolidation will continue somewhat due to technology advancement such as the newly developed additional function called foamed. Nevertheless, as consolidation progresses and an appropriate distribution is achieved, profitability will also improve and the customers would invest in facilities, so we believe that consolidation would not have a negative impact on us.

5. As you try to expand business abroad, I would like to ask about the difference in profitability between the domestic and overseas businesses and the difference of business model between the domestic and overseas business.

--> Profitability differs from country to country. In China, they have come around to acknowledging our product value following the differentiation efforts and we have a structure to ensure a certain level of profitability. On the other hand, users in the ASEAN region, on which we have been focusing, still do not have the purchasing power and they have no choice other than adopting Chinese, Korean or second-hand plants. It is not enough to just bring plants manufactured in Japan to these countries. Competitiveness will come to the force if we can have local bases and boost ratio of local production to 100%. So, we believe that it is important to build the structure for that. It is mostly standard plants overseas but it is custom-built plants in Japan.

--> Nikko brand currently has the top AP market share in Thailand, on which we are focusing. There are about 150 plants that are operational and we have the top share, and this is because dealers have brought in second-hand plants from Japan and these have taken root. We believe we are in quite an advantageous situation than trying to sell products where users don't know our machines. Going forward, we will take measures and would like to grab the market share.

6. Does the profitability in China is at a similar level to Japan?

--> We are not disclosing the profit figures in China but the profitability in terms of plant sales in China is higher than in Japan. The total accumulated number of Nikko plant shipment in China has exceeded 200. For comparison, it is about 700 units in Japan. It is not easy, but we expect to capture the demand for maintenance service in China and we have to work on (the expansion of the MS business). At present, the maintenance service in China is only about 10% of total sales, while it accounts for 60% of sales in Japan. Profitability is also entirely different. To be sure, we have been able to secure profitability because the AP business in China focuses on the high-end market.

7. Regarding the figures for 1Q, you explained that you have changed the method of recording sales and profits of Chinese subsidiaries this time. Is it safe to believe that the change is incorporated into the plan for the current term announced in May?

--> Yes, it is incorporated. We used to consolidate earnings in China with a three-month delay, but

only for the current term, it will be the 15 months from January 2019 to March 2020. The figures for China in the usual January-March period are not so significant and incorporating them would not have much of an impact.

8. Is it okay to think it would not have any impact on second-quarter earnings?

--> As for Nikko Shanghai in China, there would be some impact on the second-quarter earnings as the figures slightly increase in the July-September period but the figures for the January-March period is not significant overall, so the inflated part would be limited.

Note: The summary of the question and answer session was created in part to provide the information to those who did not attend the results briefing. Please note that parts of the text have been edited to improve clarity and enhance understanding.

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