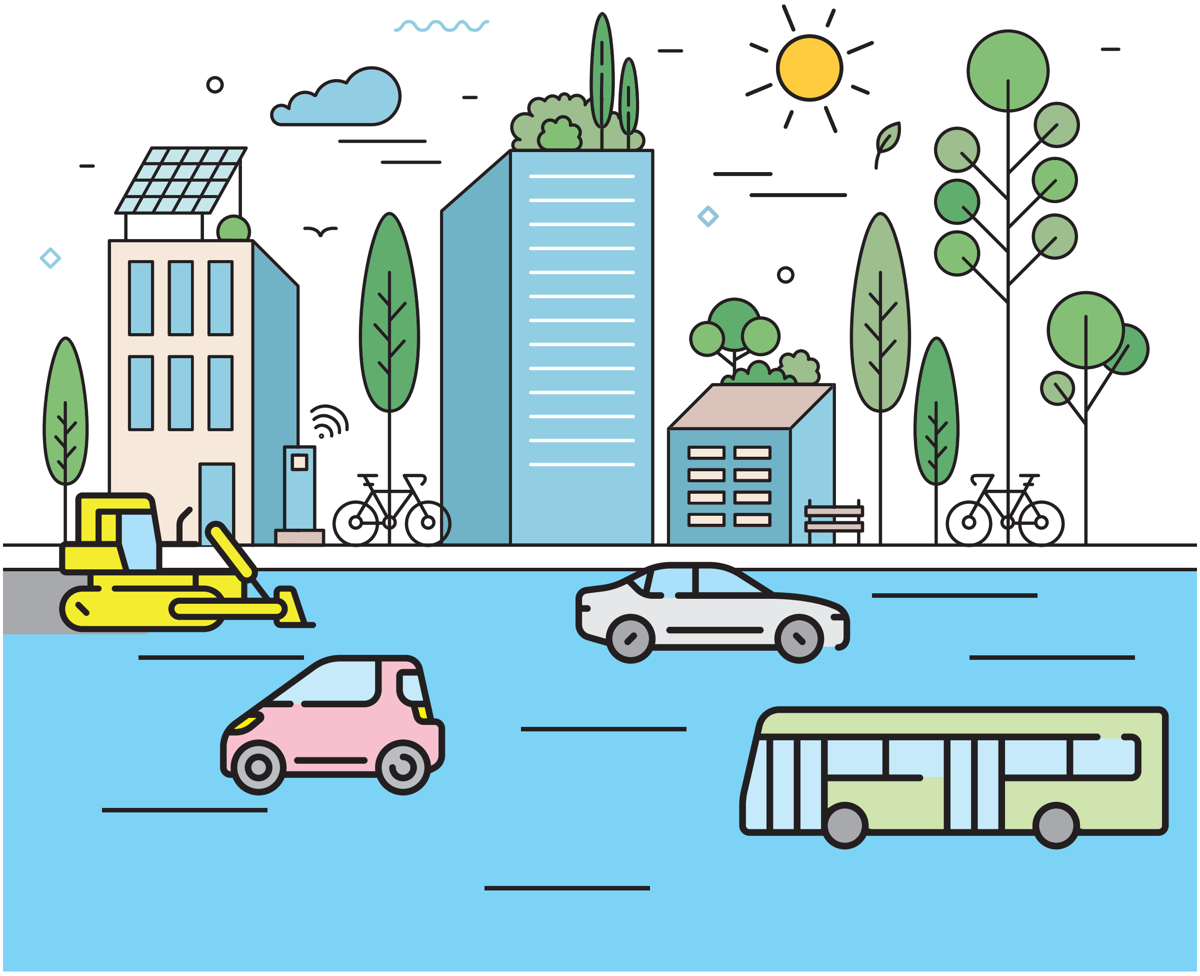
Nikko
Corporate Report
2021

Nikko Corporate Report 2021

Fiscal year ended March 31, 2021



NIKKO

Future creation that starts from an ‘n’

Contents

Editorial Policy

Nikko Group Corporate Report 2021 aims to disclose Nikko Group's medium- and long-term value creation efforts from both financial and non-financial aspects to all stakeholders, including our shareholders and investors. The Report is edited referring to The *International Integrated Reporting Framework* established by the International Integrated Reporting Council (IIRC) and the *Guidance on Integrated Disclosure and Dialogues for Joint Value Creation* by the Ministry of Economy, Trade and Industry of Japan.

Target readers: All stakeholders connected to the Nikko Group
Reporting period: The Report mainly covers FY2020 (April 1, 2020 to March 31, 2021) but also includes information before and after this period.
Reporting scope: The Report covers the Nikko Group comprising Nikko Co., Ltd. and ten subsidiaries (all of which are consolidated subsidiaries).
Company name: "Nikko" and the "Company" refer to Nikko Co., Ltd. The "Nikko Group" and the "Group" refer to the Nikko Group, including consolidated subsidiaries.

Note on forward-looking information

This Report includes statements on future outlook. We appreciate that you understand that actual performance may differ from the Company's projections.

Nikko Group's Corporate Philosophy

Nikko Group's Promise

Future creation that starts from an '*n*'

We will continue to be the leading manufacturer of asphalt and batching plants.
We aim to become the top manufacturer in the Asian market by expanding our overseas business.
We will brush up our core technologies of heating, mixing and kneading, material handling, and control to expand our business.
We will continue to be a future creation company that contributes to society.

Nikko Group Corporate Charter

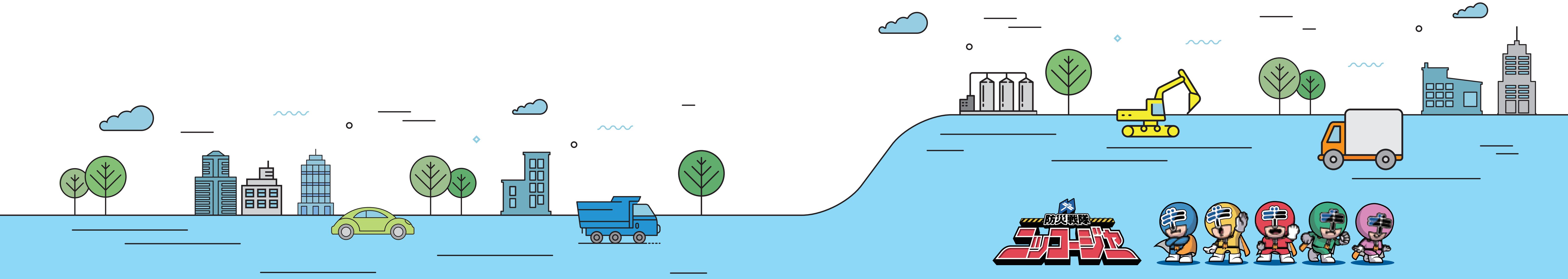
Management Philosophy

Adopting a customer-first policy, the Nikko Group provides customers with truly satisfactory products and services, while continually promoting self-reform to win the broad trust and fulfill our mission as a solutions partner evolving with customers.

Company Motto

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

*Batching plant: A concrete plant that uses the batching method



Transition and History of Social Issues

Transition of social issues

Improvement in labor productivity of civil engineering works

Development and expansion of land infrastructure (railroad, roads, ports, and dams)

Response to environmental pollution

Realization of recycling-oriented society Development of infrastructure in emerging countries

11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

1919 •Nihon Kogu Product Co., Ltd. was established
Establishes the registration date of August 13th as foundation day
•"Tombo" registered as trademark

1920 •Extraordinary general shareholders meeting held
Matsusaburo Yano appointed to Senior Managing Director
•First product, a shovel, goes on sale.

1921 •Head Office relocated to Akashi

1923 •Supplies materials for reconstruction following major earthquake that devastated the Kanto region

1932 •Constructs a forging plant and warehouse for wooden handle material

1933 •Construction of rolling mill decided

1934 •Second Plant opens

1938 •Third Plant starts operations

1945 •Most of the plants burnt down by war

1946 •First Plant back into operation
•Construction work completed for the Second Plant Wood processing and manufacture of wooden handles restart

1948 •Construction work completed for the Fourth Plant
•Company designated as a factory manufacturing essential goods

1949 •Shares listed on the Osaka Securities Exchange

1950 •Shovel demand surges following the start of the Korean War

1951 •Starts manufacture of winches and mixers

1956 •Completes construction of a concrete plant

1958 •Nikko's first asphalt plant

1959 •Tokyo office opens

1960 •Completes first asphalt plant that uses electron tube-based control system

1962 •Lists shares on the Tokyo Stock Exchange

1963 •Completes first automated concrete plant

1964 •Relocates the head office functions to Eigashima Plant

1966 •Starts manufacture of fully automated concrete plants
•Starts manufacture of belt conveyer system

1968 •Company renamed to Nikko Co., Ltd.
•Completes first crushing plant

1969 •Opens operator training center

1971 •Establishes Nikko Electronics Co., Ltd.

1974 •Signs technology tie-up with Benninghoven, a leading industrial burner maker then based in West Germany, and the Dutch company Philips

1975 •Develops environmentally friendly CNAP series of asphalt plants

1976 •Launches Tombo-kai

1977 •Develops recycling plant and mixture silo designs

1981 •Conducts first BP operator training

1983 •Establishes Nikko Gate Co., Ltd.
•Completes BonD (Bag-filter on Dryer) series
•Develops WISE series of concrete plants

1992 •Participates in project to assemble on-site asphalt plants for Kansai International Airport

1994 •Establishes Tombo Industry Co., Ltd.
•Conducts the 100th AP operator training session

1995 •Establishes Nikko Sec Co., Ltd.

1997 •Establishes Nikko Machinery Co., Ltd.

1998 •Obtains ISO9001 registration

1999 •Opens Beijing office

2000 •Develops soil decontaminating plant

2001 •Establishes Nikko (Shanghai) Construction Machinery Co., Ltd.

2007 •Establishes Nikko Group Corporate Charter

2008 •Develops a liquid biomass (alternative to fossil fuel) burner
•Acquires ownership of Maekawa Kogyosho Co., Ltd.

2012 •Tohoku Branch launches quake-disaster recovery project
•Develops large soil decontaminating plant
•Develops a solid biomass (alternative to fossil fuel) burner

2013 •Develops plant especially for quake-disaster recovery

2014 •Develops MBD series for recycled mixtures
•Develops DASH-Hyper mixer

2015 •Develops VP series asphalt plants using new design

2018 •Builds Techno Center on Akashi head-office property
•Opens showroom on the first floor of the Head Office; strengthens CSC
•Mobile Plant Business starts operating in earnest
•Holds Nikko Messe 2018 marking 100th foundation anniversary

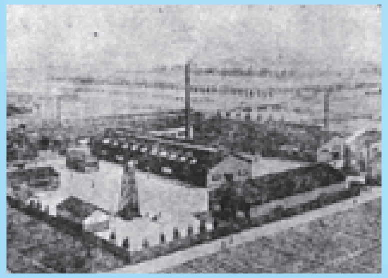
2019 •Marks the 100th foundation anniversary
•Marks 100th foundation anniversary with ceremony

2020 •Establishes Nikko Asia (Thailand) Co., Ltd.
•Establishes Nikko NilKhosol Co.,Ltd.

1919 1950 1970 1990 2010 2021

Start-up era

In the Taisho era, Japan's economy boomed after World War I as trade grew and various industries developed. In such a situation, the executives of Suzuki Trading, a Kobe-based general trading firm boasting the top annual sales in Japan at that time, established Japan Tool Manufacturing Co., Ltd., which manufactured and sold hardware for construction such as shovels, spades, and pickaxes in August 1919.



Head office factory at the time of founding

Postwar reconstruction and business expansion

The Korean War broke out in 1950, and the production of shovels expanded on the back of special procurement. Reflecting robust civil engineering works, the Company began manufacturing concrete plants in 1956. As road construction expanded with the beginning of motorization, the Company developed an asphalt plant prototype in 1958. It built the foundation for transforming itself from a tool manufacturer to a construction machinery manufacturer.

1958: Nikko's first asphalt plant

Transformation into a construction machinery manufacturer

The Company expanded operations to construction machinery, such as asphalt plants and belt conveyors, which are essential for construction works, and in 1968 changed its name to Nikko Co., Ltd.
It carried out development of products in response to the needs of the time through technological alliances with Boeing of the U.S., Benninghoven of Germany, and Philips of the Netherlands.

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

Promotion of recycling pavement waste and expansion into Asia

In 1998, the Company established the Environment Business Department to develop cutting-edge plants and devices that were environmentally friendly by using its plant engineering technology.
In 2001, the Company established Nikko (Shanghai) Construction Machinery Co., Ltd., aiming for a full-scale entry into the Chinese market.
Since the development, in 1977, of recycling plants that reuse asphalt pavement waste, the Company has been promoting the recycling of all asphalt.

2013: Introduction of plants especially for quake-disaster recovery

Making plant products low-carbon and decarbonized and promotion of remote maintenance

The Company developed a solid biomass fuel that can be used at asphalt plants in 2012. It focused on low-carbonization and decarbonization of plants by commercializing a combustion burner for diverse alternative fuels.
The Company advanced control and analysis technologies and strengthened remote support to enhance proactive prevention-type remote maintenance of customer plants.
In 2020, the Company established Nikko Asia (Thailand) Co., Ltd. as the base for tapping into Southeast Asia and accelerated business expansion in Asia following the subsidiary in Shanghai.

2020: Establishment of Nikko Asia (Thailand) Co., Ltd.

We aim to become a leading company in decarbonized society through active investment in technologies for CO_2 emission reduction and environmental recycling.

Representative Director, President and CEO
Masaru Tsuji

Q1 Review and summary of the Medium-Term Management Plan and policy of the next medium-term plan

The Medium-Term Management Plan is entering into its final fiscal year in FY 2021. What were the positive and negative points? Also, what is the policy for the next Medium-Term Management Plan?

The current Medium-Term Management Plan enters into its final fiscal year in FY 2021 and our initial goals were 38.0 billion yen in net sales and 3.0 billion yen in operating income. At this point, we are expecting consolidated net sales of 39.0 billion yen and operating income of 2.3 billion yen for FY 2021. Net sales are expected to exceed the target reflecting aggressive sales activities, while operating income is expected to underperform the target. We will be unable to achieve the operating income target because we plan to invest 300 million yen in R&D expenses in the decarbonization field and the AP (asphalt plant) Related Business is unlikely to achieve the profit target (see p. 15).

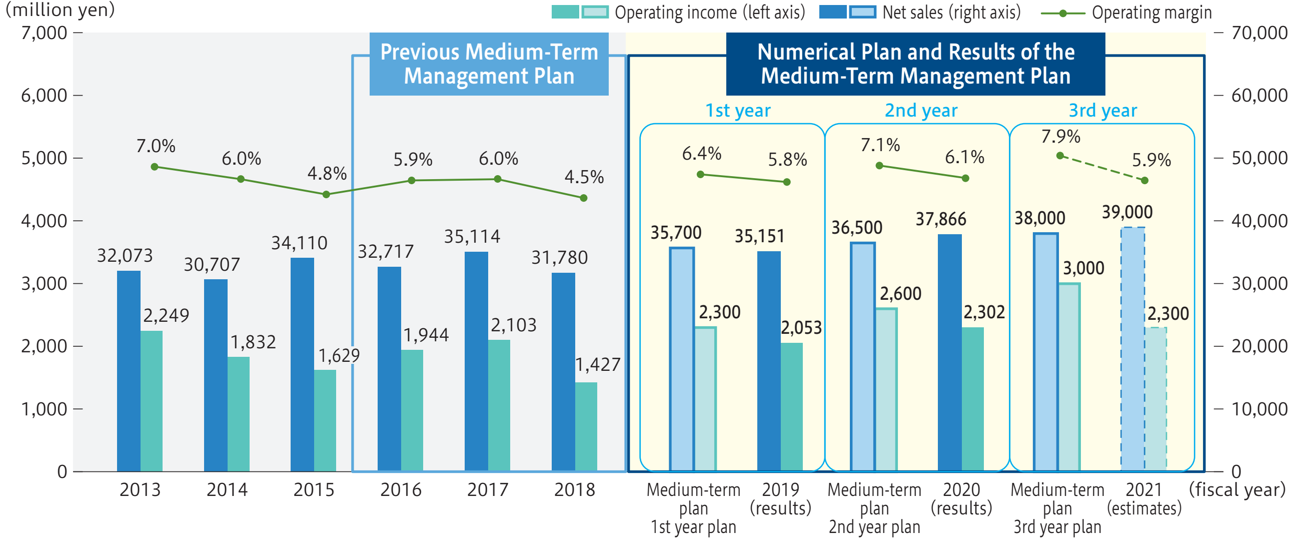
New orders received increased despite the COVID-19 pandemic, growing 18% to 40.0 billion yen in FY 2020 compared with FY 2019. However, the overseas business was affected by COVID-19. Established in the previous fiscal year, the Thai subsidiary won orders at an early stage despite the impediments caused by restrictions on travel. However, costs such as export expenses will increase due to the delay in the development of the local manufacturing base. Net sales of Nikko (Shanghai), our Chinese subsidiary, also declined about 4% in FY 2020 compared with a year ago.

In the existing business fields, the AP- and BP- (concrete plant) Related Businesses in Japan were not affected by COVID-19 and capital investments by customers have been strong. Operating income of the AP-Related Business is likely to come to 1.25 billion yen compared with the medium-term plan target of 1.9 billion yen, and one of the factors behind the shortfall is that the number of new unit-type AP (Value-Pack series), aimed at differentiating us from competitors by shortening on-site work with improved performance of recycled mixture manufacturing, fell below the plan. Under the Medium-Term Management Plan, we aimed to raise the ratio of the new AP to more than a half of domestic sales, but we have not made sufficient progress, and therefore, we need to further promote the product among customers.

A positive point during the Medium-Term Management Plan was that we made capital investment by focusing on the future. In particular, we made capital investment in three fiber lasers and others for factories in FY 2019 and 2020 to differentiate product performance and improve productivity. The improvement has already been seen in the results and we are expecting factory income to increase further. We will also start the maintenance service business from FY 2021 as we developed a mechanism of prevention and maintenance based on an annual maintenance contract. At the same time, we made progress in DX and work style reform thanks partly to the impact of COVID-19 and we also built mechanisms for online business negotiations and telecommuting, which is expected to improve productivity in the future.

Currently, we are formulating a new three-year Medium-Term Management Plan and we are expecting the favorable business environment to continue. There are the upcoming EXPO 2025 in Osaka, continued renovation works of infrastructure, bullet train extension work, and restoration from torrential rain disasters. The Fundamental Plan for National Resilience, with a project scale of 15 trillion yen, will be implemented over five years starting 2021 as a disaster prevention and mitigation measure.
To respond to the construction-related demands such as road, revetment, bridge reinforcement, and reconstruction of buildings, we will drive forward the upgrading and reinforcement plans for asphalt mixture and ready-mixed concrete supply facilities (plants, etc.), and upgrade the functions of the facilities (plants) for construction waste recycling, highly strong materials, and materials for workability. As for profitability, we would like to bring the operating margin of the domestic business close to 10% taking into account the introspection of the current medium-term plan and the issues.

●Net Sales and Operating Income Plans under Medium-Term Management Plan



Q2 Nikko Group's future measures for achieving carbon neutral

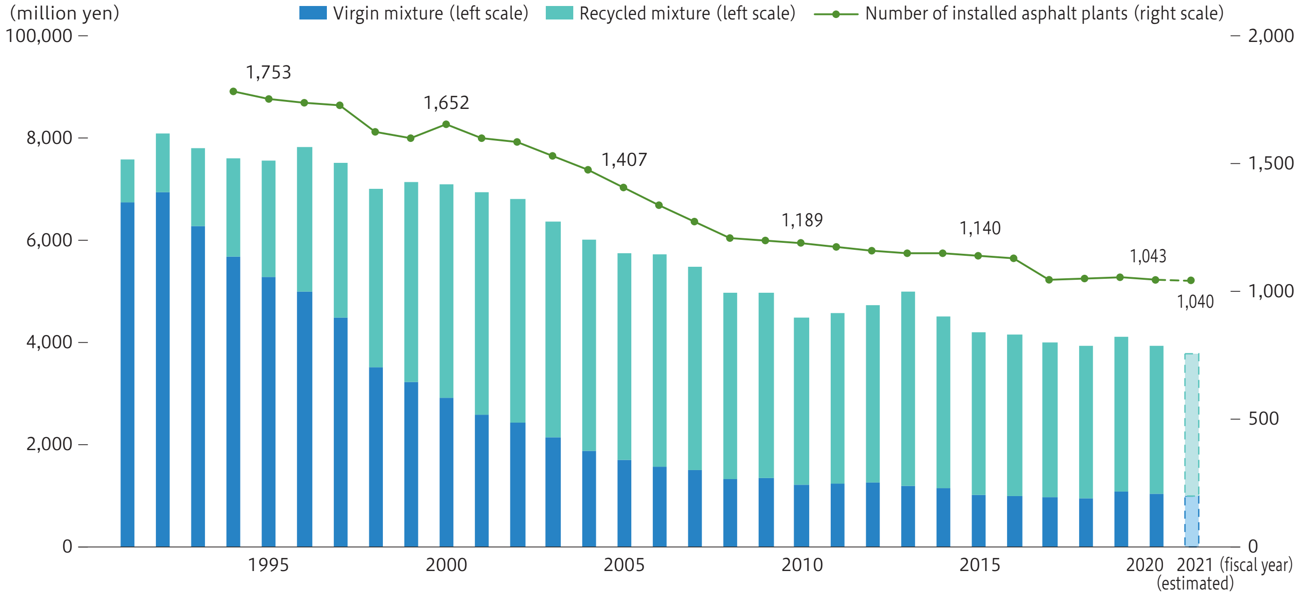
In 2020, the global momentum of DX and decarbonization gathered pace and a clear trend emerged of Japanese companies aiming to achieve carbon neutral. In the capital market also, companies listed on the Prime Market will be required by revised CGC to make climate-related financial disclosures and in the future it is likely that companies will have to make nature-related financial disclosures. What changes will the status of Nikko Group's carbon neutral initiatives (including plans) and risks and opportunities for achieving decarbonization bring about on the long-term business environment?

We plan to boost environment-related R&D expenses to 730 million yen over three years of the next Medium-Term Management Plan. We plan to spend 700 million yen in R&D expenses in FY 2021 and expect to spend a total of 2.5 billion yen, including the environment-related 730 million yen in the three years of the next medium-term plan (FY 2022 to 2024). In more concrete terms, we aim to develop products such as a series of biomass burners, combustion system for ammonia and hydrogen, AI-based judgment system, sand drying and supply system, and various mixing equipment. We also plan to increase the number of employees engaged in research and development by seven from current 43 to 50 in three years and are also considering acquiring a test center (1.0 billion yen in investment) as part of capital investment.
Achievement of carbon neutral, a direction the world is heading towards, is the duty of a company, and we plan to work on it proactively. We emit 1.3 million tons of CO_2 a year in Japan, as our mainstay product AP is a heating system which burns fuel oil and gas. We will switch fuels for AP to reduce CO_2 emissions from our products by 50% by 2030, by 80% by 2040, and achieve zero emissions by 2050.

Among the future risks for the company is the possibility of a decline in the number of APs installed, if there comes a stage where customers demand fully electrified plants (to which we cannot respond) leading to reorganization of customers. Our share of the AP market in Japan was 75% in FY 2020, and the impact of such a risk will be large.

In the future, if there is an industry reorganization where the volume of asphalt mixture manufactured remains unchanged, the plants that survived the reorganization will become larger in scale, and they may be replaced by more high-end plants. That will be a business opportunity for us.

●Trend of Asphalt mixture output and number of asphalt plants installed



As for the company's opportunity, we consider it a great chance to accelerate our business expansion given our background in building CO_2 reduction technologies and environment and recycling technologies for many years. We have a track record in developing equipment to recover rare metals from waste batteries and waste circuit boards of home electronics, a plant to recycle waste plasterboards, CO_2 absorption equipment using concrete sludge, carbon neutral fuel use of waste glycerin, waste wood tar, wood chips, and ashes from burning waste among others.
If the needs for carbon neutral become tangible overseas, we believe the potential demand will become larger. Specifically, we are paying attention to the potential in China, which has the largest AP demand in the world and where implementation of environmental measures is relatively delayed. Nikko (Shanghai), our Chinese subsidiary, has been seeing increasing demand for AP for recycled mixtures, and it is transforming into a market format where we can leverage the strength of our environment and recycling technologies. We also established a subsidiary in Thailand, and we believe that eventually all of Asia will require carbon neutral APs. For example, Taiwan tightened its environmental regulations to require use of gas instead of fuel oil as fuel, and many plants introduced gas burners. What's more, we are expecting to receive orders for recycling plants soon.
Nikko Group's management philosophy is a customer-first policy, and we have been honestly responding to customer requests for products, which has ensured the sustainability of our business. This is primarily because maintenance service accounts for 60% of net sales, and I believe that this management philosophy is our mightiest weapon that will be effective in any country around the world even if we enter into the era of carbon neutral (see pp. 31 and 51).

Q3

Change in governance (G) of ESG and status of the Group's initiatives regarding issues of society (S)

In tune with the revision of CGC, the composition of the Board of Directors was reviewed at the Ordinary General Shareholders' Meeting in June. The company disclosed its skill matrix for the first time. What kind of contributions and effectiveness the new governance will have towards achievement of the Long-term Basic Policies (2030)? In Nikko Corporate Report 2020 last year, you mentioned that diversity initiatives are the future task. What have been the progress in the past one year and what is the future policy?

We are carrying out reforms of the Board of Directors, which is at the core of governance because building a management structure in tune with the times is essential for the sustainability of the business, which is the most important theme for the company. We will rejuvenate the management structure (Board of Directors) and review the structure in which Directors concurrently serve as presidents of affiliates. And we would like to identify the group management issues, determine whether it is a situation that allows growth, and promote themes we should implement. If an affiliate cannot improve it on its own, we plan to solve it as a group. As part of the effort, affiliates will start selling products made by each other. In particular, we plan to implement cross-sourcing of disaster prevention-related products and launched a PR website of the disaster prevention business on September 1, the disaster preparedness day, this year. We will utilize Nikkoger, the mascot of our disaster prevention business, and also continuously carry out social contribution activities related to disaster prevention.
We established the Nomination and Compensation Committee as an initiative for strengthening corporate governance and raised the ratio of independent officers to 44.4%. Specifically, the number of internal directors was reduced by one to five people and increased the number of outside directors by two to four people. We invited Mr. Masafumi Ishii, who is former Ambassador Extraordinary and Plenipotentiary to Indonesia and has overseas expertise, and Ms. Rika Saeki, who is well versed in ICT and diversity, as new Outside Directors to expand overseas net sales, which is our long-term task, and achieve diversity and inclusion of the organization (see p. 60).

Regarding the progress made in diversity initiatives, we made adjustments so that female employees can play an active role in various departments. We did not know where female employees can excel mainly because these divisions did not have female employees until now. Indeed, I feel that the departments that newly added female employees have been really galvanized, coming up with new ideas. We will also consider reviewing the in-house systems such as flexible operation of shortened working hours to realize diverse working styles corresponding to the life stages of both male and female employees (see p. 48).
In utilization of overseas human resources, we established a subsidiary in Thailand and hired 14 persons locally over the past one year, and the Thai factory, which is close to completion, is expected to have 60 to 70 people working there. This will boost the ratio of foreign employees of Nikko Group to about 20%, so we will develop a system to reflect the diversity in corporate values along with evaluation of overseas human resources. At the same time, when we think of global management, spreading our Management Philosophy and increasing the engagement with overseas employees are the tasks in front of us. We set forth the Nikko Group Corporate Charter in 2007 and have been making it available in multiple languages along with the Management Philosophy and Company Motto. I believe that it is necessary to further clarify our values while evolving Vision and Mission in line with globalization.
We will also set forth KPIs as early as possible so that we can visualize the implementation status of tasks related to society (S of ESG) for our stakeholders including investors.

Q4

Purpose of Nikko Group and message to stakeholders

When the society changes significantly, it would be difficult to continue business management based just on the existing corporate philosophy. There is a recent trend where companies have started redefining their purposes. What is your opinion of Nikko Group's purpose? Also, what is your message to our stakeholders?

The customer-first policy is our Corporate Philosophy, and the culture, which is the norm for us, is our advantage that will succeed around the world. We will continue to aim for growth based on our unique advantage and we want to gain more new customers. To realize carbon neutral, it is necessary to radically reduce CO_2 emissions from products and it is in the main area of our business. Going forward, we will expand the business area in the environmental recycling field. These initiatives will link to the purpose of Nikko and we will be required to "create a better future and safe and secure daily life with Nikko's products that support infrastructure maintenance." Achieving carbon neutral is our major task and there will be serious risks if we overlook it. At the same time, it is also a great situation where can put into practice the technological endeavors we have built up so far and we consider it as an opportunity for growth. We look forward to the continuous support from our stakeholders.

Representative Director,
President and CEO
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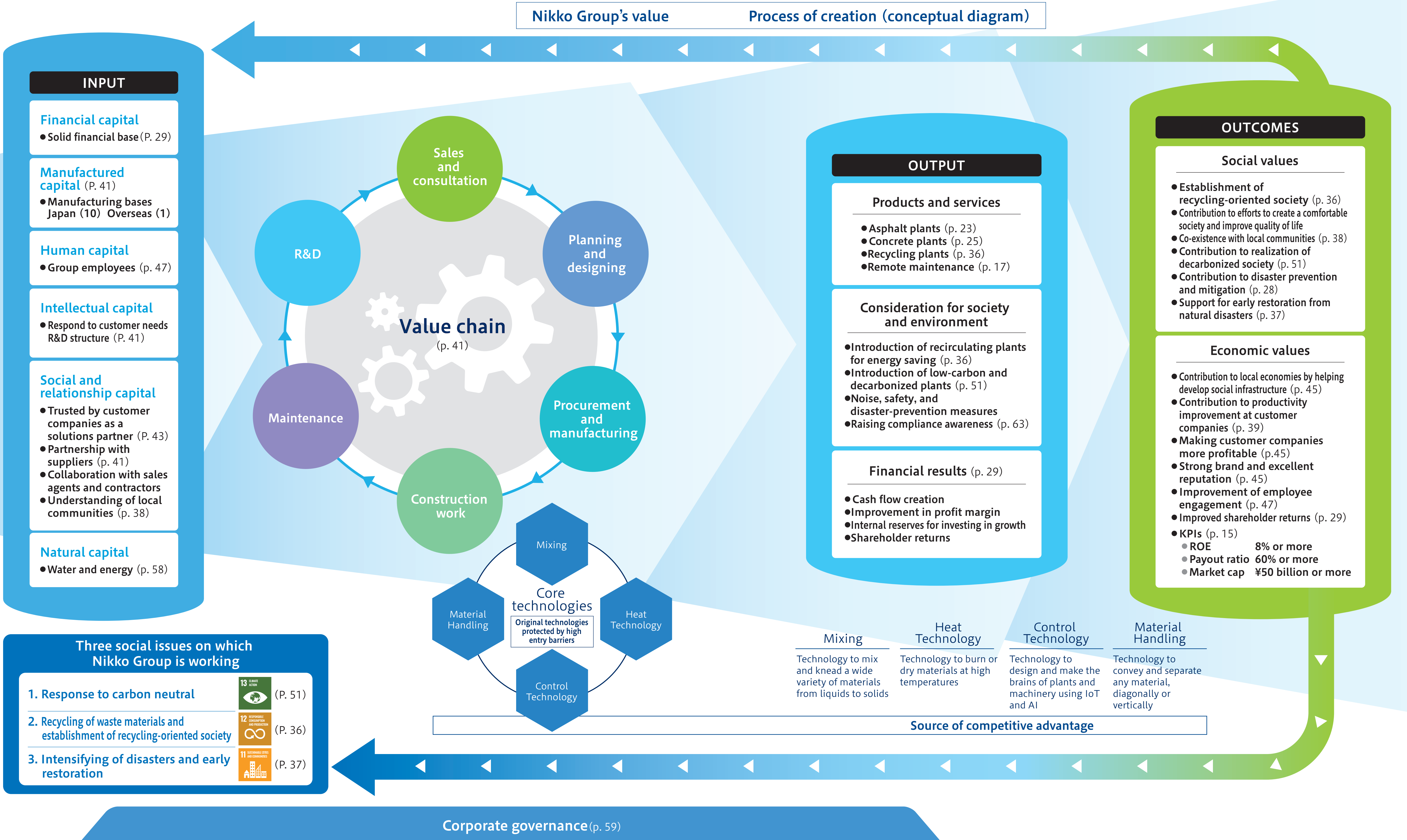
We are working to improve values in a sustainable way to contribute to creating future society in accordance with the Corporate Philosophy with diversity of social values and creation of economic values in mind.



Nikko Group's value Process of creation (conceptual diagram)

INPUT

Financial capital
- Solid financial base (P. 29)

Manufactured capital (P. 41)
- Manufacturing bases
  Japan (10) Overseas (1)

Human capital
- Group employees (p. 47)

Intellectual capital
- Respond to customer needs
  R&D structure (P. 41)

Social and relationship capital
- Trusted by customer companies as a solutions partner (P. 43)
- Partnership with suppliers (p. 41)
- Collaboration with sales agents and contractors
- Understanding of local communities (p. 38)

Natural capital
- Water and energy (p. 58)

Value chain
(p. 41)

Core technologies

Original technologies protected by high entry barriers

Mixing	Heat Technology	Control Technology	Material Handling
Technology to mix and knead a wide variety of materials from liquids to solids	Technology to burn or dry materials at high temperatures	Technology to design and make the brains of plants and machinery using IoT and AI	Technology to convey and separate any material, diagonally or vertically

Source of competitive advantage

OUTPUT

Products and services
- Asphalt plants (p. 23)
- Concrete plants (p. 25)
- Recycling plants (p. 36)
- Remote maintenance (p. 17)

Consideration for society and environment
- Introduction of recirculating plants for energy saving (p. 36)
- Introduction of low-carbon and decarbonized plants (p. 51)
- Noise, safety, and disaster-prevention measures
- Raising compliance awareness (p. 63)

Financial results (p. 29)
- Cash flow creation
- Improvement in profit margin
- Internal reserves for investing in growth
- Shareholder returns

OUTCOMES

Social values
- Establishment of recycling-oriented society (p. 36)
- Contribution to efforts to create a comfortable society and improve quality of life
- Co-existence with local communities (p. 38)
- Contribution to realization of decarbonized society (p. 51)
- Contribution to disaster prevention and mitigation (p. 28)
- Support for early restoration from natural disasters (p. 37)

Economic values
- Contribution to local economies by helping develop social infrastructure (p. 45)
- Contribution to productivity improvement at customer companies (p. 39)
- Making customer companies more profitable (p.45)
- Strong brand and excellent reputation (p. 45)
- Improvement of employee engagement (p. 47)
- Improved shareholder returns (p. 29)
- KPIs (p. 15)
  - ROE 8% or more
  - Payout ratio 60% or more
  - Market cap ¥50 billion or more

Three social issues on which Nikko Group is working

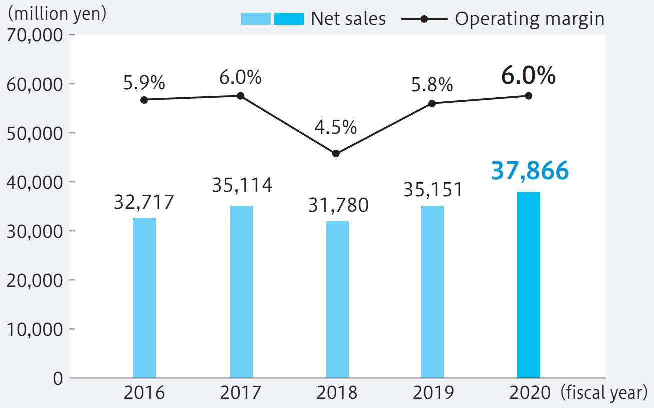
1. Response to carbon neutral (P. 51)
2. Recycling of waste materials and establishment of recycling-oriented society (P. 36)
3. Intensifying of disasters and early restoration (P. 37)

Corporate governance (p. 59)

Nikko Group in Figures

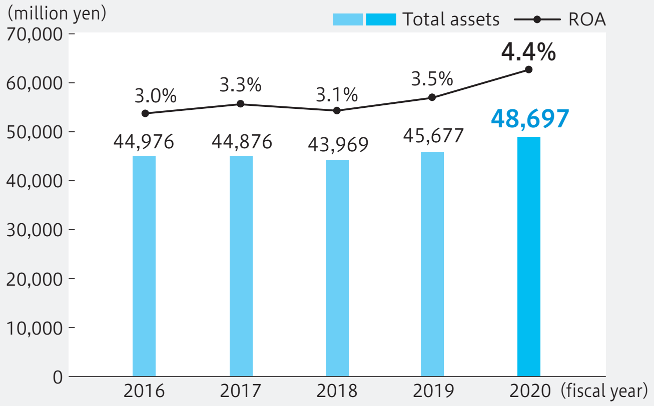
Financial highlights

● Net sales and operating margin



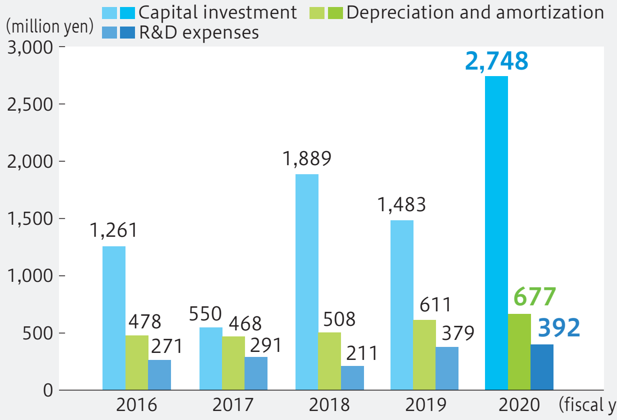
Operating margin in FY 2020 came to 6.0%, up 0.2 pt from FY 2019. By business, operating margin of BP-Related Business improved 1.2 pt thanks to sales increase of maintenance services, while that of AP-Related Business was unchanged. Meanwhile, the operating margin of Environment- and Conveyor-Related Business, whose revenue declined, fell 1.1 pt and that of Other Business was flat, declining 0.3 pt. In FY 2021, the Group expects the operating margin to be roughly unchanged at 5.9%.

● Return on total assets (ROA)



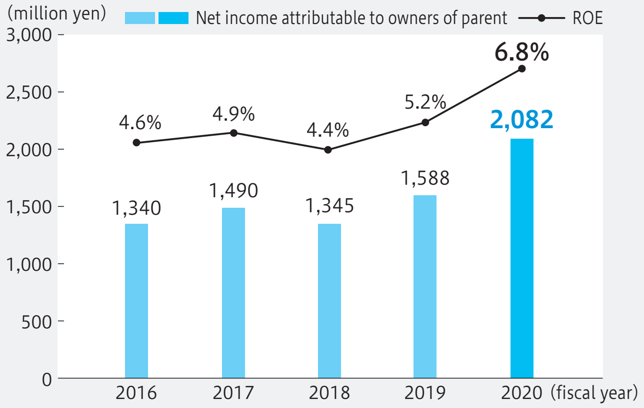
ROA in FY 2020 came to 4.4%, an improvement of 0.9 pt compared with FY2019. Total assets as of the end of FY 2020 increased 3.0 billion yen compared with the end of FY 2019. Property and equipment increased 1.8 billion yen as a result of active capital investment for future growth and current assets including trade receivables and inventory rose 1.0 billion yen from sales increase. Among current liabilities, a 1.3 billion yen increase in down payments stood out.

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



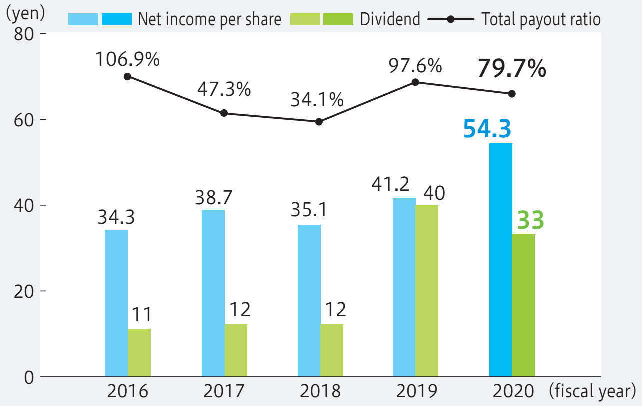
The capital investment of 2.75 billion yen in FY2020 was up 1.48 billion yen from FY 2019 as a result of active investment in Nikko Thailand as well as in machinery. Since FY 2013, capital investment has continued to exceed depreciation and amortization by a great margin. R&D expenses were 390 million yen in FY 2020 but the Group expects them to reach 700 million yen in FY 2021 for upfront investment related to decarbonization.

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



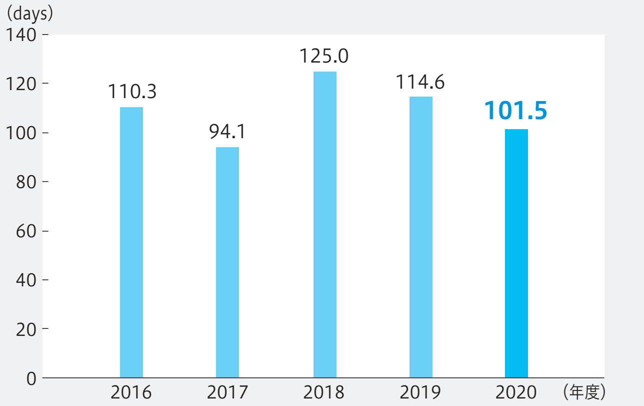
Net income attributable to owners of parent in FY 2020 increased 31.1%, which is more than the 12.1% increase in operating income. The factors contributing to the increase include 340 million yen in special dividend from Maeda Road Construction Co., Ltd. in non-operating income. Net assets increased 1.16 billion yen compared with the end of FY 2019 despite the treasury stock acquisition, and ROE improved 1.6 pt to 6.8% compared with FY 2019. In the Long-term Basic Policies, the Group aims for ROE of 8% or more.

● Net income per share, dividends, total return ratio



Dividends for FY 2020, though without the 100th anniversary 20 yen per share dividend of FY 2019, were 33 yen per share (payout ratio of 60.5%). Total return ratio including 400 million yen in treasury stock acquisition came to 79.7% (FY 2019: 97.6%), maintaining a high level. In FY 2021, the Group expects to pay 30 yen a share in dividends, which translates into 67.5% in payout ratio. If net income exceeds the company forecast, the Group will respond flexibly.

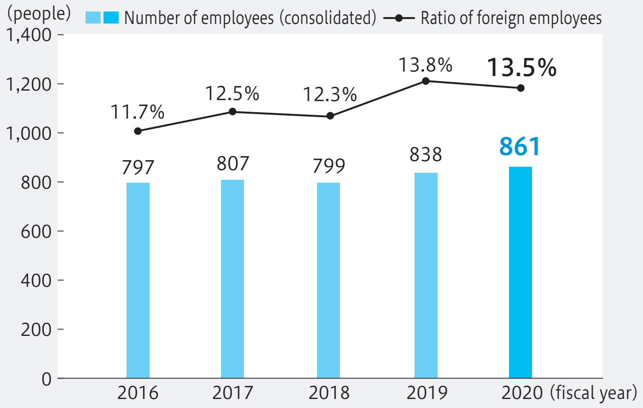
● Cash Conversion Cycle



In FY 2020, CCC was 101.5 days, 13.1 days shorter than FY 2019. Above all, financial strategy, including the push to ensure more customers to make down payment, succeeded and the turnover period of trade receivables shortened by 15.4 days to 98.9 days. The CCC figure includes receipt of down payments from FY 2020.

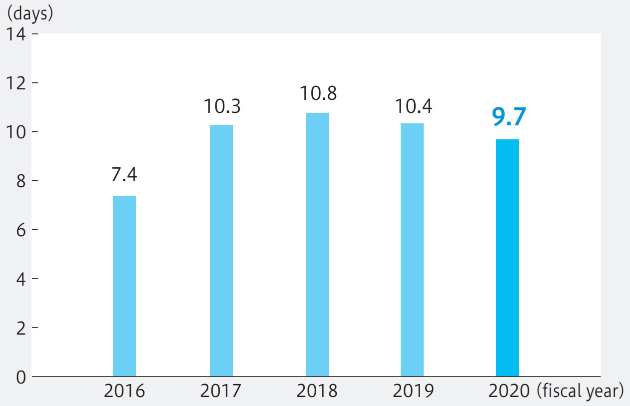
Nonfinancial highlights

● Number of consolidated employees, ratio of foreign employees



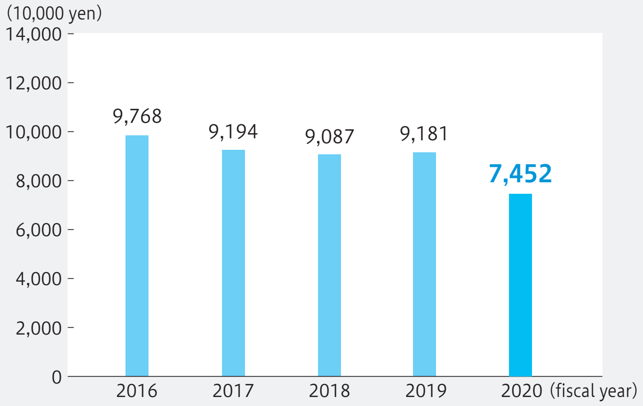
The number of consolidated employees was 861 as of the end of FY 2020, up 23 from 838 at the end of FY2019. Among them, foreign employees were unchanged at 116, accounting for 13.5% of the total. In the future, the company expects the ratio of foreign employees to rise as the local factory of Nikko Thailand, which is expected to hire 60 to 70 people, starts operating.

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



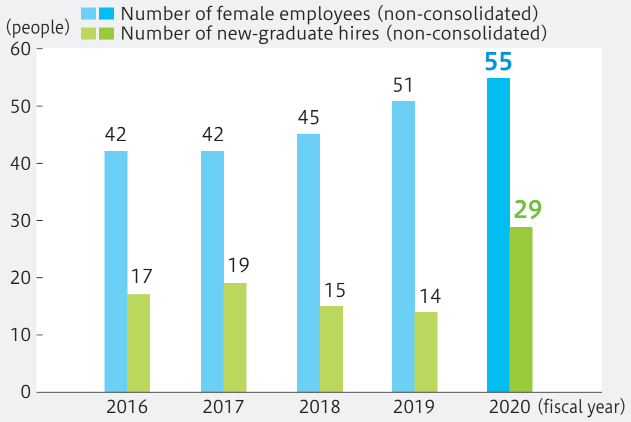
The average number of annual paid holidays used per employee was 9.7 days in FY2020 on a non-consolidated basis. It declined slightly from 10.4 days in FY2019. As stated in the Long-term Basic Policies , the Group has been implementing an initiative to significantly raise labor productivity by improving operating efficiency. The Group believes increasing the number of paid holidays taken by employees is indispensable for improving employee satisfaction and realizing a good work-life balance.

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



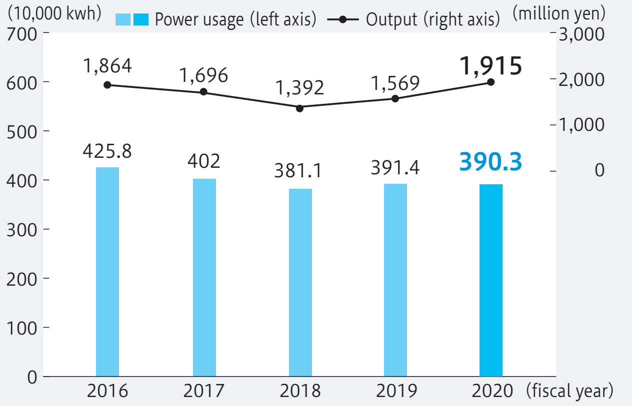
Total expenses of ISO activity items (electricity, water, waste, and paper) in FY 2020 came to 74.52 million yen, down 19% from FY 2019. In FY 2019, the Group switched electric power companies and power charges declined significantly on a unit consumption basis in FY 2020. The Group will continue to make contributions to environmental activities by effectively utilizing resources.

● Number of female employees, number of new-graduate hires (non-consolidated)



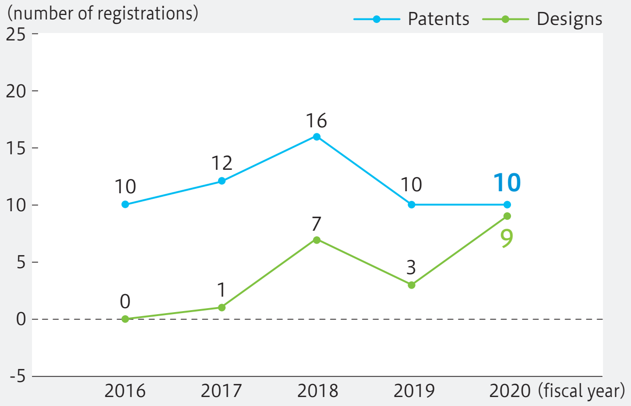
The number of female employees (non-consolidated) was 55 as of the end of FY 2020, an increase of four from the end of FY 2019. The number of new hires on a non-consolidated basis was 29, a major increase from 14 in FY 2019. The number of new female hires was three on a non-consolidated basis compared to zero in the past three years. As the Group pursues the policy to improve productivity through implementation of workstyle reform, it will develop an environment for female employees to play active roles.

● Power usage, output (non-consolidated)



Power usage in FY 2020 came to 3,903,000 kwh, a slight decrease from 3,914,000 kwh in FY 2019. However, production volume increased 22% compared with FY 2019 and power usage on a unit consumption basis declined significantly. The Group will continue to reduce CO_2 emissions by increasing the ratio of renewable energy as well as implementing electricity conservation initiatives.

● Number of patent and design registrations



The Group registered 10 patents and nine designs in FY 2020 and the number of patents registered was unchanged from FY 2019 while the number of designs registered increased by six. The increase of design registration in FY 2020 was led by digging tools and shovels at Tombo Industry. The Group believes registering patents and designs is important for differentiating products and services and improving brand value.

Progress so far and tasks in the final fiscal year

For FY 2020, the second year of the Medium-Term Management Plan (FY 2019 - FY 2021), consolidated net sales totaled 37.9 billion yen, operating income came to 2.3 billion yen (6.1% in operating margin), and ROE was 6.8%. With respect to the medium-term plan goals for the second year of 36.5 billion yen in net sales and 2.6 billion yen in operating income, net sales exceeded the goal but operating income fell short of the target. The ROE of 6.8% (5.2% in FY 2019) includes temporary factors such as the special dividend of 340 million yen from Maeda Road Construction Co., Ltd.

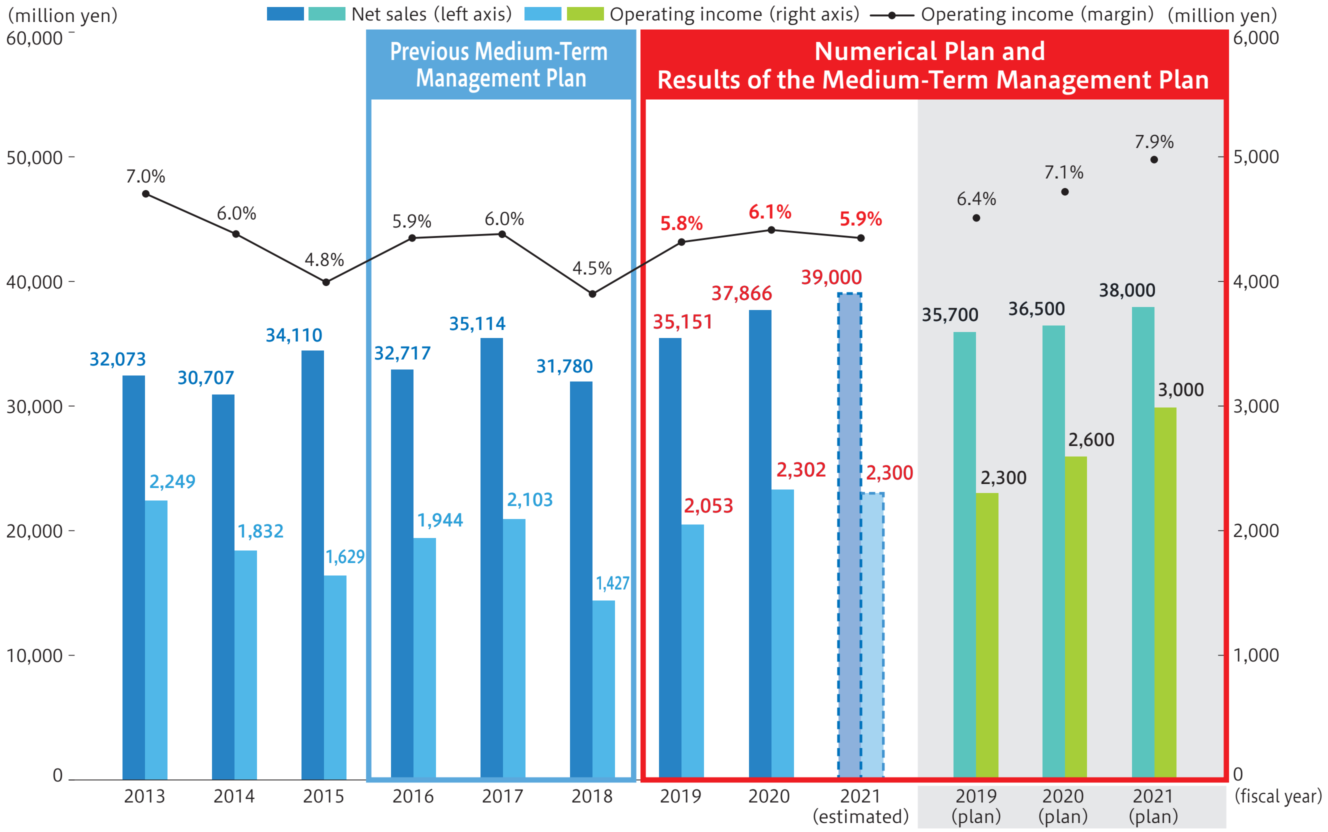
When reviewing the gap between the Medium-Term Management Plan and operating income in FY 2020 by business, operating income of the mainstay AP-Related Business came to 1.24 billion yen, significantly underperforming the plan of 1.71 billion yen as a result of its strategic project acquisition. The business sold two new model APs, which are differentiated from competition and has high profitability, accounting for 17% of total (the medium-term plan target is 50% or more). Meanwhile, operating income of the Other Business came to 1.17 billion yen, significantly outperforming the target of 560 million yen, reflecting growths in new areas such as waterproof boards and mobile plant products. While both BP-Related as well as Environment- and Conveyor-Related Businesses displayed strengths and weaknesses, both came close to the medium-term plan targets.

In shareholder returns in FY 2020, under the Medium-Term Management Plan policy of payout ratio of 60% or more, the Group paid dividends of 33 yen per share (40 yen per share in FY 2019, which included the 100th anniversary commemorative dividend of 20 yen per share). The payout ratio came to 60.5% and total return ratio including treasury stock acquisition of 400 million yen was 79.7%.

In FY 2021, the final year of the medium-term plan, the Group expects consolidated net sales of 39.0 billion yen (38.0 billion yen in the medium-term plan) and operating income of 2.3 billion yen (3.0 billion yen in the plan). Operating income is expected to be lower than the medium-term plan target, impacted by the 1.25 billion yen in operating income at the AP-Related Business (1.9 billion yen in the plan). The business plans to spend 700 million yen in R&D expenses, up more than 300 million yen from FY 2020, for initiatives related to decarbonization, whose social needs are growing rapidly. The Group expects to pay a dividend of 30 yen per share in FY 2021, with which payout ratio is expected to be 67.5%.

We will give serious consideration to the shortfall in operating income and strive to improve the gap with the medium-term plan target from the next medium-term plan. As for the progress in Long-term Basic Policies (10 years), improvement of profitability in Japan continues to be an issue, but other items are progressing at a favorable pace.

●Medium-Term Management Plan: Net Sales and Operating Income Plans



Long-term (10-year) Basic Policy, looking into the future

Long-term Basic Policies	FY 2019 (1st year) results	FY 2020 (2nd year) results
1 **Strengthen revenue base in Japan** Improve profitability (10% in operating margin) by boosting product appeal by raising the level of all divisions of sales, service, engineering, and manufacturing.	**Operating margin in Japan** FY 2018 4.5% ▶ **FY 2019 6.0%** (MS margin: up 2.1 pt)	**Operating margin in Japan** FY 2019 6.0% ▶ **FY 2020 6.5%** (MS margin: up 0.2 pt)
2 **Establish overseas sales** As a manufacturer, establish new overseas bases to spread Nikko products, which are the best in the world, in the ASEAN region (doubling overseas net sales to 9.0 billion yen from the current 4.5 billion yen).	**Thailand** Feb. 2020 AP sales and maintenance company **Established Nikko Asia (Thailand) Co., Ltd.**	**Thailand** May 2020 Decided to establish an AP manufacturing company **Nikko NilKhosol Co.,Ltd** Oct. 2020 **Started full-fledged operation of Nikko Asia (Thailand) Co., Ltd.** **Received orders for two APs**
3 **Promote new businesses (M&A)** Invest management resources in expansion of new businesses and nurture products that will become new pillars of the industrial and construction machinery fields (generating 10.0 billion yen in net sales from new businesses).	**Mobile plant business** FY 2018 90 million yen ▶ **FY 2019 500 million yen** **Waterproof board** FY 2018 210 million yen ▶ **FY 2019 810 million yen**	**Mobile plant business** FY 2019 500 million yen ▶ **FY 2020 1,070 million yen** **Waterproof board** FY 2019 810 million yen ▶ **FY 2020 900 million yen**
4 **Put work-style reform into practice** Improve operation efficiency and significantly raise labor productivity. (To centralize office work and utilize IoT and AI.)	●Enhance web conferencing system to swiftly share information without being bound by time or location. ●Identified problems in telecommuting and dispersed operating system. ●Introduced production facilities employing new technologies by investing in facility upgrading of manufacturing divisions to improve productivity dramatically. (Fiber laser, etc.)	●Continuing with the FY 2019 initiatives ●**Remote maintenance contract rate 2020 Jan.-end: 46% ▶ Aug.-end: 67% ▶ May-end 73.8%** ●**Created materials and movies for webinar training, etc. (30 videos have been shot for the maintenance division)** (Seminars launched in FY 2021)
5 **Make ROE a KPI** Aim to achieve a market capitalization of at least 50.0 billion yen and ROE of at least 8%. Aim for a dividend payout ratio of 60% or higher and enhance returns to shareholders.	**Market cap** FY 2018 19.25 billion yen ▶ **FY 2019 24.36 billion yen** **ROE** End of FY 2018 4.4% ▶ **End of FY 2019 5.2%** **FY 2019 dividend payout ratio 97.6%**	**Market cap** **End of FY 2020 29.24 billion yen** **ROE** **End of FY 2020 6.8%** **FY 2020 payout ratio 60.5%** Completed acquisition of treasury stock on Sep. 17 (Acquired 616,700 shares in treasury stock for 399,960,700 yen)

Along with the announcement of the Medium-Term Management Plan, the Company disclosed its Long-term Basic Policies through 2030, clarifying measures for the future across five fields. Review of the results through FY 2020 and tasks are as follows.

1 In terms of measures to bolster the domestic revenue base, we ultimately aim to achieve 10% in operating margin. The FY 2020 result of 6.5% underperforms the plan, and we will strive to improve operating margin by strengthening the solution business for customers.

2 In terms of securing overseas net sales, the Company's activities were restricted by the impact of COVID-19 in FY 2020 and overseas net sales remained at slightly more than 3.7 billion yen. Nevertheless, the Chinese business (Nikko Shanghai) secured high net sales with an increase in recycling plants. In FY 2021, the Thai subsidiary expects to receive orders for more than four units, and the Group also has a large-scale order in Taiwan. Taking these into consideration, overseas net sales are expected to grow significantly to 5.2 billion yen. We also plan to improve profitability of the Thai subsidiary from FY 2022 onwards.

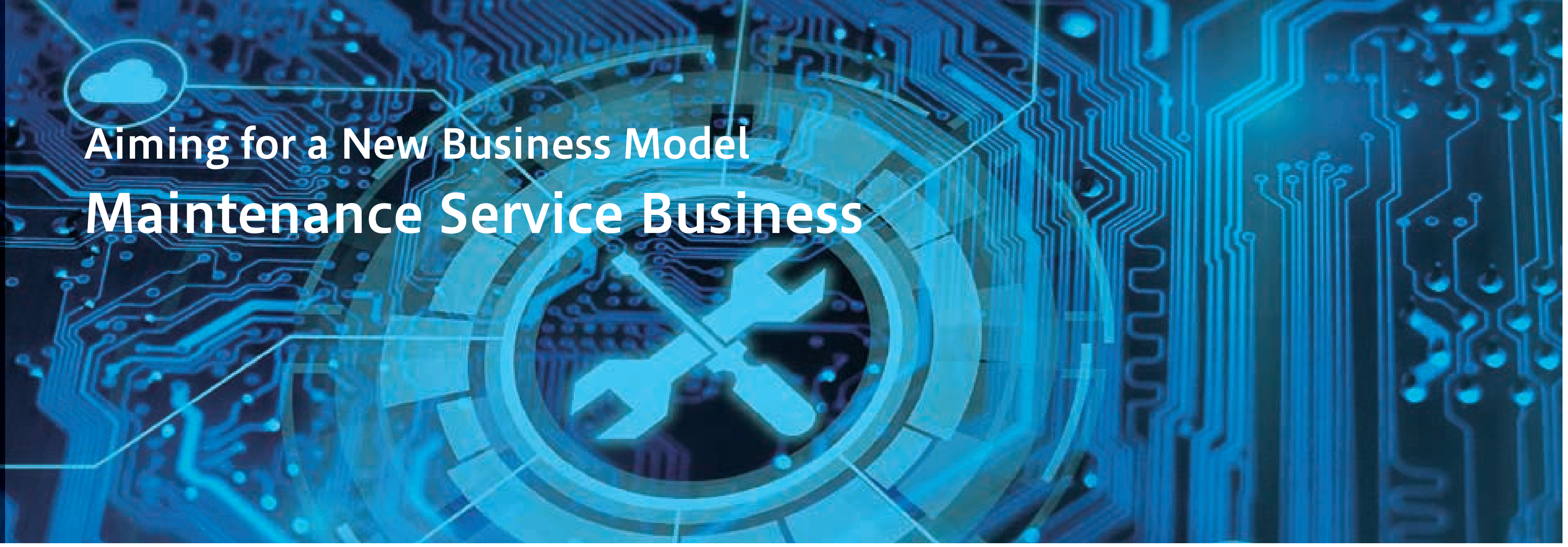
3 In terms of individual products under the promotion of new businesses (including M&As), net sales of mobile plant products more than doubled to 1.07 billion yen led by mainstay mobile crushers in FY 2020, and net sales of waterproof boards were also strong at 0.9 billion yen. We will continue to search for M&A opportunities by carefully verifying the contents.

4 We will continue with the policy of FY 2019 for putting work-style reform into practice. Under these circumstances, we also saw some successes such as an improvement in the remote maintenance ratio of maintenance service to 73.8% as of the end of May 2021 partly due to the COVID-19 pandemic.

5 As for making ROE a KPI, the market cap came to 29.2 billion yen as of the end of FY 2020, up 10.0 billion yen in two years.

TOPIC

1

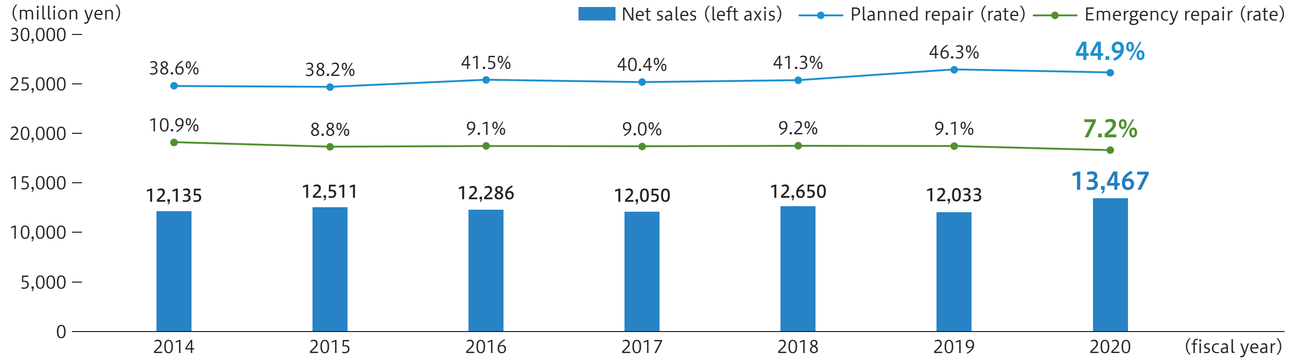


Aiming for a New Business Model
Maintenance Service Business

Director
Business Division
Manager,
Service Planning
Department
Minoru Tanaka

The maintenance service (MS) business accounts for about 60% of the AP-Related and BP-Related Businesses in Japan and it is important for its stable and high earnings. The MS business aims to transform into a new business model by shifting to predictive maintenance service.

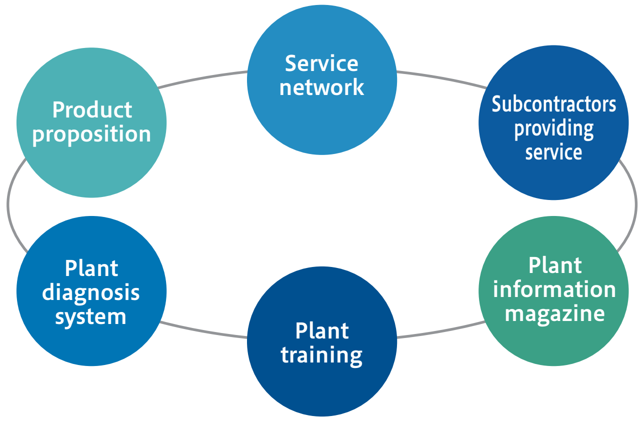
●Net sales of MS business and the ratios of planned repair and emergency repair



Advantages and disadvantages of the MS business

Maintenance service (MS) business works to improve plant management at our customers. The MS business accounts for about 60% of net sales of the AP-Related and BP-Related Businesses and is extremely important given its high profitability.
MS is provided using a service network of 180 employees at 17 bases nationwide as well as 200 subcontractors belonging to Akitsu-kai, and this structure has been almost unchanged since two years ago.
The advantages of MS are the high mobility including Akitsu-kai as well as the various information regarding plant operation which gets accumulated at Customer Support Centers (CSC). Its productivity improved over the past several years partly due to the New CSC that opened on the first floor of the head office building in October 2018 and the enhancement of employees engaged in service. Its weakness is a decline in skills (= an increase in burden on employees) caused by generational change of MS staff. However, the decline in skills is gradually being eased thanks to the establishment of the new CSC system and its follow-up, and at the same time is also working to transform the organization from an individual-based one to a team structure while promoting division of labor.

●Service solution



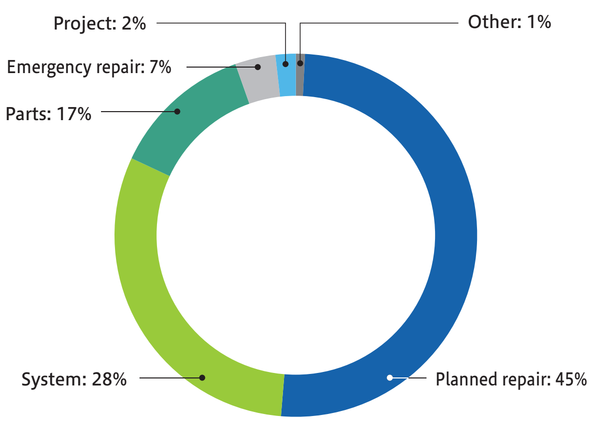
POINT 1 Changes in product mix of MS net sales over the past several years

Initially, we expected the growth in net sales of MS to remain sluggish at around 11.5 to 11.8 billion yen (FY 2018: 12.6 billion yen), reflecting users' strong plant replacement demand during the period of the Medium-Term Management Plan (FY 2019 to FY 2021). However, AP and BP users raised the rate of outsourcing of MS partly thanks to work-style reform while upgrading their plants, and net sales of MS exceeded the medium-term plan forecast of 13.5 billion yen in FY 2020. The MS business is also experiencing remarkable changes in its sales mix. While the ratio of emergency repairs declined (from 11% in FY 2014 to 7% in FY 2020), that of planned repair increased (from 39% in FY 2014 to 45% in FY 2020) and its profitability improved. Emergency repair sometimes causes loss of opportunity at the user plant and we cannot expect high margins, while high profitability is a feature of planned repair.
Based on this, we expect net sales of MS business to reach 15.0 billion yen in FY 2025 and its operating margin to recover to about 14%.

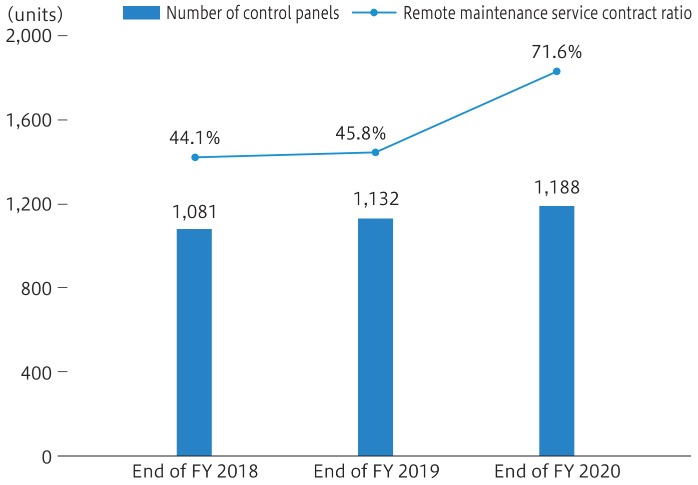
POINT 2 MS aiming for conversion of business model by shifting to predictive maintenance service

The ratio of customers who have signed the remote maintenance system contract increased to 74% in May 2021 partly due to the impact of COVID-19. Further, if we are connected to users and plants using Nikko One CRM Platform, for which we have been developing the system for the past several years, we can convert from a post-malfunction maintenance to a new business model based on predictive maintenance. For predictive maintenance, users sign a fixed-rate contract, and we carry out regular inspections, including remote monitoring, to repair their plants before they stop operating. We will increase Nikko's share in MS net sales at customers including shift to asset management. We are also developing the foundation for the maintenance service business overseas, including launching the business in Thailand with five local and Japanese employees.

●Details of maintenance service



●Number of control panels and ratio of customers who have signed remote maintenance service contract



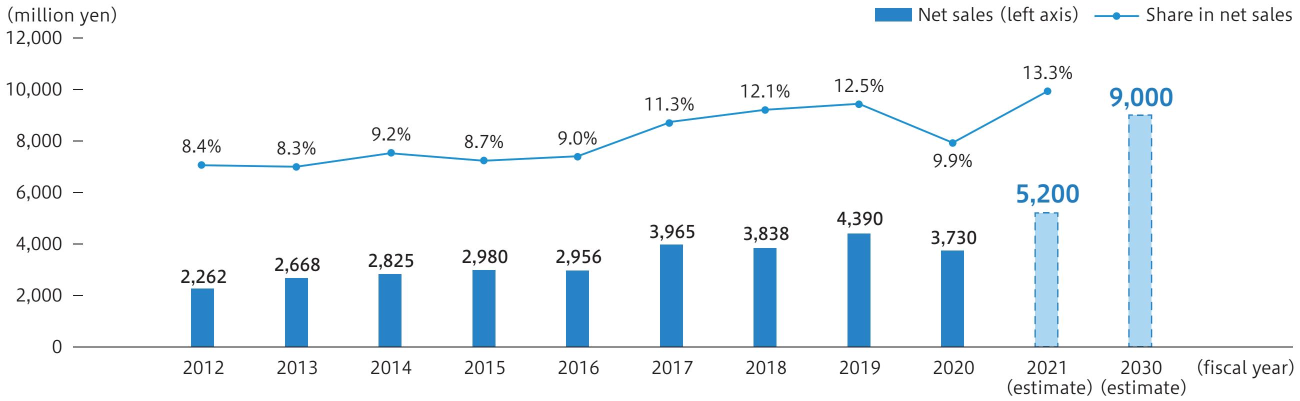
TOPIC

2

Leading the Medium- to Long-Term Growth
Overseas and New Businesses

In its Long-term Basic Policies, Nikko Group aims to post overseas net sales of 9.0 billion yen and net sales from new businesses of 10.0 billion yen in FY 2030. We are investing management resources for growing overseas and new businesses and at the same time considering M&A as an option for new businesses.

●Nikko's overseas net sales and overseas sales ratio



Overseas business: Growing Chinese demand for recycling plants and Nikko Shanghai's measures

Net sales of Nikko's overseas business in FY 2020 were 3.7 billion yen (accounting for 9.9% of total), down 15% from FY 2019. Of these sales, net sales of Nikko Shanghai in China were almost unchanged at 3.6 billion yen while exports to ASEAN and elsewhere declined significantly partly due to activity restrictions caused by COVID-19. We expect net sales of the overseas business to recover to 5.2 billion yen in FY 2021, though it is unlikely that the net sales would reach the 6.1 billion yen target set in the medium-term plan. Net sales of Nikko Shanghai are expected to rise slightly to 3.7 billion yen, and we are expecting sales of AP to increase in Thailand, where we established a local subsidiary in FY 2020, and in Taiwan, where we won a large-scale order.

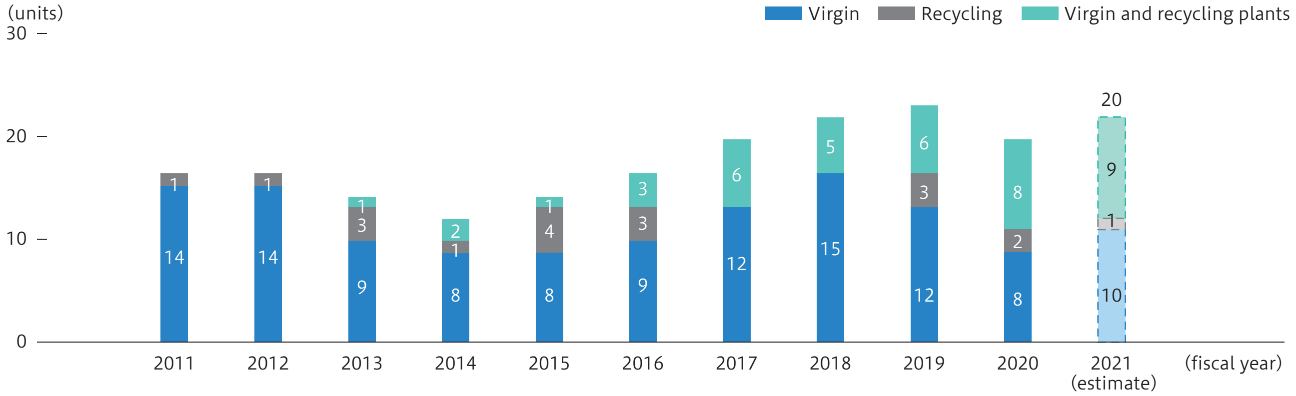
Nikko Asia (Thailand) signed an agent agreement with Tipco Asphalt, an asphalt sales company in Thailand. Tipco is a major Thai company with about 40% share in asphalt market in Thailand and about 70% share of transactions with asphalt mixture plants. Nikko Asia (Thailand) expects net sales of four APs in FY 2021 and aims to win orders for more than that. In FY 2023, it expects to produce 12 units and we plan to further increase its production capacity making it an export base to ASEAN in the future. The local factory in Thailand is scheduled to be completed in FY 2021 and we are expecting cost reductions from localization in the future.

POINT Current status of Chin (Nikko Shanghai) and future measures

Nikko (Shanghai) Construction Machinery Co., Ltd. was established in 2001 and had 106 employees as of August 2021. It offers asphalt plants (AP) and its mainstay products are NBD320 and NBD400 for AP, TOPα120 and TOPα160 for recycling plant (RU), and MBD400-R160, a mid ship integrating AP and RU started in 2021. Large-sized APs are the main products in China.

According to our estimate, there are about 4,600 APs installed in China, which makes it a very large market compared with the 900 in Japan and 2,700 in EU. Nikko Shanghai's dynamic market share is around 15% (estimate) and its competitors are two European companies and two local companies.

●AP sales by Nikko Shanghai



The ratio of recycling plants is increasing in China along with increasing environmental restrictions and growing awareness for recycling. In China, the ratio of recycled materials among asphalt mixture is estimated to be in the range of 10% in inland to 30% in coastal area and it is relatively low compared to 75% in Japan. The reasons why RU has been increasing in China in the past several years include (1) the declining trend in the production of virgin aggregates due to environmental restrictions at quarries, (2) an increase in the use of recycled aggregates to replace virgin aggregates, whose price has risen, and (3) that it has entered the time for replacing newly built roads.

As you can see from Japan's RU ratio of 75%, a business opportunity is gradually emerging for Nikko Shanghai in a business environment where the number of RUs being installed is increasing in China. Nikko Shanghai's RU ratio on a volume basis has exceeded 50% for the first time in FY 2020, and we expect this trend to continue in FY 2021 and onwards. Nikko Shanghai's AP furnace can burn recycled aggregates at a high temperature of 160°C, which is considered an advantage over competitors from Europe and China. Meanwhile, the risk is, it becomes necessary to differentiate our products if demand for foamed manufacturing equipment (medium temperature) that burns at 120°C increases for controlling CO2 emissions. Currently, the profitability of RU is not so different from the overall margin of Nikko Shanghai, but when we add RU to an existing AP made by Nikko, we are getting a high margin.

As for the outlook of the Chinese AP Market in 2030, while there is a possibility of the country's GDP overtaking the U.S. to become the world's largest, the budget for infrastructure (road) development is projected to shrink (and slow down) due to the aging society and lower economic growth rate. Environmental measures will be strengthened, and it would become difficult to newly build APs. For this reason, the number of APs installed is expected to peak at 6,000 to 7,000 units in several years, and it is expected to gradually decrease after that. As the manufacturing cost rises and order unit price of construction declines, we may need to prolong the life of plants in addition to recycling of asphalt (making it high mix rate). To this end, demand for partial replacement and repair of AP is expected to increase and Nikko Shanghai will also strengthen parts and services in the medium term.


Nikko Shanghai's MBD plant


Hiroshi Watanabe, General Manager

New businesses: Mobile plant products grew rapidly and market share continues to expand

Net sales of mobile plant products, which are at the core of the new businesses, grew rapidly to 1.07 billion yen in FY 2020 (0.5 billion yen in FY 2019). Among mobile plant products, 24 units of the mainstay KLEEMANN products were sold (10 units in FY 2019), bringing the industry share to 19.8% (7.8% in FY 2019). Demand is expected to remain high in FY 2021 due to replacement, and we expect 1.6 billion yen in net sales of mobile plant products (30% of industry share). Primary users of the products are stone crusher and ballast companies, recycling companies, and demolition companies, and recently we are also seeing it expand to major construction machinery rental companies. Starting with jaw crushers, sales of cone crushers and impact crushers with high unit prices also started picking up, and they are making good progress.

Net sales of waterproof boards came to 900 million yen in FY 2020 (810 million yen in FY 2019) and we are expecting 1.0 billion yen in FY 2021. The Kansai factory began full-scale operations in August 2020 and has started contributing, so we plan to make the factory manufacturing ratio between Kansai and Kanto to 7:3 in FY 2021. In recent years, we are seeing more damage from severe rainstorms nationwide reflecting the growing risks from climate change and demand for waterproof boards is increasing rapidly. Nikko Group will continue to contribute to solving social issues posed by such natural disasters by supplying waterproof boards.

Segment Highlights

In FY 2020, net sales of Nikko Group totaled 37.9 billion yen and the AP-Related Business accounted for 51.4%, BP-Related Business 24.3%, Environment- and Conveyor-Related Business 6.3%, and Other Business 17.9%. Overseas net sales accounted for 9.9% of total. By segment, net sales of the AP-Related Business rose 11.1% reflecting strong sales of products and maintenance services in Japan, Other Business rose 16.3% led by a significant growth in mobile plant products, and BP-Related Business increased 0.6%, while Environment- and Conveyor-Related Business fell 9.3%. As for overseas, exports declined 15.0%, as activities were greatly restricted due to the impact of COVID-19.

Business description | **FY 2020 business breakdown** | **Net sales and operating income by segment (margin)** | **Market share (based on Nikko's survey)**

AP-Related Business

Main products: ●Asphalt plants ●Recycling plants ●Crushing plants ●Mixture silos ●Electronic control devices ●Plant management system

MBD

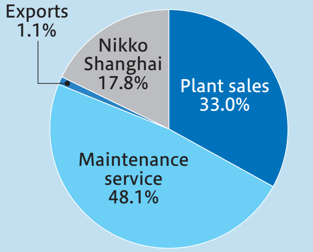
New mid-sized AP with recycling unit at the center (hi-end model)

VP II

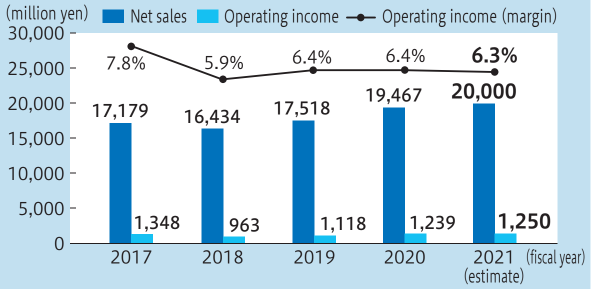
New mid-sized AP with recycling unit at the center

Crushing plant

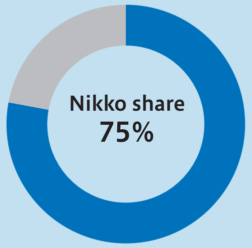
Crushing plant for waste concrete materials and waste asphalt materials



Sales composition of the plant sales in Japan was up 4.8 pt and that of MS also rose by 1.1 pt, while the composition of Nikko Shanghai fell 2.7 pt and that of exports fell 3.3 pt.



In FY 2020, sales of plant products in Japan increased 30% and MS 14%, while overseas sales declined 15% due to the impact of COVID-19 in countries other than China. Operating margin maintained the level similar to the previous year.



The AP demand in FY 2020 was strong at 53 units (up 4) and Nikko's share increased 20 pt to 75%.

BP-Related Business

Main products: ●Concrete plants ●Compact concrete plants ●Concrete pump electronic control devices, plant management system, plant facilities for producing concrete products

DASH-Hyper mixer

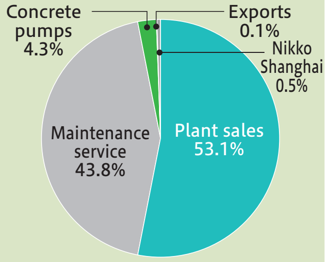
Mixer for ultra-strong concrete plants

Cyber Advance

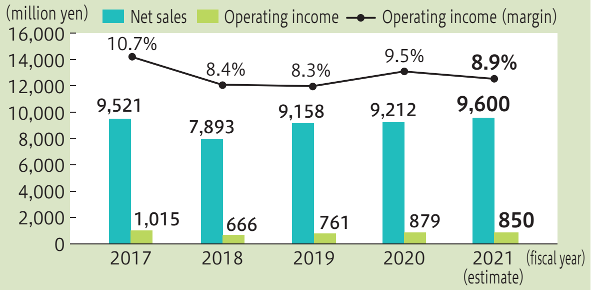
New control panel that can be operated from a tablet device

DASH-H275RAV-TRIU

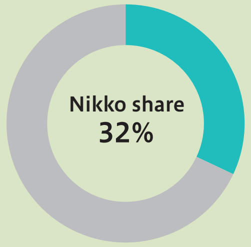
Ultra-strong concrete plants



While composition of MS in Japan increased 2.4 pt, that of plant sales and concrete pumps fell 1.8 pt and 0.6 pt.



In FY 2020, replacement of aged facilities was strong thanks to the rise in ready-mixed concrete. Net sales of plant products fell 3% while MS was strong at up 7%. Operating margin also improved 1.2 pt to 9.5%.



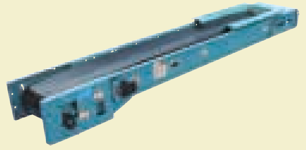
The BP demand in FY 2020 was strong at 77 units (up 4 units) and Nikko's steady-state share increased 0.9 pt to 32%.

Environment- and Conveyor-Related Business

Main products: ●Belt conveyors, conveyors for facilities, beverage container recycling plants ●Soil remediation plants, plastic recycling plants

Modular belt conveyor

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

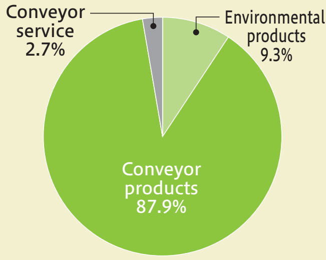


Super modular conveyor

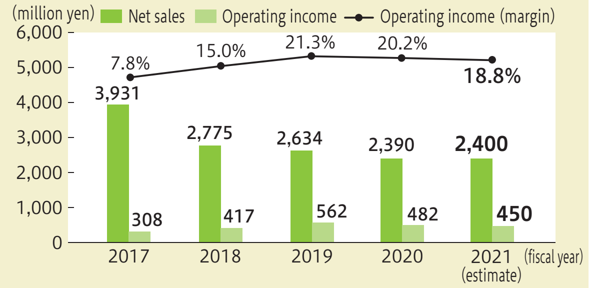
Simple sealed-type conveyor using steel plate frames that ensures higher safety

Choiwaru-no-jaw

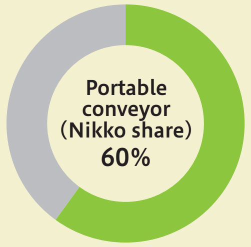
A small unit crusher that integrates processes from feeding to discharge



Sales of both product groups declined. The sales composition of conveyor products was up 2.8 pt, that of environmental products and conveyor service fell 1.9 pt and 1.0 pt, respectively.



In FY 2020, net sales of conveyor products fell 6% partly due to the impact of COVID-19 and those of environmental products were also sluggish at down 25%. Operating margin declined slightly to 20.2% partly due to the impact of sales decline.



In FY 2020, demand for portable conveyors was 4,300 units (down 200) and Nikko's share fell 5 pt.

Other Businesses

Main products: ●Pipe scaffoldings, steel gangplanks, pipe supports ●Temporary aluminum staircases ●Shovels, spades ●Small-sized concrete mixers, mortar mixers ●Sluices, waterproof boards, crushers ●Real estate leasing, construction machinery product leasing ●Sales of housing renovation

Mobile crushers

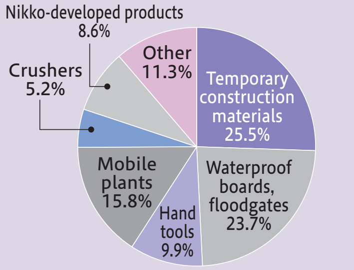
Fuel-efficient hybrid crushers

Roll breaker

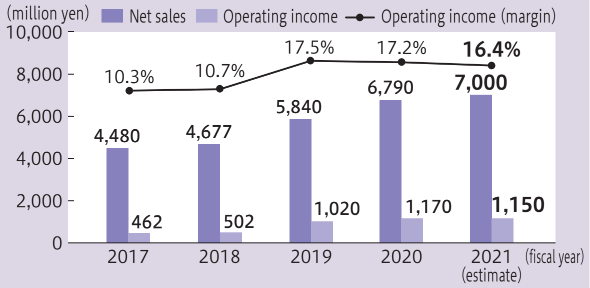
Crusher with excellent maintenance cost, noise and vibration control, and particle size setting

Waterproof board

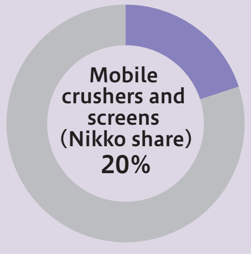
Waterproof boards, which are effective against water damage (internal flooding) caused by global warning



Sales composition of mobile products, a new field, was up 7.1 pt, that of waterproof board and sluices rose 0.7 pt, while the composition of temporary construction materials and crushers fell 3.4 pt and 2.7 pt.



In FY 2020, net sales of mobile plant products increased 71% and waterproof board and sluices were also strong at up 20%, while sales of crushers declined 24%. Operating margin was 17.2% and maintained at a high level.



In FY 2020, demand for mobile crushers and screens was 162 units, up 9 from FY 2019.

Asphalt Plant-Related Business

Continue to focus on improving profitability and contribute to customers' needs to reduce CO2 emissions

Business Division
AP Sales Department
Manager
Toru Okada

SWOT of AP-related business (see Risks and Opportunities in pp. 33 and 34)

Strength	Boasting overwhelming AP share in Japan; offering maintenance service for the entire plant at customers including recycle crushing plants
Weakness	Price competitiveness; differentiation of crushing plant products
Business opportunities	An increase in conversion of existing APs along with switching fuels to reduce CO2 emissions, improved productivity of AP due to workstyle reform at users, and an increase in demand for plants using recycled materials as asphalt price rises
Threats and risks	Development of similar models by competitors

Medium-Term Management Plan KPI, etc.

1. Raise operating margin to 9.5% in FY 2021
2. Contribute to sustainable society

Key points

- Technological first mover advantage for recycling AP
- Ahead of competitors in developing technologies for CO2 emission reduction
- Firm maintenance service structure (accounting for 48% of sales)

Business opportunities and risks

Our customers are promoting automation and remote operation of asphalt plants as part of workstyle reform and increasingly shifting their fuel from fuel oil to gas for reducing GHG gas emissions. Some 70 to 80% of plants currently being operated use fuel oil and the remaining plants use city gas as fuel. When city gas is used, CO2 emissions can be reduced 28% compared with fuel oil. We have technologies to respond to a wide variety of fuels. In addition to plant replacement demand, we are expecting needs for burner replacement and others to increase. Risks would include our products and technology development not being able to sufficiently respond to the strengthening of environmental regulations or competitors achieving technology development equivalent to our products and building a meticulous maintenance system.

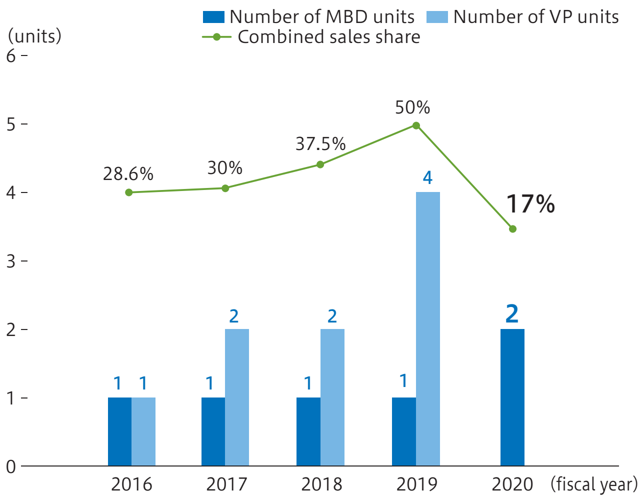
Business performance in FY 2020

In FY 2020, new orders received greatly increased by 26% to 20.3 billion yen compared with FY 2019 and net sales also reached19.5 billion yen, up 11%. Net sales of products in Japan increased 30% and those of maintenance services also grew 14%, while exports declined 72%. Operating income also rose 11% from FY 2019 to 1.239 billion yen (operating margin of 6.4%), but it was short of the 1.25 billion yen annual plan and 1.71 billion yen target (operating margin target of 9.0%) of the Medium-Term Management Plan. It was affected by the increase in investment in the Thai business, the increase in steel price, and a large-scale project that was more like a prior investment.

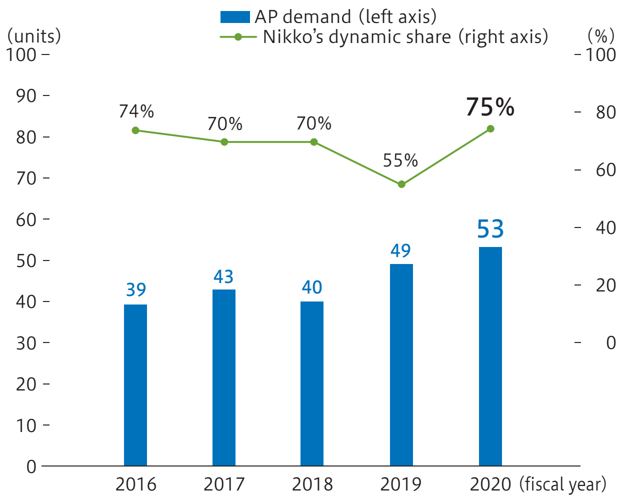
FY2021 performance outlook

We forecast new orders in FY 2021 to increase 6% to 21.5 billion yen compared with FY 2020, as replacement demand for the plants built in the 1980s and the 1990s is expected to materialize. Net sales are expected to increase 3% to 20.0 billion yen, sales are likely to be recorded in China and Thailand, backing on the order backlog of 8.2 billion yen at the end of March. We expect operating income to be unchanged at 1.25 billion yen with operating margin of 6.2%. It means that operating margin for FY 2021 will be lower than the 9.5% target in the Medium-Term Management. The main factors are an increase in development expenses to strengthen product development for the 50% reduction in CO2 emissions in 2030, an increase in the burden of depreciation and amortization, a decline in net sales of highly profitable maintenance services, and expected recording of unprofitable projects, which we are taking on as prior investment continuously from the previous fiscal year.

●Sales ratio of strategic AP products



●Dynamic share of APs shipped



AP market trend

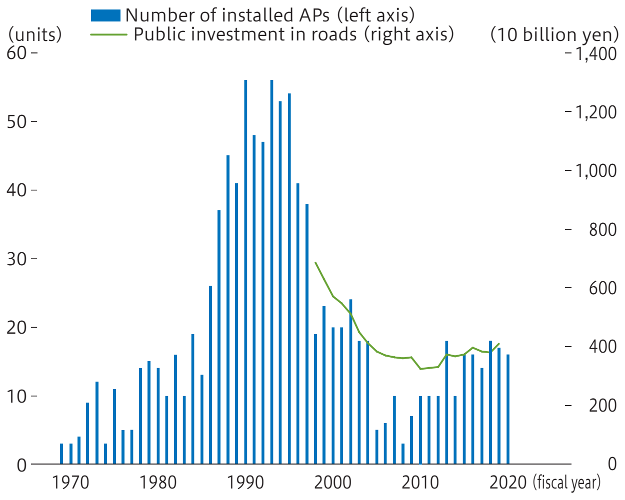
Manufacturing volume of asphalt mixture manufacturing volume declined from 80 million tons a year in the 1990s to 39.40 million tons a year in FY 2020. However, the ratio of recycled mixture has risen to 75% from about 10%, reflecting growing momentum for recycling, and manufacturing volume of recycled materials has been stable at around 30 million yen a year. The number of APs installed in Japan has declined from about 1,800 units in the 1990s to 1,043 in FY 2020, with industry reorganization and integration coming to an end in the early 2000s. At any rate, amid gradually increasing road-related public investment since 2010, firm demand environment has been continuing with the growing size of plants aimed at improvement in production efficiency as well as the demand for replacement of plants built in the 1980s and the 1990s. When we look at the plants that were built in the past four years, replacement projects of plants built 30 years ago or before accounted for 56% and those built 20 years ago or before accounted for 84%. With road budgets expected to remain stable, the trend of the future market is likely to be strong thanks to replacement demand and investment for productivity improvement on the back of workstyle reforms.

AP demand in FY 2020 increased four units to 53 units compared with FY 2019. Since the collapse of Lehman Brothers, demand continues to expand firmly as replacement demand materializes. Demand for AP using virgin asphalt materials has been steady at around 10 to 17 units a year, while demand for recycling AP using recycled asphalt materials has constantly been growing. Demand for recycling AP accounts for about 70%, with APs for using recycled materials accounting for 37 of the total demand of 53 plants in FY 2020. Demand for AP in FY 2021 is expected to be 37 units, down 16 from FY 2020 due to concerns regarding increased costs given the rise in asphalt price. Our market share based on the number of plants is expected to decline to 73% from 75% but we will continue to maintain a high market share.

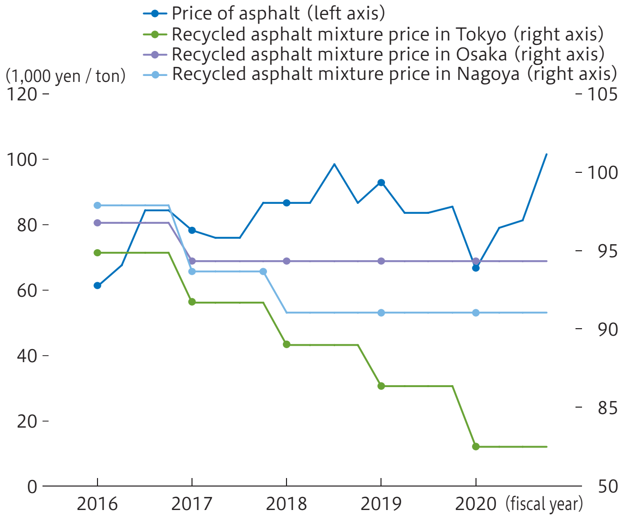
FY 2021 action plan and strategy towards the next medium-term plan

Currently, we are pushing ahead with standardization of plants and planing to introduce an improved version of Value-Pack AP centered on recycling plants in the spring of 2022. While aiming to improve profitability based on design review, we plan to challenge again to raise the ratio of sales of new plant models primarily using recycled asphalt materials in Japan to 50% or more, a goal we set forth in the current medium-term plan. Further, we want to contribute to reducing CO2 emissions by offering high value-added products, such as remote shipment system and automatic shipment system, which match customers' DX strategy needs. We plan to improve profitability, including steady reaping of income from the highly profitable maintenance service.

●Trend of shipment by all AP manufacturers and amount of public investment in roads



●Asphalt price and price index for recycled asphalt mixture



Source: Economic Research Association, etc. The price of asphalt is that of straight asphalt (Tokyo area, user delivery price)

Concrete Plant-Related Business

Aiming for market share of 50% by capitalizing on our strengths including the firm maintenance service structure

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

Morie Okaaki

SWOT of BP-Related Business (see Risks and Opportunities in pp. 33 and 34)

Strength	Business operation based on integrated manufacturing and sales; strong in-house maintenance service structure
Weakness	Relatively high fixed cost ratio; profitability upon acquiring market share of competitors
Business opportunities	Introduction of precast concrete as construction material; needs for CO_2 capturing concrete
Threats and risks	Decrease and consolidation of ready-mixed concrete plants in operation; price competition

Medium-Term Management Plan KPI, etc.

- Raise dynamic BP volume share from 40% to 50% (FY 2021)
- Contribute to sustainable society

Key points

- Maintenance service structure that can handle machinery as well as control panels
- Mobile plants for precast concrete introduced ahead of other companies

Business opportunities and risks

On July 26, the Ministry of Economy, Trade and Industry revised the time schedule for recycling CO_2. The plan was brought forward: its use in curbstone blocks will be promoted by 2030 and CO_2 absorbed concrete will be promoted from around 2040. The current Japanese Industrial Standard does not approve capturing of CO_2 in concrete due to strength issues and concerns of corrosion of reinforcement steel. However, some general contractors may start using it individually in the future. Its spread may progress ahead of the plan depending on the advancement in research and development. It may be possible that concrete would get a fresh look from the perspective of recycling GHG gas. Risks include concerns regarding a decline in customers' appetite for capital investment if a trend towards reducing public investment gathers momentum, as happened earlier under the administration of the Democratic Party of Japan. Also, if there is a delay in cement manufacturers' measures to reduce CO_2 emissions, it could hold back concrete consumption.

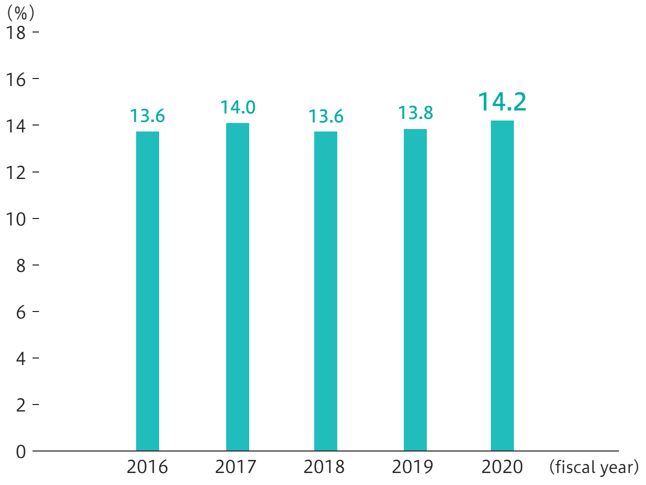
FY 2020 results

In FY 2020, new orders increased 5% from FY 2019 to 9.961 billion yen, net sales rose 0.6% to 9.2 billion yen, and operating income grew 16% to 0.879 billion yen (operating margin of 9.5%). Net sales landed according to the plan of 9.2 billion yen while operating income slightly exceeded the plan of 0.85 billion yen. Compared to the net sales plan of 9.4 billion yen and operating income plan of 0.837 billion yen (operating margin plan of 9.0%) of the Medium-Term Management Plan, actual net sales were lower than the plan while operating income exceeded the plan. Amid a 3% decline in net sales of plant products, the main cause of the more-than-expected operating income was a 7% increase in highly profitable maintenance service sales in addition to the effect of cost reductions.

FY 2021 outlook

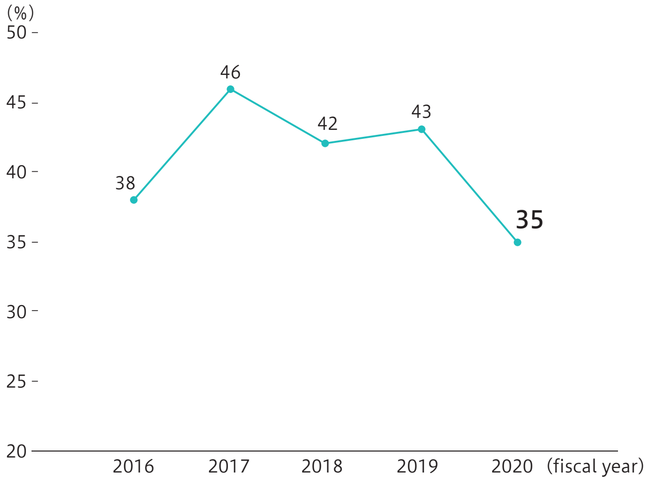
In FY 2021, new orders are expected to decline 10% from FY 2020 to 9.0 billion yen, net sales are expected to increase 4% to 9.6 billion yen, and operating income is expected to decline 3% to 0.85 billion yen (operating income of 8.9%). Compared with the net sales plan of 9.4 billion yen and operating income plan of 0.893 billion yen (operating margin of 9.5%) in the medium-term plan with FY 2021 as the final fiscal year, both operating income and operating margin are expected to fall short of the plans. While demand is strong, production capacity is also tight and delivery is being prolonged. In addition, burden of fixed expenses such as R&D expenses and personnel expenses will increase and therefore operating income is expected to decline.

●Sales volume ratio of cement secondary product plants



Source: *Cement Handbook 2020* by Japan Cement Association

●Dynamic share of BPs shipped



BP market trend

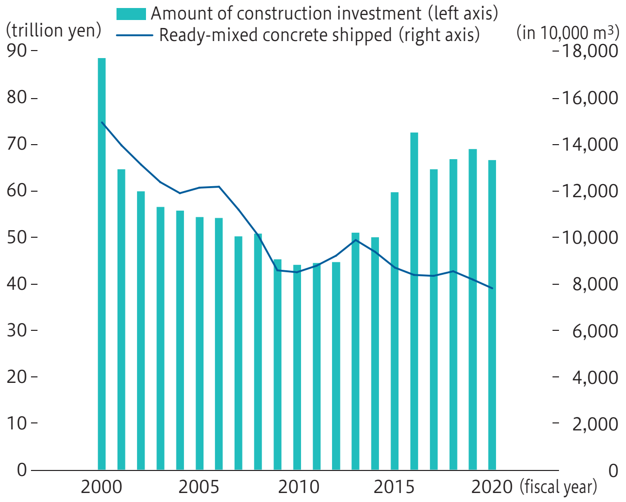
Construction investment in Japan is likely to continue with the expanding trend given the Tokyo Olympics, World Expo in Osaka, redevelopment in urban areas, and the Fundamental Plan for National Resilience. However, there is a declining trend in the ratio of additives in concrete as demand shifts from concrete to reinforced concrete construction and precast concrete. For this reason, ready-mixed concrete shipment before FY 2014 tended to be linked to construction investment in Japan, but it gradually declined from FY 2016, even as construction investment in Japan hovered above 60 trillion yen and fell below 80 million m2 in FY 2020. Nevertheless, there is a movement to advance decarbonization by using concrete to absorb and capture CO_2, and there is a strong momentum towards having a fresh look at concrete. Also, the number of ready-mix concrete plants in operation has fallen by 456 in the past 10 years to 3,206 sites in FY 2020. However, ready-mix concrete needs to be delivered within 90 minutes from the plant and we are paying attention to the possibility that the decline in the number of ready-mix concrete plants would come to an end soon.

The BP market in FY 2020 expanded 4% compared with FY 2019 to 25.1 billion yen, growing for two consecutive years. The number of plants in demand also increased four units to 77 from 73 in FY 2019 with the emergence of replacement demand. Going forward, the market is expected to enjoy a strong demand environment given (1) the five-year extension of the disaster prevention and mitigation and national resilience measures approved by the Cabinet in December 2020, (2) an increase in demand for precast concrete, in which various concrete parts are produced at plants and assembled on site, (3) an increase in size of plants due to integration of the ready-mix concrete industry and emergence of replacement demand, and (4) large-scale projects such as World Expo in Osaka and Linear Chuo Shinkansen. In the Kansai area, ready-mix concrete price appears to be rising given the robust demand for ready-mix concrete reflecting the World Expo in Osaka and other factors. We, therefore, expect the strong demand environment to continue.

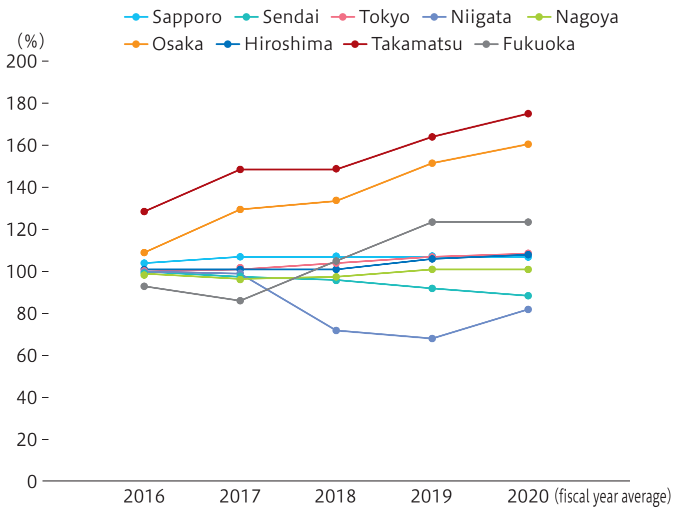
FY 2021 action plan and strategy towards the next medium-term plan

Our BP steady-state market share increased 3.6 ppt over the past five years to 32% in FY 2020. However, the dynamic share in FY 2019 remained at 43% and 35% in FY 2020, falling short of the target share of 50% in the Medium-Term Management Plan. In the next medium-term plan to be announced in spring of 2022, we will again aim to expand the market share. In addition to the acquisition of new customers by leveraging our robust maintenance service structure, we plan to continue to expand sales to precast concrete, demand for which is expected to expand reflecting labor shortage and workstyle reform "i-construction," the strategy to differentiate by introducing new products employing IoT and AI, and strengthening of sales of new mixer models and automatic mixer washer.

●Construction investment and ready-mix concrete shipment volume



●Ready-mix concrete price index of major cities



Source: Economic Research Association

Environment- and Conveyor-Related Business

Maintain high profit margin and aim to expand sales of new products

Business Division Manager,
Industrial Machinery Sales Department

Tokuhiro Mitsumune

Key points

- Our Japanese market share of conveyors is 60%. Achieved business operation based on integrated manufacturing and sales
- Offering soil decontamination employing combustion and drying technologies and various recycling plants
- Possesses various in-house testing facilities

Business opportunities and risks

The conveyor products that accounted for 87.9% of net sales in FY 2020 have a 60% market share in Japan (the market is estimated at 6.0 billion yen) in small and light modular-type belt conveyors (P Con). Channel conveyors, which has a large market, is also potentially our target market. In the environmental plant business, in addition to soil decontamination and plasterboard recycling, promising markets include recycle plants for lithium secondary batteries (we have sold one unit) as electric vehicles become popular in the future. Risks include increases in material prices and prolonged postponement and scaling down of capital investment due to the COVID-19 pandemic.

FY 2020 results

In FY 2020, net sales declined 9% to 2.39 billion yen from FY 2019 and operating income fell 14% to 0.482 billion yen (operating income of 20.2%). Both sales and profit decreased with profit falling by double digits. While the business exceeded the net sales plan of 2.2 billion yen and operating income plan of 0.4 billion yen (operating margin plan of 18.2%), it was the only segment that underperformed the results of the previous fiscal year among the four business segments. We also fell short of the net sales plan of 3.2 billion yen and operating income plan of 0.544 billion yen (operating margin plan of 17.0%) under the Medium-Term Management Plan. Net sales of the conveyor business, which accounts for 88% of the overall net sales, declined 7% (of which, the number of P Con sold fell 10%) and net sales of the environmental products also decreased 25% with those of the conveyor service falling significantly by 32%. The factors behind the net sales declines include not being able to market the products directly to distributors and customers because of the pandemic as well as postponement of replacement plans and decline in demand for maintenance parts given low facility operation rate. Further, profit margin declined after recording sales from a large-sale plant project.

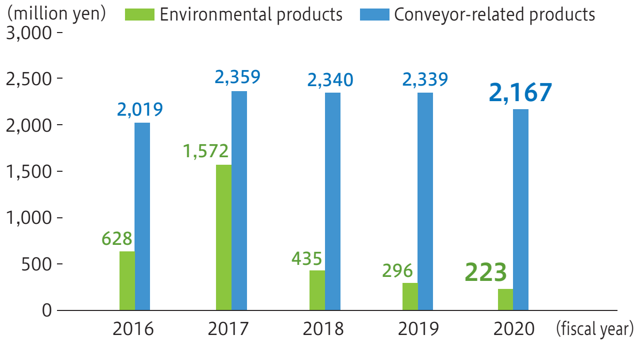
FY 2021 outlook

For FY 2021, we expect net sales to be unchanged from FY 2020 at 2.4 billion yen and operating income to decline 7% to 0.45 billion yen (operating margin of 18.8%). Compared to the net sales plan of 3.4 billion yen and operating income plan of 0.578 billion yen (operating margin plan of 17.0%) of the Medium-Term Management Plan, actual net sales and operating income are expected to fall short of the plan. Following the previous fiscal year, there are concerns over the adverse impact of COVID-19. We aim to expand sales volume of P Con to 2,700 units from 2,599 units in FY 2020 with the introduction of a new model of the mainstay product featuring standardization including accessories, low cost, and a shorter delivery period.

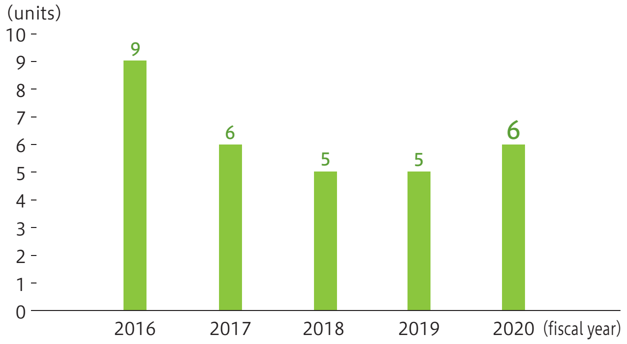
FY 2021 action plan and strategy towards the next medium-term plan

Nikko positions the environmental business as the " business for contributing to sustainable society" and plans to strengthen it by introducing new products and unearthing replacement demand. The mainstay conveyor business aims to reduce costs of leading products and expand sales by adopting a strategy to shorten delivery time. In addition to the existing customers, we will focus on the industries we market our products (poultry farming, wood chips, environment, and other fields). We will also strengthen engineering marketing through measures such as attaching hoppers to the front and back of conveyors. The environmental plant business intends to carry out business development that conforms to the needs of the times, such as lithium-ion battery recycling plants.

●Net sales of environmental products and conveyor-related products



●Sales unit of environmental products by fiscal year



Other Businesses

Aim to improve market share of mobile crushers and strengthen sales expansion of waterproof boards

Executive Officer
General Manager,
Mobile Plant Business Department,
Business Division

Takeshi Sone

Key points

- Other Business significantly exceeded the net sales plan and operating income plan of the Medium-Term Management Plan
- The market share of mobile crushers is growing, reflecting the growth in the rental market and other factors.
- Focus on building the service maintenance profit structure
- Demand for waterproof boards is expected to expand steadily

Business opportunities and risks

The Japanese market for mobile crushers may grow steadily due to replacement demand, the larger size of machines, and the expansion of the rental market. Regarding waterproof boards, the Ministry of Land, Infrastructure, Transport and Tourism, in collaboration with the Ministry of Economy, Trade and Industry, in 2020 formulated the guidelines for measures to prevent inundation of electrical facilities. Until two to three years ago, the main customers were public halls, etc., but more recently, we are increasingly having business negotiations with police stations, banks, medical institutions, and high-rise condominiums with power supply facilities in their basements. There is also the possibility of collaborating with fire insurance in the future. Going forward, the demand is expected to remain strong. Risks include the rise of new entrant companies and decrease of subsidies.

FY 2020 results

In FY 2020, net sales of the Other Business increased 16% to 6.79 billion yen from FY 2019 and operating income rose 15% to 1.17 billion yen (operating income of 17.2%). We also largely exceeded the net sales plan of 5.0 billion yen and operating income plan of 0.559 billion yen (operating margin plan of 11.1%) under the Medium-Term Management Plan. Net sales of mobile plant products more than doubled to 1.07 billion yen (sales volume increased from 16 units to 34 units) and net sales of waterproof products also grew 11% to 0.9 billion yen. In particular, net sales of panel-type waterproof boards increased from 0.5 billion yen to 0.6 billion yen. Sales of wood chip storage and supply facilities for electric power companies also boosted net sales by 0.4 billion yen. The impact of sales increase contributed to operating income.

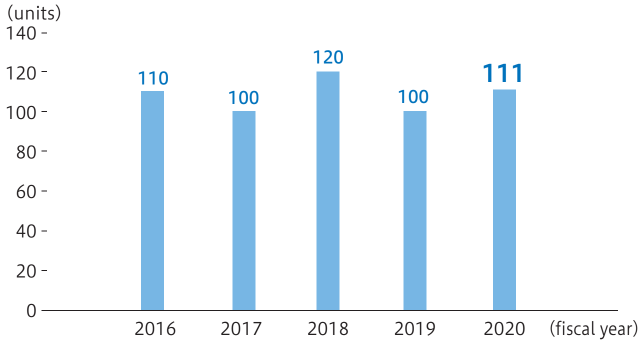
FY 2021 outlook

For FY 2021, we expect net sales to increase 3% from FY 2020 to 7.0 billion yen and operating income to decline 2% to 1.15 billion yen (operating margin of 16.4%). They are expected to significantly exceed the net sales plan of 5.2 billion yen and operating income plan of 0.679 billion yen (operating margin of 13.0%) in the Medium-Term Management Plan with FY 2021 as the final fiscal year. In terms of products, we expect sales of both mobile products and waterproof boards to increase. We expect sales of 51 crushers, which is 1.5 times the previous fiscal year (34 units in FY 2020). Sales of waterproof boards are likely to continue on an expanding trend thanks to steady demand and the effect of capacity increase at Akashi factory.

FY 2021 action plan and strategy towards the next medium-term

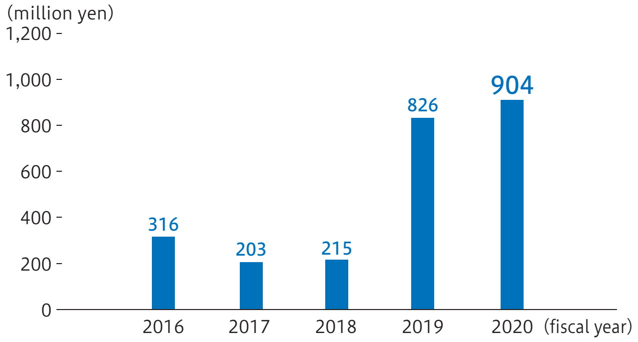
planMobile crushers can be installed and transported easily and they also have advantages such as not requiring external power source and ease of reselling used machines. For this reason, we are pushing forward with unearthing of demand for replacing large mobile crushers with large stationary crushers. We also began selling mobile crushers to major rental companies and the number of units we deliver has increased. So we will reinforce the servicing team and create a mechanism that enables capturing maintenance service revenue. The Ministry of Land, Infrastructure, Transport and Tourism is seeking architects and building administrators to install waterproof boards and doors. Nikko has ensured additional production capacity worth about 1.0 billion yen by enhancing the capacity of Akashi factory.

●Demand for mobile crushers



Source: Japan Construction Equipment Manufacturers Association

●Net sales of waterproof boards



CFO's Message

Senior Managing Director, General Manager, Administrative Division, and CFO

Hiroshi Fujii

We will enhance disclosure of information regarding development of decarbonization products, in which investors are highly interested, and disclose the financial impact of such products for constructive dialogues in the future.
There is no change in our policy to actively pursue shareholder returns in the next Medium-Term Management Plan.

Q1 Nikko Group's Financial Status and Strategy

First of all, what are the changes in Nikko Group's financial strategy in the past several years?

Originally, the financial strategy of Nikko Group aimed at maintaining a stable financial base, but we revised the strategy so as to use the funds for future growth. We will make sure that our equity ratio is stable and does not fall below 50%. With net assets at 31.5 billion yen as of the end of FY 2020, our total assets were 63.0 billion yen, and we can increase total assets by more than 14.0 billion yen from the current level (total assets as of the end of FY 2020: 48.7 billion yen). The increase in assets came primarily from investment overseas and in new business fields, R&D investment for achieving carbon-neutral goals, and investment for improving efficiency of facilities such as machinery. We are also considering M&As.

Q2 Short-term financial description (FY 2020 and 2021) and changes in balance sheet over the past 10 years

What is your financial review of FY 2020 and financial outlook for FY 2021? Have the reduction of strategically-held shares and CCC been making progress in accordance with the medium-term plan? What are the key points of the future financial strategy resulting from changes in the balance sheet over the past 10 years?

On the balance sheet as of the end of FY 2020, total assets increased 3.0 billion yen, of which non-current assets increased 2.0 billion yen. Net assets increased 1.2 billion yen, while equity ratio slightly declined from 66.3% as of the end of FY 2019 to 64.5%.

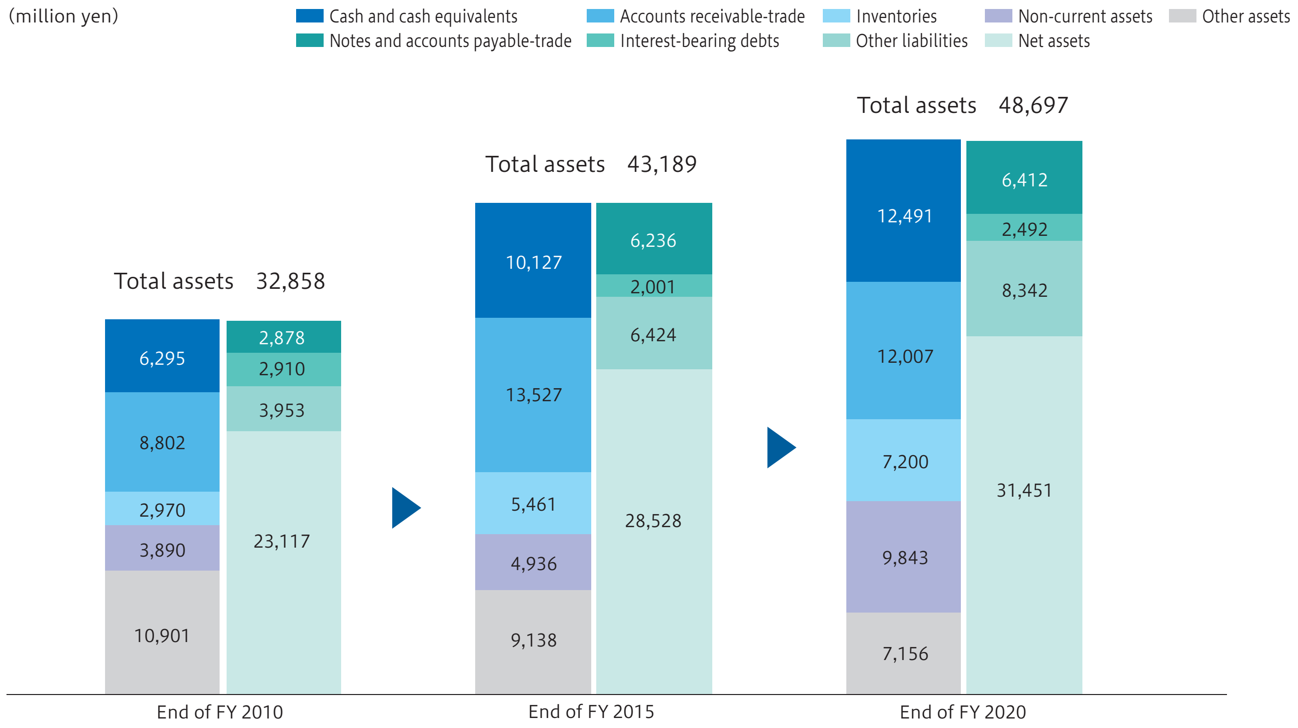
The increase in non-current assets was a result of active capital investment including investment in Thailand (more than 1.2 billion yen in total), investment in factories (replaced machinery by spending 0.3 billion yen to improve productivity), and building-related investment for improving labor environment (0.06 billion yen for repairing three roofs to improve insulation effect).

In FY 2020, we have sold 0.506 billion yen worth of strategically-held shares (0.468 billion yen in book value), which were sales of shares in banks other than our transaction banks. Including this, the total sales of strategically-held shares since FY 2016 totaled approximately 2.0 billion yen. However, if we set strategically-held shares at 10% or below of net assets as the standard, we could say that 4.5 billion yen in investment securities is still a lot when compared to 31.5 billion yen in net assets. Even if we sell 0.4 billion yen worth of strategically-held shares in FY 2021, there still would be investment securities worth more than 4.0 billion yen remaining, which exceeds 10% of net assets, so we need to make efforts to reduce some more. Many of the remaining investment securities are shares of our business partners and the pace at which we sell these shares may be slow, and we want to review them further (see p. 63).

As for CCC (cash conversion cycle), we were able to shorten it by 13 days to 101 days as of the end of FY2020 from 114 days as of the end of FY 2019. This is mainly because down payments increased from 1.9 billion yen in FY 2019 to 2.6 billion yen, as we began collecting down payments from AP customers to improve fund efficiency two years ago. We decided to receive a third of the order amount from road paving companies who are AP customers and receive the remaining two thirds after acceptance inspection. Our task now is to shorten the repayment deadlines of notes receivable as much as possible, which currently is long at 120 days for APs.

The forecast of the balance sheet as of the end of FY 2021 is: if capital investment is 2.0 billion yen (2.75 billion yen in FY 2020) and depreciation and amortization comes to 0.74 billion yen, property and equipment will increase 1.26 billion yen. We are planning to sell 0.4 billion yen worth of strategically-held shares and net assets are expected to decline almost 1.0 billion yen. CCC will be below 100 days and the question is how far we can shorten it. We haven't set forth an internal target of CCC, but we are not considering improving it by extending the deadline for the procurement side (see p. 13).

●Balance sheet trend over the past 10 years



Looking back the changes in the balance sheet over that past 10 years, total assets expanded 1.5 times (32.8 billion yen as of the end of FY 2010 → 48.7 billion yen as of the end of FY 2020). During this period, we made investments of approximately 11.0 billion yen in total for growth (a total depreciation and amortization of 4.8 billion yen for the same period), while we reduced strategically-held shares worth approximately 2.0 billion yen over five years. Since FY 2019, we have been proactively enhancing shareholder returns. We achieved the pledged payout ratio of 60% or higher and acquired treasury stock, which kept the increase in net assets to 2.9 billion yen over the past five years (net assets: 28.5 billion yen as of the end of FY 2015 → 31.5 billion yen as of the end of FY 2020).

As a result partly of these initiatives, net cash derived by subtracting interest-bearing debts from cash and cash equivalents increased from 3.3 billion yen to 10.0 billion yen in the past 10 years. We will continue to use net cash for investment for growth and shareholder returns.

Q3 Expenditure for growth fields based on the Long-term Basic Policies and future shareholder returns measures

How much was the expenditure for securing net sales overseas and promotion of new businesses (including M&As) in growth fields set forth in the Long-term Basic Policies through FY 2020? What is your assessment of this point? Also, what is your view on the shareholder returns policy in the new medium-term plan starting from FY 2022 (FY 2022 to 2024)?

Overseas, we created a subsidiary in Thailand in FY 2020 and its factory will be completed in FY 2021 (a total of 1.2 billion yen). In the future, we would like to position the Thai factory as the hub for expanding business in ASEAN and we will export products produced at the Thai factory to Indonesia and Vietnam, so there will be investment for establishing a sales base locally from now on.

CFO's Message

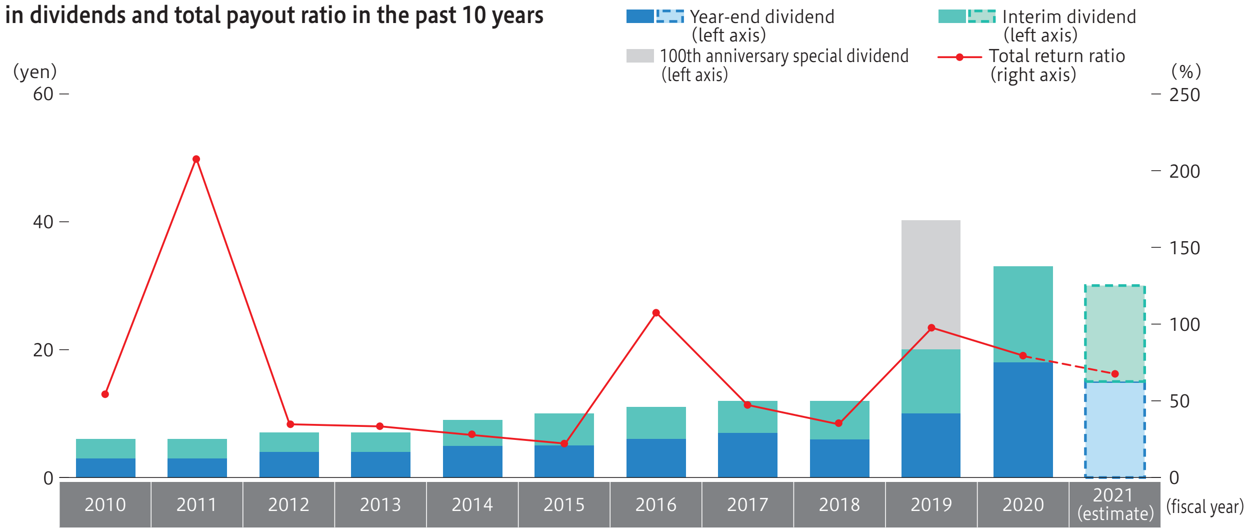
Currently, there are about 110 employees overseas with about 100 in China and 12 at the sales company in Thailand, where two companies were established. Once the manufacturing subsidiary (investment ratio is 7:3, and NilKhosol is the joint venture partner) is completed, adding 60 to 70 employees, Nikko Group's overseas employees will increase to almost 180 people.

As for expenditure related to new businesses, sales of mobile plant products and waterproof boards have increased in the past two years, but we have not made new capital investment for mobile plant products. Expenditure for the mobile plant products were just about 600,000 yen for purchasing tools and furniture, and it was 340 million yen in total. For waterproof boards, we invested 41 million yen in the Akashi factory of Nikko Machinery and total investment for waterproof boards was 270 million yen. While we have not done any M&As for new businesses, we will continue to examine promising projects.

My self-assessment for these is, it is hard to judge the contrast with capital cost because we have not made profits overseas yet, but orders have been satisfactory, as we have signed a contract with a major local distributor in Thailand. Among the new businesses, mobile plant products became profitable earlier than expected in FY 2020, and they have been making good progress also in terms of comparison to capital cost.

In the new Medium-Term Management Plan staring in FY 2022, we do not plan to significantly change the shareholder returns policy. Under the current medium-term plan, total return ratio was 97.6% in FY 2019 and 79.7% in FY 2020, and is expected to be 67.5% in FY 2021, which is expected to exceed the pledged dividend payout ratio of 60%. We believe there is no reason for us to reduce the shareholder returns for investment for growth during the next medium-term plan, given the current financial standings and net cash situation.

●Trends in dividends and total payout ratio in the past 10 years



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (estimate)
Treasury stock acquisition	1	4	9	1	2	1	1,006	246	–	–	400	–
Cancellation of treasury stock	–	–	–	–	–	–	–	752	–	–	–	–
*Net income	461	122	881	888	1,348	1,896	1,340	1,490	1,345	1,588	2,082	1,700
Dividend payout ratio	54.2%	204.9%	33.3%	32.9%	27.9%	22.0%	31.9%	30.8%	34.1%	97.6%	60.5%	67.5%
Total return ratio	54.4%	208.2%	34.2%	33.0%	28.0%	22.1%	106.9%	47.3%	34.1%	97.6%	79.7%	67.5%

◎The Company carried out a one-to-five split of shares in its common stock effective October 1, 2019, and the amount of dividends have been adjusted to the value after the split.

*Net income = Net income attributable to owners of parent (mil. yen)

Q4 Strengthening of initiatives for decarbonization products and impact on finance

Compared with the time the Company formulated the Long-term Basic Policies, efforts for decarbonization, such as the development of carbon-neutral products, have been accelerating worldwide. You plan to strengthen decarbonization products-related initiatives such as increasing R&D expenses. What is the expected financial impact both over the short term as well as medium to long term?

We plan to increase R&D investment by 300 million yen, from 400 million yen in FY 2020 to 700 million yen in FY 2021, and this is mostly prior investment related to carbon-neutral initiatives. Approximately 200 million yen of the increase is personnel cost and the rest is research expenses. We expect R&D investment to continue to be at high levels at around 700 million yen in FY 2022 and onwards.

CO_2 emissions from our own factories (Scopes 1 and 2) are not so high and our task now is CO_2 emissions at our customers (Scope 3). It is difficult to use concrete as a material to replace asphalt due to its curing period and feasibility of resins replacing it is also low from the cost perspective. For this reason, reducing CO_2 emissions in the process of manufacturing asphalt mixture is the challenge, but there are more opportunities than risks for Nikko Group in the medium to long term.

Meanwhile, road paving companies, our customers, will face more negative factors, and if this speeds up industry reorganization in the future, the number of our AP customers will decline and it may affect the maintenance service business. However, if the asphalt mixture shipment volume does not change, the scale of one plant may become larger in the future. Even in this scenario, our business may not be affected negatively after all from a financial perspective. The financial impact of the carbon-neutral initiatives, such as an increase in R&D expenses, is negative in the short term, and we expect it to be positive in the medium to long term. We will also proceed with disclosure of climate change risks based on TCFD recommendations (see p. 51).

Q5 IR, information disclosure, and dialogue with shareholders and investors

The COVID-19 pandemic must have caused changes in companies' IR and SR activities in FY 2020. What are the changes in your IR activities including your information disclosure as well as the changes in dialogue with investors and shareholders?

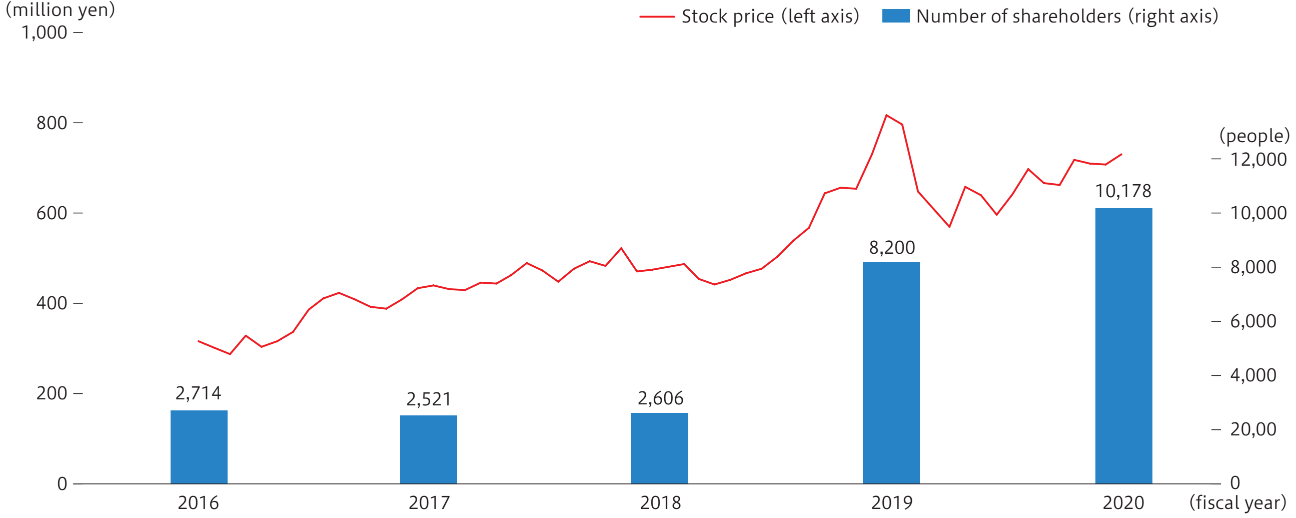
The financial results briefing sessions we used to hold in person were switched to online briefings because of the pandemic and investors' company visits also became online. We used to go to Tokyo to hold IR activities for investors, but online meetings have made it more efficient. The quality of dialogue with investors and shareholders does not change even online, so the productivity of our IR activities has improved.

One change that occurred in the interaction is that questions from investors and analysts began increasing from the financial results briefing session for the third quarter of FY 2020. We believe this is due to our efforts to accept questions in advance and enable asking questions anonymously. We will disclose information such as the development of decarbonization products to realize carbon-neutral society (including risks) that is highly interesting to our shareholders and linked to our medium- to long-term growth and use the information for constructive dialogs.

The number of our shareholders was 10,178 as of the end of FY 2020, exceeding 10,000 persons. In the past several years, we not only expanded IR activities but also strengthened shareholder returns, lowered investment unit through stock split, and newly established a special benefit for shareholders with individual shareholders in mind, which significantly increased individual shareholders. We also made it possible to combine our Air Shovel with Quo card as part of the special benefit for shareholders, but we received more than expected applications for Air Shovel, so we would like to add other products to shareholder benefits in the next fiscal year. In addition, we mailed the Nikko Corporate Report 2020 booklet to individual investors who newly became our shareholders so that they can deepen the understanding of our company (see p. 63).

The issue going forward is that we have not been able to engage in IR activities targeting individual investors despite the increase in the number of individual shareholders. We plan to discuss this matter.

●Trends in Nikko's stock price and the number of shareholders in the past five years



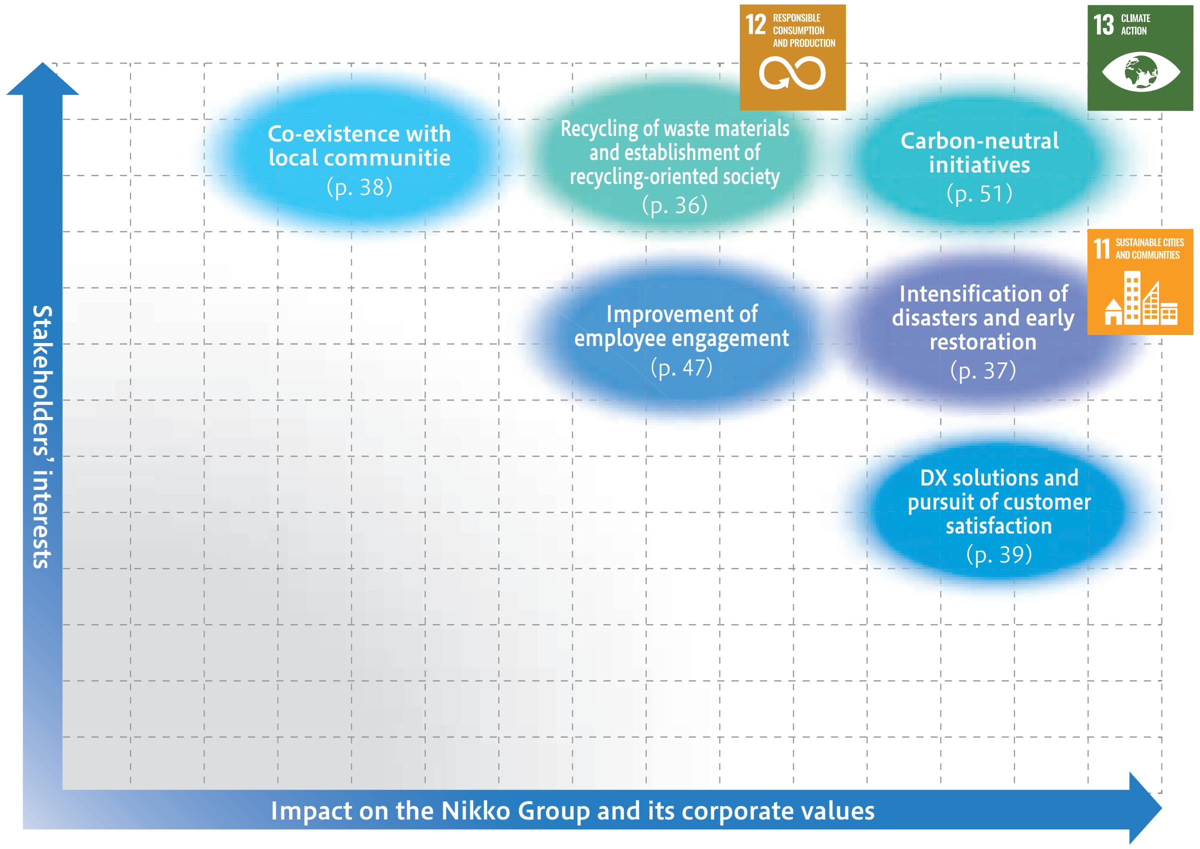
Risks and Opportunities

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

Related risks and opportunities		Details of risks and opportunities	
Risks related to the AP-Related Business in Japan	Risk of insufficient differentiation with competitors	Risk	The asphalt plant market in Japan is an oligopoly where two companies, Nikko and a rival company, together account for almost 100% of the market. Nikko's market share exceeds 70% and our position as the top manufacturer has not changed for a long time. However, our ability to showcase our differentiation to customers may weaken if we fail to carry out sufficient product development or the competing company develops a meticulous maintenance structure equivalent to ours.
		Opportunity	The Company will pursue differentiation by developing new products that contribute to realizing carbon-neutral society and CO_2 reduction and through business model reform of the maintenance service business to secure our position as the overwhelming top manufacturer.
	Risk of overseas manufacturers entering the Japanese market	Risk	In recent years, no foreign manufacturer has entered the asphalt plant market in Japan, but Chinese and Korean manufacturers are gradually acquiring technical prowess and they may be planning to enter into the Japanese market. If foreign manufacturers enter into the Japanese market, the competition among manufacturers may intensify.
		Opportunity	It is difficult for a foreign manufacturer without a sufficient maintenance structure to enter into the Japanese market. Therefore, if a customer, who purchased a product from a foreign manufacturer, realizes the poor after sales service, we can expect it to boost our rating among customers.
	Risk of shrinking market due to reorganization of road pavement industry	Risk	In the future, the possibility of reorganization in the road pavement industry is expected to gather pace. If integration of asphalt plants advances due to the industry reorganization, the market may shrink.
		Opportunity	If shipment from a plant increases, we can expect the amount spent for capital investment to increase in total.
Risk of Nikko's technological innovation not catching up with the initiatives for reducing environmental burden		Risk	Asphalt plants primarily use fossil fuels as energy source. About 1.3 million tons a year of CO_2 is estimated to be emitted in Japan for manufacturing asphalt mixture, and 70% of the emissions are thought to be from Nikko-manufactured plants based on the market share. If the push towards reducing environmental burden globally advances faster than expected, there is a possibility that our technological innovation cannot keep pace with it.
		Opportunity	In close collaboration with road pavement companies, who are the customers, Nikko is working on early social implementation of technological innovations such as fuel efficiency improvement and shifting of heat source at asphalt plants (carbon-neutral fuels, electrical heating, etc.), improvement of transportation efficiency through innovation of mixture transportation method, collection of CO_2 emitted by asphalt plants, and CO_2 absorption using ready-mixed concrete.
Risks related to the overseas business	Risk of intensifying competition in the high-end AP market in China	Risk	In the asphalt plant market in China, Nikko has a certain position in the high-end model category and we are steadily recording sales and profits every year. In recent years, Chinese companies in general have gained technological capability and there is a possibility that many Chinese manufacturers enter the high-end model market in the future leading to intensified competition.
		Opportunity	As competing companies in the high-end model market increase, the market itself is expected to expand.
	Risk of failing to achieve sales in accordance with the plan in the ASEAN market	Risk	As part of the growth strategy, we established a manufacturing subsidiary in Thailand in FY 2020 and invested more than 1.0 billion yen in the factory. The premise of this investment is that we can stably sell asphalt plants every year in Thailand and other ASEAN countries. However, if our plants are not sufficiently supported by countries in Thailand and other ASEAN countries contrary to the plan and sales volume falls short of the plan, the factory would post loss, resulting in risk of impairment of the factory.
		Opportunity	The ASEAN market is not yet large enough for two European manufacturers, Nikko's competitors, to invest resources. Hence, competition with European manufacturers is not intense, and we can expect to capture the market early on.
Risk of reduction in public investment budget		Risk	In the past, when the Democratic Party of Japan replaced the Liberal Democratic Party, "from concrete to people" became a slogan and many of our customers shifted to limit capital investment. As a result, our sales declined significantly. In the future, if a party that holds up a policy to reduce public investment forms the government, our customers may shift to curb investment like they did during the previous Democratic Party of Japan regime.
		Opportunity	The Fundamental Plan for National Resilience received a budget of 15 trillion yen for five years and there is little possibility of customers rushing to curb investment and we can rather expect expansion of investment.
Risk regarding securing of human resources to engage in on-site operations		Risk	With our business model, we carry out the entire process from plant manufacture to installation on site and offering of maintenance service all in-house. If we are unable to hire the required number of on-site workers, it may become difficult to maintain a competitive edge with our business model.
		Opportunity	In maintenance service, we can solve the issue of securing human resources by promoting labor saving through systemization of maintenance services using IoT, etc.
Risk of spread of COVID-19		Risk	If our employees get infected with COVID-19, many employees, including close contacts, must leave operations temporarily. If employees in the engineering division get infected, we must suspend design operations for a certain period. It may significantly affect delivery to customers, as our products are designed according to the order and then manufactured. Further, in overseas operations, if the spread of COVID-19 in countries where we have operations restricts social activities, it may become difficult to carry out sales activities there.
		Opportunity	The Japanese construction industry, in general, has not had any significant direct impact from the COVID-19 pandemic and has been performing solidly, and we expect minimal impact on the industry also in the future.

Since its founding in 1919, Nikko Group has been focusing on solving various social issues for more than a century. We identify priority issues (materiality) we need to address, aiming to solve problems faced by society and sustainably create corporate values. We promote consistent implementation of measures that address the said materiality by "carrying out self-reform with the mission of gaining widespread trust from society and becoming a solutions partner that grows with our customers," stated in the Management Philosophy.

Priority issues for sustainable corporate value creation (materiality map)



Three social issues the Nikko Group is addressing

1

Carbon-neutral initiatives

(see p. 51)

Asphalt plants use fossil fuels and produce approximately 1.3 million tons of greenhouse gas emissions a year in Japan. Low-carbonization and decarbonization of plants is a big challenge.

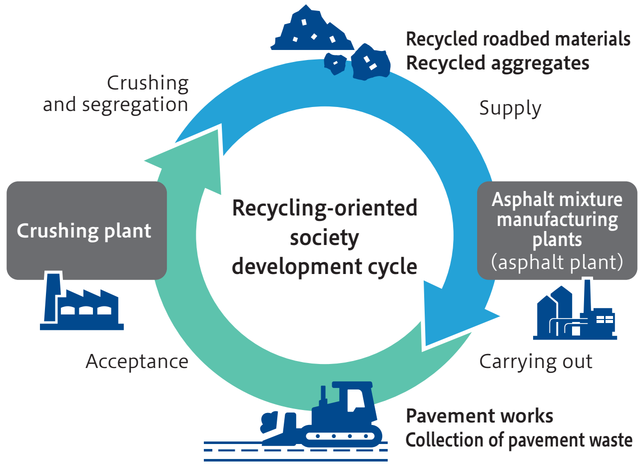
Approx. 1.3 million tons a year

2

Recycling of waste materials and establishment of recycling-oriented society

Initiatives so far <recycling of asphalt waste>

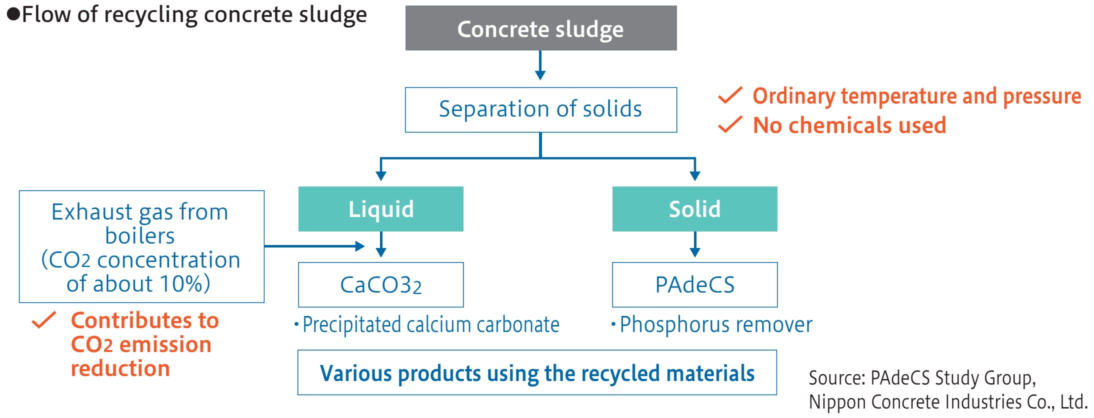
There has been a pressing need to improve resource productivity and establish a recycling-oriented society, such as recycling construction and road waste materials, to respond to the restricted use of natural resources and reduce the environmental burden. To advance the recycling of asphalt and concrete waste materials, Nikko in the 1970s commercialized asphalt plants and concrete plants that handled resource recycling. Since then, we have been improving the products, and as a result, the recycling rate of asphalt waste has reached 99%. Currently, about 75% of the asphalt mixtures used for paving new roads are recycled mixtures.



New initiatives <recycling of concrete sludge>

Waste material such as rinse water used for washing mixer trucks that transported ready-mixed concrete and mud produced from secondary concrete products is called concrete sludge. Concrete sludge requires specific processes, such as dewatering and drying, before being disposed of as industrial waste. Japan produces about 200,000 tons of concrete sludge every year, and the disposal cost is 5,000 yen to 10,000 yen per ton.
When concrete sludge is separated into liquid and solid, precipitated calcium carbonate ($CaCO_3$) is extracted from the liquid and phosphorus remover (PAdeCS) from the solid portion. Various products use precipitated calcium carbonate as a raw material: pharmaceuticals, paper, cosmetics, ferrite, condensers, optical glass, coatings, rubber, and plastics. Phosphorus remover is also expected to have many applications: rock phosphate substitute, neutralizer, night soil treatment agent, deodorizer, antiseptic, heavy metal remover, and water-bloom suppressant. Precipitated calcium carbonate absorbs CO_2 in the refining process that could reduce CO_2. Nikko will contribute to technology development for recycling concrete sludge and its practical applications by closely working with the industries of ready-mixed concrete and secondary concrete products.

●Flow of recycling concrete sludge

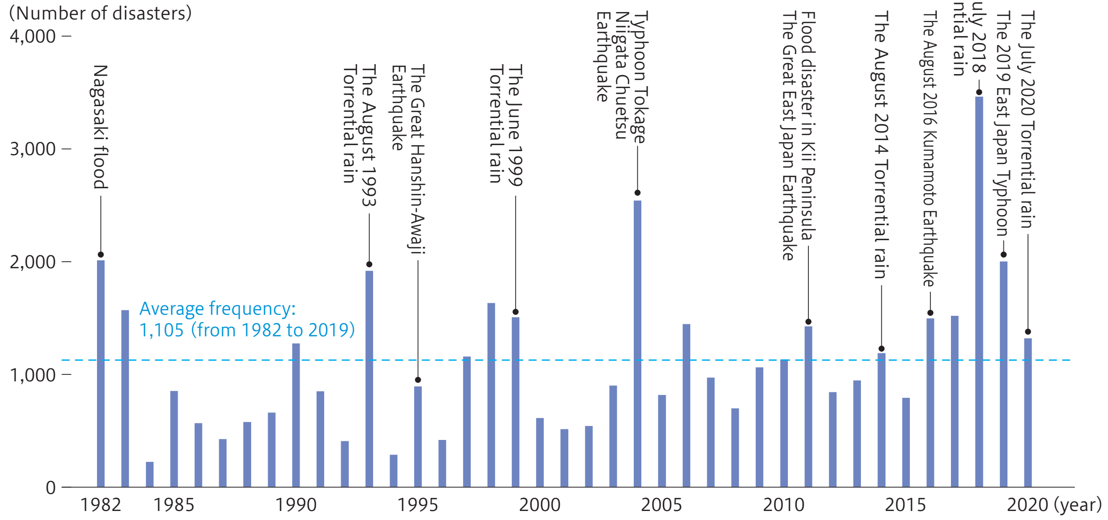


Source: PAdeCS Study Group, Nippon Concrete Industries Co., Ltd.

3 Intensification of disasters and early restoration

To recover from intensifying natural disasters, such as typhoons, severe rainstorms, and earthquakes, we start with a quick recovery work of the Group's damaged plants.
In recent years, it has rained a lot unexpectedly around the country, frequently causing localized and torrential damages. Natural disasters, including more giant typhoons than ever, large earthquakes such as the Nankai Trough and Tokyo Metropolitan near-field earthquakes, and the resultant tsunamis and volcanic eruptions, are anticipated. Disaster risk facing Japan is moving into a new stage.

●Trend of the number of landslide disasters (source: Ministry of Land, Infrastructure, Transport and Tourism)



Source: Ministry of Land, Infrastructure, Transport and Tourism

To recover from a natural disaster, we start with a recovery work of the damaged asphalt and concrete plants. In the past four years (FY 2017 to 2020), the number of Nikko plants damaged in disaster (the number of sites) increased by 35% and damage on plants has become more significant and complex as disasters become more intense.

●Trend in Nikko-made plants damaged by natural disasters (2017-2020)

	Number of sites (parts)	Total dispatch record (sheets)
FY 2017	46	83
FY 2018	53	91
FY 2019	52	107
FY 2020	62	80

Implemented business continuity management (BCM) for swift recovery

To fulfill our social responsibility as the company holding a major share in Japan in asphalt and concrete plants, we have formulated and introduced business continuity management in the event of an emergency, taking into account supply chains, affiliates, and partner companies. We guarantee stable supply and engage in multifaceted support, from procurement to maintenance, during disasters to promptly restore customers' damaged plants.

Co-existence with local communities

Our Head Office is located in Akashi City, Hyogo Prefecture—the place our factory was located when the company was established. The Nikko Business Foundation has been offering scholarships that do not require repayment for over 30 years since 1989 to domestic and overseas students enrolled in universities and institutes of technology offering a five-year program specializing in technology/engineering in Hyogo Prefecture and to students from Hyogo Prefecture studying outside the prefecture.
Furthermore, the Foundation provides research grants to researchers (supervisors and faculty members) who conduct research on technology development in the research laboratories of the universities and technology/engineering colleges in Hyogo Prefecture and to researchers who reside in Hyogo Prefecture and work for universities outside the prefecture.
The recipients of these grants are not obligated in any way to join the Nikko Group or to provide the results of their research to the Group, and it genuinely incorporates the strong feeling "to contribute to the development of the local economy and communities by providing assistance for human resource development and technological innovations."

●Number of scholarships and grants offered so far

Number of scholarships awarded	137
Number of research grants awarded	193

●New scholarships and research grants awarded in FY 2020

Number of scholarships awarded	**National Institute of Technology (KOSEN), Akashi College: 1** **University of Hyogo: 1**
Number of research grants awarded	**University of Hyogo: 1** **National Institute of Technology (KOSEN), Akashi College: 2**

●Research themes that received research grands (FY 2016-2020)

Fiscal year scholarship was awarded	Research and educational institutions	Departments and graduate schools	Research theme
2016	National Institute of Technology (KOSEN), Akashi College	Department of Civil Engineering	Reinforcement of existing river levee through improvement of ground infiltration mechanism using ultrafine particle cement
2016	Kobe City College of Technology	Department of Civil Engineering	Development of simplified method for assessing frost damage in concrete using infrared thermography
2016	Osaka University	School of Science	Study of oxidation process of metal surface and corrosion-resistance using super-thermal oxygen molecule beam
2017	National Institute of Technology (KOSEN), Akashi College	Department of Civil Engineering	Investigation of abrasion rules of working components of construction machinery and effective design against abrasion
2017	Kobe City College of Technology	Department of Civil Engineering	Study of unit water quantity measurement of lightweight concrete
2017	Kyoto University	Faculty of Engineering	Development of accurate molecule conversion method with high atomic efficiency: asymmetric addition reaction of carbon-hydrogen bond using transition metal catalyst
2018	National Institute of Technology (KOSEN), Akashi College	Department of Civil Engineering	Development of system using bamboo charcoal to control erosion of soil and nutrients during rainfall
2018	Kobe City College of Technology	Department of Applied Chemistry	Removal through oxidation using odor catalyst mainly made of straight chain alcohol and carboxylic acid
2018	University of Hyogo Graduate School	Faculty of Engineering	Diamond deposition using new high density plasma
2019	National Institute of Technology (KOSEN), Akashi College	Department of Civil Engineering	Development of vertical anti-seismic mechanism to protect important structures from earthquakes occurring directly below urban areas
2019	Kobe City College of Technology	Department of Electrical engineering	Development of small co-generation combining engine generators with thermoelectric generators
2019	Kobe City College of Technology	Department of Civil Engineering	Study of concrete consistency evaluation method using mortar
2020	University of Hyogo	Department of Applied Chemistry	Development of system that enables easy detection of GHG
2020	National Institute of Technology (KOSEN), Akashi College	Department of Civil Engineering	Study of thermal prevention technology for melting slag-mixed asphalt pavement
2020	National Institute of Technology (KOSEN), Akashi College	Department of Civil Engineering	Study of loading characteristics and damage of PCaPC pillars with joints

DX solutions and pursuit of customer satisfaction

In October 2018, we opened Customer Support Center (CSC) on the first floor of the head office and have been supporting customers' plant management. The needs for non-contact, remote maintenance services have grown during the COVID-19 pandemic and more than 70% of our users have signed up for it as of the end of May 2021. However, the support content till now was centered on post-incident services. We, therefore, are currently building a system that enhances prediction capability of maintenance based on collected and accumulated information by grasping plant operation information in real time using IoT and AI.

Realization of new value through DX

Stable operation of asphalt and concrete plants is essential for improving the productivity of road pavement and construction sites. To this end, it is important to detect necessity of maintenance in advance and take action before plant operation becomes unstable. Nikko is planning to introduce a next-generation service model under the management plan to pursue functions from the customers' perspective and enhance contacts with customers. We aim to create a solution that centrally realizes prevention of malfunction, stable long-term operation of plant facilities, and support for operators, which are major tasks of the maintenance service operations.

●Nikko's DX strategies

Tasks, background

Management environment
- Maturing and shrinking Japanese plant market
- Declining profitability of the plant business
- Chronic labor shortage
- Requirement for work-style reform

Management policy
- Pursue functions from customer perspective
- Enhance contact with customers
- Strengthen revenue base in Japan
- Introduce next-generation service model

Reform through DX
- Achieve appropriate rate of operation using predictive maintenance and maintain asset value
- Visualize plant operation status (share information among customers, Nikko, and subcontractors)
- Offer operation status analysis reports online
- Propose flexible monitoring and maintenance
- Propose review of plant operation

Driving force of innovation
- AP, BP Profit Improvement Project Team
- Next-Generation Service Action Team
- Implementation Plan Formulation Team
- Technology Development Committee

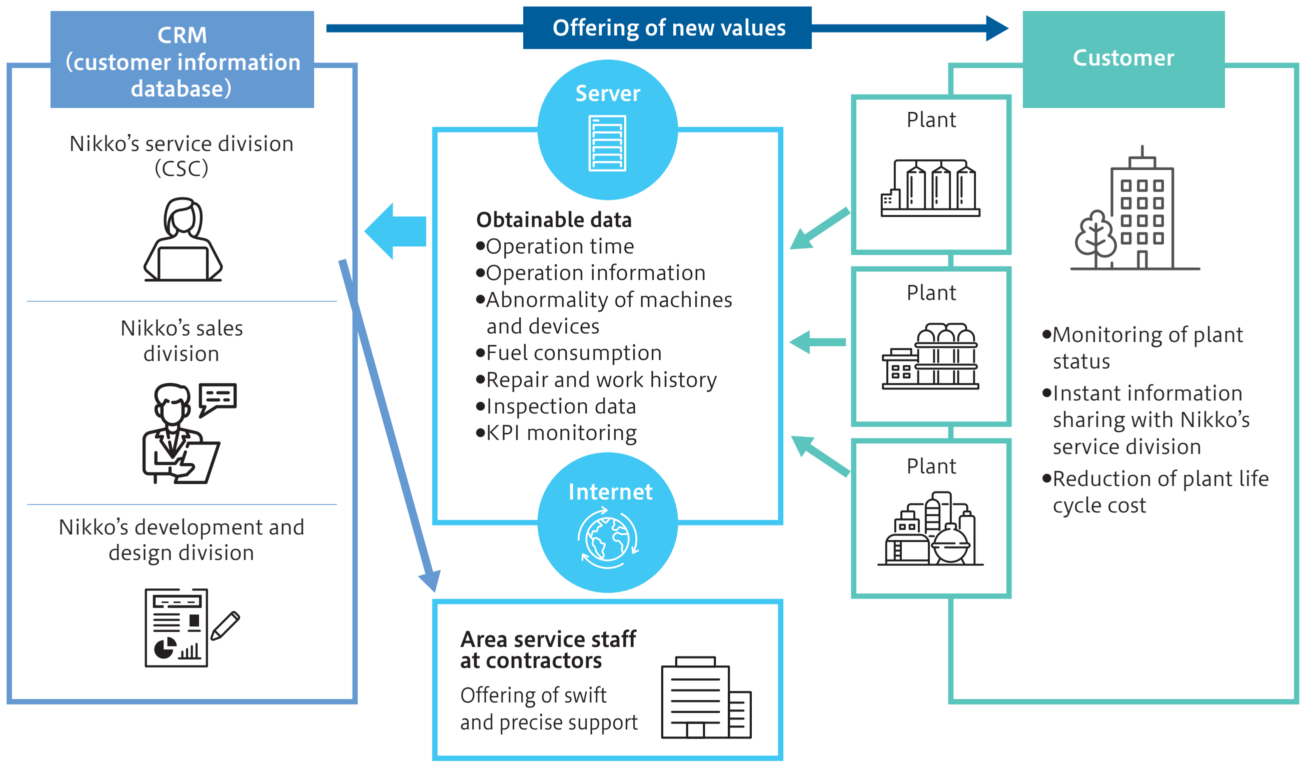
Values to be realized

Improvement of customer satisfaction
- Improve productivity of road pavement and construction sites
- Contribute to cost reduction through optimization of maintenance cost
- Supplement skills of plant operators
- Support remote operation

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

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

●Next-generation predictive maintenance service



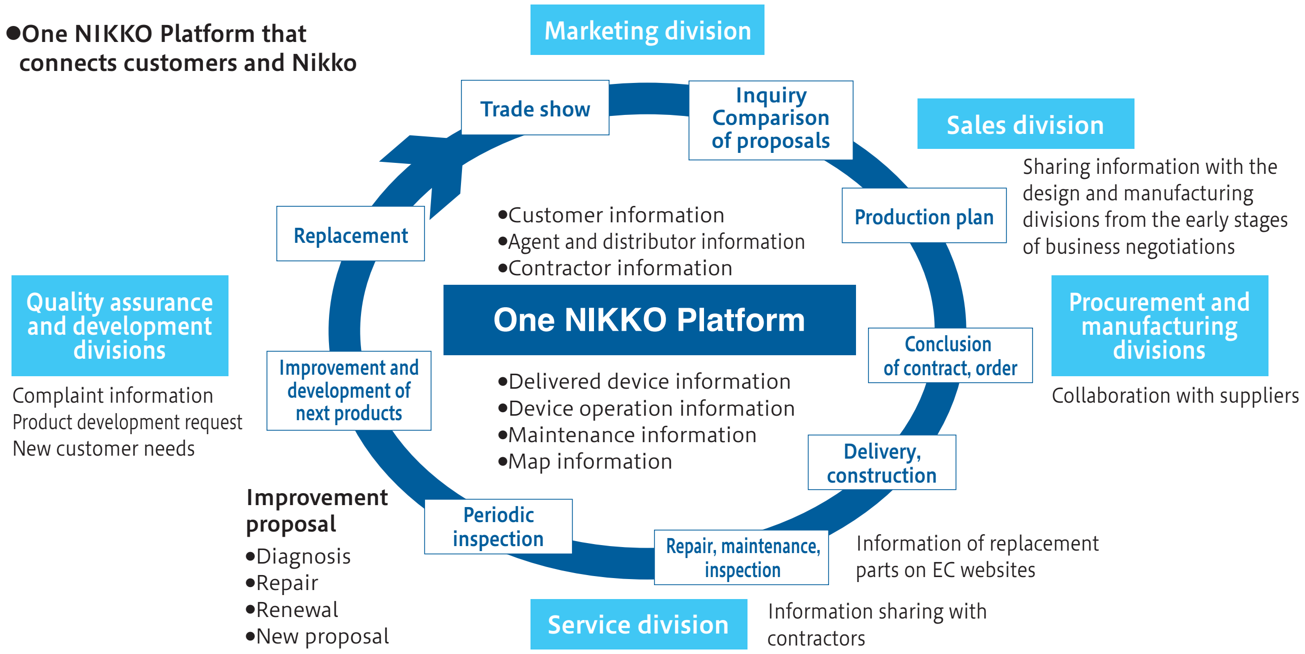
Revision of charging system and improvement of cost performance at customers

Along with offering the next-generation predictive maintenance service, we are considering the introduction of a flat-rate charge to replace the existing charge system based on each recovery project. As the proposal of flexible preliminary maintenance and offering of concrete inspection menu reduces emergency post-incident repairs, we can contribute to the improvement of cost performance at customers.

One NIKKO Platform, which improves product value for customers through lifecycle support

We are preparing to introduce a new CRM (customer information database) pursuing functions from the customer perspective. We will utilize big data accumulated in the next-generation predictive maintenance service to support plant life cycle management at customers through Nikko's value chain and develop new products. We will enhance customer contact by adding digital connectivity as well as face-to-face services to realize new customer values.

●One NIKKO Platform that connects customers and Nikko



For a Stronger Value Co-creation Platform

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

We will contribute to manufacturing and urban development by using our four unique and core technologies of mixing and kneading, heating, control, and material handling, as well as new ideas. We will also deliver values to customers by improving our platform to gain the trust of customers and society.

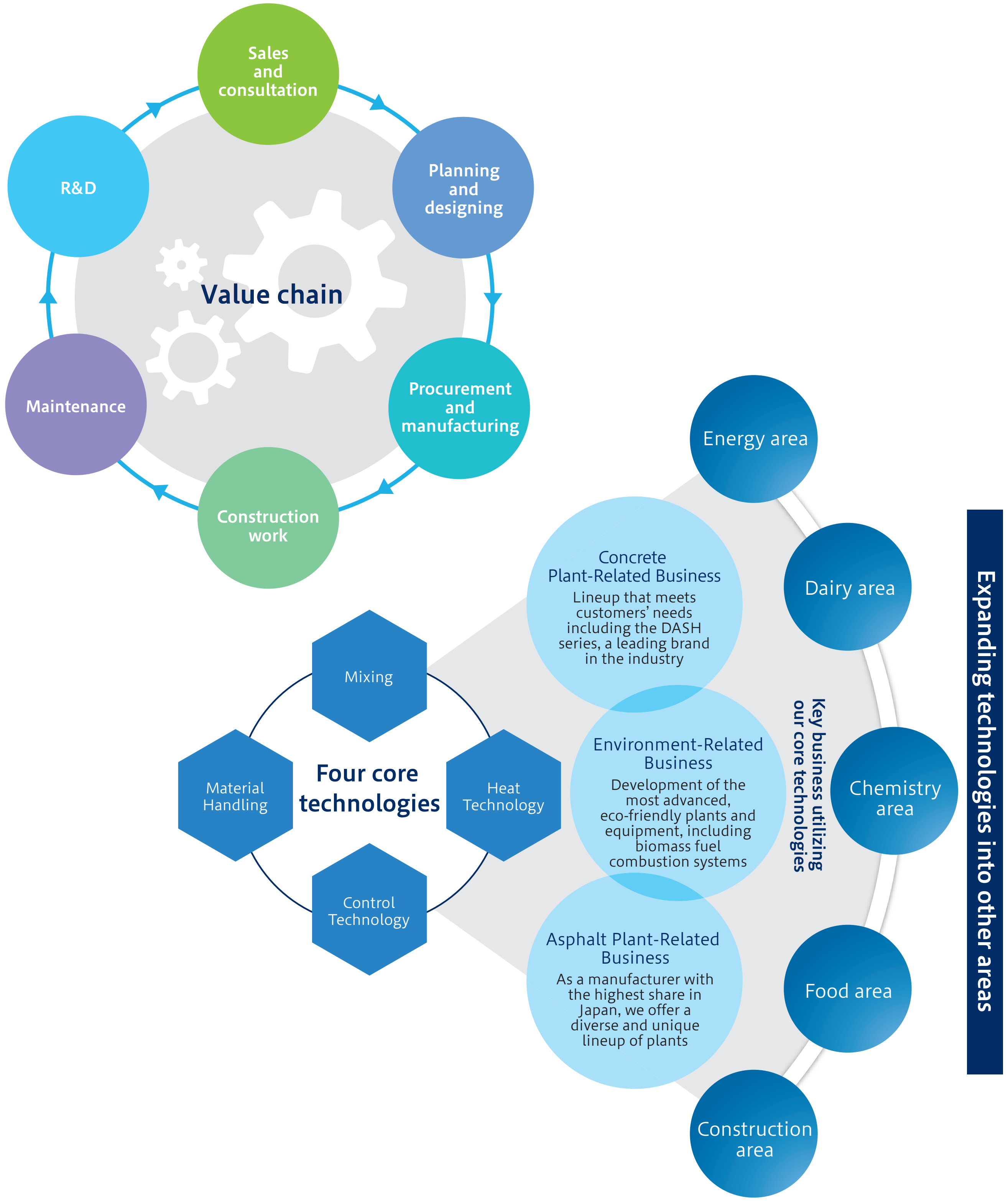
		Toward a stronger platform for delivering value				
		Contents of activities	Input (management resources)	Challenges to be addressed	Measures	Progress, outlook
Platform for delivering value	R&D	Combine the four core technologies of mixing and kneading, heating, control, and material handling with measurement, a newly acquired technology, and nurture and expand each technology. Based on utilization of these core technologies, develop products that directly solve issues faced by customers through collaborations with external organizations and utilization of open innovation.	●Development division engineers ●Core technologies (heating and drying, mixing and kneading, material handling, and control) ●Joint development foundation with customers and external organizations ●R&D expenses	●Human resource development for transfer and expansion of core technologies ●Development of short-term and medium- to long-term products for decarbonization of Nikko products ●Development of IT products for plants by utilizing social DX foundation (use of AI, etc.) ●Selection of development themes that address solution of issues at customers and early responses	●Aim for three-dimensional human resource development realizing both personnel rotation throughout the engineering divisions for acquisition of wider skills and deepening of specialties through joint research with universities. ●Appropriately distribute resources by preparing development road maps and strengthen collaboration with external resources of both industry and academia ●Promote themes for projects with cross-divisional personnel structure	●We are continuing with implementation of rotation and plan to further promote it. We are also implementing a joint research project about once a year and planning to do it more frequently. ●We have prepared development road map (to be updated every year) and advancing themes based on the road map in order ●We plan to carry out two projects in the current fiscal year
	Sales and consultation	In response to issues faced by customers, practice best proposal-based sales by skillfully utilizing technology and information held by maintenance, development, design, and various divisions.	●Sales staff with ability to make highly effective proposals ●Maintenance capability backed by experience ●Malfunction prediction utilizing IoT, etc. ●Utilization of sales agents, which have a wide range of information	●Development of human resources who can grasp user needs accurately ●Information sharing with design, development, and maintenance divisions ●Ability to make high-level proposals	●Strengthen the ability to identify customer needs through interviews by reducing office work (promotion of paperless) and increasing time visiting users for actual experiences ●Implement rotation between divisions and create an environment that encourages information sharing ●Hold in-house presentation events to let employees get used to such situations and master grasping key points	●Reduction of office work ●We have partly implemented rotation and will increase it ●Technical seminars have been implemented but we have not held a presentation event
	Planning and designing	Widely offer materials sought by customers and plant specifications corresponding to purpose and facility scale and propose optimum plans and engineering that create value for both the customer and society through in-depth discussions. Leverage the plant technologies we have developed till now and strive to promote products that contribute to material and energy saving aimed at reducing environmental burden and products that accelerate recycling.	●Technician structure responding to customer needs ●Core technologies (heating and drying, mixing and kneading, material handling, and control) ●Accumulation of knowhow regarding plant plan and design and technical bases ●Cooperation with technical design partner companies	●Propose suitable products that meet specifications requested by customers and respond to meet the delivery date ●Make technical proposals to solve problems at customers' plants ●Improvement of design work efficiency and shift resources to new expanding business fields ●Safety, labor saving, and improvement in customer satisfaction regarding quality	●Enhance standard specifications that address customer needs and develop new products that can meet quick delivery requests ●Build engineering structure that combines sales and maintenance service ●Invest actively in resources, promote outsourcing and digitization of operations ●Develop products with high added values Technological involvement in improvement of quality and productivity of the manufacturing division	●We reorganized product lineup and brushed it up We are also offering a series of block-type plants, a high percentage of which is built in-house ●Reviewed engineering methods in collaboration with sales and maintenance divisions ●Along with expansion of the ASEAN business, we will offer global plant models and hire human resources for overseas expansion ●Promoted information dissemination for accelerating preprocess preparation and design structure that ensures improvement of work efficiency
	Procurement	As various changes occur in external environment, we will achieve optimal purchase by combining product knowledge and characteristics of the supplier in order to avoid risk and realize stable purchase, while primarily pursuing cost reduction as a manufacturer. We will also improve operating efficiency and management analysis capability through introduction of new systems and collaboration.	●Human resources with procurement management ability ●Ability to collect and analyze information necessary for solving problems ●Collaboration of integrated system and core system	●Achievement of both cost reduction and stable purchasing ●Response to rise in prices of steel and supplies as well as outsourced processing costs	●Work with designing section and promote functional purchase Combine product knowledge and characteristics of suppliers to reduce costs ●Reconsider supply chain Switch to sustainable suppliers Reduce cost through concentrated purchase and distributed purchase (competition) and realize stable purchase Seek new suppliers ●Respond to price hike Internally disseminate price revision situation early on and share information Closely collaborate with suppliers and strengthen responses (minimize impact on profits) ●Boost operating efficiency through introduction of new systems	FY 2020 result of overall cost reduction: target achievement rate of 91% ●Promote functional purchase FY 2020 result: target achievement rate of 127% and has been satisfactory ●Reconsider supply chain Cost reduction through distributed purchasing has been progressing favorably We are also changing suppliers in order to enable stable purchase ●Introduce EDI system We plan to introduce it at the purchasing division from October 2021. Currently verifying the system However, there are orders outside the purchasing division and the future task is to carry out a company-wide shift
	Manufacturing	As order-based production factories, we will pursue further improvement in productivity and quality. We position the head office factory as the mother factory where we nurture human resources and improve manufacturing technology, and deploy them overseas at our factories in Shanghai and Thailand. Utilize the external network with contractors and maintain and manage stable supply structure. Explore high quality overseas procurement utilizing the overseas bases.	●Integrated production system from cutting materials to canning welding and assembly as well as production facilities, and manufacturing technologies ●Engineers with high skills in various fields ●Ability to develop manufacturing technology in-house ●External network of diverse contractors	●Leveling of product volumes between peak season and off season ●Price hike at contractors ●Ageing of skilled engineers, insufficient number of backbone engineers, and skill transfer ●Responding to short delivery time, special specifications, etc. ●Lack of storage space during peak season and vast accumulation management ●Achievement of both quality improvement and reduction of manufacturing cost ●Start of the Thai local factory	●Improve agility by investing in material processing facilities and reduce lead time ●Adjust long-term production plan with sales and engineering ●Provide training and implement rotation for promoting engineers to acquire multiple skills. Hire new graduates ●Introduce diverse latest production facilities ●Respond to peak season by building warehouse and improve accumulation management ●Follow up on external contractors and seek new contractors ●Dispatch production engineers to the Thai factory, etc.	●Material processing, which had been a bottleneck, has improved through capital investment ●We have done adjustment of long-term production plan among divisions but the discrepancy between the peak and slow seasons is great ●We are expanding storage space and manufacturing space step by step for leveling the difference between the peak and slow seasons and responding to the peak season ●Skill transfer and engineers' acquisition of multiple skills have been gradually progressing through hiring of new graduates and implementation of rotation ●Construction of the Thai factory has been progressing according to the plan, after it was delayed by about two months, and is scheduled to be completed in December 2021. The start-up period is aimed to be about one year.
	Construction work	Regarding on-site construction works, we implement assembly and adjustment of plants and provide operation instructions of the plants leveraging technologies unique to a manufacturer so as to win users' trust. Also, we will provide support to incorporate the requests from users in future products.	●More than 20 in-house supervisors (SP) and a structure that can integrate the entire process from assembly to operation adjustment	●Reduction of construction process ●Response to safe operations or safety instructions ●Discover new contractors	●Get involved from the stages of design and plan and create unit-based structure which facilitate easy construction thereby promoting improvement in degree of in-house completion ●Promote structural design that enable working safely such as ground assembly of products to be installed at elevated places ●Actively negotiate with contractors nationwide including utilization of websites or carry out on-site construction on a test basis	●Improvement of product completion rate has enabled reduction of construction man-hours on site and we are pushing ahead to make further improvements in the completion rate ●We are currently working on reviewing the construction process by having meetings before on-site construction and preparing an operation manual ●Completed on-site construction test of two new contractors. We will continue to work on discovering more contractors such as electric work companies
	Maintenance	We provide service to maintain the functions of the machinery at our customers and propose improvement in new products as well as prevent loss of sales opportunities at customers and propose a systematic maintenance cycle.	●Development of machinery management system ●Nurturing of service staff and reinforcement of organization ●Introduction of plant examination (inspection) tool	●Growing need for non-contact and remote services due to the COVID-19 pandemic; remote condition monitoring of and preventive prediction for customers plants ●Shift from after-incident maintenance to predictive maintenance	●Work with the R&D section to improve the accuracy of detecting anomalies in our customers' plants ●Carry out remote support using tablet terminals ●Improve level of experience at test plants ●Drastically review service systems	●Began offering flat-rate service (subscription) contracts ●Promoted division of labor of in-house operations (sharing data and standardization of operations) ●Added a function to predict the replacement timing based on operation data

For a Stronger Value Co-creation Platform

Nikko's business activities

Most of the businesses of Nikko Group are B-to-B business and our customers are road pavement companies and infrastructure and construction-related companies. In terms of business segments, it consists of the Asphalt Plant (AP)-Related Business, Concrete Plant (BP)-Related Business, Environment- and Conveyor-Related Business and Other Business (see p. 21). The ratio of overseas net sales is 10% and China (subsidiary Nikko Shanghai) accounts for most of them.

Each department has functions of production, sales, and engineering and they receive orders directly from customers or indirectly through agents. Built-to-order products, which account for the majority, are based on a value chain starting with quotation after meetings with a customer and signing of contract, followed by design, production, procurement, construction work, delivery, bill collection, and maintenance service. Security, safety, quality, and compliance among others are incorporated in Nikko Group's value chain as standard, and we will jointly create values with customers by combining our unique business activities with the value chain.



Voices of Managers

R&D

Katsuhiro Kawamura
Executive Officer
Manager of Development Department, Technology Division

We will develop products to solve social issues our customers face by utilizing our four core technologies, collaborating with external organizations, and incorporating open innovation. In particular, we plan to significantly increase R&D spending to 700 million yen in FY 2021 in the fields related to decarbonized society with an eye on its arrival, and we will also increase the number of R&D members from the current 43 to 50 within three years. In terms of carbon neutral, we have drawn up a medium- to long-term road map and we will drive forward concrete product development by implementing projects based on the themes of the road map.

Sales and consultation

Tomomi Nakayama
Director and Executive Officer
General Manager, Business Division

We strive to carry out the best proposal-based marketing in response to customer issues by leveraging our maintenance capability and technologies and information accumulated at various divisions. Nurturing of human resources who can grasp user needs and information sharing with various divisions is essential for proposal-based marketing, so we will improve our capability to make proposals with these measures. It is also important to enhance presentation ability for proposal-based marketing to customers, and we plan to increase hands-on experience through measures such as conducting in-house presentation events. We would like to increase job rotation, too.

Planning and designing

Toyokazu Uehara
Executive Officer
Manager of Technology Management Department, Technology Division

Planning and designing proposes plant specifications suitable for the customer's purpose in meetings and bridge them to engineering. One of our challenges is enhancing the lineup of standard specifications, such as the value pack series. We will also address customer needs and increase the number of products we can offer with short delivery times. It is also important to review engineering methods jointly with sales and maintenance divisions. To this end, we are making proactive investment in resources and also think it is necessary to improve productivity by utilizing outsourcing and DX.

Procurement

Kenichi Umezawa
Manager of Purchasing Department, Manufacturing Division

Procurement enables cost reduction as it drives forward optimal purchasing by leveraging the characteristics of the goods being procured and the suppliers, such as purchasing from a single company, centralized purchasing, and distributed purchasing, by taking into consideration the risks while also promoting functional purchasing. However, we are in an environment where achieving cost reduction is difficult given the price hikes in steel, supplies, and outsourced processed items reflecting recent confusions in supply chains. It would be desirable to target and generate 140 million yen in cost reduction per year. Going forward, we can expect improvement in operating efficiency due to increasing sense of competition at suppliers through distributed purchasing and introduction of EDI system.

Manufacturing

Kazuhiro Yamada
Executive Officer
Head Office Factory Manager, Manufacturing Division

Total capital investment during the current Medium-Term Management Plan is expected to be 6.2 to 6.3 billion yen, which is almost a 70% increase over the 3.7 billion yen under the previous medium-term plan. Depreciation and amortization for the same period is more than 2.0 billion yen, so we would like to realize growth by making capital investment that significantly exceeds depreciation and amortization. Our strategic investment in factory facilities in the past several years led by the three fiber laser processing machines is expected to enable future improvement in productivity, reduction of manufacturing costs, and ultimately improvement in profitability. Our challenges include ensuring unbiased age structure and promoting multi-skilled work through rotation.

Construction work

Naoto Noguchi
Construction Section Manager, Service Planning Department, Business Division

To increase the speed of construction work, it is necessary to promote a structure that facilitates ease of construction work from the design and planning stage. We can carry out construction work without loss, including process management, in a relatively short period of time specifically by unitization of equipment. At the same time, we will improve efficiency of on-site construction work and reduce costs by negotiating with contractors nationwide by utilizing websites. In addition to assembly, adjustment and operation instruction are also important in on-site work. We position them as skills unique to a manufacturer and aim to win customers' trust with the skills.

Maintenance

Minoru Tanaka
Director and Executive Officer
Manager of Service Planning Department, Business Division

Demand for maintenance is growing strongly, as customer needs for non-contact, remote services increased in the COVID-19 pandemic. If we can grasp the plant operating status and implement prevention and prediction, we can shift from after-incident maintenance to predictive maintenance. The ratio of customers who have signed remote maintenance service contract has risen to about 75% most recently and we will support solving customers' issues by shifting to predictive maintenance service. We will improve profitability taking these into consideration.

Customer feedback

We, at Nikko Group, listen to opinions and requests of customers on their level of satisfaction and necessary improvements regarding plants and machinery that we supply to them, and utilize them for quality improvement and development of products and services.

We also 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. It was difficult to hold operator training sessions in FY 2020 due to the COVID-19 pandemic, but we will continue to make efforts to improve customer satisfaction by conducting online sessions and through other means.

(1) Jobu Asukon Co., Ltd., (2) Kanazawa Ready-Mixed Concrete Co., Ltd., and (3) Harada Industries Co., Ltd. cooperated with us.

Voices of Customers 1

Jobu Asukon Co., Ltd.

Jobu Asukon is located in the industrial city of Ota, Gunma Prefecture, and Nikko carried out replacement installation of a historic plant which the company had used for 50 years. Upon replacement, the company was quite particular about making it a plant that is not like a plant, and which is easy to carry out maintenance despite the limitations of the site.

Q&A

Q : How did you come to replace the plant?

A : It had been 50 years since its installation in 1971. The parts requiring daily maintenance increased and we decided to replace it. The existing dryer for recycled materials of asphalt plant was 45t/h, but we decided to increase the capacity one notch to 60t/h given the increase in the amount of recycled materials.

Q : What are the reasons for adopting Nikko's plant?

A : We were considering anti-dust measures for residents in the neighborhood upon installing a new plant. Then, Nikko proposed us the new model plant VP II. The fact that it was possible to have a compact layout also matched our replacement needs for us to effectively use the limited site.

Q : What are the advantages of the plant?

A : There are four advantages. First of all, it is a stylish plant, and we thought out ways to make its appearance also clean and stylish. The second point is the improvement in overall workability. The area around the mixer is wide, and its workability is good, which is convenient as we carry out maintenance on our own. We keep repair tools and replacement parts including supplies in the plant. They used to be kept in a place away from the plant and it was troublesome to go and fetch them. The third point of advantage is the high heat retaining ability of the mixture silo. With the old plant, we stored the mixture on the previous day, and it solidified when we shipped it on the following day. In some cases, the raw materials solidified in half a day. With the Nikko plant, the temperature of 1 ton of materials prepared by the evening of the previous day did not fall and we were able to ship it on the following day. The fourth point is that it is a plant with dust prevention measures. We used to get many complaints regarding dust, generated at the intersection point of belt conveyor, from residents in the neighborhood. We requested Nikko to suggest measures and Nikko attached a dust collector to the intersection point of the feeder outlet and the belt conveyor.

Q : Do you have any requests for Nikko?

A : Please continue to strive to build safer plants, improve ease of maintenance, and design plants that are easy to use following VP II. We look forward to it.

Voices of Customers 2

Kanazawa Ready-Mixed Concrete Co., Ltd.

Kanazawa Ready-Mixed Concrete supplies to the Kanazawa area. The company was using a batching plant made by another company, but this time it purchased a plant installed with DASH-Hyper-275, a mixer that can handle ultra-strong concrete, and CyberAdvance, the latest control panel offered by Nikko.

Q&A

Q : How did you come to carry out this plant scrap and build (SB)?

A : We had been working on the SB plan since several years ago in order to enable handling of various types of concrete and improve production capacity. It took a long time, as we repeatedly toured the latest plants of various manufacturers and formulated a plan to meet our requirements, and thanks to these efforts, it became a satisfactory plant.

Q : What are the specifications you insisted for the batching plant?

A : We installed more storage bins and scales than the previous plant so that it can handle a large variety of concrete. From the safety aspect, we requested to paint handrails and steps yellow and install aggregate vacuum cleaners and dust boxes on each floor. We often receive students and company officials for plant tours and the SB made it easier for us to give tours to such visitors.

Q : It has been four months since the completion of the batching plant. What is your impression of the plant?

A : The performance of the mixer that can handle ultra-strong concrete is good, production capacity has increased, and it also enabled us to ship high quality concrete more efficiently. It also has sufficient maintenance space and certainly improved workability and safety. For this plant we introduced automatic washing machine (SWAT) for mixer and concrete hopper, which has contributed to shortening of the time required for cleaning.

Q : Finally, do you have any comments or requests for Nikko?

A : The delivery was in the winter and there were some troubles caused by snow during construction, but Nikko has responded to each of the troubles and we are satisfied. We are very close to Nikko Kanazawa Service Station and this is one of the reasons we chose Nikko, so we look forward to receiving speedy maintenance responses in the future.

Voices of Customers 3

Harada Industries Co., Ltd.

Harada Industries has their head office and a crushing factory in Sapporo, Hokkaido, and the Harada Kogyo Group has two pillars - the crushing business and construction material sales. In the crushing business, the company produces and sells various types of crushed stones in the Sapporo area. Till now, the company was using a fixed-type (stationary-type) crusher and screen, but it learned of Nikko's mobile crushers at a tradeshow and ordered one including a mobile screen. Mr. Anpo of Harada Industries talked to us despite his busy schedule.

Q&A

Q : First of all, how did you come to introduce the mobile crusher (product by Kleeman of Germany) and mobile screen offered by Nikko?

A : We learned of the mobile crusher from a Nikko pamphlet we found at the Crusher Forum 2019 held in October 2019. We have three crusher plants, one in Sapporo and two in Rumoi, and we contacted Nikko for more information. Type of rocks sometimes differ by region, so first we used a demo crusher for two days in Rumoi and also two days in Sapporo.

Q : What was your impression of actually using the demo crusher? What were the deciding factors for purchasing it and which model did you purchase?

A : The demo mobile crusher by Kleeman was compact (you can put it on a trailer) and very easy to handle, and we also learned that it is highly fuel efficient. The reason why it is easy to handle is that it is operated using a touch panel (easy to remember) and you can move it using a remote controller. Its fuel efficiency is high and the deciding factor was that it runs with one third to a half of the fuel per hour required by other companies' products. What we purchased is the new, best-selling jaw crusher MC100Ri EVO in March 2020 and also MS13Z screen slightly later than that.

Q : We were told that you presented the mobile crusher you own at the Hokkaido round of the Crusher Forum and received lots of attention from involved parties.

A : After we purchased them, the Hokkaido local event of Crusher Forum was held in Hokkaido. There were two tour courses for participants, and one was held at a mountain belonging to us, Harada Industries, and we used the Kleeman's mobile crusher and one more mobile crusher made by another company. We compared the performance of the two machines and it was highly rated for its high productivity. Industry participants came from around the country to this forum and we believe that it became a trigger for strong sales of Nikko's mobile crushers after this.

Q : What do you think of the mobile crusher by Kleeman after using it for one year? How does it compare with crushers made by other companies that you have?

A : We originally used stationary crushers and screens that run on electricity. The first mobile crusher we bought was from Nikko. The production volume of a mobile crusher is small, at a third of the stationery type. It is not a problem to have a stationary model in a place like Sapporo, which is a major demand area, but it is a great advantage that a trailer can transfer a mobile plant to be used at other areas. Three years ago the Hokkaido Eastern Iburi earthquake occurred and mobile crushers were again of big help there. We are also planning to produce more volume than before by combining stationary and mobile crushers in a wind power generation project. The mobile screen has also been useful as it can sieve various stones and we are satisfied with it as we can also use it for other purposes by switching to a screen with large mesh.

Q : We often hear that it takes time to receive replacement parts for a foreign machine. Did you have any concerns regarding this point?

A : We have not replaced regular expendable parts, but it is often so that replacement parts of foreign machines are not available and they are sent by ship. However, Nikko has stock of parts and we feel secure. Hokkaido Kawasaki Kenki, which is the dealer and contact for maintenance service, has 11 branches in Hokkaido and has about 200 people, so we feel at ease.

Q : What are the points Nikko should improve and requests regarding mobile products?

A : So far we found no points that need to be improved (laughter). If I had to say one thing, it would be even more convenient if it had a function to control the amount of water (e.g., mist) to be sprinkled at construction sites and urban areas.

Improvement of employee engagement

Employees are the most valuable capital for Nikko. We focus our efforts on building an organization and strengthening our human resources so that we can quickly respond to all changes surrounding our business to make sustained contribution to society.
It is our high-priority management task to improve employee engagement by understanding the expectations of employees having different attributes and values to develop a rewarding work environment.

Employee situation

●Nikko Group (including affiliated subsidiaries)

Situation at consolidated subsidiaries	Number of employees*1	Number of temporary employees*2
Number of employees	861	144

●Situation by segment

Segment name	Number of employees*1	Number of temporary employees*2	Ratio by segment
Asphalt Plant-Related Business	461	54	53.5%
Concrete Plant-Related Business	202	31	23.5%
Environment- and Conveyor-Related Business	32	7	3.7%
Reportable segment subtotal	695	92	80.7%
Other business	128	46	14.9%
Entire Company (common)*3	38	6	4.4%
Total	861	144	

*1 Employed employees: employees of Nikko + employees of affiliated companies (including accepted seconded personnel and excluding seconded personnel)
*2 Temporary employees: temporary employees of Nikko + temporary employees of affiliated companies (including part-time workers and excluding temporary workers dispatched from agencies)
*3 Entire Company (common): employees of the planning division, administrative division, etc.

●Situation at affiliated subsidiaries

(people)

Work location	Executives	Employees (including accepted seconded personnel and excluding seconded personnel)	Number of temporary employees	Total
Nikko Electronics Co., Ltd.	8	89	5	102
Nikko Machinery Co., Ltd.	6	41	29	76
Tombo Industry Co., Ltd.	6	10	3	19
Nikko Sec Co., Ltd.	6	30	6	42
Nikko Kosan Co., Ltd.	5	7	8	20
Maekawa Kogyosho Co., Ltd.	6	17	2	25
Nikko Baumaschinen GmbH	2	0	0	2
Nikko Asia (Thailand) Co., Ltd.	4	14	0	18
Nikko (Shanghai) Construction Machinery Co., Ltd.	6	107	0	113
Total	49	315	53	417

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

Male		Female	
Company employees	483	Company employees	16
Contract employees*4	49	Regional employees	38
Master*5	20	Partner employees*7	21
Senior*6	11	Fixed-term employees*8	11
Total	570	Total	87
Year-on-year change	1.9%	Year-on-year change	4.6%
Average age	43.9	Average age	44.7
Average years of service	19.4	Average years of service	11.1

*4 Contract employees: rehired employees who are post-seniors or post-masters (non-regular employees)
*5 Master: employees rehired after retirement (non-regular employees)
*6 Senior: employees who are post-masters with extended employment (non-regular employees)
*7 Partner employees: part-time employees with no fixed term (non-regular employees)
*8 Fixed-term employees: part-time employees whose terms have been renewed (non-regular employees)

●Trend of the number of hires

(people)

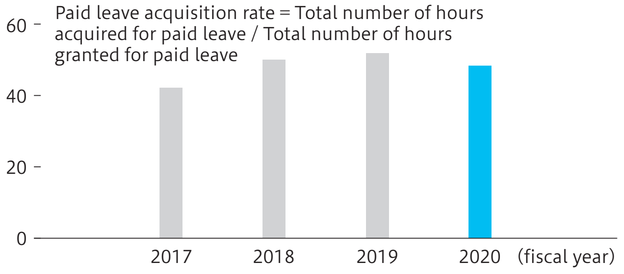
	New graduates		People with prior work experience (global)		People with prior work experience (area)		Total
	Male	Female	Male	Female	Male	Female	
FY 2017	19	0	6	0	0	1	26
FY 2018	15	0	3	0	0	5	23
FY 2019	14	0	9	2	0	10	35
FY 2020	13	0	17	0	0	4	34
FY 2021	26	3	3	0	1	1	34

*The figures for FY 2021 are as of June 1.

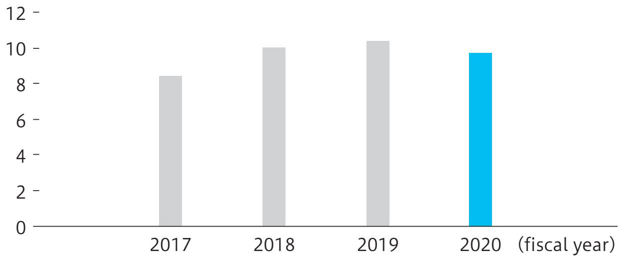
Development of working environment

Promotion of taking paid leave

●Changes in paid leave acquisition rate (%)


Paid leave acquisition rate = Total number of hours acquired for paid leave / Total number of hours granted for paid leave

●Number of paid leave utilized by employees (days)



Initiatives for flexible workstyle and enhancement of health

**●Number of employees utilizing childcare leave (left table)
and number of employee utilizing short working hours for childcare (right table)**

(people)

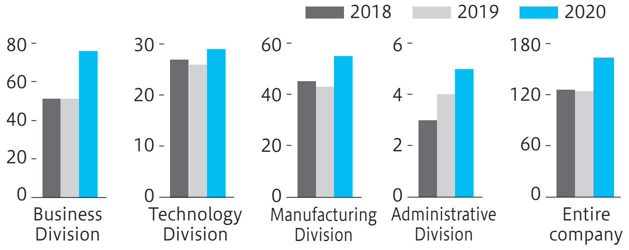
	Female	Male	Total	Female	Male	Total
FY 2017	2	0	2	2	0	2
FY 2018	1	0	1	1	0	1
FY 2019	5	0	5	2	0	2
FY 2020	3	0	3	2	0	2

●Number of employees who used workplace clinics (people)

	Number of patients
FY 2017	953
FY 2018	912
FY 2019	948
FY 2020	873

(on a medical expense incurred basis, multiple visits within the same month are counted as one visit)

●Changes in overtime hours (all employees; 1,000 hours)



Allotment of treasury stock with restriction on transfer to employees

Commemorating the 100th anniversary of our foundation, we allotted 100 shares in treasury stock to the 831 employees of Nikko Group (worth 293,000 yen) in September 2019. Following this, we transferred 100 shares in treasury stock to a total of 106 employees (worth 68,700 yen), who are new hires and hires with prior work experience in FY 2020 and 2021 in addition to long-time employees, in August 2021. These allotment of treasury stock is aimed at improving employee engagement and raising their awareness to participate in management from the perspective of shareholders. Almost all of the Group employees have become Nikko Co. Ltd. shareholders with the series of treasury stock allotment and we plan to continue to allot the treasury stock it owns to employees from the next fiscal year onwards.

●System for allotting shares in treasury stock with restriction on transfer

Implementation period	September 2019
Target	857 employees (all employees including temporary employees)
Number of shares awarded	100 shares
Price at which shares are awarded	2,930 yen
Period of restriction on transfer	3 years

Implementation period	August 2021
Target	(1) Employees who received FY 2021 President Award (2) Employees whose service has reached 10, 20, and 30 years in FY 2021 (3) FY 2021 new hires (4) Hires with prior work experience other than those allotted treasury stock in 2019
Number of shares awarded	100 shares
Price at which shares are awarded	687 yen
Period of restriction on transfer	15 months

Roundtable Discussion by Employees with Prior Work Experience

Reiko Kuramoto
Legal Affairs Section, General Affairs Department, Administrative Division
Joined the Company in 2014
(previous job: a general incorporated association)

Van Phong Nguyen
Machinery Design Section 2, Machinery Design Department, Technology Division
Joined the Company in 2018
(previous job: technology-related temporary worker)

Naoya Takizawa
Information Center, Administrative Division
Joined the Company in 2020
(previous job: home electronics manufacturer)

Yuhi Yokoyama
Service Section 1, Kanto Branch, Business Division
Joined the Company in 2020
(previous job: machinery manufacturer)

Isumi Kakimoto
Development Section 5, Development Department, Technology Division
Joined the Company in 2020
(previous job: intellectual property-related vendor)

Nikko is promoting hiring of professional human resources with prior work experience to respond to the changes in the business environment.
In addition to gender and nationality, we believe that an increase in the number of employees with prior work experience will also add diversity to teams and promote innovation.
The employees with prior work experience discussed how they view Nikko from the perspective of persons having worked for other companies by incorporating their own achievements and tasks.

●Date of the discussion: August 5, 2021 ●Location: Conference room at the head office (Akashi City, Hyogo Prefecture)

Tachiki: I am Yuki Tachiki from General Affairs Department and I am the facilitator today. We are going to ask the views of the five employees who joined Nikko with prior work experience, including two participating online. The number of people who join Nikko with prior work experience has been increasing with three in FY 2018, 11 in FY 2019, and 17 in FY 2020, and their importance has also been growing. First of all, what work do you do now and the reason for changing your job?

Kakimoto: I am managing intellectual properties such as patents at the Development Department. My main duty include preparation of patent descriptions, research of technical literature, preservation of design and brand rights, and preparation of contracts. After graduation, I joined a vendor that offers patent database. Being in sales, I was involved with many customers in the manufacturing industry, and as time went by I felt that I wanted to become well-versed in practical business, so I joined Nikko.

Takizawa: I was engaged in the development of a system for operating production lines at an air conditioner manufacturer. I was looking for a job in an area close to my parents' home for child rearing, and Nikko was advertising a job despite the COVID-19 pandemic and it caught my eyes. Currently I am involved in the development of in-house network as well as the development and maintenance of the core system from order receipt to sales at the Information Center.

Nguyen: I am designing recycling plants at the design department. I was previously working as a technology-related temporary worker and was dispatched to Nikko for two and a half years. I became a full-time employee and I am satisfied as welfare and other benefits also improved.

Yokoyama: I am in charge of asphalt plant customers at Service Section 1 of Kanto Branch. In my previous job, I was engaged in inspection and maintenance at a machinery manufacturer. I am currently engaged in the entire process from sales to maintenance and the scope of my duty expanded remarkably.

Kuramoto: This is already my seventh year with the company and I got totally at home at Nikko (laughter). My main duty at Legal Affairs Section includes preparation and review of contracts, handling of inquiries regarding regulations and laws from various departments in the company, and arranging Ordinary General Shareholders' Meetings. I was working for a general incorporated association after graduating from law school. I moved to Nikko so that I can work by utilizing my knowledge of laws here even though I did not have experience of practical business.

Tachiki: Did you experience any cultural gap after joining Nikko?

Kakimoto: It was my first time to work in the manufacturing industry, so I was new to the habit of pointing and calling and the *dono* (Esq.) culture, in which addressing someone by adding *dono* to the person's name in circulars, etc. When I joined, the organizational reform project was being implemented and the company was working on enhancing diversity with the help of an outside consultant, so there was not much of an awkwardness. After all, people freely speak in *banshu-ben* (a local dialect) and I feel at home as I am also a local (laughter).

Takizawa: It was surprising to find that the company had ample internal communication tools. We can use Portal//portal, Line Works, and Zoom and respond to PC troubles anywhere in Japan remotely, an environment which my previous company did not have. There was an introductory training for two months after joining the company. I was able to communicate with instructors and colleagues there also regarding private matters, so I was able to blend in smoothly.

Nguyen: I had been working for Nikko as a temporary worker, so I did not face any trouble when I became full time. Compared with the time I was a temp, I am happy that I have more opportunities to interact with many employees. Generally, hierarchy is more strict at companies in Japan than in Vietnam, but I feel that superiors at Nikko are friendly and I feel comfortable working here.

Yokoyama: There were two things that surprised me when I joined the company. One was that it is a kansai-ben (a dialect of Kansai area) world, even though this is a Kanto Branch (laughter), and another was the powerfulness of the plants on site. Kansai-ben sounds gentle and now I find it comfortable. My previous company was handling small-sized products and it took me by surprise how huge plant parts such as mixers and dryers are. In my previous job, I was engaged in repair and maintenance works based on manuals, but now I am working on offering of appropriate solutions by listening to customers. It is difficult but I am also feeling my growth as a sales engineer.

Tachiki: What did you think of Nikko's corporate culture and characteristics after experiencing other companies?

Kuramoto: I remember feeling that the company has a calm culture when I joined. The company I used to work for was conducting tests for public qualifications and there was tension in the workplace before implementing such tests, and that is probably why I felt that way about Nikko.

Kakimoto: I was working for an intellectual property vendor and had interaction with manufacturers with long histories. I feel Nikko's enthusiasm for introducing ICT and its decision-making such as approval and settlement is quick. I also got a feel of the company's policy of nurturing employees without practical experience into professionals as far as they have knowledge and willingness, so it is a workplace where those who aim to become a specialist would feel rewarding. Our motivation is also boosted by the commendation system for acquiring qualifications.

Takizawa: It is true that the company's judgment of investment in new software is quick. Once new ICT and software are installed, employees appear to enjoy mastering them. Tolerance for failure was low at my previous workplace, and I used to feel that it would not encourage people to try something new. So, I feel that the "appropriate level of pressure" at Nikko may be employee-friendly.

Yokoyama: This is related to the appropriate level of pressure. As there is no sales quota for sales engineers, I am able to take time and assiduously face customers.

Kuramoto: At Nikko people call each other by their names rather than their titles, which creates an atmosphere where we can discuss something without worrying about hierarchy. Telecommuting began in April 2020, which means the company's action was swift. Nikko offers ample benefits including rent support, scholarship, and lunch subsidies, and it has been a big help for an employee like me who is raising children.

Nguyen: When I was a temporary employee, I did not have the opportunity to actually see the plant whose design I was involved, but once I became full time my opportunities to visit plants whose design I was engaged in increased. I can listen to customers as well as sales persons, which is stimulating for someone in charge of design. I am also glad that the company began providing family allowance once I became full-time employee.

Tachiki: You have lots of positive opinions, but what are the troubles and issues you found?

Kakimoto: At the Development Department, we submit progress sheets every week for profit management. The form used for this is Excel and it takes time to input data, so it would be helpful to develop a user-friendly system if it is a company-wide initiative.

Nguyen: It would be good if there are opportunities to learn new technologies also at the Design Department. We are working on new product development for decarbonization and predictive maintenance, so I am keen to learn in detail how the next-generation plants would evolve from the perspective of design.

Yokoyama: I had one-month training at the head office when I joined the company. The content of introductory training was quite substantial, so I feel it would be great to have opportunities to participate in training on a regular basis after gaining a certain level of knowledge and skills through practical experience. It may be difficult because of the restrictions on movement due to the COVID-19 pandemic, but I feel online lecture-based training would also be beneficial.

Tachiki: Finally, how is your job satisfaction at Nikko and what is your career outlook?

Kakimoto: I am working and feeling fresh every day while learning the latest development themes, so it is rewarding. I will strive to support the development team so that their work will lead to patents. I would like to work as long as I can as a specialist of intellectual property management. I am aiming to qualify as a patent attorney and if I am successful, it would be great if I can receive assistance for registration fee and so on. Strategic management of intellectual properties is one of management themes, so I would also like to offer information such as technology analysis that is useful for management judgment.

Takizawa: I am hoping that the full-scale introduction of RPA (robotic process automation) would result in significant success in terms of operational reform. I successfully carried out automatic update without any errors of the e-mail account passwords of all Nikko employees using the RPA I programed, and this demonstrated that it significantly shortened the time required compared with manual operation. The current order system also requires lots of manual input, so I believe there is large room for improvement in operating efficiency using RPA. I would like to work long at Nikko, which is giving me such opportunities for taking on challenges, but my income fell compared with my previous job, so I would like the company to reflect such achievements on our salaries. My dream is to enable a four-working-day week by eliminating inefficient work hours through operational reform utilizing ICT (laughter), I would like to request the company to increase its ICT investment.

Nguyen: I feel proud that I am working for a leading company that supports social infrastructure. Nikko has been focusing also on infrastructure development in ASEAN countries, so I would like to acquire more ability and contribute to Nikko's overseas expansion in the future. I am also handling inquiries from Thai sales people of the local subsidiary in Bangkok, and I am always paying attention to the situation there.

Yokoyama: I am working on a wide range of operations, as currently I am in charge of five plant factories, thoroughly covering from sales to maintenance. I share the joy with customers and feel a sense of accomplishment when a plant starts operations without a problem or when a road construction is completed. I would like to accumulate more experience and become a human resource who can demonstrate leadership.

Kuramoto: When we internally discuss how to respond to amendment of laws and regulations, we need to understand the background and purpose of the amendment deeply, but the learning process is fun. I feel fulfilment when I finally get a hint for a solution through persistent negotiations and coordination when handling legal troubles. I feel that there is a little distance between the Legal Affairs Section and the field, so I am currently searching for ways to expand the in-house network, for example by holding legal workshops.

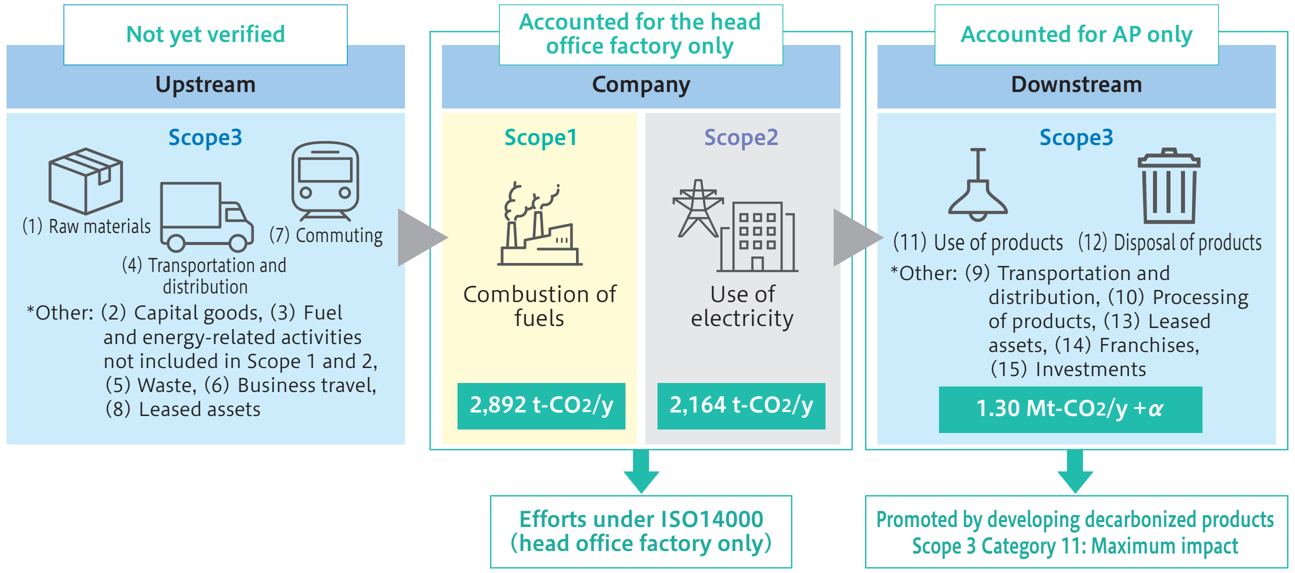
Tachiki: Your opinions are fresh to me, who joined Nikko full time as a new graduate. We would like to continue to support you so that you will participate even more actively at Nikko. Thank you very much for sharing your valuable opinions today.

Facilitator: Yuki Tachiki
General Affairs Office,
General Affairs Department
Joined the Company in 2013

Carbon-neutral initiatives

Since its founding, Nikko Group has been striving to solve various social issues under the company motto which is to serve society through business. In terms of environment, in addition to recycling construction and road waste materials, Nikko has been upgrading the functionality of plant equipment, improving the plant operation, and using alternative fuels towards carbon emissions reduction and decarbonization in the asphalt mixture manufacturing process.
From this fiscal year, Nikko Group clearly positions the goal of net-zero CO2 emissions by 2050 among its management policies and closely cooperates with customers to achieve carbon-neutral goals during plant manufacturing at the company as well as during operation of Nikko-made plants at the customers'.

●Nikko Group's CO2 emissions (Scope 1, 2: FY2020 results, Scope 3: FY2019 results)



Scope 1: Direct green house gas emissions by the business (combustion of fuels and industrial processes)
Scope 2: Indirect emissions from use of electricity, heat, or steam supplied from other companies
Scope 3: Other indirect emissions not covered in Scope 1 or 2 (emissions by other companies related to the business activities)

The CO2 emissions under Scope 1 and 2 at Nikko (head office factory) are 5,056t-CO2/y, while the annual CO2 emissions at asphalt mixture manufacturing plants are 1.30Mt-CO2/y (accounted for by Japan Asphalt Mixture Association). Since Nikko Group holds about 70% market share in the industry, the annual CO2 emissions at Nikko-manufactured plants are estimated at 900,000t. Nikko recognizes that development of decarbonized products is urgently demanded in society.

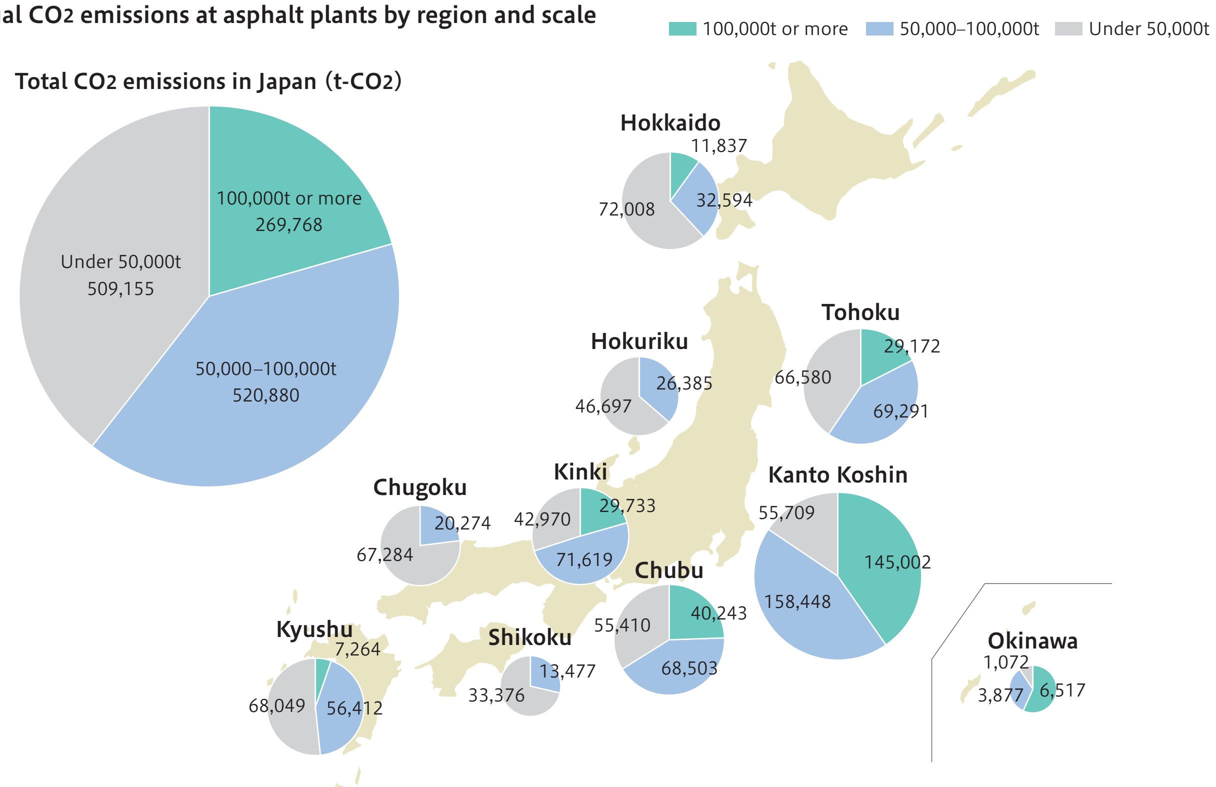
● CO2 emissions at asphalt mixture manufacturing plants

Annual mixture shipment volume	CO2 emissions		Mixture shipment volume		Emission intensity		Required reduction rate	Post-effort emissions	
	FY2013	FY2019	FY2013	FY2019	FY2013	FY2019	2030 goal	2030 goal	
	t-CO2/y	t-CO2/y	t/y	t/y	kg-CO2/t	kg-CO2/t	%	t-CO2/y	
Under 50,000t	378,890	509,155	9,316	12,840	40.7	39.7	35%	246,279	
50,000–100,000t	584,561	520,880	16,558	15,727	35.3	33.1	50%	292,281	
100,000t or more	401,146	269,768	12,419	9,556	32.3	28.2	65%	140,401	
Total	1,364,597	1,299,803	38,293	38,123	35.6	34.1		678,960	50%

- Estimated supposing that the mixture shipment volume remains the same at about 40Mt.
- The emission intensity is clearly different depending on the plant scale. The higher the shipment volume, the lower the emission intensity due to efficient operation of the plants. This suggests that manufacturing mixture at centralized, large plants will reduce the emissions. (For example, if half of the shipment volume from the plants manufacturing less than 50,000t is manufactured at a plant manufacturing 100,000t or more, it can reduce the emissions by 5%.)

Source: Overview of Survey Estimating the BaU CO2 Emissions in the Mixture Manufacturing Industry by Japan Asphalt Mixture Association

●Annual CO2 emissions at asphalt plants by region and scale



Source: Overview of Survey Estimating the BaU CO2 Emissions in the Mixture Manufacturing Industry by Japan Asphalt Mixture Association

Strategies

Four steps to achieve carbon-neutral goals

- Step 1 Accurately understand the emissions
- Step 2 Reduce the emissions
- Step 3 Capture
- Step 4 Offset

To accurately understand the CO2 emissions during the mixture manufacturing process, Nikko analyzed the energy consumption at the mixture plants. Since about 80% of energy is used to remove water and heat aggregates (recycled materials), reducing the water content has proved effective in reducing the energy consumption in the drying and heating process. Based on such verified data, Nikko has been taking seven approaches to developing products aimed at decarbonization as part of efforts to reduce emissions.

Seven approaches to the development of carbon-neutral products

- Switching of fuels
- Transformation of the mixture delivery system
- Reform of the plant system
- CCU
- Warm mix
- Transformation of the material storage system
- Electrification

Carbon-neutral initiatives

Road map for the development of carbon-neutral products

Present
2021

In 10 years
2030
CO2 emissions **50%** reduction goal

In 20 years
2040
CO2 emissions **80%** reduction goal

Switching of fuels

Gas burner

A burner fueled by city gas, natural gas, etc. which emit a relatively small amount of CO2 among fossil fuels.
For example, natural gas can reduce CO2 emissions by about 25% compared to the A fuel oil.


LNG satellite

LNG satellite

A liquefied natural gas storage system to use natural gas in areas where city gas pipes are not installed. Heat discharged from the plants is used to heat liquefied natural gas into gas again.

Liquid biomass burner
Solid biomass burner

A burner fueled by biomass fuels (fuels of biological origin). CO2 emissions are considered to be zero when biomass fuels are used. However, biomass fuels are actually mixed with existing fuels at a certain percentage, depending on their nature.

New burner control technology

Controlling burners using AI technology, which is being commercialized at the company, helps adjust fuels more efficiently and contributes to saving energy and reducing CO2 emissions.


Liquid biomass burner


Solid biomass burner

AP regenerative burner

A system to burn fuels by alternating between a pair of burners, each having a regenerator, and recover sensible heat of exhaust gasses as preheat of combustion air. At APs, its use in deodorizing equipment proves to be particularly effective in saving energy.

Ammonia burner

A burner fueled by ammonia which gathers attention as a carrier of renewable energy produced overseas. CO2 emissions are zero when ammonia is burned alone. The government aims at circulating ammonia as a CO2-free fuel by 2030.

Electrification

Heat pump system

Heat pump is a technology to collect heat from air, etc. with a small amount of energy and use it as a large amount of heat energy. Improving efficiency at a high temperature is a challenge, and technological innovation at heat pump manufacturers is necessary.

Reform of the plant system

Counter-current R dryer

Switching the recycling dryers from co-current to counter-current type helps reduce the temperature of exhaust gasses and improve the heat efficiency. Reduction of the temperature of exhaust gasses is also expected to reduce occurrence of bad odors.

Co-generative system

A system known as the thermoelectric supply system. For use at APs, electricity is first produced using generators, and then aggregates are heated using the heat emitted during power generation. Its use in intermittent operation is a challenge.

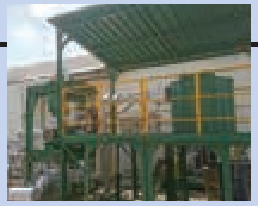
New RAV system

A system to use high-temperature exhaust gasses for heating aggregates at APs equipped with deodorizing equipment. It is greatly effective in saving energy at APs equipped with deodorizing equipment. The method of distributing exhaust heat is a challenge.

Warm mix

Foamed equipment

A method/device to reduce the viscosity of asphalt by adding water to heated asphalt and foaming it and manufacture asphalt mixture at a temperature lower than the usual heating temperature. It is possible to reduce the temperature by 30°C compared to the general method.



Warm mix plant facilities

Facilities with comprehensively improved design, such as a modified range of controls for each plant equipment and measures against dew condensation due to the decrease in temperature, to manufacture warm mixture at a heating temperature 30°C lower than usual.

Transformation of the mixture delivery system

Long-distance mixture transportation technology

Currently, asphalt mixture can be transported only for about an hour and a half due to its temperature characteristics. To address this problem, we will develop new mixture transportation methods and technologies to prevent the temperature drop during transportation, in order to transport mixture for a longer distance.

Shipment-linked plant operation system

When the mixture transportation distance becomes longer, it will be necessary to deliver mixture to the destination at the right time. With this system, when a destination requests delivery at a designated time, the plant automatically manufactures and ships mixture using the control system. It improves manufacturing efficiency at the plant and contributes to saving energy and reducing CO2 emissions.

Dispersed mixture storage system

As the mixture is transported to wider areas, mixture manufacturing bases are expected to centralize. It will then be necessary to primarily store mixture near the destination. Development of a system to store mixture in a simple facility for a certain period of time while maintaining the temperature will make it possible to structure more efficient mixture delivery networks.

Induction heating equipment for reheating aggregates

When the temperature falls below a certain level, asphalt mixture cannot maintain the fluidity and is basically disposed of.
Development of compact equipment to raise the mixture temperature by 20–30°C using induction heating technology will help stop wasteful disposal of mixture.

Transformation of the material storage system

Aggregate yard for enhanced moisture management

An aggregate yard to store aggregates which are materials for mixture manufacturing. It minimizes the amount of moisture, which is a large factor of energy consumption, by pre-drying using sunlight, sun heat, and heat emitted from the plants, etc.

Aggregate yard using sun heat

A system to directly provide sun heat, concentrated by a reflector, etc., to aggregates stored in the aggregate yard as heat energy for pre-drying. There is an issue of effective efficiency in some areas due to the sunshine duration.

Sand drying equipment

Aggregates, which are materials for mixture, are originally manufactured from dry crushed stones. They contain a lot of moisture due to the process in which they are washed by water to be used for purposes other than mixture. Development of equipment to manufacture materials dedicated to asphalt mixture will allow use of aggregates that contain little water, which will largely save energy and reduce CO2 emissions.


Sand drying equipment


Induction heating equipment for reheating aggregates

CCU

Concrete CO2 fixation system

Technologies to absorb CO2 into concrete are currently developed at companies and universities. This system uses some of these technologies to absorb CO2 at Nikko-manufactured concrete plants. Emissions trading using credits based on the amount of CO2 absorbed is also expected in the future.

AP exhaust gas CO2 capture system

A system to capture CO2 in exhaust gasses discharged from asphalt plants. CO2 is captured with technologies such as the absorbent method using amine and the membrane separation method. At present, it is difficult to implement it at APs due to the cost, and development of low-cost capture technology is a challenge.

AP→BP CO2 transfer and capture system

A series of equipment combining the above two systems to capture CO2 generated at APs and absorb it into concrete at BPs. This system allows mutually complementing and processing CO2 generated within a certain area.

Carbon-neutral initiatives

In 20 years
2040
CO2 emissions **80%** reduction goal

In 30 years
2050
CO2 emissions Virtually **0** goal

Switching of fuels

Hydrogen burner

A burner fueled by hydrogen which gathers attention as an energy carrier along with ammonia. Combustion of hydrogen generates only water, resulting in zero CO2 emissions. However, it is necessary to develop infrastructure to make it circulate as a CO2-free fuel.

Electrification

Electro heat dryer

Dry heating equipment that uses electricity as the energy source. If CO2-free power sources are supplied at a low price in the future, CO2 emissions will be zero. It is already feasible in principle, but reduction of running costs is indispensable.

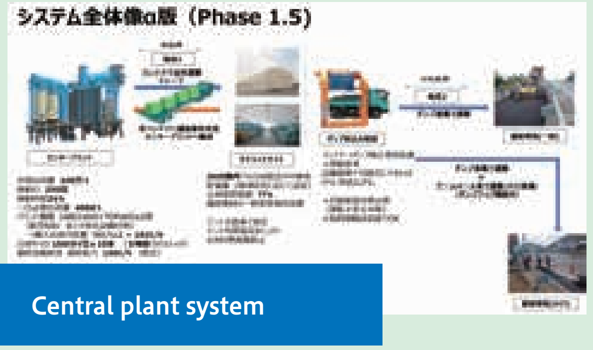
All-electric plant

A plant that completely eliminates heating by fuels and is 100% powered by electricity. As above, if CO2-free power sources are developed, CO2 emissions will be zero.

Reform of the plant system

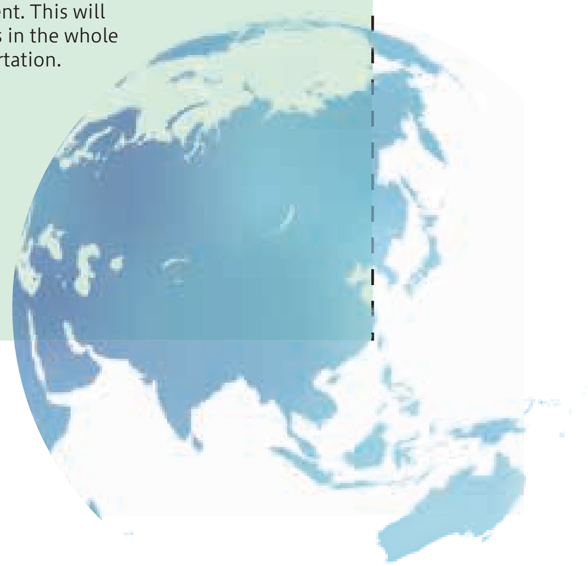
Transformation of the mixture delivery system

CCU



Central plant system

This system combines the above technologies to transform the mixture manufacturing method from the current regional dispersion type to centralized type. Centralized production will improve efficiency by raising the plant operating rate and promote investment in environmental equipment. This will save energy and reduce CO2 emissions in the whole process including the mixture transportation.

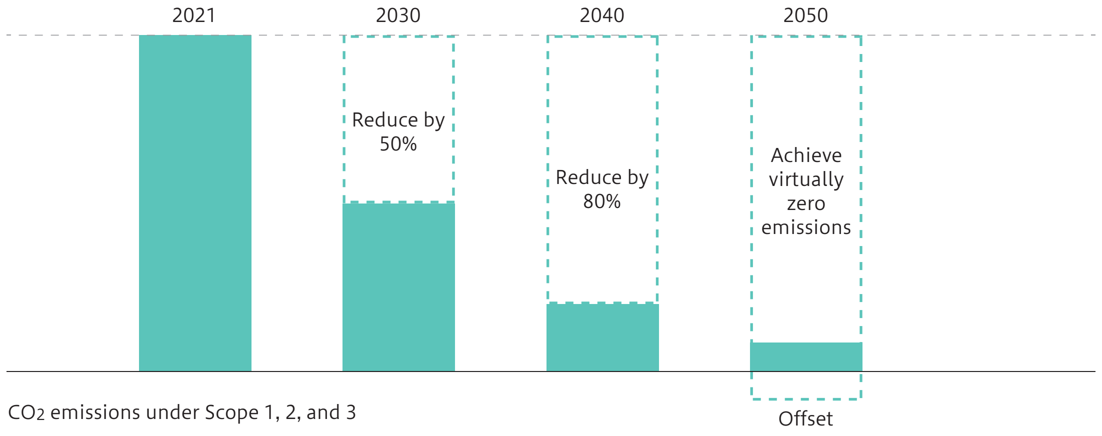


Metrics, Targets, and Governance Structure

Metrics and targets

We aim to achieve virtually zero CO2 emissions under Scope 1, 2, and 3 by FY2050 as part of our management policies, and strive to reduce the absolute emissions including emissions from our customers' plants.

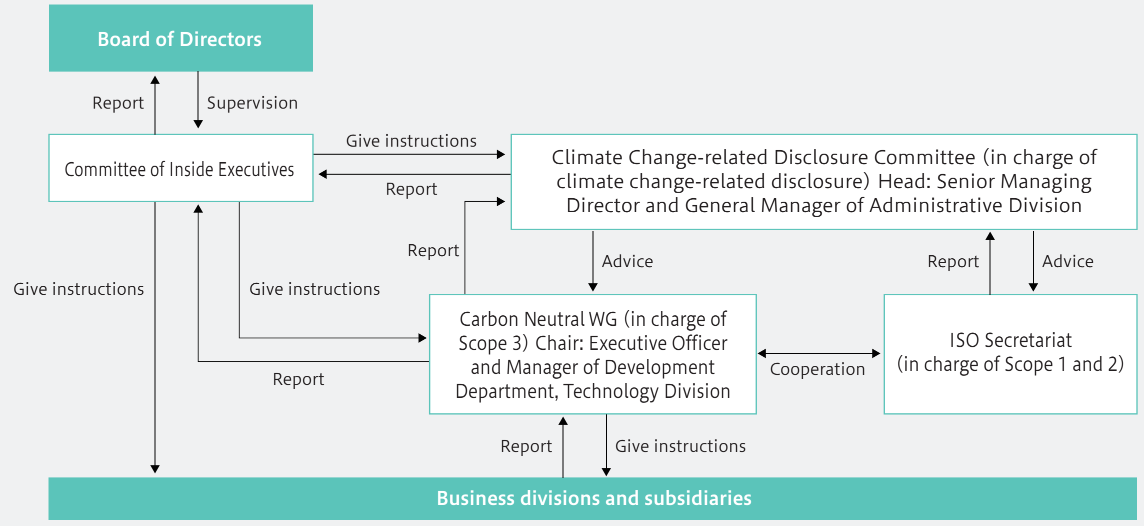
●CO2 emissions reduction goals



Governance structure

With a focus on reducing CO2 emissions at our customers' plants (Scope 3 Category 11), the Carbon Neutral WG (Working Group) will develop products that contribute to reducing CO2 emissions from various approaches, including introduction of new technologies. Emissions at Nikko (Scope 1 and 2) are managed by the ISO Secretariat, and the scope of verification will be extended in the future. The newly established Climate Change-related Disclosure Committee will disclose the progress towards the targets, risks and opportunities, and impacts on finance to stakeholders appropriately and at the right time, in cooperation with the Carbon Neutral WG and ISO Secretariat. Business strategies related to carbon-neutral initiatives discussed at the Internal Committee of Executives, as well as their PDCA are reported to the Board of Directors for deliberation and supervision.

●Governance structure diagram



Metrics, Targets, and Governance Structure

Scenario analysis

	2°C scenario (If low-carbonization advances)	4°C scenario (If low-carbonization does not advance)
Parts raw materials	●Increase in procurement costs due to carbon restrictions	●Increase in risks related to stable procurement due to abnormal weather
Energy	●Increase in renewable energy surcharges along with the spread of renewable energy ●Growth of the alternative energy industry replacing fossil fuels	●Increase in the proportion of renewable energy despite continued dependence on fossil fuels
Newcomers	●Potential entry of boiler, burner, or electric furnace manufacturers with innovative initiatives as decarbonization efforts accelerate	●Potential market introduction of new roadbed materials and construction materials that replace asphalt and concrete and prevent the heat island effect, although there is no impact on machinery
Industry	●Promotion of use of renewable energy and electrification at factories ●Competition over development of decarbonized products ●Spotlight on saving of manpower, remote driving, and FA using IoT and AI ●Shorter construction time in the construction industry to reduce CO_2 emissions ●Potential centralization of small plants, which have low carbon efficiency, to large plants	●Increase in BCP expenses ●Increase in risks of suspension of production lines and distribution due to abnormal weather ●Shorter construction time in the construction industry due to shortage of personnel caused by increasing occurrence of infectious diseases or abnormal weather ●Increase in demand for disaster prevention and mitigation functions at plants ●Generation of demand for FA that enables remote production due to increasing occurrence of infectious diseases
Customers	●Demand of users for carbon-free production due to increasing demand for carbon-free supply chains ●Increase in demand for decarbonized burners ●Increase in demand for switching to fuels alternative to heavy oil ●Increase in demand for carbon capture and storage technology ●Increase in the number of precast concrete products and pavements (risk of decrease in the number of asphalt plants)	●Increase in demand for disaster prevention products such as waterproof boards and temporary scaffolding ●Increase in demand for counter-disaster plants (autonomous operation in case of heat source cut, waterproof function in each device, etc.) ●Increase in demand for transferring facilities to areas with low disaster risk ●Increase in demand for facilities that can reuse water discharged from plants, due to shortage of water ●Increase in demand for mobile plants that are easy to operate and use during recovery from disasters ●Increase in sales along with increasing demand for products and maintenance due to damage of some customers' factories ●Increase in demand for products and services related to disaster prevention and mitigation
Policies	●Introduction of carbon tax ●Start of CO_2 emissions trading ●Development of renewable energy technology and promotion of use of alternative fuels such as ammonia and hydrogen ●Implementation of decarbonization promotion policies and expansion of subsidies ●Promotion of CO_2 capture and sequestration technologies	●Continued dependence on fossil fuels due to the large economic impact of reduction of CO_2 emissions ●Development of subsidies due to the rise in sea levels and water stress ●Increase in budgets for projects to strengthen, such as disaster prevention and mitigation measures ●Increase in expectations for large plants to play the role of local disaster prevention hubs (securing of power supply, temporary evacuation, food stocks, etc.)

Impact on finance

	Risk	Impact on finance
2°C scenario (If low-carbonization advances)	Rapid shift to decarbonized burners (plants)	High
	Request from users to share the carbon tax burden (discount)	High
	Market introduction of highly carbon-efficient roadbed materials alternative to asphalt	High
	Increase in R&D expenses and capital investment (decarbonized burners, CO_2 capture and storage technology, etc.)	Medium
	New entry by boiler, burner, and electric furnace manufacturers	Medium
	Decrease in the number of operating plants due to centralization to large plants	Medium
	Increase in the cost of procurement of raw materials (steel materials, etc.)	Low
	Increase in the cost of electricity derived from renewable energy	Low
	Increase in the cost of procurement of alternative fuels	Low
4°C scenario (If low-carbonization does not advance)	Expansion of the new roadbed and construction material markets due to measures against heat island effect (shrinkage of the existing asphalt and concrete markets)	Medium
	Increase in the cost of procurement of materials due to suspension of supply chains	Low
	Increase in BCP expenses	Low

	Opportunity	Impact on finance
2°C scenario (If low-carbonization advances)	Demand for updating to low-carbon or decarbonized burners (plants)	High
	Growth in market share due to superiority in the R&D competition	High
	Increase in demand for concrete products (roadbed materials alternative to asphalt)	Medium
	Growth in demand for recycling and low-carbon plants due to stricter environmental restrictions in China and Southeast Asian countries	Medium
	Provocation of demand for new plants due to spread of CO_2 fixation concrete	Low
	Increase in demand for lithium battery recycling equipment due to expansion of the EV market	Low
4°C scenario (If low-carbonization does not advance)	Increase in demand for preemptive maintenance for stable operation	High
	Increase in demand for disaster prevention or mitigation models	Medium
	Increase in demand for disaster prevention products (waterproof boards, temporary scaffolding, etc.)	Medium
	Increase in demand for counter-disaster mobile plants	Low
	Increase in demand for transferring plants to areas with low disaster risk	Low

●Environment-related data

Consumption of fossil fuels at production sites (head office factory + sales offices) (FY2020)

1,104 kℓ

CO_2 emissions at production sites (head office factory) (FY2020)

2,892 t

Power usage (entire company)

FY2020	3.9 million kwh (Down 15% from the peak)
FY2019	3.92 million kwh
FY2018	3.81 million kwh
FY2017	4.02 million kwh
FY2016	4.26 million kwh

Power usage (output intensity; entire company)

FY2020	2,050 kwh/output (mil. yen) (Down 15% from the peak)
FY2019	2,496 kwh/output (mil. yen)
FY2018	2,738 kwh/output (mil. yen)
FY2017	2,370 kwh/output (mil. yen)
FY2016	2,284 kwh/output (mil. yen)

Power usage (total man-hours unit; entire company)

FY2020	12.4 kwh/total man-hours (h) (Down 39% from the peak)
FY2019	14.3 kwh/total man-hours (h)
FY2018	14.6 kwh/total man-hours (h)
FY2017	13.4 kwh/total man-hours (h)
FY2016	13.7 kwh/total man-hours (h)

Power expenses (10,000 yen; entire company)

FY2020	6,354 (Down 32% from the peak)
FY2019	8,051
FY2018	7,969
FY2017	7,955
FY2016	8,371

Solar power generated (head office building)

FY2020	45,713kwh
FY2019	19,896kwh
FY2018	31,281kwh
FY2017	50,168kwh
FY2016	47,427kwh

Industrial waste generated (by category; FY2020)

	Wood chips	Waste plastics
FY2020	368m^3	20,519kg
FY2019	332m^3	13,300kg
FY2018	335m^3	
FY2017	365m^3	
FY2016	399m^3	

(The unit of the waste plastics processing volume changed from m^3 to kg)

Water usage (FY2020)

FY2020	9,488m^3
FY2019	9,355m^3
FY2018	10,509m^3
FY2017	12,448m^3
FY2016	14,253m^3

Capital investment for reduction of environmental impacts (FY2020)

Investment	139 million yen
Investment details	1. Reduction of noise from forklift operated during road surface maintenance work on the west side of the head office factory 2. Changed outdoor lighting around the head office factory to LED (highly bright and power-saving) 3. Updated the fiber laser cutting processing machines (material facilities) (power-saving) 4. Updated the large press machines (material facilities) (power-saving)

ISO14001 certification status

Certified since FY2002

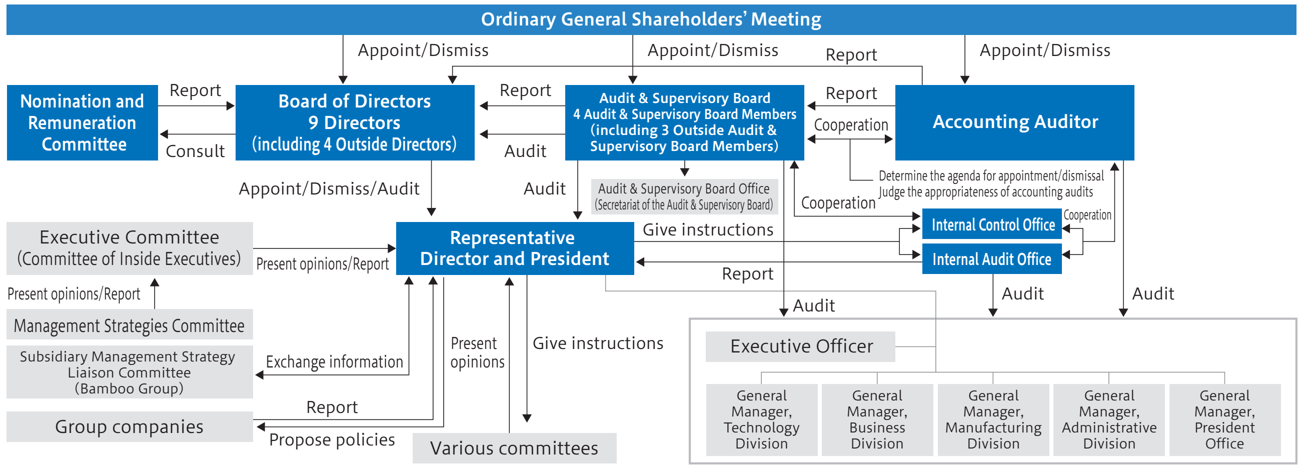
Corporate Governance

Basic approach

Nikko positions corporate governance as “the management governance function for maximizing corporate value for our shareholders and other stakeholders.” Under the Executive Officer system built upon the Board of Directors and the Audit & Supervisory Board, we endeavor to clarify management accountability, speed up business execution, increase the transparency of management decision-making, and strengthen compliance in order to ensure sound business management.
The Company’s decisions based on the on-site situation are made in an appropriate manner by human resources who understand and are capable of putting into practice the Nikko Group’s Management Philosophy. The term of Directors is set as one year to clarify management responsibility, and we have introduced the executive officer system to separate the execution and supervision of duties.

Overview of corporate governance

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



●Main decision-making bodies and number of meetings in FY2020

Board of Directors	8 Directors (including 2 Outside Directors) + 4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members) Chair: Masaru Tsuji (Representative Director and President)	13 meetings
Audit & Supervisory Board	4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members) Chair: Nobutaka Yasuda (Full-time Audit & Supervisory Board Member)	14 meetings
Committee of Inside Executives	6 Inside Directors + 1 Full-time Audit & Supervisory Board Member + 5 Executive Officers + General Managers of Internal Control Office and Internal Audit Office Chair: Masaru Tsuji (Representative Director and President)	24 meetings
Various committees and other meetings	**Nomination and Remuneration Committee** With Independent Outside Directors being the majority of the committee members, it appoints Directors, etc., formulates appointment policies, evaluates effectiveness of the Board of Directors, and deliberates and reports upon consultation from the Board of Directors. **Reward and Punishment Committee (Head: Masao Natori)** It deliberates rewards and punishments of employees. **Finance Committee (Head: Hiroshi Fujii)** It explains the financial results every quarter. When legal amendments, modifications to the accounting system, etc. have a significant impact on finance, it examines and addresses accounting matters. **Improvement Activity Committee (Head: Kazuhiro Yamada)** It encourages and promotes improvement activities based on the originality and ingenuity of employees to improve operations. **Development Technology Committee (Head: Katsuhiro Kawamura)** It deliberates development of new products and technologies. **Safety and Health Committee (Head: Masao Natori)** It prevents dangers, takes measures against work accidents, and manages safety. **Company-wide Promotion Selection Committee (Head: Masao Natori)** It deliberates promotion of employees. **Personnel System Committee (Head: Koichi Kawakami)** It deliberates revision and abolition of the internal personnel system. **Compliance and Risk Management Committee (Head: Hiroshi Fujii)** It corrects and eradicates legal violation concerns at the company, identifies latent risks, and select major risks. **Product Commercialization Committee of each business (Head: General Manager of each business division)** It accelerates development of new products in each field of business. **Tombo-kai Vitalization Committee (Head: Morie Okaaki)** It vitalizes Tombo-kai, a group of sales agents of Nikko Group products, and improves the sales ratio of the members. **M&A Examination Committee (Head: Hiroshi Fujii)** It examines M&A projects, introduces them to the Committee of Executives and the Board of Directors, and takes care of practical affairs such as due diligence. **Climate Change-related Disclosure Committee (Head: Hiroshi Fujii)** It examines and addresses disclosure related to climate change in response to the revision of the corporate governance code. **President and Outside Officers Meeting** President and 7 Outside Officers exchange opinions regularly. **Subsidiary Management Strategy Liaison Committee** It deliberates implementation and progress of the Group strategies.	

Reasons for appointment and activities of Outside Officers

Outside Officers	Reasons for appointment and expected roles	Main achievements
Independent Outside Director (reappointed) **Noriaki Nagahara** Appointed in June 2015 Born on July 18, 1951	Nagahara has a high-level track record in corporate legal affairs from the specialist perspective as a lawyer and possesses deep insight into management. He is expected to supervise execution of operation leveraging his specialist knowledge from an objective and neutral standpoint.	He attended all of the 13 Board of Directors Meetings (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from a lawyer’s perspective.
Independent Outside Director (reappointed) **Tsutomu Yuasa** Appointed in June 2016 Born on June 27, 1946	Yuasa is expected to reflect his abundant knowledge and experience, nurtured through his long engagement in corporate management as a director of a business company, in Nikko’s management. He is also expected to supervise execution of operation leveraging his specialist knowledge of financial accounting and ICT from an objective and neutral standpoint.	He attended all of the 13 Board of Directors Meetings (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the perspective of a corporate manager with broad experience.
Independent Outside Director (newly appointed) **Masafumi Ishii** Appointed in June 2021 Born on November 3, 1957	Ishii possesses extensive insight into international affairs, nurtured through his rich international experience including long service in various key positions at the Ministry of Foreign Affairs, as well as knowledge of the Asian region where Nikko aims to expand in the future. He is expected to supervise and provide a diverse and broad range of advice on execution of operation at Nikko.	He is newly appointed and has no track record for the fiscal year ended March 2021.
Independent Outside Director (newly appointed) **Rika Saeki** Appointed in June 2021 Born on February 27, 1961	Saeki is expected to reflect her abundant knowledge and experience, nurtured through her engagement in corporate management as the founder and current manager of a business company, in Nikko’s management. Saeki is expected to supervise and advise execution of operation at Nikko, as Nikko considers it necessary to incorporate knowledge of ICT, which is Saeki’s main field of business, as well as various opinions from diversity perspectives for its future development.	She is newly appointed and has no track record for the fiscal year ended March 2021.
Independent Outside Audit & Supervisory Board Member **Shigeru Sadakari** Appointed in June 2019 Born on September 22, 1957	Sadakari is expected to supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint, leveraging his abundant experience in overall corporate management and broad knowledge gained in his long engagement in corporate management at a financial institution and a business company.	He attended all of the 13 Board of Directors Meetings (100% attendance rate) and all of the 14 meetings of the Audit & Supervisory Board (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the perspective of an experienced corporate manager.
Independent Outside Audit & Supervisory Board Member **Naoki Ota** Appointed in June 2019 Born on March 1, 1955	Ota is expected to supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint, leveraging his abundant experience in overall corporate management and broad knowledge gained in his long engagement in corporate management at a business company.	He attended all of the 13 Board of Directors Meetings (100% attendance rate) and all of the 14 meetings of the Audit & Supervisory Board (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the perspective of an experienced corporate manager.
Independent Outside Audit & Supervisory Board Member **Tsuyoshi Fukui** Appointed in June 2019 Born on July 24, 1965	Fukui has been demonstrating high performance from the specialist perspective as Certified Public Accountant and possesses deep insight into corporate management, and he is expected to supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint.	He attended all of the 13 Board of Directors Meetings (100% attendance rate) and all of the 14 meetings of the Audit & Supervisory Board (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the expert perspective of a Certified Public Accountant.

●Ratio of independent officers at decision-making bodies (from FY2021)

Board of Directors (**44%**, 5 Inside Directors + 4 Outside Directors)

Audit & Supervisory Board (**75%**, 1 Inside Audit & Supervisory Board Member + 3 Outside Audit & Supervisory Board Members)

Board of Directors and Audit & Supervisory Board (**55%**, 6 Inside Officers + 7 Outside Officers)

Nomination and Remuneration Committee (**67%**, Representative Director and President (Head) + 2 Outside Directors)

●Diversity of Board of Directors and Audit & Supervisory Board (skill matrix)

Directors	Name	Independence (Outside Directors only)	Insight and experience* expected								
			Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT	Technical experience	Administrative experience
1	Takahisa Nishikawa		●	●						●	
2	Masaru Tsuji		●	●				●	●	●	
3	Hiroshi Fujii		●		●	●	●				
4	Tomomi Nakayama		●	●				●		●	
5	Minoru Tanaka		●	●				●	●	●	
6	Noriaki Nagahara	●				●					
7	Tsutomu Yuasa	●	●		●				●		
8	Masafumi Ishii	●				●	●				●
9	Rika Saeki	●	●						●		

*The above list does not indicate all insights and experiences the candidates possess.
*ICT in the above list stands for Information and Communication Technology.

Audit & Supervisory Board Members	Name	Independence (Outside Directors only)	Insight and experience* expected								
			Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT	Technical experience	Administrative experience
1	Nobutaka Yasuda		●	●				●			
2	Shigeru Sadakari	●	●		●	●					
3	Naoki Ota	●	●				●				
4	Tsuyoshi Fukui	●			●						

*The above list does not indicate all insights and experiences the officers concerned possess.

Officers' remuneration

Remuneration of Directors and Audit & Supervisory Board Members for the fiscal year under review

- Basic policy

Nikko set out a basic policy to develop a system of remuneration of its Directors that adequately functions as an incentive to sustainably improve corporate value while paying attention to the interests of shareholders, and to decide remuneration of each Director at an appropriate level based on their duties in accordance with the Internal Regulations on Remuneration and Bonuses of Executives (hereinafter, Internal Regulations) set by the Board of Directors. Specifically, remuneration of Executive Directors comprises basic compensation as fixed compensation, performance-linked compensation, and stock compensation. To Outside Directors whose main function is supervision, basic compensation and performance-linked compensation are paid.

The Internal Regulations stipulate the standard annual amount, standard monthly compensation, scope of monthly compensation, standard amount of allotted shares, and standard bonus for each rank.

From April 2021, the optional Nomination and Remuneration Committee is established, where remuneration is revised as necessary based on reports.

- Policy regarding decision of the amount of individual basic compensation (monetary compensation) (including the policy regarding decision of the timing and conditions of compensation)

Basic compensation for Nikko's Directors is monthly fixed compensation and is determined upon comprehensive consideration of the officer rank, duties, and years of service while also taking into account the standard at other companies, Nikko's performance, and the level of the employees' salary.

- Performance-linked compensation

Performance-linked compensation is determined upon consideration of the consolidated net income which is considered as the basic performance indicator, as well as performance of Nikko alone and of group companies, dividends to shareholders, and bonuses to employees, and is provided as bonuses for Officers.

Indicators for determination of performance-linked compensation

Consolidated net income of 1 billion yen is set as the target for achieving profits, and a 15% or 30% increase or decrease is added to the standard bonus for fluctuations of at least 200 million yen or 500 million yen from the target respectively. When consolidated net income is less than 500 million yen, performance-linked compensation is not provided. At present, when consolidated net income exceeds 1.8 billion yen or a large amount of extraordinary loss or income is generated, compensation is discussed separately at the Board of Directors. The level of companywide contribution to the management plan is evaluated on a scale of three, based on which 10 – 20% is added to the standard bonus. To Outside Directors, about a month's worth of monthly compensation is paid as performance-linked compensation when the payment standard is achieved.

- Non-monetary compensation

Non-monetary compensation is provided in the form of shares with restriction on transfer, depending on the officer rank and in accordance with the Internal Regulations. Its percentage is set around 10% of the monthly compensation, and the number of shares is currently determined and fixed based on the share price as of June 25, 2020. The timing of allotment is principally decided at the first Board of Directors' Meeting after the conclusion of the Ordinary General Shareholders' Meeting. The duration of restriction on transfer is 30 years or when the Company allows (retirement, etc.). Outside Directors are not entitled to non-monetary compensation.

- Policy regarding determination of the percentage of individual compensation of Directors based on the amount of standard compensation, performance-linked compensation, or non-monetary compensation

The approximate proportion of remuneration of Executive Directors by kind is basic compensation 70%, performance-linked compensation 20%, and non-monetary compensation 10%. Performance-linked compensation is a bonus for Officers, and non-monetary compensation is shares with restriction on transfer.

●Total amount of remuneration for the fiscal year under review

Category	Total amount of remuneration (1,000 yen)	Total amount of remuneration by type (1,000 yen)			Number of entitled officers (people)
		Basic compensation	Performance-linked compensation	Non-monetary compensation	
Directors (including Outside Directors)	175,531 (14,300)	130,155 (13,200)	29,950 (1,100)	15,426 (−)	8 (2)
Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Member(s)s)	36,450 (14,550)	30,060 (13,410)	4,390 (1,140)	2,000 (−)	4 (3)
Total (including Outside Officers)	211,981 (28,850)	160,215 (26,610)	34,340 (2,240)	17,426 (−)	12 (5)

From FY2021, the Remuneration Committee deliberates and reviews the remuneration of officers appropriately. Independent Outside Directors account for the majority of the committee members, and the Chair of the Audit & Supervisory Board Members (Full-time Audit & Supervisory Board Member) participates as an observer. The committee plans to deliberate and report on regulations of the Nomination and Remuneration Committee (basic compensation, performance-linked compensation, non-monetary compensation, their percentage, etc.) upon consultation from the Board of Directors. The committee meeting will be held once every quarter.

Evaluation of effectiveness of Board of Directors

The Group conducted a questionnaire survey of its eight Directors and four Audit & Supervisory Board Members (seven inside officers and five outside officers), who compose the Board of Directors, to verify how the Board of Directors contributes to effective functioning of corporate governance, identify issues, and make improvements. (Conducted in July 2020)

Evaluation items	1. Overall evaluation of Board of Directors (8 questions) 2. Composition of Board of Directors (3 questions) 3. Operation of Board of Directors (5 questions)	4. Quality of discussions at Board of Directors Meetings (7 questions) 5. Provision of information and training (7 questions) 6. Other (free description)
Overview of analysis and evaluation results	It was found that the Board of Directors was operating appropriately overall—it was implementing management aimed at improving corporate values and having essential discussions upon decision-making. The evaluation score improved from the previous evaluation. As for the evaluation items, one item was added regarding the quality of discussion at Board of Directors Meetings, and four items were added regarding provision of information and training, which allowed more detailed evaluation and analysis compared to the previous evaluation. Three main issues to be addressed were identified: the necessity to narrow down the agenda to deepen the discussion from longer-term and broader perspectives regarding the quality of discussion; the need to enhance the opportunities for training, by external experts, of newly appointed Directors to fulfill their duties, and to formulate a systematic education and training plan for the next generation of management staff regarding information and training. Nikko's Board of Directors has confirmed that the Group will strengthen initiatives to improve its effectiveness so as to cope with changes in business and management environment and respond to the responsibility placed on us by the stakeholders.	

Corporate Governance

Development of internal control system

The internal control system primarily aims at developing rules, flexibly planning and implementing employee training, and ensuring its effectiveness. In accordance with the basic policy regarding internal control, the Group reorganized the Audit Office into the Internal Audit Office to strengthen audit structure, formulated the compliance rules and basic risk management rules, and established the Compliance Committee and Risk Management Committee.
Subsequently, it divided the Internal Audit Office to the Internal Control Office and Internal Audit Office to clearly separate promotion of internal controls and evaluation function. The Nikko Group will continue to improve the structure to raise the effectiveness of the internal control system.

Development of risk management structure

Risk factors surrounding the management include changes in market environment, product price fluctuations, exchange rate fluctuation, environment, and other regulations regarding products, protection of intellectual properties, capital investment, and impacts of disasters, wars, terror attacks, strikes, etc. To swiftly cope with these risks, Nikko established the basic risk management rules. The Risk Management Committee comprehensively recognizes, evaluates, and analyzes risks faced by Nikko and the Nikko Group, deliberates issues and countermeasures, and reports them to President.
The Company also receives advices and guidance and proposals for improvement from experts including its corporate lawyers and tax accountants.

Status of reducing strategically-held shares

The Board of Directors annually examines whether or not to continue holding strategically-held shares and facilitates the gradual sales of the shares if it determines that there is no rationale to keep holding them. To make this decision, the Board looks into the purpose of holding the shares, their risks, Nikko's relationship with the issuers, and capital cost. In the last four years, we sold a total of 28 issues (13 sold-off issues) at a total value of 1.83 billion yen. We aim to achieve the ratio of market capitalization to shareholders' equity of 9%.
We judge exercise of voting rights upon comprehensive consideration of not only short-term results and stock price of the issuers but also Nikko's relationship with them.

●Status of reducing strategically-held shares (In million yen)

	FY2017	FY2018	FY2019	FY2020
Number of shares sold	7(5)	6(1)	6(2)	9(5)
Amount sold	405	194	720	506
Book value	221	106	272	469
Gain on sales	184	88	448	38
Ratio of market capitalization to shareholders' equity (%)	20.3	17.2	11.6	11.8

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

Dialogues with shareholders and investors

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

●Results of dialogues with shareholders and investors

	FY2018		FY2019		FY2020	
(Event type)	Number of events	Number of participants	Number of events	Number of participants	Number of events	Number of participants
Financial Results Briefing Session	4	58	4	69	4	90
Individual meetings	12	15	23	28	17	23
Small group meetings by Nikko	1	6	2	8	0	0
Ordinary General Shareholders' Meeting	1	53/791	1	21/3,303	1	19/4,709

(attendance in person/attendance in writing)

Message from Newly Appointed Outside Directors

Here are messages from Mr. Ishii and Ms. Saeki who were appointed as Outside Directors in June 2021.


Masafumi Ishii


Rika Saeki

Q. How do you plan to leverage your experience and strengths to contribute to sustainable value creation at Nikko Group?

Ishii：I have gained experience as a diplomatic official in Europe, U.S., and Southeast Asia for close to 20 years. I do not have any business experience, but I am confident about my deep understanding of international affairs and situations overseas. I have also been paying attention to the direction the world is heading to, such as the SDGs led by the UN. I think the source of Nikko Group's growth is overseas markets mainly in Asia, so I would like to contribute to Nikko's growth leveraging my insight and network.

Saeki：As I am also a female manager of an IT company, I would like to contribute to developing a workplace where both men and women can work comfortably and choose flexible workstyles. I was surprised to hear that there was no female manager at Nikko; the background behind women not playing active roles sufficiently may be long working hours and inadequate support for life events particular to women. I have been working on active participation and work–life balance of women at the IT company where I am the president, so I also plan to leverage such experience.

Q. What are your thoughts on the raison d'être and mission of Independent Outside Directors?

Saeki：I think conventions in the construction machinery industry are often different from those in the IT industry. I would like to join discussion without any prejudice and share opinions that are not bound by common sense of the construction machinery industry to contribute to the diversity of the Board of Directors.

Ishii：I believe it is my duty to actively participate in discussion and encourage innovative initiatives from unprecedented external perspectives so as to produce new ideas that may not come out from discussion among internal parties.

Q. New society brought forth by the COVID-19 pandemic is expected to largely affect the products, services, organizational structure, and relationship with the employees. Do you think Nikko Group will be able to respond to these changes? Based on which evidence do you think so?

Ishii：I believe Nikko Group has the capacity to respond to changes. Nikko was quick to establish the remote maintenance system in Japan and respond to the customers' demand for a non-contact system. Such demand will rapidly expand in overseas markets in the post-COVID era. I am certain that Nikko has the capacity to turn changes into business opportunities.

Saeki：Since its founding as the tool department at Suzuki Trading, a major trading firm in Kobe, a century ago, Nikko has been responding to major changes and evolving its operation. Resilience backed by the history shows that Nikko is capable of dealing with various issues that have surface during the pandemic.

Q. More and more investors think that companies should solve social issues commercially. How do you plan to contribute to solving issues Nikko Group is trying to address (decarbonization, etc.)?

Saeki：Since it is widely known that asphalt and concrete plants emit carbon, Nikko needs to further communicate its specific decarbonization efforts to stakeholders. I would like to make specific suggestions such as applying SDGs to the operational process and aiming for eco-related certifications. Young people are sensitive to such information, so increased visibility will also help with the recruitment activities.

Ishii：Development of policies and regulations related to climate change is also accelerating overseas. Nikko needs to take measures according to the situation in countries where it is operating. Nikko has an important social issue to address, which is to contribute to development of basic infrastructure in emerging countries, so I will contribute to solving issues Nikko aims to address while considering local situations.

Q. What is the first thing you would like to work on after the appointment?

Ishii：I would like to increase Nikko's visibility in Asia as a company that holds the top market share. I would like to discuss the PR activities overseas, leveraging my experience of gaining many followers on social media in Indonesia where I used to work as the ambassador. Increased visibility will also contribute to local recruitment and sales activities.

Saeki：When there are too many meetings, there are many things to report, and working hours tend to get longer. I would like to consider increasing the productivity by improving the operational process using IT. Nikko is not very well-known even in Hyogo Prefecture although it has a history spanning a century and holds the top market share in the industry, so I would also like to give advice on strengthening communication to local society.

Discussion on Governance by Outside Directors

Two Independent Outside Directors discussed governance reform and sustainable creation of corporate value at Nikko under the following four themes.

Themes of discussion

1.Issues that surfaced due to the pandemic
2.Demonstration of function of the Board of Directors
3.Efforts for sustainability issues
4.Investment in intangible assets

●Date: August 6, 2021 ●Location: Conference room at the head office (Akashi City, Hyogo Prefecture)

Noriaki Nagahara
Independent Outside Director
(Appointed in June 2015)
Nomination and Remuneration Committee member

Tsutomu Yuasa
Independent Outside Director
(Appointed in June 2016)
Nomination and Remuneration Committee member

Issues that surfaced due to the pandemic

Nagahara: The COVID-19 pandemic has been affecting corporate management. Rapid changes in society bring forth new business opportunities, but if we lack the speed to respond to changes, we risk being eliminated. What are your thoughts on the issues that surfaced for Nikko?

Yuasa: Nikko's business holds a high and stable market share, so the direct impact of the pandemic was small. However, as the world moves at a faster speed, we need to accelerate the decision-making for growth. For Nikko, there are several ways of sustainable growth. One is to expand the existing businesses overseas, and second is to review the business portfolio. Nikko has shifted its major business from civil engineering tools to construction machinery in the 1960s. At that time Nikko reformed its business on its own by introducing technology from overseas, but today M&A is the effective option to save time and acquire technology and customer base. To make decisive judgement, it is important to share clear M&A guidelines, such as what to acquire in which field, at the Board of Directors.

Nagahara: Nikko is conducting research on M&A, and it is increasingly discussed at the Board of Directors Meetings. M&A is a strategic weapon to create corporate value, but it can also become a poison that destroys corporate value. As a lawyer, I often join discussion from viewpoints of the business judgement rule, internal controls, and compliance, but passive advice alone may make the company miss opportunities, so I make sure to encourage the management if it is a good opportunity.

Yuasa: To make M&A successful, it is crucial to invest in the most suited company at the right time, and the quality of human resources dispatched from Nikko is extremely important. A pool of human resources that can manage the acquired company should also be expanded systematically.

Demonstration of function of the Board of Directors

Nagahara: As the Board of Directors is expected to demonstrate its function, Nikko established the Nomination and Remuneration Committee in January this year, and two Outside Directors were newly appointed in June. I think the monitoring function, expertise, and gender diversity have improved.

Yuasa: Three Outside Audit & Supervisory Board Members join the discussion in addition to the four Outside Audit & Supervisory Board Members, so the ratio of outside officers at the Board of Directors is now over 50%. I expect this to improve both diversity and transparency. How should Outside Directors engage in the Nomination and Remuneration Committee?

Nagahara: Outside Directors can guarantee objectivity by joining discussion on remuneration and successors as committee members. We should also discuss remuneration from the perspective of contributing to sustainable value creation, such as designing a system to raise the incentives.

Yuasa: Involvement of third parties in the successor nomination process makes personnel selection more legitimate and convincing. At the same time, the responsibility of Outside Directors becomes heavier. As the expression " Management is its people" suggests, they are also required to actively engage in developing the character of the next generation of management staff.

Nagahara: I think that one of issues at the Nomination Committee is how to share the objective evaluation of executive officers and managers, who are candidates for the position of Directors, between the executive departments and Outside Directors. We should deepen discussion, including the topic of developing the next generation of management staff.

Yuasa: What are your thoughts on the topics of deliberation and time schedule at the Board of Directors Meetings?

Nagahara: I think they have been steadily improving since we started evaluating the effectiveness of the Board of Directors. Before we introduced the evaluation, there were many reports from the executive departments, and time for deliberation was often insufficient. But today, sufficient time is secured for the meetings, and the topics of discussion are selected according to their importance. Documents regarding the topics of deliberation, distributed to outside officers before the meetings, have also been improved, but there is room for improving the timing and method of distribution.

Efforts for sustainability issues

Yuasa: From my personal view of the problem, I think the Board of Directors should fully discuss the personnel evaluation system that motivates the employees, DX-driven operational reform, as well as their PDCA, because they contribute to improving the productivity. For a stably growing company, improvement of productivity becomes a driver for better profitability.

Nagahara: Nikko's business is originally of social nature, so Nikko has been actively contributing to reducing environmental impacts and developing a recycling-oriented society. Nikko is also developing products aimed at decarbonization. It is a big challenge, but there will be more business opportunities if we can solve this issue, so we would like to carefully monitor it along with its risk factors at the Board of Directors.

Yuasa: DX-driven preemptive maintenance will also help solve social issues. Regarding efforts to solve sustainability issues such as decarbonization and DX, I expect specific long-term plans and progress to be reported. I think that clear indication of PDCA will deepen the understanding of outside officers and allow them to monitor and give advice more effectively.

Investment in intangible assets

Nagahara: Investment in intangible assets and their use are indispensable to sustainable creation of corporate value. What are your thoughts on investment in human resources and intellectual properties?

Yuasa: Investment in human capital should be considered with priority on improvement of employees' motivation. Productivity of a company where many employees are highly motivated is naturally high. Nikko has a long history and corporate climate that values harmony, but I wonder if that is truly adequate in this era of innovation. I think it is now the time to adopt flexible operation such as nurturing outstanding employees and appointing them to managerial positions early.

Nagahara: As we discuss development of the next generation of management staff at the Nomination Committee, we need to think about investment in the next generation of human capital, including the personnel system, from a long-term perspective. I think Nikko has been striving to keep excellent talent who will bear the future of the company by introducing the incentive system under which the company's shares are given as the President award to employees who contribute greatly to the company's development every year.

Yuasa: In addition to investment in human capital, expansion of diversity is an urgent issue. The number of new female graduates recruited is increasing, and gender diversity and promotion of DX are closely related. As DX transforms the operation, women will be able to play an active role in workplaces so far limited to men. I hope the operational reform of the maintenance business will expand the fields where women can play an active role.

Nagahara: What do you think about actively communicating goals and indicators of personnel development and diversity externally? If the quantitative goals are clear, discussion on the progress and issues will deepen, And the company can appeal to both the capital market and labor market, so its visibility may increase.

Yuasa: Diversity in the workplaces is improving as the number of mid-career recruits increases. To allow mid-career recruits to remain motivated at work, the personnel system built on the traditional recruitment of new graduates can be inadequate. At Nikko there are executives who were mid-career recruits, so I hope their insight will help.

Nagahara: It may be good to consider carrying out an employee satisfaction survey. If we can find out what employees thinks of the company by gender, age, recruitment type, and field of work as data, we may be able to discuss flexible human resource operation in a specific manner.

Yuasa: Revision and operation of the personnel and salary systems are important, but the most important is communication from the seniors. In my previous work, I made sure to casually talk to sales staff on site, and it produced a great response as they were happy that I, the President of the Kobe head office, talked to them. Words and actions of the management have a great impact on the motivation on site, so I hope Nikko will work on it further.

Nagahara: In addition to human capital, it is important to invest in intellectual capital. There are reports of obtained patents at the Board of Directors Meetings, and I think strategic management of intellectual properties, or how to link them to corporate value, is an issue that should be addressed.

Yuasa: As we conduct joint research projects with multiple universities, when there are good ideas, we can also engage further to increase the capital provided or deepen human interactions. Technological innovation is a crucial condition for realizing decarbonized society, and the importance of intellectual properties will increase even more in the future. As Nikko has solid financial power, I would like to encourage the executive departments to plant seeds by investing in R&D, etc.

Nagahara: Two new Outside Directors joined this year, strengthening the function of the Board of Directors. We will continue our endeavor to respond to expectations of the stakeholders, in cooperation with the executive departments.

Yuasa: Nikko has its challenges but also strong potential to solve social issues through its business. I would like to contribute to bringing out that power to the fullest.

Executives

Directors

Takahisa Nishikawa

Born on March 31, 1959

April 1982	Joined Nikko Co., Ltd.
June 2007	Executive Officer, Nikko Co., Ltd.
June 2008	Director, Nikko Co., Ltd.
June 2011	Managing Director, Nikko Co., Ltd.
June 2012	Representative Director and President, Nikko Co., Ltd.
April 2019	Representative Director and Chairman, Nikko Co., Ltd.
June 2021	Representative Director and Chairman, Nikko Co., Ltd. (current) Affiliates in-charge and General Manager of Manufacturing Division (current)

Shareholding in the Company 114,000 shares

Masaru Tsuji

Born on June 4, 1960

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

Shareholding in the Company 97,300 shares

Hiroshi Fujii

Born on January 16, 1959

April 1982	Joined Taiyo-Kobe Bank Limited (current Sumitomo Mitsui Banking Corporation)
April 2009	Manager of Kansai Corporate Solution Sales Department, SMBC Consulting Co., Ltd.
June 2011	Director, Nikko Co., Ltd. Manager of Financial Department, Nikko Co., Ltd.
June 2015	Manager of Financial Department and Legal Affairs and Information Center in-charge, Nikko Co., Ltd.
June 2018	Managing Director, Nikko Co., Ltd. General Manager of Financial Division of Nikko Co., Ltd.
April 2020	General Manager of Financial Division and Security Export Control in-charge, Nikko Co., Ltd.
April 2021	General Manager of Management Division, Manager of Financial Department, and Security Export Control in-charge, Nikko Co., Ltd.
May 2021	General Manager of Management Division and Security Export Control in-charge, Nikko Co., Ltd.
June 2021	Senior Managing Director, Nikko Co., Ltd. (current)

<Important concurrent position>
Representative Director and President, Nikko Kosan Co., Ltd.
Representative Director and President, Nikko Baumaschinen GmbH
Shareholding in the Company 57,400 shares

Tomomi Nakayama

Born on January 10, 1963

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

Shareholding in the Company 35,860 shares

Minoru Tanaka

Born on December 18, 1960

April 1981	Joined Nikko Co., Ltd.
October 2007	Branch Manager of Tohoku Branch, Nikko Co., Ltd.
April 2010	Director of Tokyo Service Center, Nikko Co., Ltd.
June 2012	Executive Officer, Nikko Co., Ltd. Manager, Service Planning Department, Nikko Co., Ltd. (current)
June 2019	Senior Executive Officer, Nikko Co., Ltd.
June 2021	Director, Nikko Co., Ltd. (current)

<Important concurrent position>
Representative Director and President,
Nikko Electronics Co., Ltd.
Shareholding in the Company 32,500 shares

Noriaki Nagahara

(Outside/Independent)

Born on July 18, 1951

April 1984	Certified as attorney Joined Harada Law Office
October 1988	Succeeded Harada Law Office
January 2007	Established Kobe Jugobankan Law Firm and became Director (current).
June 2007	Outside Audit & Supervisory Board Member, Nikko Co., Ltd.
June 2015	Outside Director, Nikko Co., Ltd. (current)

<Important concurrent position>
Director, Kobe Jugobankan Law Firm
Shareholding in the Company None

Tsutomu Yuasa

(Outside/Independent)

Born on June 27, 1946

April 1970	Joined Matsushita Electric Industrial Co., Ltd. (current Panasonic Corporation)
April 2002	Joined Rock Field Co., Ltd.
July 2002	Director, Rock Field Co., Ltd.
July 2005	Managing Director, Rock Field Co., Ltd.
July 2008	Senior Representative Managing Director, Rock Field Co., Ltd.
July 2014	Vice-Chairman of the Board of Directors, Rock Field Co., Ltd.
June 2016	Outside Director, Nikko Co., Ltd. (current)

Shareholding in the Company 5,000 shares

Masafumi Ishii

(Outside/Independent)

Born on November 3, 1957

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

Shareholding in the Company None

Rika Saeki

(Outside/Independent)

Born on February 27, 1961

April 2002	Established Usystem Limited (current Usystem Co., Ltd.) Representative Director and President, Usystem Co., Ltd. (current)
June 2021	OutsideDirector, Nikko Co., Ltd. (current)

<Important concurrent position>
Representative Director and President, Usystem Co., Ltd.
Shareholding in the Company None

Audit & Supervisory Board Member

Nobutaka Yasuda (full-time)

Born on September 27, 1959

April 1982	Joined Nikko Co., Ltd.
June 2011	Executive Officer, Nikko Co., Ltd.
January 2012	Manager of Batching Plant (BP) Business Department, Nikko Co., Ltd.
June 2013	Manager of Business Planning Department, Nikko Co., Ltd.
April 2014	General Manager of the Tokyo Head Office and Manager of Business Planning Department
April 2016	Internal Control in-charge
June 2016	Audit & Supervisory Board Member
June 2019	Standing Audit & Supervisory Board Member, Nikko Co., Ltd. (full-time) (current)

Shareholding in the Company 37,000 shares

Shigeru Sadakari (Outside/Independent)

Born on September 22, 1957

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

Shareholding in the Company None

Naoki Ota (Outside/Independent)

Born on March 1, 1955

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

<Important concurrent position>
Shareholding in the Company None

Tsuyoshi Fukui (Outside/Independent)

Born on July 24, 1965

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

Shareholding in the Company None

Executive Officer

Masao Natori **Senior Executive Officer**

Born on May 22, 1961

April 1984	Joined Nikko Co., Ltd.
November 2007	Director of R&D Center, Nikko Co., Ltd.
June 2008	Executive Officer and Director of R&D Center, Nikko Co., Ltd.
April 2010	Executive Officer and Manager of Engineering Department, Nikko Co., Ltd.
April 2012	Manager of Engineering Department and Manager of Cost Management Department, Nikko Co., Ltd.
June 2012	Executive Officer, Deputy General Manager of Technology Division, and Manager of Technology Department, Nikko Co., Ltd.
April 2016	Executive Officer, Manager of Corporate Planning Department, Manager of General Affairs Department, and Manager of Cost Management Department, Nikko Co., Ltd.
June 2019	Executive Officer, Manager of General Affairs Department, and Manager of Cost Management Department, Nikko Co., Ltd.
March 2020	Executive Officer, Manager of Corporate Planning Department, Manager of General Affairs Department, and Manager of Cost Management Department, Nikko Co., Ltd.
June 2021	Senior Executive Officer Manager of General Affairs Department, Manager of Cost Management Department, and Head of First-Class Architect Office of Technology Division, Nikko Co., Ltd. (current)

Kazuhiro Yamada **Executive Officer**

Born on December 16, 1970

April 1995	Joined Nikko Co., Ltd.
April 2008	Promoted to managerial position in Business Development Promotion Office, Nikko, Co., Ltd.
April 2008	(Transfer) Representative Director and President, Maekawa Kogyosho Co., Ltd.
April 2019	Manager of Head Office Factory, Manufacturing Division, Nikko Co., Ltd.
October 2019	Manager of Head Office Factory, Manufacturing Division, and General Manager of Manufacturing Technology Office, Nikko Co., Ltd.
April 2020	Manager of Head Office Factory, Manufacturing Division, General Manager of Manufacturing Technology Office, and General Manager of Quality Assurance Office, Nikko Co., Ltd.
June 2020	Executive Officer, Manager of Head Office Factory, Manufacturing Division, General Manager of Manufacturing Technology Office, General Manager of Quality Assurance Office, Nikko Co., Ltd., and Representative Director and President, Maekawa Kogyosho Co., Ltd.

Katsuhiro Kawamura **Executive Officer**

Born on February 26, 1968

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

Morie Okaaki **Senior Executive Officer**

Born on November 2, 1963

April 1986	Joined Nikko Co., Ltd.
April 2004	Manager of Kitakanto Sales Office, Nikko Co., Ltd.
January 2007	Manager of BP Business Department, Nikko Co., Ltd.
April 2009	Manager of BP Business Department and Business Expansion Promotion Team, Nikko Co., Ltd.
April 2010	Manager of BP Business Department, and Conveyance & Environmental Business Department, Special Environment Sales Section, Conveyance Sales Department, Nikko Co., Ltd.
July 2013	Manager of BP Sales Management Department, Nikko Co., Ltd.
April 2016	Manager of BP Sales Management Department, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center, Nikko Co., Ltd.
June 2016	Executive Officer, Manager of BP Sales Management Department, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center, Nikko Co., Ltd.
April 2017	Executive Officer, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center, Nikko Co., Ltd.
April 2019	Executive Officer and Manager of Industrial Machinery Sales Management Department, Nikko Co., Ltd.
June 2021	Manager, Industrial Machinery Sales Management Department (current)

Koichi Kawakami **Executive Officer**

Born on July 8, 1965

December 1988	Joined Nikko Co., Ltd.
March 2003	General Manager of Corporate Planning Office, Administrative Division
April 2007	(Transfer) Representative Director and President, Nikko Diacrete Co., Ltd.
April 2010	(Reinstatement) General Manager of International Planning Office, International Business Department
May 2012	General Manager of International Planning Office, International Business Department, and (Dispatch) Vice President, Shantui Nikko Construction Machinery Co., Ltd.
October 2014	General Manager of General Affairs Office, General Affairs Department
April 2018	Branch Manager of Chubu Branch
April 2021	General Manager of President Office and General Manager of Quality Assurance Office
June 2021	Executive Officer, General Manager of President Office, and General Manager of Quality Assurance Office (current)

Takeshi Sone **Executive Officer**

Born on February 25, 1970

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

Toyokazu Uehara **Executive Officer**

Born on July 3, 1969

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

FY 2020 Business Summary and FY 2021 Outlook

Business environment in FY 2020

In FY 2020, global economy slowed down against the backdrop of lockdowns around the world and infection prevention measures put in place by the state of emergency in Japan due to the spread of COVID-19. Into the latter half of the year, while there have been heightening expectations for the pandemic subsiding due to the rise in the vaccination rate and economic activities restarting, unforeseeable situations persist with the risk of another wave of infections due to the variants. Under these circumstances, Japan's construction-related industry, which has strong bearing on our group business, remained on a solid ground despite the impact of suspension or postponement of construction works in private construction sites and curbing of new investments, partly due to the government investment of over 20 trillion yen in construction. We expect the impact of COVID-19 on Japan's construction-related industry to remain small in the future;

however, the price of asphalt and various other materials is rising, and we will monitor future capital investment trends more closely than ever.

Business performance in FY 2020

In FY 2020, new orders increased 18.1% year on year to 40.009 billion yen, and net sales rose 7.7% year on year to 37.866 billion yen. The adverse impact of COVID-19 was expected, but all of our four businesses recorded higher new orders than the previous year. Net sales decreased in the Environment- and Conveyor-Related Business which was affected by a drop in the facility operation rate at the users', but increased in other three businesses mainly in Japan. As a result, the BB ratio, which is the ratio of new orders received to net sales, was 1.06, and the order backlog at the end of the fiscal year increased 2.142 billion yen year on year to 14.361 billion yen (about 4.6 months' worth of monthly sales). Operating income increased 12.1% year on year to 2.302 billion yen, and operating margin improved 0.2 pt year on year to 6.0%. While increased revenue boosted profit, sales and administrative expenses of the Thai subsidiary incurred from this fiscal year led to a decrease in profit. Ordinary income increased 38.8% year on year to 2.973 billion yen, including the special dividends of 340 million yen from Maeda Road Construction Co., Ltd. and development subsidies of 50 million yen. Net income attributable to owners of parent increased 31.1% year on year to 2.082 billion yen.

FY 2020 was the second year of the three-year Medium-Term Management Plan, and net sales exceeded the target of 36.5 billion yen and reached 37.8 billion yen. This was mainly due to the fact that net sales of the new businesses such as the mobile plant business and waterproof board business exceeded the target, and net sales of maintenance services in Japan are growing steadily. On the other hand, operating income remained at 2.3 billion yen against the target of 2.6 billion yen, and issues remain in terms of profit. In particular, operating margin of the Asphalt Plant-Related Business, which is our main business, remained the same level as the previous year at 6.4% despite an increase in sales, due to the rise in the price of materials, expenses for developing overseas bases, and recording of sales of unprofitable deals.

Regarding shareholder returns, the dividend of 33 yen per share (mid-term dividend of 18 yen and year-end dividend of 15 yen) was paid under the dividend payout ratio of 60.5% to net income attributable to owners of parent of 2.082 billion yen (profit of 54.3 yen per share). It is a decrease of 7 yen compared to FY 2019 when the dividend per share was 40 yen including a 100th anniversary dividend of 20 yen (mid-term dividend of 10 yen and year-end dividend of 10 yen), but the actual dividend per share excluding the anniversary dividend increased from 20 yen to 33 yen. Total return ratio including 400 million yen in treasury stock acquisition (acquisition of 616,700 shares completed on September 17, 2020) came to 79.7%.

Business overview by segment

In FY 2020, the AP Business recorded new orders of 20.279 billion yen, up 25.6% year on year, and net sales of 19.467 billion yen, up 11.1% year on year. Major road paving companies in Japan are maintaining favorable business results and are highly motivated for capital investment. While net sales of the Asphalt Plant-Related Business in Japan increased 30.1% year on year for products and 13.6% for Maintenance Service Business, exports decreased 72.0% and net sales in China decreased 3.5%. Operating income increased 10.8% year on year to 1.239 billion yen, but operating margin remained the same as the previous year at 6.4%, lower than the medium-term target of 9.0%. This was mainly due to the increased prior investment in Nikko Asia (Thailand) Co., Ltd. established in Thailand in FY 2019 as part of one of our five long-term (10 years) basic policies to set up bases in the ASEAN region and double the overseas sales from current 4.5 billion yen to 9 billion yen. When prior investment in the Thai factory is excluded, operating margin slightly improves compared to the previous year.

The BP Business recorded new orders of 9.961 billion yen, up 5.0% year on year, and net sales of 9.212 billion yen, up 0.6% year on year. Demand for replacing aging facilities is surfacing amid favorable business results due to an increase in the market price of ready-mix concrete. Net sales of plant products decreased 2.8% year on year, but net sales of well-selling maintenance services recorded a steady increase of 6.5% year on year. Therefore, operating income increased 15.5% year on year to 879 million yen, and operating margin improved 1.2 pt year on year to 9.5%, achieving the medium-term target of 9.0%.

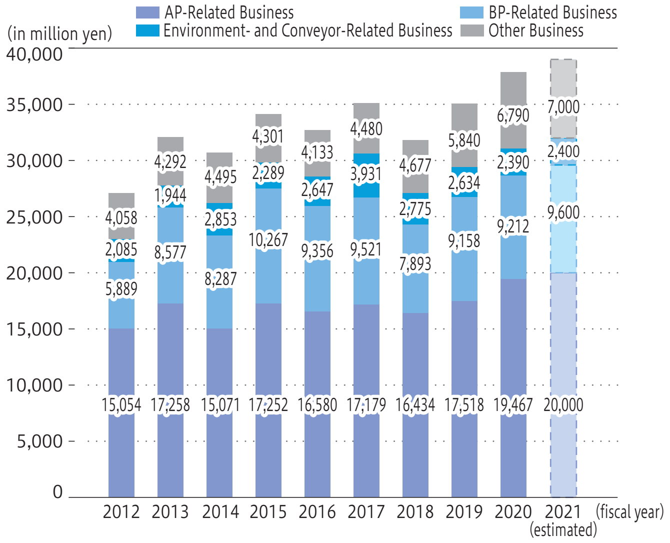
In the Environment- and Conveyor-Related Business, new orders largely increased 19.6% year on year to 2.875 billion yen, but net sales decreased 9.3% year on year to 2.390 billion yen. While orders increased due to special deals such as a JR deal of 320 million yen for conveyors for ballast stock yards and bullet train ballast replacement vehicles as well as a deal of 150 million yen for plaster-based solidification material manufacturing facilities, sales decreased due to factors such as slow sales activities by sales agents due to COVID-19, postponement or suspension of replacement works and a decline in demand for maintenance parts caused by a drop in the facility operation rate at users'. Therefore, operating income decreased 14.2% year on year to 482 million yen, and operating margin decreased 1.1 pt year on year to 20.2%. However, the operating margin target of 17.0% under the Medium-Term Management Plan was achieved.

In other businesses, new orders increased 16.7% year on year to 6.894 billion yen, and net sales increased 16.4% year on year to 6.790 million yen. Net sales of mobile plant products grew about 2.1 times year on year to 1.070 billion yen, and net sales of waterproof boards grew steadily to 900 million yen, up 11% year on year. Sales of wood chip storage and supply facilities for electric power companies also boosted net sales by about 400 million yen. Operating income increased 14.7% year on year to 1.170 billion yen, and operating margin was 17.2%, down 0.3 pt year on year but largely exceeding the medium-term target of 11.1%.

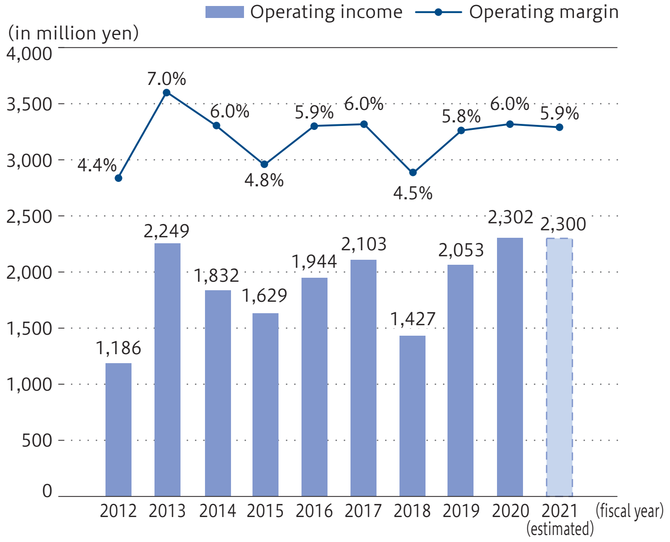
Net sales of Maintenance Service Business

One of Nikko's characteristics is the high net sales of maintenance services in the AP and BP Business. Our customers can remotely contact the Customer Support Center (CSC) to quickly identify malfunctioning areas. We can also provide quick repair since we have a streamlined system of producing from control panels to machinery. In FY 2020, total net sales of maintenance services in the AP and BP Business increased 11.4% year on year to 13.402 billion yen. In particular, sales of parts and remote maintenance contributed to increased sales. Net sales of maintenance services also account for 54.2% of net sales of the AP and BP Business in Japan. In FY 2021, we plan net sales of 13 billion yen, down 3.0% year on year.

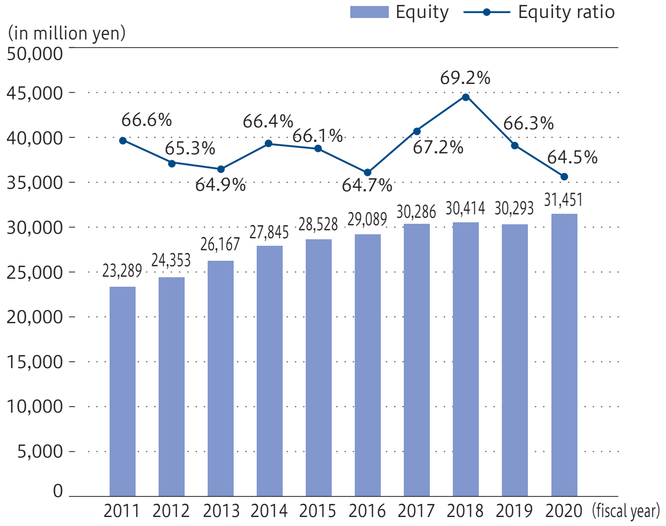
●Net sales by segment



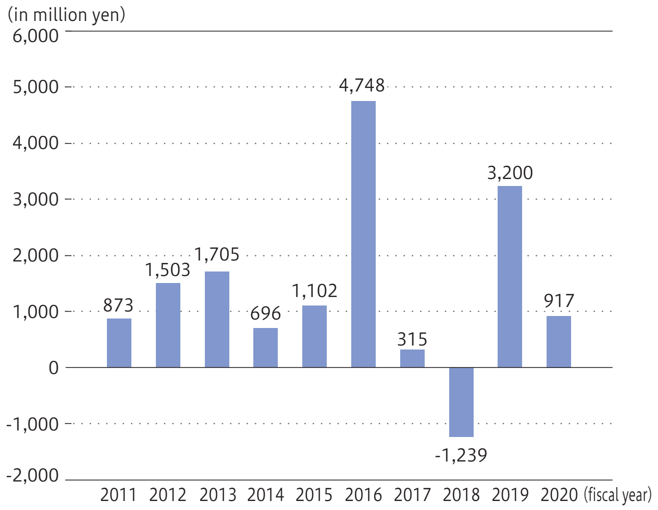
●Operating income and operating margin



●Equity and equity ratio



●Free cash flow



FY 2020 Business Summary and FY 2021 Outlook

ROE

ROE is set as our main KPI for capital efficiency. In the Medium-Term Management Plan, we aim at ROE of 5.8% in FY 2020 and 6.5% in FY2021. ROE remained around 5% until FY 2018, but improved 1.6 pt year on year to 6.8% in FY 2020, exceeding the target of 5.8%. Operating income increased year on year but did not reach the target in the Medium-Term Management Plan due to the AP Business not reaching the target as well as an increase in sales and administrative expenses. However, an increase in net income due to an increase in dividends income led to improved ROE. Acquisition of treasury stock of 616,700 shares (worth about 400 million yen) completed on September 17 also contributed to it.

Financial situation

Net assets as of the end of FY 2020 was 31.451 billion yen, and equity excluding non-controlling interests of 24 million yen was 31.427 billion yen, which resulted in equity ratio of 64.5% to total assets of 48.697 billion yen (66.3% as of the end of FY 2019). Equity ratio decreased for two years in a row after reaching the peak of 69.2% in FY 2018 but continues to remain at a high level. Current assets were 32.381 billion yen, and non-current assets were 16.315 billion yen. Main items that increased were notes and accounts receivable-trade of 10.530 billion yen, inventories of 7.2 billion yen, and property and equipment of 9.183 billion yen. Main items that decreased were cash and cash equivalents of 12.491 billion yen. Meanwhile, current liabilities were 14.418 billion yen, and long-term liabilities were 17.246 billion yen. Main items that increased were notes and accounts payable-trade of 2.591 billion yen, short-term loans payable of 2.188 billion yen, and down payments of 2.949 billion yen. Main items that decreased were accounts payable-factoring of 2.806 billion yen. Interest-bearing debts totaled 2.492 billion yen (1.787 billion yen as of the end of FY 2019), and net cash derived by substracting interest-bearing debts from cash and cash equivalents of 12.491 billion yen was 9.999 billion yen. For two years, we have been striving to receive 30% down payments at the time of concluding an AP deal to improve cash conversion cycle (CCC). Its effect is remarkable in the improved balance sheet.

Analysis of cash flows

Cash flows from operating activities in FY 2020 decreased 1.025 billion yen from FY 2019 to 2.784 billion yen. Main items that increased were net income before income taxes of 3.045 billion yen and increase in down payments of 1.281 billion yen. On the other hand, main items that decreased were income taxes paid of 1.105 billion yen, decrease in notes and accounts payable-trade of 627 million yen, decrease in interest income and dividends income of 548 million yen, and decrease in inventories of 359 million yen.

Cash flows from investing activities recorded payments of 1.867 billion yen. This was mainly due to the fact that, while purchase of property, plant and equipment, and intangible assets increased 1 billion yen year on year to 2.414 billion yen, proceeds from sales and redemption of investment securities due to sales of strategically-held shares of 579 million yen were recorded. As a result, free cash flow derived by subtracting investing cash flow from operating cash flow was 917 million yen, down 2.892 billion yen from 3.809 billion yen in FY 2019.

Cash flow from financing activities recorded payments of 1.129 billion yen. As opposed to proceeds such as increase in short-term loans payable of 550 million yen and increase in long-term loans payable of 140 million yen, there were payments such as acquisition of treasury stock of 402 million yen and cash dividends paid of 1.345 billion yen.

The balance of cash and cash equivalents at the end of FY 2020 was 12.444 billion yen, down 131 million yen year on year.

FY 2021 performance outlook

FY 2021 is the final year of the three-year Medium-Term Management Plan (targeting net sales of 38 billion yen, operating income of 3 billion yen, operating margin of 10%, and ROE of 6.5%). Nikko Group's main area of business is the construction-related industry, and the impact of COVID-19 is expected to be small in Japan. Overseas, active investment in new infrastructure is expected in China, our key market, along with full-scale use of recycled mixtures and tighter environmental regulations. In the ASEAN region, the market we focus on, construction of the new factory in Thailand is about two months behind the schedule, but new orders are recovering.

Under these circumstances, for FY 2021, we expect new orders of 41 billion yen, up 2.5% year on year, net sales of 39 billion yen, up 3.0% year on year, and operating income of 2.3 billion yen (operating margin of 5.9%), a slight decrease year on year. The decrease in operating income despite increased sales is mainly due to a decrease in net sales of well-selling maintenance services which fared well in FY 2020, as well as intentional increase in expenditures such as additional R&D expenses for further growth and depreciation and amortization due to increased capital investment. As for ordinary income, we expect cancellation of special dividends of 344 million yen, which will result in ordinary income of 2.5 billion yen, down 15.9% year on year, and net income attributable to owners of parent of 1.7 billion yen, down 18.3% year on year.

Due to the decrease in net income, the dividend per share for FY 2021 decreases 3 yen from 33 yen (medium-term dividend of 18 yen and year-end dividend of 15 yen) the previous year to 30 yen (medium-term dividend of 15 yen and year-end dividend of 15 yen). Our policy under the current Medium-Term Management Plan 2019–2021 is to maintain a dividend payout ratio of 60% or higher. We plan the dividend payout ratio of 67.5% for this fiscal year. We aim to continue active shareholder returns according to the business performance.

Analysis of factors contributing to changes in ordinary income

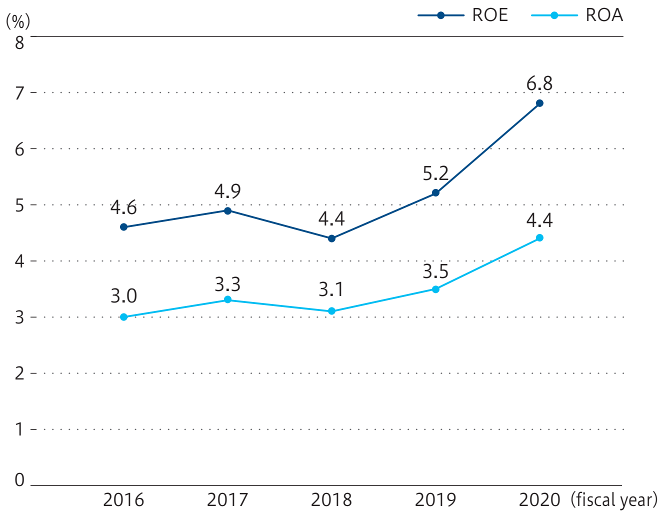
Ordinary income in FY 2020 increased 831 million yen year on year to 2.973 billion yen. The increase was mainly due to the increased sales of 745 million yen, special dividends of 344 million yen from Maeda Road Construction Co., Ltd., improvement of other non-operating profit and loss of 145 million yen, and effect of yen depreciation of 93 million yen. On the other hand, the decrease was mainly due to the decline in the cost rate of 192 million yen, the increase in sales and administrative expenses of 195 million yen, and loss of 108 million yen caused by establishment of the Thai business.

In FY 2021, we expect ordinary income of 2.5 billion yen, down 473 million yen year on year (down 15.9% year on year) despite an increase in sales. The effect of increased sales of 305 million yen will be the only factor of increase in profit, while increase of 300 million yen in R&D expenses related to the next generation of carbon- and environment-friendly products, cancellation of special dividends of 344 million yen, increase in depreciation and amortization of 70 million yen, increase of 59 million yen in other sales and administrative expenses, and decrease in the cost rate worth 5 million yen (the cost rate is expected to increase from 73.09% the previous year to 73.1%) are expected to cause decrease in profit. We plan to maintain R&D expenses at high levels in FY 2022 and onwards.

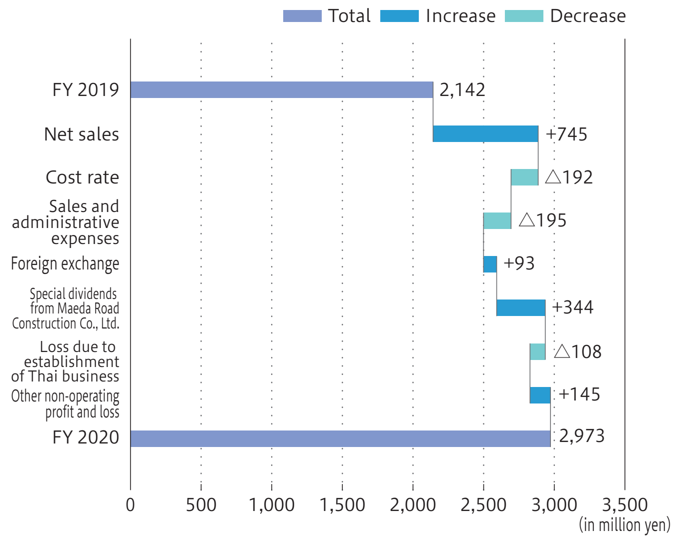
Outlook for Each Segment

In FY 2021, for the AP-Related Business, we expect net sales to grow by 2.7% year on year to 20 billion yen and operating income to remain flat at 1.25 billion yen. For the BP-Related Business, we expect net sales to grow by 4.2% year on year to 9.6 billion yen and operating income to decrease by 3.3% to 850 million yen. In the Environment- and Conveyor-Related Business, we expect net sales to remain flat at 2.4 billion yen and operating income to decrease by 6.6% to 450 million yen. In other businesses, we expect net sales to increase by 3.0% year on year to 7 billion yen and operating income to decrease by 1.7% to 1.15 billion yen.

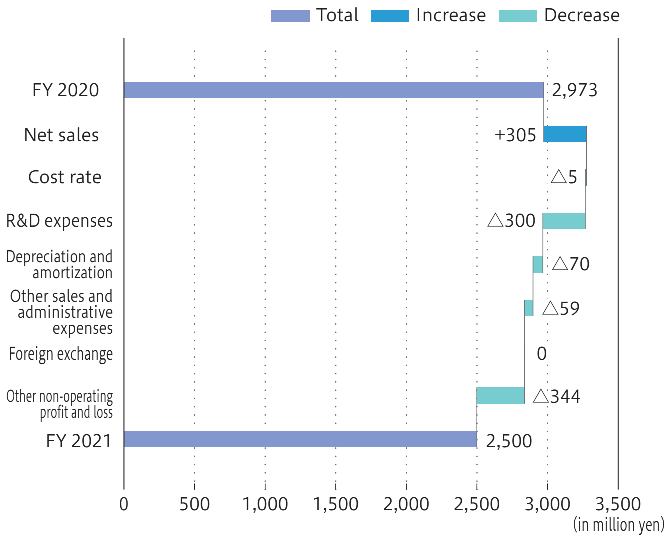
●Return on equity（ROE）/ Return on total assets（ROA）



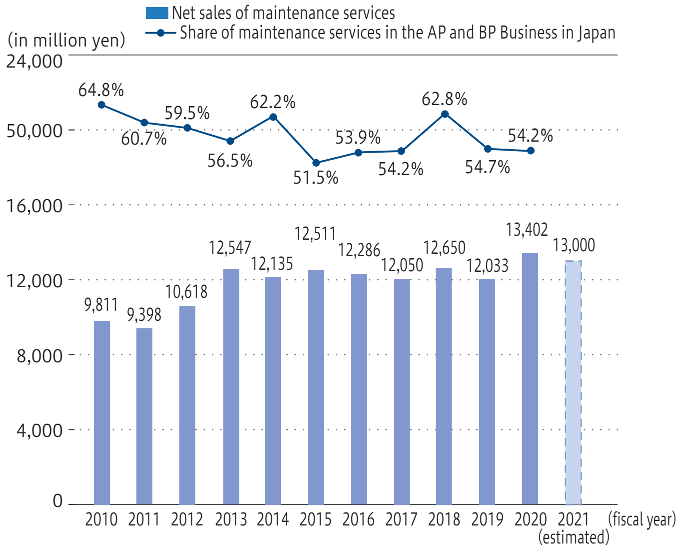
●Analysis of factors contributing to changes in ordinary income in FY 2020



●Analysis of factors contributing to changes in ordinary income in FY 2021



●Net sales and sales share of AP and BP maintenance services



Financial Data of the Past 10 Years

				2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (FY)
Key results		Net sales	(in million yen)	24,553	27,087	32,073	30,707	34,110	32,717	35,114	31,780	35,151	**37,866**
		Cost of sales	(in million yen)	18,590	20,175	23,736	22,683	25,825	24,131	26,301	23,485	25,512	**27,675**
		Gross profit	(in million yen)	5,962	6,911	8,337	8,024	8,285	8,586	8,812	8,295	9,639	**10,191**
		Selling, general and administrative expenses	(in million yen)	5,420	5,725	6,087	6,192	6,655	6,641	6,708	6,868	7,585	**7,889**
		Operating income	(in million yen)	541	1,186	2,249	1,832	1,629	1,944	2,103	1,427	2,053	**2,302**
		Ordinary income	(in million yen)	621	1,108	1,982	1,582	1,648	1,993	2,239	1,576	2,142	**2,973**
		Net income before income taxes	(in million yen)	542	1,228	1,987	1,800	2,940	1,878	2,299	1,933	2,440	**3,045**
		Net income attributable to owners of parent	(in million yen)	122	881	888	1,348	1,896	1,340	1,490	1,345	1,588	**2,082**
		Net income per share	(yen)	2.92	21.01	21.18	32.17	45.24	34.3	38.7	35.1	41.2	**54.3**
		Number of consolidated subsidiaries	(number)	9	8	8	8	8	8	8	8	9	**10**
		Number of affiliates accounted for using equity method	(number)	2	2	2	1	—	—	—	—	—	**—**
Profitability		Operating margin	(%)	2.2	4.4	7.0	6.0	4.8	5.9	6.0	4.5	5.8	**6.1**
		ROA	(%)	0.3	2.4	2.2	3.2	4.4	3.0	3.3	3.1	3.5	**4.3**
		ROE	(%)	0.5	3.6	3.4	4.8	6.6	4.6	4.9	4.4	5.2	**6.8**
Segment results		Japan	(in million yen)	22,464	24,823	29,403	27,881	31,130	29,761	31,148	27,941	30,761	**34,130**
		Overseas	(in million yen)	2,088	2,263	2,669	2,825	2,980	2,956	3,965	3,838	4,390	**3,735**
		China	(in million yen)	1,812	1,752	1,684	2,072	2,220	2,026	3,389	3,357	3,637	**3,509**
		Other business	(in million yen)	276	510	984	753	760	930	576	481	1,083	**226**
		Ratio of net sales outside Japan	(%)	8.5	8.4	8.3	9.2	8.7	9.0	11.3	12.1	12.5	**9.9**
	Net sales by business	Asphalt Plant-Related Business	(in million yen)	13,303	15,054	17,258	15,071	17,252	16,580	17,179	16,434	17,518	**19,467**
		Concrete Plant-Related Business	(in million yen)	4,719	5,889	8,577	8,287	10,267	9,356	9,521	7,893	9,158	**9,212**
		Environment- and Conveyor-Related Business	(in million yen)	2,521	2,085	1,944	2,853	2,289	2,647	3,931	2,775	2,634	**2,390**
		Other Business	(in million yen)	4,008	4,058	4,292	4,495	4,301	4,133	4,480	4,677	5,840	**6,796**
	Operating income (loss)	Asphalt Plant-Related Business	(in million yen)	896	1,492	2,125	1,214	1,234	1,253	1,348	963	1,118	**1,239**
		Concrete Plant-Related Business	(in million yen)	(39)	317	678	712	878	1,006	1,015	666	761	**879**
		Environment- and Conveyor-Related Business	(in million yen)	530	250	166	527	337	369	308	417	562	**482**
		Other Business	(in million yen)	(7)	59	388	451	277	417	462	502	1,020	**1,170**
		Amount after elimination of transactionsbetween segments	(in million yen)	—	—	—	—	—	—	—	—	—	**—**
		Corporate expenses	(in million yen)	(838)	(933)	(1,109)	(1,074)	(1,097)	(1,102)	(1,031)	(1,122)	(1,409)	**(1,469)**
Orders		Total new orders received	(in million yen)	26,169	26,564	33,915	34,500	33,284	34,134	33,616	35,103	33,915	**40,009**
		Total order backlog	(in million yen)	5,933	5,410	7,246	11,039	10,212	11,629	10,132	13,454	12,219	**14,361**
Financial position		Total assets	(in million yen)	34,989	37,278	40,348	41,964	43,189	44,976	44,876	43,969	45,677	**48,697**
		Equity	(in million yen)	23,289	24,353	26,167	27,845	28,528	29,089	30,286	30,414	30,293	**31,427**
		Interest-bearing debts	(in million yen)	2,840	2,849	2,212	2,206	2,362	1,987	1,799	1,718	1,787	**2,492**
		Equity ratio	(%)	66.6	65.3	64.9	66.4	66.1	64.7	67.2	69.2	66.3	**64.5**
		Net assets per share	(yen)	555.16	580.88	624.23	664.35	680.71	749.27	791.16	793.76	780.68	**823.01**
Dividends		Dividend per share	(yen)	6	7	7	9	10	11	12	12	40	**33**
		Total dividend	(in million yen)	251	293	293	376	418	426	458	459	1,550	**1,259**
		Dividend payout ratio	(%)	205.4	33.3	33.1	27.9	22.0	31.9	30.8	34.2	97.6	**60.5**
		Dividend on equity	(%)	1.1	1.2	1.1	1.4	1.5	1.5	1.5	1.5	5.1	**4.0**
Capital investment, etc.		Capital investment	(in million yen)	292	335	844	815	877	1,261	550	1,889	1,483	**2,748**
		Depreciation and amortization	(in million yen)	432	389	392	419	483	478	468	508	611	**677**
		R&D expenses	(in million yen)	239	256	295	276	227	271	291	211	379	**392**
		R&D expenses to net sales	(%)	0.97	0.95	0.92	0.90	0.67	0.83	0.83	0.66	1.08	**1.04**
Cash flows		Cash flow from operating activities	(in million yen)	574	2,457	2,641	1,001	(1,040)	5,064	274	(218)	3,839	**2,784**
		Cash flow from investing activities	(in million yen)	299	(954)	(936)	(305)	2,142	(316)	41	(1,021)	(639)	**(1,867)**
		Free cash flow	(in million yen)	873	1,503	1,705	696	1,102	4,748	315	(1,239)	3,200	**917**
		Term-end balance of cash and cash equivalents	(in million yen)	6,618	7,839	8,506	8,796	9,630	12,622	12,110	10,300	12,575	**12,444**

Financial Indicators of the Past Two Years

Consolidated Balance Sheets

(million yen)

Assets	2019	2020(FY)
Current assets		
Cash and cash equivalents	12,622	12,491
Notes and accounts receivable-trade	9,902	10,530
Electronically recorded monetary claims	1,709	1,477
Merchandise and finished goods	935	1,494
Work in process and partly-finished construction	4,473	4,236
Raw materials and supplies	1,237	1,470
Other business	560	685
Allowance for doubtful accounts	(14)	(5)
Total current assets	31,426	32,381
Non-current assets		
Property and equipment		
Buildings and structures (net)	3,495	3,839
Machinery, equipment and vehicles (net)	817	1,078
Tools, furniture and fixtures (net)	353	365
Land	2,472	3,205
Lease assets (net)	2	2
Right-of-use assets (net)	68	71
Construction in progress	152	619
Total property, plant and equipment	7,362	9,183
Intangible assets		
Other business	431	660
Total intangible assets	431	660
Investments and other assets		
Investment securities	4,341	4,528
Investments in capital	11	11
Long-term loans receivable	12	11
Deferred tax assets	953	792
Other business	1,287	1,259
Allowance for doubtful accounts	(150)	(131)
Total investments and other assets	6,456	6,472
Total non-current assets	14,250	16,315
Total assets	45,677	48,697

Liabilities	2019	2020(FY)
Current liabilities		
Notes and accounts payable-trade	2,430	2,591
Electronically recorded obligations	1,176	1,015
Accounts payable-factoring	3,427	2,806
Short-term loans payable	1,548	2,188
Income taxes payable	627	586
Accounts payable-other	538	765
Down payments	1,600	2,949
Provision for bonuses	415	531
Provision for directors' bonuses	65	76
Provision for loss on order received	54	126
Other business	2,260	782
Total current liabilities	12,545	14,418
Long-term liabilities		
Long-term loans payable	239	304
Deferred tax liabilities	5	5
Provision for directors' retirement benefits	145	170
Retirement benefit-related liabilities	2,089	1,995
Other business	358	351
Total non-current liabilities	2,838	2,827
Total liabilities	15,383	17,246

Net assets	2019	2020(FY)
Shareholders' equity		
Capital stock	9,197	9,197
Capital surplus	7,918	7,926
Retained earnings	12,632	13,366
Treasury stock	(420)	(805)
Total shareholders' equity	29,328	29,685
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,119	1,592
Foreign currency translation adjustment	55	264
Accumulated retirement benefit-related adjustment	(235)	(114)
Total accumulated othercomprehensive income	939	1,742
Non-controlling interests	25	24
Total net assets	30,293	31,451
Total liabilities and net assets	45,677	48,697

Consolidated Statements of Income

(million yen)

	2019	2020 (fiscal year)
Net sales	35,151	37,866
Cost of sales	25,512	27,675
Gross profit	9,639	10,191
Selling, general and administrative expenses	7,585	7,889
Operating income	2,053	2,302
Non-operating income		
Interest income	2	2
Dividends income	139	546
Insurance income	31	30
Foreign exchange gains	–	56
Other business	63	164
Total non-operating income	236	800
Non-operating expenses		
Interest expenses	46	37
Loss on disposal of non-current assets	22	12
Foreign exchange losses	36	–
Compensation for damage	24	64
Other business	18	15
Total non-operating expenses	147	129
Ordinary income	2,142	2,973
Extraordinary income		
Gain on sales of investment securities	468	152
Gain on sales of non-current assets	23	–
Insurance proceeds from disaster	53	–
Total extraordinary income	545	152
Extraordinary loss		
100 anniversary program cost	119	–
Loss on sales of investment securities	19	69
Loss on valuation of investment securities	76	10
Loss on disaster	–	–
Impairment loss	32	–
Total extraordinary loss	247	79
Net income before income taxes	2,440	3,045
Income taxes-current	969	1,057
Income taxes-deferred	(117)	(94)
Total income taxes	852	963
Net income	1,588	2,082
Net income attributable to owners of parent	1,588	2,082

Consolidated Statements of Comprehensive Income

(million yen)

	2019	2020 (fiscal year)
Net income	1,588	2,082
Other comprehensive income		
Valuation difference on available-for-sale securities	(891)	473
Foreign currency translation adjustment	(108)	209
Retirement benefit-related adjustment	3	120
Total other comprehensive income	(996)	802
Comprehensive income	592	2,885
(Breakdown)		
Comprehensive income attributable to owners of the parent	592	2,884
Comprehensive income attributable to non-controlling interests	0	1

Financial Indicators of the Past Two Years

Consolidated Statements of Cash Flows

(million yen)

	2019	2020 (fiscal year)
Cash flow from operating activities		
Net income before income taxes	2,440	**3,045**
Depreciation and amortization	611	**677**
Impairment loss	32	**–**
Increase (decrease) in allowance for doubtful accounts	5	**(27)**
Increase (decrease) in retirement benefit-related adjustment	82	**80**
Increase (decrease) in provision for directors' retirement benefits	10	**24**
Interest and dividends income	(141)	**(548)**
Interest expenses	46	**37**
Foreign exchange losses (gains)	15	**(19)**
Loss (gain) on sales and valuation of investment securities	(373)	**(72)**
Loss (gain) on sales of property, plant and equipment	(23)	**–**
Decrease (increase) in notes and accounts receivable-trade	686	**(300)**
Decrease (increase) in inventories	(687)	**(359)**
Increase (decrease) in notes and accounts payable-trade	1,317	**(627)**
Increase (decrease) in down payments	(42)	**1,281**
Insurance proceeds from disaster	(53)	**–**
Other business	491	**187**
Subtotal	4,460	**3,377**
Interest and dividends income received	141	**548**
Interest expenses paid	(46)	**(37)**
Proceeds from insurance income from disaster	53	**–**
Income taxes paid	(769)	**(1,105)**
Cash flow from operating activities	3,839	**2,784**
Cash flow from investing activities		
Payments into time deposits	(47)	**(47)**
Proceeds from withdrawal of time deposits	47	**47**
Purchase of investment securities	(11)	**(14)**
Proceeds from sales and redemption of investment securities	772	**579**
Purchase of property, plant and equipment and intangible assets	(1,393)	**(2,414)**
Payments of loans receivable	(8)	**(2)**
Collection of loans receivable	2	**2**
Other business	–	**(18)**
Cash flow from investing activities	(639)	**(1,867)**
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	45	**550**
Proceeds from long-term loans payable	100	**140**
Repayment of long-term loans payable	(36)	**(70)**
Purchase of treasury stock	(0)	**(402)**
Proceeds from stock issuance to non-controlling shareholders	25	**–**
Repayments of finance lease obligations	(0)	**(0)**
Cash dividends paid	(1,002)	**(1,345)**
Cash flows from financing activities	(868)	**(1,129)**
Effect of exchange rate changes on cash and cash equivalents	(55)	**80**
Net increase (decrease) in cash and cash equivalents	2,275	**(131)**
Cash and cash equivalents at beginning of year	10,300	**12,575**
Cash and cash equivalents at end of year	12,575	**12,444**

Stock Information

Stock overview (as of March 31, 2021)

Stock listing	Tokyo Stock Exchange (first section)
TSE code	6306
State of issuance	Total number of shares authorized for issuance: 150,000,000 Total number of outstanding shares: 40,000,000 (including 1,814,260 treasury shares)
Number of share units	100 shares
Number of shareholders	10,178
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212
Fiscal year	From April 1 to March 31
Ordinary General Shareholders' Meeting	June

Registration deadline for year-end dividend payment: March 31

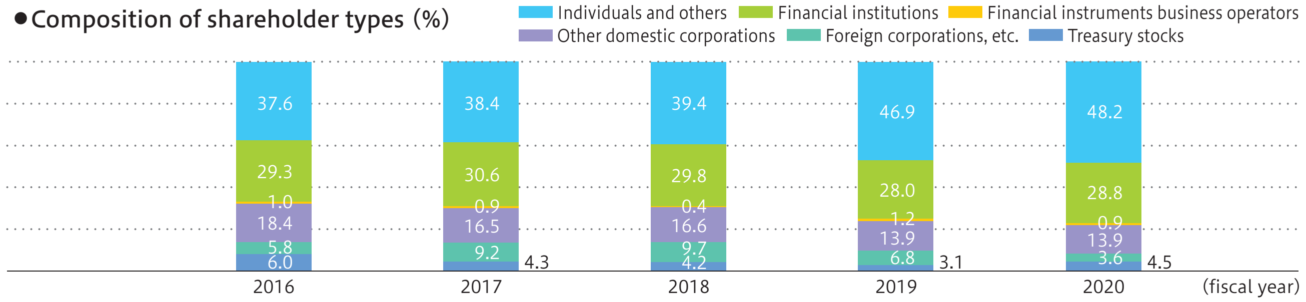
Registration deadline for interim dividend payment: September 30

Major shareholders (top 10)

Name	Number of shares held (in 10,000)	Shareholding ratio (%)
Nikko Trading-Partner Shareholding Association	567	14.9
The Master Trust Bank of Japan, Ltd. (trust account)	259	6.8
Nikko Employees' Shareholding Association	175	4.6
Custody Bank of Japan, Ltd. (trust account)	133	3.5
Sumitomo Mitsui Banking Corporation	120	3.2
Nippon Life Insurance Company	85	2.2
Sumitomo Life Insurance Company	74	2.0
The Hyakujushi Bank, Ltd.	68	1.8
Meiji Yasuda Life Insurance Company	64	1.7
Yasumitsu Shigeta	63	1.7

(Note) Numbers of shares are rounded down to the nearest 10,000 shares.

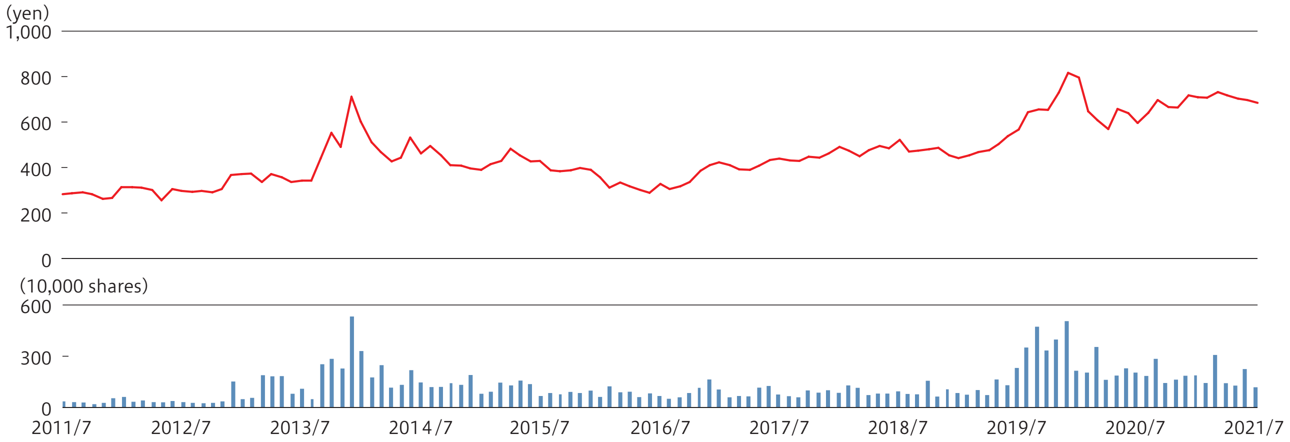
● Composition of shareholder types (%)



● Stock performance analysis (TSR: total shareholder return, %)

Period held	1 year (3/31/20-3/31/21)	3 years (3/31/18-3/31/21)	5 years (3/31/16-3/31/21)
Nikko share price	**25.5%**	**82.0%**	**152.0%**
TOPIX	42.1%	22.2%	62.3%
Machinery index	59.9%	23.8%	89.6%

● Share prices and trading volume in the past 10 years (July 2011 – July 2021)



● Stock-related data

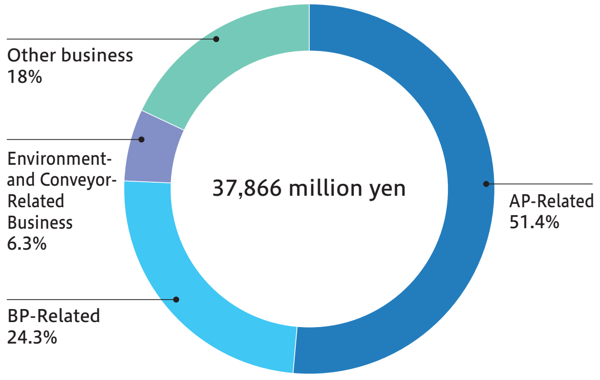
	2017/3	2018/3	2019/3	2020/3	2021/3
Year-end share price (yen)	403	462	481	609	731
PER (times)	11.7	11.9	13.7	14.8	13.5
PBR (times)	0.5	0.6	0.6	0.8	0.9
Year-end market cap (mil. yen)	16,120	18,472	19,256	24,360	29,240

Company Overview and Offices and Sites

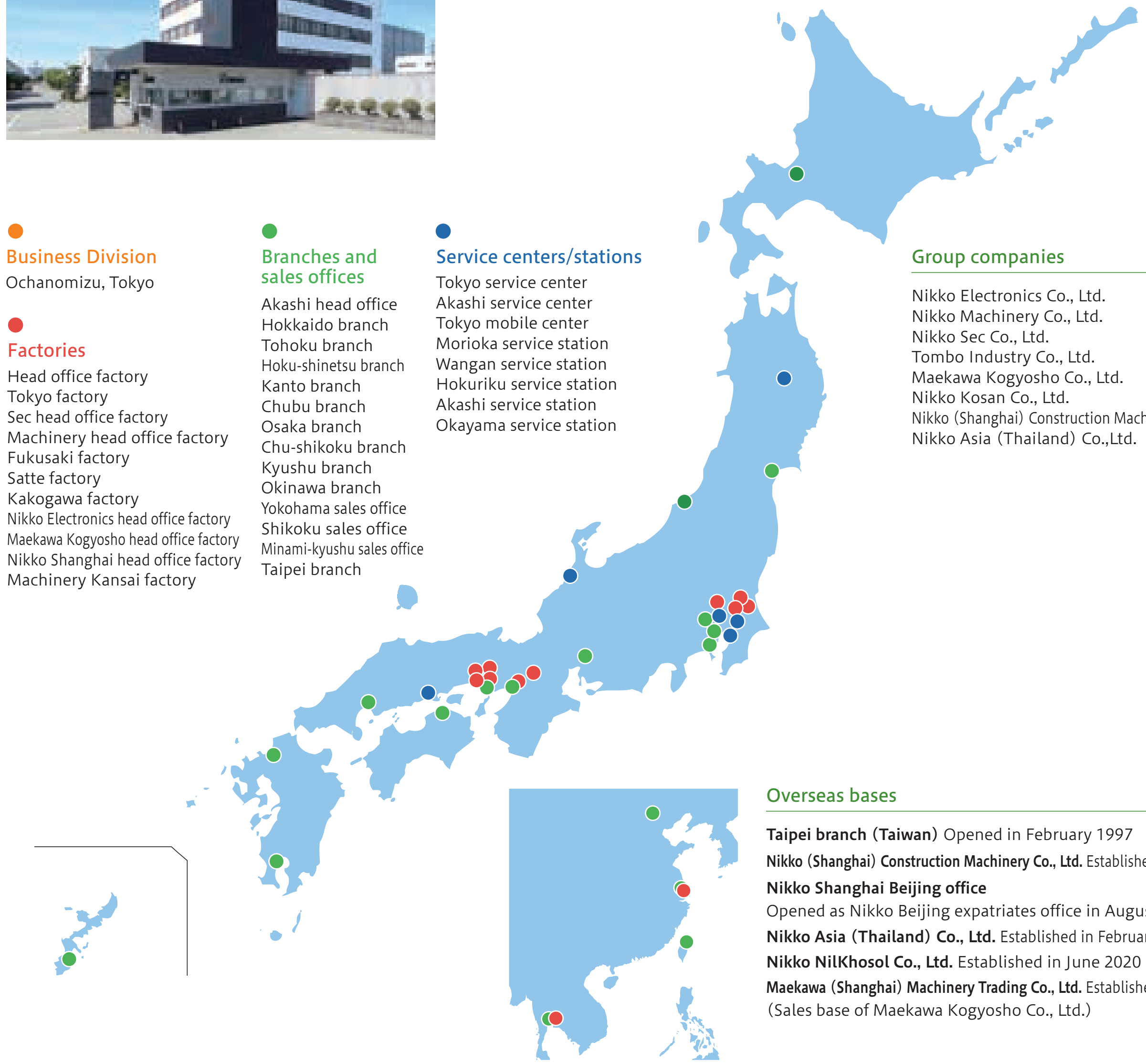
Company Overview (as of March 31, 2021)

Japanese name	日工株式会社
English name	Nikko Co.,Ltd
Head office address	1013-1, Eigashima, Okubo-cho, Akashi, Hyogo Prefecture 674-8585
Tel.	+81-78-947-3141
Representative	Masaru Tsuji, President and Representative Director
Established	August 13, 1919
Capital	9,197 million yen (as of March 31, 2021)
Number of employees (consolidated)	861 (as of March 31, 2021)
Number of factories	11 (including 1 overseas)
Business segments	Asphalt Plant-Related, Concrete Plant-Related, Environment- and Conveyor-Related, Other

●Net sales breakdown by business segment (FY 2020)



*AP: Asphalt plant
BP: (Concrete) batching plant



● **Business Division**

Ochanomizu, Tokyo

● **Factories**

Head office factory
Tokyo factory
Sec head office factory
Machinery head office factory
Fukusaki factory
Satte factory
Kakogawa factory
Nikko Electronics head office factory
Maekawa Kogyosho head office factory
Nikko Shanghai head office factory
Machinery Kansai factory

● **Branches and sales offices**

Akashi head office
Hokkaido branch
Tohoku branch
Hoku-shinetsu branch
Kanto branch
Chubu branch
Osaka branch
Chu-shikoku branch
Kyushu branch
Okinawa branch
Yokohama sales office
Shikoku sales office
Minami-kyushu sales office
Taipei branch

● **Service centers/stations**

Tokyo service center
Akashi service center
Tokyo mobile center
Morioka service station
Wangan service station
Hokuriku service station
Akashi service station
Okayama service station

Group companies

Nikko Electronics Co., Ltd.
Nikko Machinery Co., Ltd.
Nikko Sec Co., Ltd.
Tombo Industry Co., Ltd.
Maekawa Kogyosho Co., Ltd.
Nikko Kosan Co., Ltd.
Nikko (Shanghai) Construction Machinery Co., Ltd.
Nikko Asia (Thailand) Co.,Ltd.

Overseas bases

Taipei branch (Taiwan) Opened in February 1997
Nikko (Shanghai) Construction Machinery Co., Ltd. Established in April 2001
Nikko Shanghai Beijing office
Opened as Nikko Beijing expatriates office in August 1998
Nikko Asia (Thailand) Co., Ltd. Established in February 2020
Nikko NilKhosol Co., Ltd. Established in June 2020
Maekawa (Shanghai) Machinery Trading Co., Ltd. Established in July 2012
(Sales base of Maekawa Kogyosho Co., Ltd.)

Summary of Subsidiaries

Nikko Electronics Co., Ltd.

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

Net sales (mil. yen)	FY 2018	FY 2019	FY 2020
	1,669	1,727	1,661

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2020
7	4	94	80.4%

Nikko Machinery Co., Ltd.

Manufacture and sale of construction equipment and flooding preventive equipment, including floodgates and waterproof boards

Net sales (mil. yen)	FY 2018	FY 2019	FY 2020
	1,765	2,124	2,391

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2020
5	2	70	31.7%

Nikko Sec Co., Ltd.

Manufacture and sale of temporary equipment and machinery for construction work, material handling machines, and computer-related equipment

Net sales (mil. yen)	FY 2018	FY 2019	FY 2020
	1,519	1,692	1,738

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2020
5	2	36	0.2%

Tombo Industry Co., Ltd.

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

Net sales (mil. yen)	FY 2018	FY 2019	FY 2020
	688	660	690

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2020
5	2	13	2.0%

Maekawa Kogyosho Co., Ltd.

Manufacture and sale of crushing plant/equipment, grinders, etc.

Net sales (mil. yen)	FY 2018	FY 2019	FY 2020
	439	466	361

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2020
4	3	19	2.7%

Nikko Kosan Co., Ltd.

Services related to housing renovation, property insurance agency, life insurance agent and real estate

Net sales (mil. yen)	FY 2018	FY 2019	FY 2020
	471	471	420

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2020
4	2	15	26.9%

Nikko (Shanghai) Construction Machinery Co., Ltd.

Manufacture and sale of asphalt/recycling plants and anti-pollution devices

Net sales (mil. yen)	FY 2018	FY 2019	FY 2020
	3,468	3,756	3,632

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees	Percentage of sales to Nikko in FY 2020
5	1	107	3.3%

Nikko Asia (Thailand) Co.,Ltd.

Number of Directors	Number of individuals concurrently holding position at parent	Percentage of sales to Nikko in FY 2020
4	1	14

Nikko Nilkhosol Co.,Ltd.

Number of Directors	Number of individuals concurrently holding position at parent	Percentage of sales to Nikko in FY 2020
4	0	61

Future creation that starts from an ‘*n*’

For inquiries about this report, please contact:

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