

Nikko Corporate Report 2022

Nikko Corporate Report 2022
Fiscal year ended March 31, 2022



Future creation that
starts from an 'N'

Identity of Nikko Group

In the Nikko Mirai Project, the Nikko Group defined the actions that generate various kinds of future values in the society as Nikko Corporate Identity.

Being of service to society and having a mission, which is its *raison d'être*, are important to the Nikko Group upon enhancing the sustainability of its management.

They also lead to

“Making the world a resilient and gentle place.”

which is the vision of the future we want to realize.

NIKKO CORPORATE IDENTITY

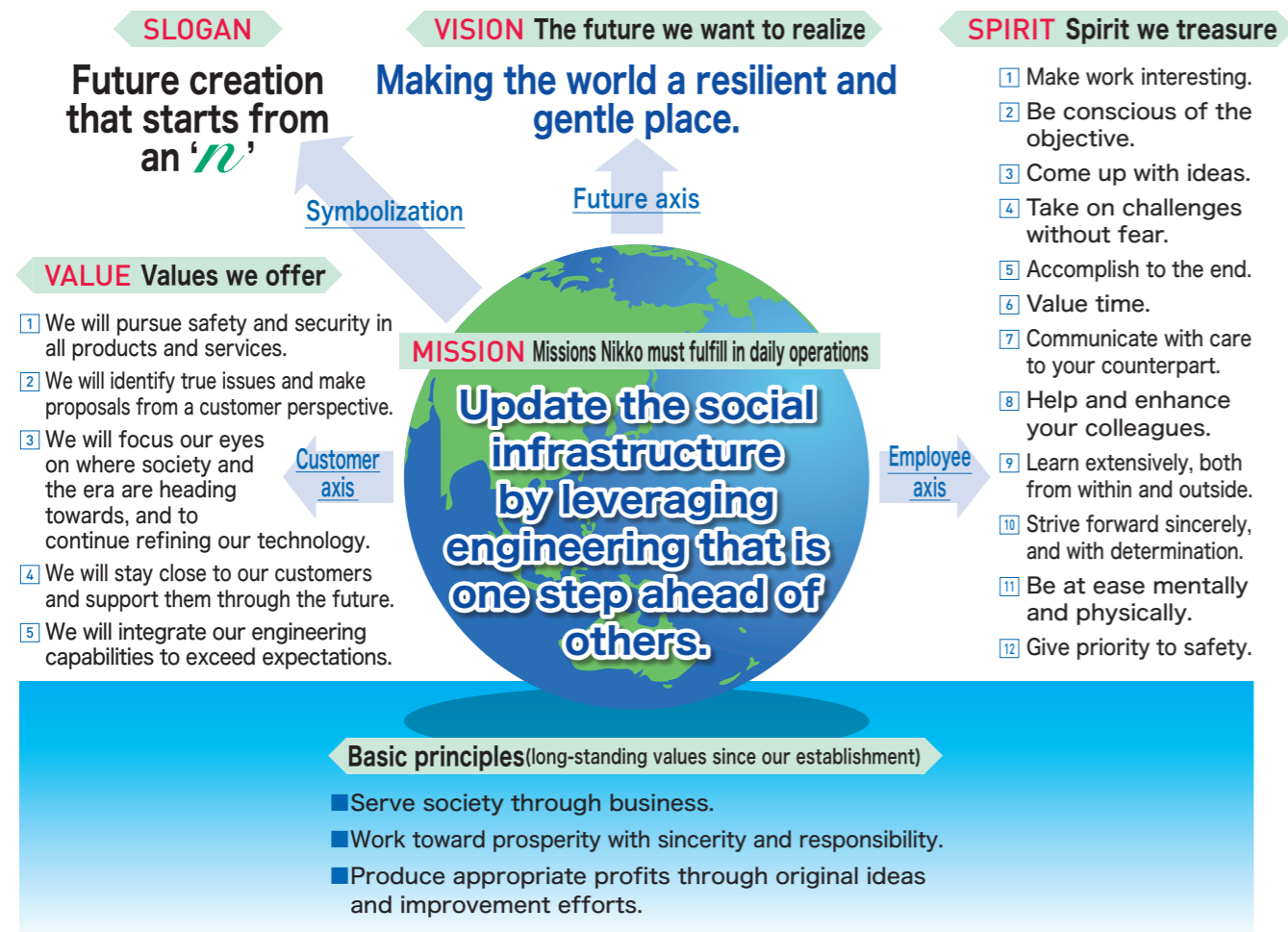


Table of Contents, Editorial Policy, Disclosures

INTRODUCTION

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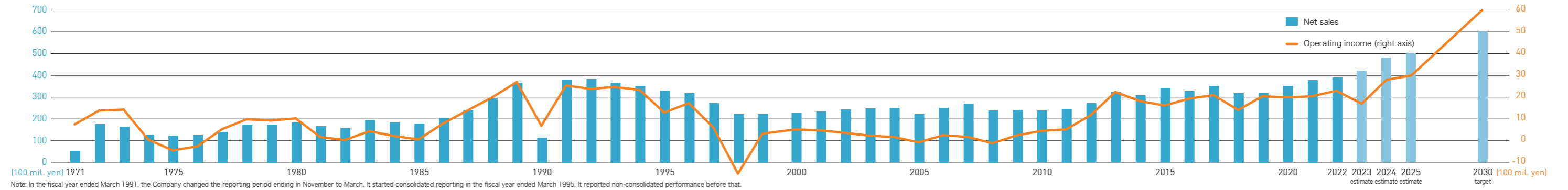
Editorial Policy and Nikko Group's Disclosure

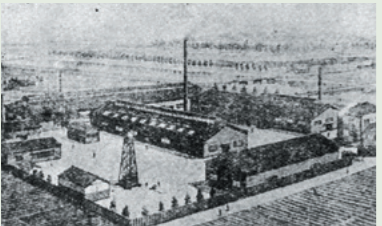
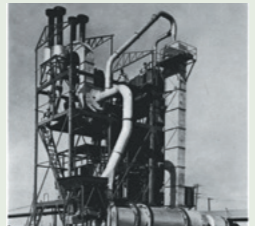





Nikko Group Corporate Report 2022 aims to disclose Nikko Group's medium- and long-term value creation efforts from both financial and non-financial aspects to all stakeholders, including our shareholders and investors. The Report is edited referring to The *International Integrated Reporting Framework* established by the Value Reporting Foundation (VRF) and the *Guidance on Integrated Disclosure and Dialogues for Joint Value Creation* by the Ministry of Economy, Trade and Industry of Japan.

- **Target readers**
All stakeholders connected to the Nikko Group.
- **Reporting period**
The Report mainly covers FY 2021 (April 1, 2021 to March 31, 2022) but also includes information before and after this period.
- **Reporting scope**
The Report covers the Nikko Group comprising Nikko Co., Ltd. and 11 subsidiaries (all of which are consolidated subsidiaries).
- **Company name**
"Nikko" and the "Company" refer to Nikko Co., Ltd. The "Nikko Group" and the "Group" refer to the Nikko Group, including consolidated subsidiaries.
- **Note on forward-looking information**
This Report includes statements on future outlook. We appreciate that you understand that actual performance may differ from the Company's projections.

Nikko Group, which started business in 1919 with the manufacturing and sales of hardware for construction such as shovels, spades, and pickaxes, marked its 100th anniversary in August 2019. In 2022, the Group announced the new Medium-Term Management Plan (2022–2024), positioning the period as an internal growth phase for building the structure, process, and

system for realizing what the Nikko Group should be in 2030 (60.0 billion yen in net sales and 10% in operating margin). As a pioneering company in asphalt plants and concrete plants, Nikko Group will contribute to decarbonized society through innovation and expansion into new business domains utilizing DX technology, while strengthening its global expansion.



1919-1950	1951-1969	1970-1989	1990-2011	2012-2021	2022-2030
Start-up and postwar reconstruction	Business expansion and rapid economic growth	Transformation into a machinery manufacturer	Foray into environmental business and strengthening of group management	Switch to aggressive management approach	Towards realizing the New Medium-Term Management Plan and what the Nikko Group aspires to be in 2030
<p>History of Nikko Group</p> <p>1919: Nihon Kogyu Product Co., Ltd. established 1920: Shovel goes on sale 1921: Head Office relocated to Akashi 1934: Second Plant opens, starts production of wooden handles 1938: Third Plant completed, starts production 1948: Fourth Plant complete construction work, starts production of cast metal 1950: Starts production and sales of Ryusen handles</p> <p>Solutions offered by Nikko Group</p> <p>Offered shovels and spades for reconstruction demand</p> <p>External environment</p> <p>Post-war robust reconstruction demand</p> <p>1924: Hanshin Koshien Stadium completed 1936: Diet Building completed 1939: The Second World War begins 1945: Japan accepts the Potsdam Declaration 1950: The Korean War begins</p>  <p>Head office factory at the time of founding</p>	<p>1951: Starts production of winches and mixers 1956: Starts production and sales of Manten shovels 1958: Nikko's first asphalt plant completed 1962: Lists shares on the first section of the Tokyo Stock Exchange 1963: The first automated batcher plant completed 1966: Starts production of belt conveyer system 1968: Company renamed to Nikko Co., Ltd.</p> <p>Manufacture and sales of various construction machinery Started manufacture and sales of asphalt plants Started manufacture and sales of batcher plants Offered various large-scale machinery and automated plants</p> <p>Rapid growth period</p> <p>1956: Japan Highway Public Corporation established 1958: Tokyo Tower opens 1964: Olympic Games Tokyo held 1965: Entire length of Meishin Expressway opens 1967: Basic Act for Environmental Pollution Control enacted</p>  <p>1958: Nikko's first asphalt plant completed</p>	<p>1970: New AP plant 1970: Starts production of lifts and scaffold planks 1971: Anti-pollution AP completed 1974: Signs technology tie-up with Benninghoven of West Germany 1979: Signs technology tie-up on drum mixing plants with Boeing Construction Equipment Company of the US 1986: Opens Tokyo service center 1989: Opens US office</p> <p>Offered anti-pollution plants Offered products that takes environment and safety into account Strengthened maintenance service</p> <p>Bubble economy and growing environmental awareness</p> <p>1970: The Japan World Exposition, Osaka, held 1972: Tohoku Expressway (Iwaki-Utsunomiya) opens 1978: Narita Airport opens 1983: Entire length of Chugoku Expressway opens 1988: Seto Ohashi Bridge opens</p>  <p>1968: The first made-in-Japan plant, Nikko's NAP-602, used in the construction of Tomei Expressway</p>	<p>1991: Establishes Development Technology Center 1994: Satte factory completed 1997: Develops WELL Burner, a new model aimed at reducing CO₂ emissions 1998: Starts sales of Recycle 4, a new beverage container separator crusher 2002: Establishes Nikko (Shanghai) Construction Machinery Co., Ltd. 2004: Completion ceremony for Jiading factory of Nikko (Shanghai) Construction Machinery Co., Ltd., the Group's first production base overseas 2011: New Wuhan factory of Shantui Nikko Construction Machinery Co., Ltd. completed</p> <p>Offered high quality ready-mix concrete manufacturing technology Offered energy-saving, low-noise burners Offered environmentally friendly and recycling products</p> <p>Growing need for environmentally friendly products</p> <p>1994: Kansai International Airport opens 1995: The Great Hanshin-Awaji Earthquake 2008: The collapse of Lehman Brothers 2010: Expo 2010 Shanghai China held 2011: The Great East Japan Earthquake</p>  <p>Introduction of plants especially for quake-disaster recovery</p>	<p>2012: Takahisa Nishikawa appointed Representative Director and President 2015: Starts activities as the sole Japanese agent for Kleemann of Germany 2016: Starts sales of Value Pack, a new asphalt plant model 2018: Newly constructs Techno Center (Akashi) 2018: Establishes Mobile Plant Business Department 2019: Masaru Tsuji appointed Representative Director and President 2020: Establishes Nikko Asia (Thailand) Co., Ltd.</p> <p>Proposed technology to reduce CO₂ emissions Strengthened disaster recovery product lineup Offered high quality, high environmental performance products to the Asian market</p> <p>Exacerbation of various disasters</p> <p>2012: Tokyo Skytree opens 2015: Hokuriku Shinkansen (Tokyo-Kanazawa) starts operation 2018: Osaka, Kansai, chosen as venue for Expo 2025 2020: Global COVID-19 pandemic 2021: Olympic Games Tokyo 2020 held</p>  <p>Nikko Asia (Thailand) Co., Ltd. established</p>	<p>2022: Announces the new Medium-Term Management Plan (2022–2024) 2024: Targets of 50.0 billion yen in net sales and 6% in operating margin 2030: Targets of 60.0 billion yen in net sales and 10% in operating margin</p> <p>Proposed decarbonization technology Roll-out of environmental friendly products Offered remote operations and automation utilizing DX</p>  <p>Post-COVID era</p> <p>2025: Expo 2025 Osaka Kansai 2026: Asian Games Aichi-Nagoya</p>  <p>NIIKKO NILKHOSOL CO., LTD.</p>

Nikko Group stipulated the Long-term Basic Policies (10 year vision) that looked into the future while drawing up its previous Medium-Term Management Plan that was completed in FY 2021. To achieve the long-term vision in 2030, the Group established five basic policies: 1) strengthen revenue base in Japan, 2) establish overseas sales, 3) promote new businesses (M&A), 4) put work-style reform into practice, and 5) make ROE a KPI. The Nikko Group newly set forth the 2030 Vision given the increased momentum in recent years of initiatives to mitigate the impact of climate change globally and the considerable changes to the social issues and business environment surrounding the Group. The management vision of what the Group aspires to be was set as “the top manufacturer of plant facilities and environmental products underpinned by advanced technology” and “customers’ management partner through operation and maintenance service.” The financial targets are 60.0 billion yen in net sales and 10% in operating margin.

FY 2022–2024: Internal investment phase

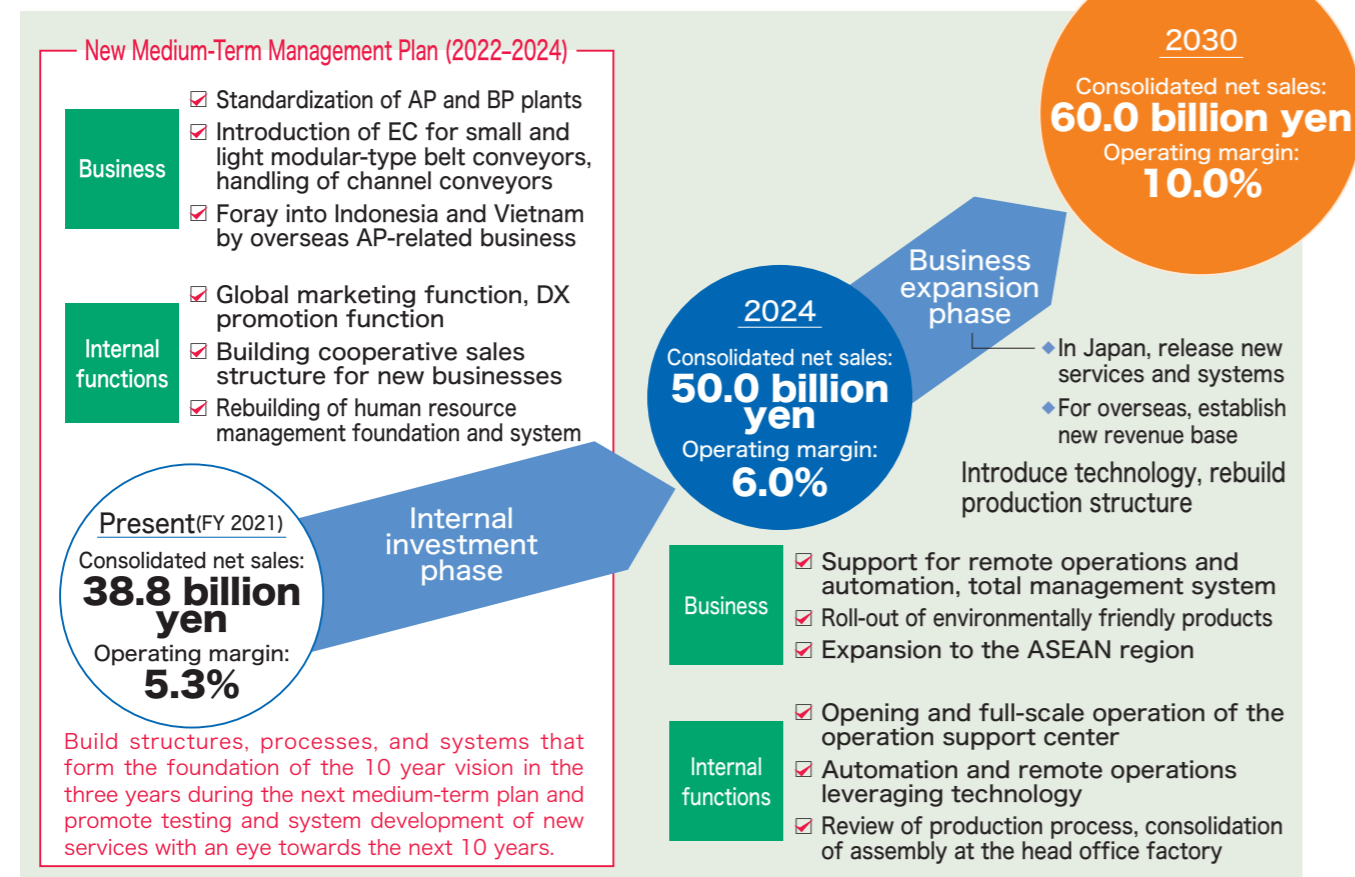
Upon pursuing the process for achieving the 2030 Vision, Nikko Group positioned the period until FY 2024 as the internal investment phase, in which it will actively make up-front investments in human and intellectual capital while maintaining a high level of capital investment in manufactured capital. In particular, Nikko will add 145 employees (compared with 69 employees it added in the past three years) including

59 employees for the AP-related business domain, which has to take measures to address carbon neutrality. In terms of R&D expenses also, the Group is planning on an investment worth more than 2.5 billion yen (compared with about 1.2 billion yen in the past three years) for new environmentally friendly products in the AP-related business domain as well as support for remote operations and automation.

FY 2024–2030: Business expansion phase

The Group expects the period from FY 2024 onwards to be the business expansion phase in which the up-front investments, carried out in the internal investment phase, begins to bear fruit. New services and systems in Japan are expected to result in revenue expansion and customer needs are also likely to increase for new environmentally friendly products towards realization

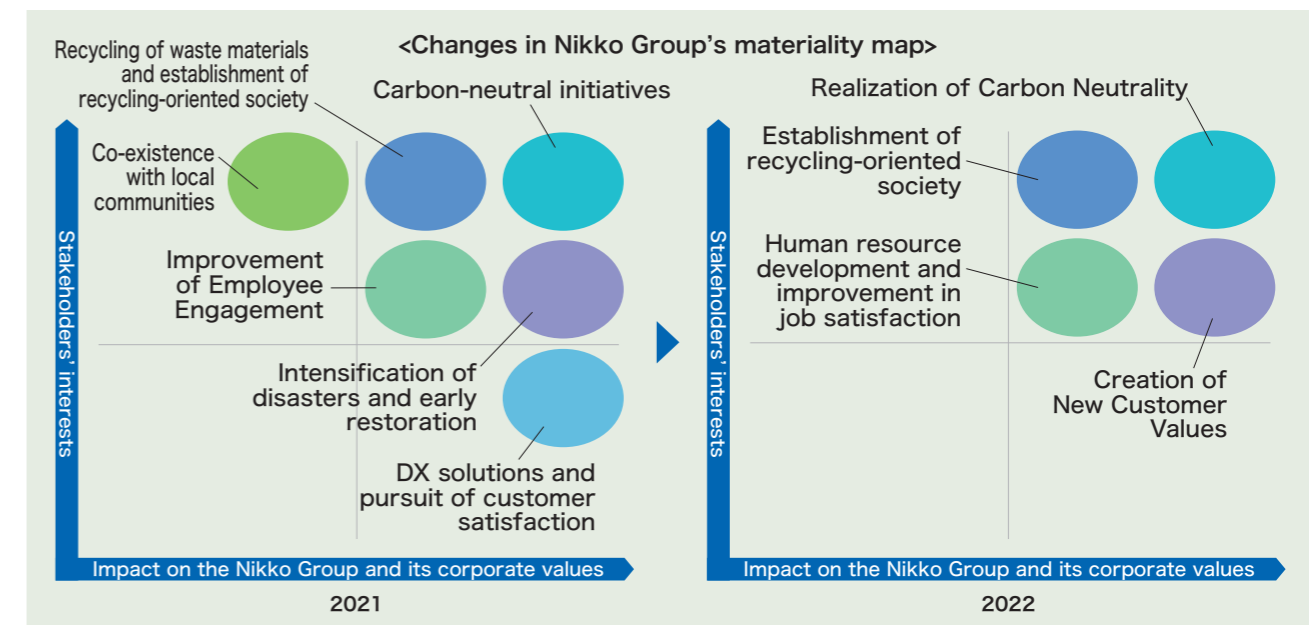
of carbon neutrality. The overseas AP-related business is also expected to welcome a full-fledged harvesting season after completing up-front investments in the ASEAN region. Internally, the opening of the operation support center and review of the production structure by consolidating assembly at the head office factory are expected to contribute.



Along with the newly formulated 2030 Vision, Nikko Group reviewed its materiality for sustainable creation of corporate values. Solving materiality by bearing in mind to “promoting self-reform to win the broad trust from society and fulfill our mission as a solutions partner that evolves with the customers” as stated in our Management Philosophy will lead to becoming “the top manufacturer of plant facilities and environmental products underpinned by advanced technology” and “customers’ management partner through operation and maintenance service,” which is what Nikko Group aspires to be as described in the 2030 Vision. In the future, the Group plans to increase the effectiveness by setting KPIs reflecting materiality. At the same time, it believes that it is necessary for the Board of Directors to monitor them.

Nikko Group identified and selected the following four points as its materiality that have high importance for stakeholders and the Group to raise its corporate values based on what it aspires to be under the 2030 Vision acknowledging social issues and changes in industry environment: 1) realization of carbon neutrality, 2) establishment of recycling-oriented society, 3) creation of new customer values, and 4) human resource development and

improvement in job satisfaction. Realization of carbon neutrality continues to be the most important materiality and there will be no improvement in the long-term corporate values of the Nikko Group without achieving carbon neutrality. Creation of new customer values is relevant for the Group to become the customers’ partner and it will improve customer satisfaction by utilizing DX and AI in the maintenance service business, where its strength lies.



1 Realization of carbon neutrality (see p. 51)

About 70% of CO₂ emissions from APs in Japan (approx. 1.3 million tons a year) is estimated to be emitted by Nikko plants. While it will become a major risk if Nikko is late to respond to this, the Group believes that it also offers opportunities from various aspects starting from fuel conversion to electrification, as it is also an important social issue.

2 Establishment of recycling-oriented society (see p. 59)

The arrival of a global recycling-oriented society is beneficial for Nikko in terms of the anticipated increase in recycling AP in China, as Nikko boasts a 99% recycling rate of asphalt waste and has a 70% share in AP in Japan. The Company has been engaged in the development of technology for recycling concrete sludge and is working on its practical applications.

3 Creation of new customer values (see p. 61)

In its 2030 Vision, Nikko Group aims to become a “customers’ management partner through operation and maintenance service.” The Group will not only improve customer satisfaction by leveraging DX and AI but also pursue subscription contracts of service and maintenance.

4 Human resource development and improvement in job satisfaction (see p. 63)

The importance of leveraging human capital increases further upon solving material matters 1 to 3. For Nikko to achieve the 2030 Vision, it is necessary to have human resources based on diversity and inclusion, and improving motivation by nurturing them, as well as improving their work-life balance and well-being also assuming importance.

Social issues and changes in the industry (risks and opportunities) (see p. 45)

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

Nikko Group 2030 Vision (see p. 5)

The top manufacturer of plant facilities and environmental products underpinned by advanced technology and customers' management partner through operation and maintenance service

INPUT (Business foundation)

Financial capital

- ◆ Robust financial base and ample cash (see p. 31)
- Total assets of 58.5 billion yen and net assets of 34.0 billion yen at the end of FY 2024

Manufactured capital

- ◆ Capital investment focusing on the 2030 Vision (see p. 35)
- Capital investment worth 6.0 billion yen in FY 2022-2024

Human capital

- ◆ Addition of more people and reform of diversity and work style (see pp. 35, 63)
- An increase of 145 employees at Nikko in FY 2022-2024

Intellectual capital

- ◆ Business model innovation by leveraging core technology (see p. 36)
- R&D expenses of more than 2.5 billion yen in FY 2022-2024

Social and relationship capital

- ◆ Trust as a solutions partner (see p. 36)
- Number of Akitsu-kai members as of the end of FY 2021: 195 companies

Natural capital

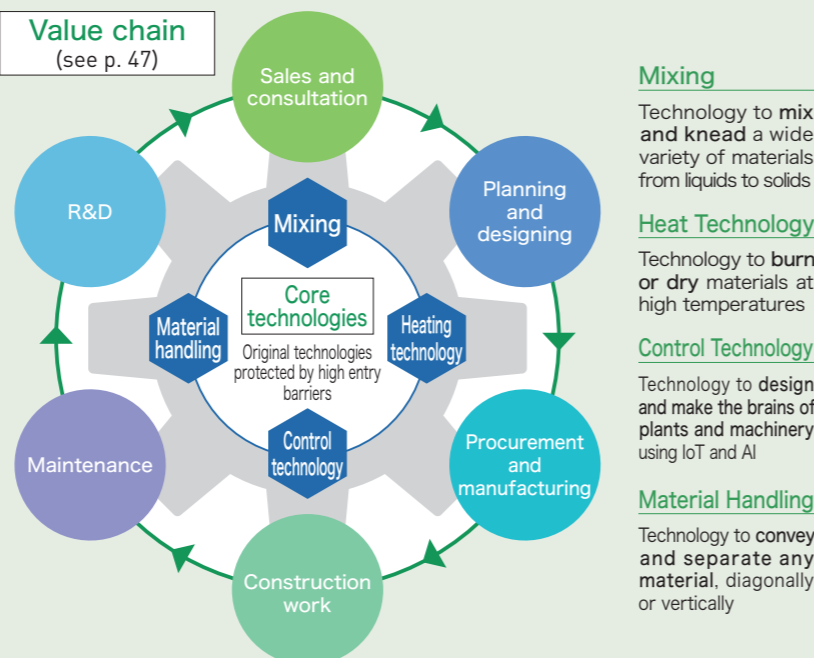
- ◆ Utilization of energy, water resources, etc. (see pp. 36, 51)

Business activities (Business model)

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

- | | |
|--|--|
| <p><Business></p> <ul style="list-style-type: none"> ◆ Standardization of AP and BP plants ◆ Introduction of EC to small and light modular-type belt conveyors, handling of stringer conveyors ◆ Foray into Indonesia and Vietnam by overseas AP-related business | <p><Internal functions></p> <ul style="list-style-type: none"> ◆ Global marketing function, DX promotion function ◆ Building cooperative sales structure for new businesses ◆ Rebuilding of human resource management foundation and system |
|--|--|

Value chain (see p. 47)



Sustainability management (see p. 49) Materiality (see p. 6)

- | | | |
|----------------------------------|-------------------------------|----------------------------------|
| Management philosophy (see p. 1) | Corporate identity (see p. 1) | Corporate governance (see p. 69) |
|----------------------------------|-------------------------------|----------------------------------|

OUTPUT (Business value)

Business transformation (see p. 27)

- ◆ AP-related business in Japan (see p. 39)
 - ◆ BP-related business (see p. 41)
 - ◆ Maintenance service business (see p. 61)
- Strengthening of operation and maintenance services

Scale expansion leveraging technology (see p. 29)

- ◆ Overseas AP-related business (see p. 29)
 - ◆ Environment- and conveyor-related business (see p. 43)
 - ◆ Other businesses (see p. 44)
- Lateral deployment of products and markets

Financial targets for FY 2024 (see p. 25)

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

OUTCOME (Creation of social values)

Social and environmental values to be contributed

- ◆ Establishment of recycling-oriented, environmentally friendly society (see p. 59)
- ◆ Contribution to realization of decarbonized society (see p. 51)
- ◆ Contribution to disaster prevention and mitigation
- ◆ Support for early restoration from natural disasters (see p. 60)
- ◆ Co-existence with local communities (see p. 60)

Economic values to be created

- <Business>
- ◆ Support for remote operations and automation, total management system (see p. 28)
 - ◆ Roll-out of environmentally friendly products (see p. 56)
 - ◆ Expansion of the overseas AP-related business in the ASEAN region (see p. 29)
- <Internal functions>
- ◆ Opening and full-scale operation of the operation support center (see p. 28)
 - ◆ Automation and remote operations leveraging technology (see p. 50)
 - ◆ Review production process, consolidation of assembly at the head office factory (see p. 32)

FY 2030 financial targets (see pp. 21, 27)

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

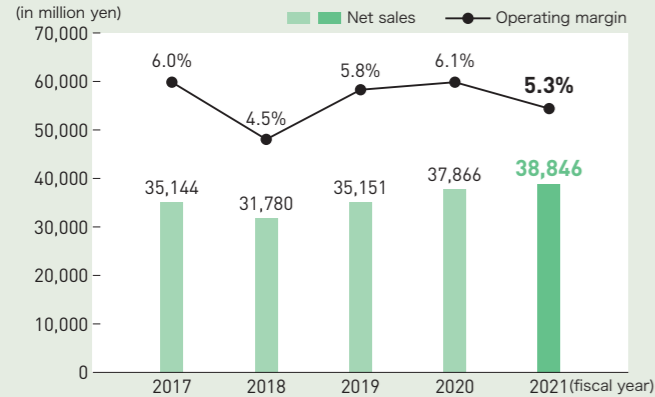
Future the Group wants to realize

Making the world a resilient and gentle place

(see pp. 1, 12)

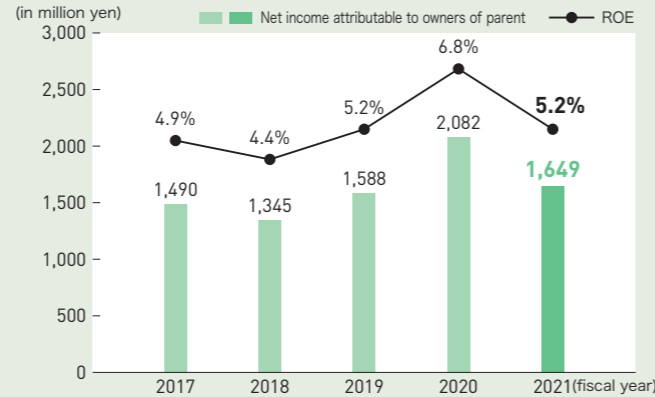
Financial highlights

● Net sales and Operating margin



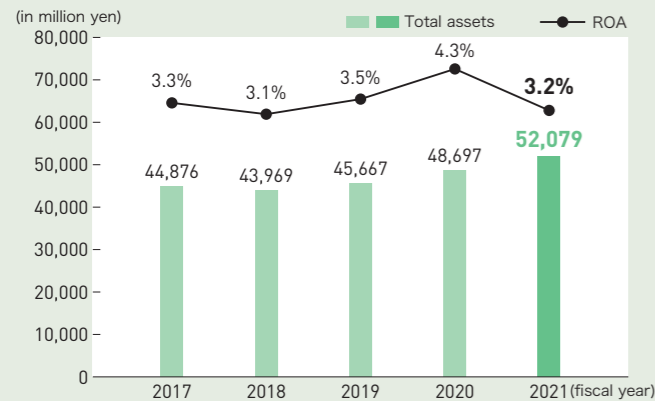
Operating margin in FY 2021 came to 5.3%, down 0.8 pp from 6.1% in FY 2020. By business, operating margin of BP-related business improved 0.9 pp on the back of sales increase and cost reduction through planned production, while that of AP-related-business declined 3.3 pp due to rise in prices of steel and other supplies. That of other business and environment- and conveyor-related business also fell 1.1 pp and 0.7 pp respectively. In FY 2022, the Group expects the operating margin to worsen by 1.3 pp to 4.0%.

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



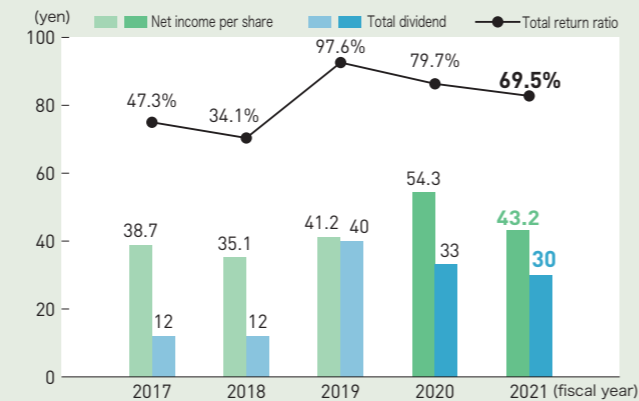
Net income attributable to owners of parent in FY 2021 decreased 20.8%, which is more than the 10.8% decline in operating income. The factors contributing to the decline include the absence of 340 million yen in special dividend from Maeda Road Construction Co., Ltd. that was recorded as non-operating income in FY 2020. Net assets increased 0.6 billion yen compared with FY 2020 reflecting an increase in retained earnings, etc., while ROE declined 1.6 pp from FY 2020 to 5.2%.

● Return on total assets (ROA)



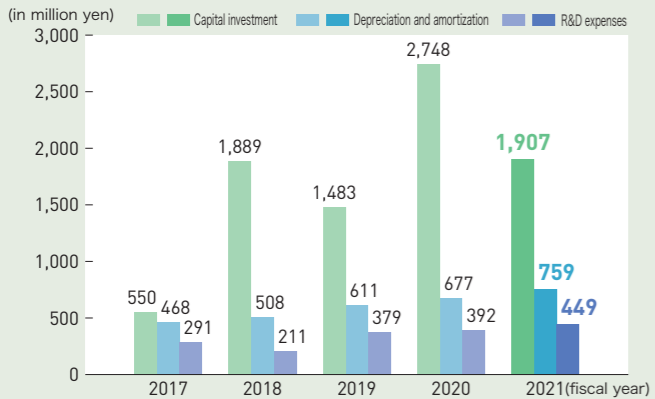
ROA in FY 2021 came to 3.2%, a decline of 1.1 pp compared with FY 2020. Net assets at the end of FY 2021 increased by 3.4 billion yen compared with FY 2020. This includes the 1.8 billion yen of Ube Kohki, which was acquired by the Group. When the impact of Ube Kohki was excluded, inventory rose by 2.4 billion yen and trade receivables declined by 1.4 billion yen while increases in contract liabilities and down payments came to 1.4 billion yen. The Group also carried out sale of strategically-invested shares worth about 0.7 billion yen.

● Net income per share, dividends, total return ratio



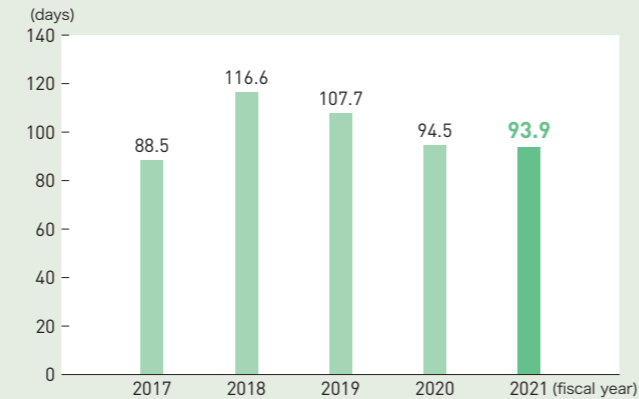
Dividends for FY 2021 were 30 yen per share (payout ratio of 69.5%). While total return ratio was 79.7% in FY 2020 with dividends of 33 yen per share and 0.4 billion yen in treasury stock acquisition as net income attributable to owners of parent was boosted by special dividend from Maeda Road Construction Co., Ltd., it decreased slightly in FY 2021. The Group expects to pay a dividend of 30 yen per share in FY 2022, with which payout ratio is expected to reach 95.6%.

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



The Group made capital investment of 1.9 billion yen in FY 2021 including a 0.33 billion yen for Nikko NiKhosol's plant. Total capital investment for the Medium-Term Management Plan period from FY 2019 to FY 2021 came to 6.3 billion yen, which exceeded the 2.05 billion yen in depreciation and amortization by a great margin and drove forward capacity expansion and machinery upgrade. While R&D expenses at 0.45 billion yen were higher than the 0.39 billion spent in FY 2020, they were lower than the planned 0.7 billion yen.

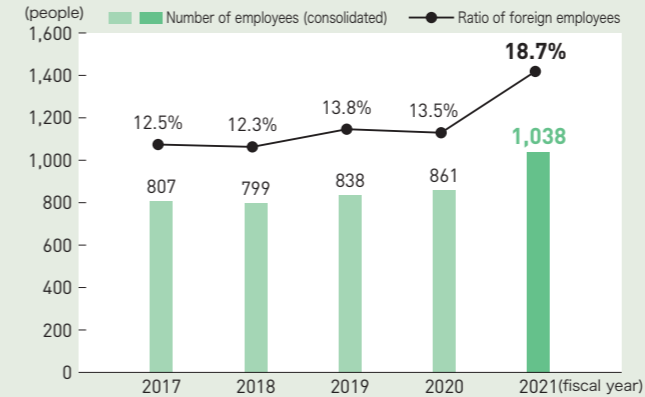
● Cash Conversion Cycle



In FY 2021, CCC was 93.9 days, which was more or less unchanged from the 94.5 days in FY 2020. Inventory turnover period worsened to 105.2 days, but turnover period of trade receivables improved significantly to 71.5 days, while turnover period of notes and accounts payable-trade also improved to 82.7 days. The Group intends to continue improving CCC and allocate the margin to investment for growth, shareholder returns, R&D, and human capital.

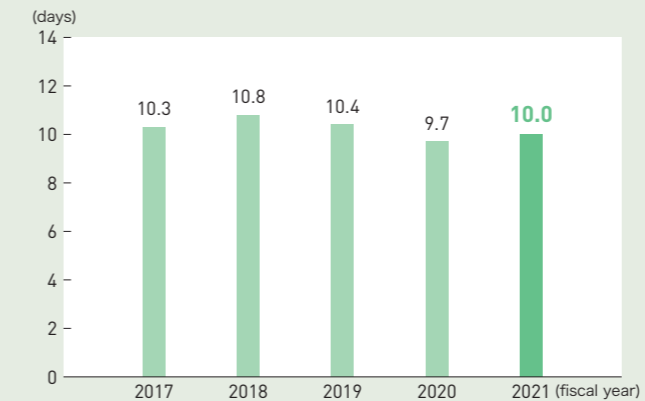
Nonfinancial highlights

● Number of consolidated employees, ratio of foreign employees



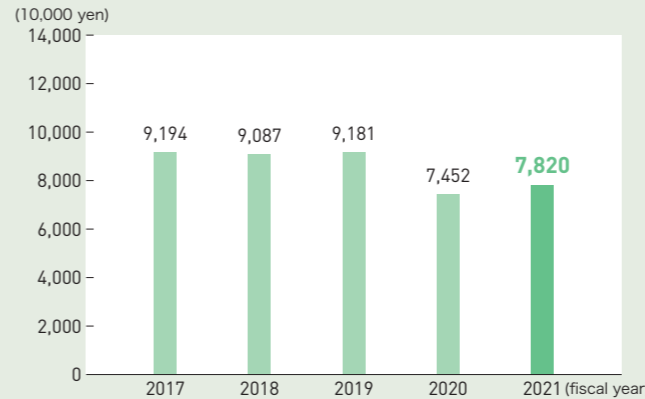
The number of consolidated employees was 1,038 at the end of FY 2021, up significantly from 861 at the end of FY 2020. The increase in real terms after excluding the 67 employees of Ube Kohki, however, was 110. Among them, foreign employees were 194, an increase of 78 from the 116 at the end of FY 2020 and accounting for 18.7% of the total (13.5% in FY 2020). The primary reason is the addition of 77 employees with the start of operations of the Nikko NiKhosol plant in Thailand.

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



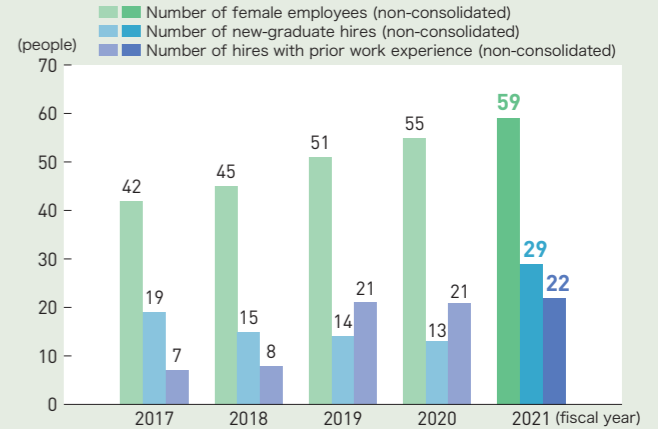
The average number of annual paid holidays used per employee was 10 days in FY2021 on a non-consolidated basis compared with 9.7 days in FY 2020. While it increased slightly from the 9.7 days in FY 2020, the figure has been hovering around 10 days since FY 2017. As stated in the Long-term Basic Policies, the Group believes increasing the number of paid holidays taken by employees is important for improving employee satisfaction and realizing a good work-life balance ultimately to significantly raise labor productivity by improving operating efficiency.

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



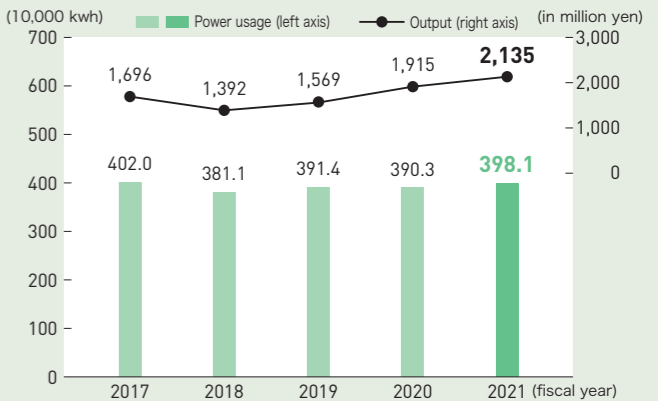
Total expenses of ISO activity items (electricity, water, waste, and paper) in FY2021 came to 78.2 million yen, up 4.7% from FY2020. While the expenses increased compared to the 17.6% decline posted in FY 2020, the major factor behind this was the rise in electric power charges due to increasing crude oil prices, etc. The Group will continue to effectively utilize resources and make contributions to environmental activities.

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



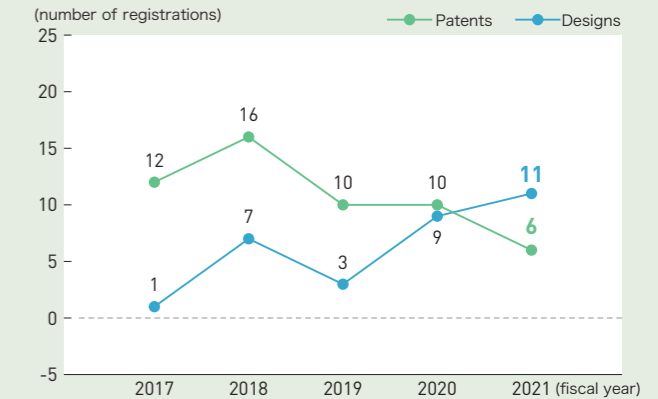
The number of female employees (non-consolidated) was 59 as of the end of FY 2021, an increase of four from 55 as of the end of FY 2020. The number of new hires was 29 on a non-consolidated basis, a significant increase from 13 in FY 2020, while the number of new female hires was three compared to zero in FY 2020. The number of hires with prior work experience was 22 (21 in FY 2020) maintaining a high level, and the Group will continue to boost such hiring in accordance with the new Medium-Term Management Plan with focus on the AP-related business.

● Power usage, output (non-consolidated)



Power usage in FY 2021 came to 3,981,000 kwh, a slight increase of 2.0% from 3,903,000 kwh in FY 2020. However, production volume increased 11.9% in FY 2021 compared with FY 2020 and power usage on a unit consumption basis continued to decline. In accordance with the guidelines for achieving carbon neutrality, the Group will continue to reduce CO₂ emissions by increasing the ratio of renewable energy as well as implementing electricity conservation initiatives.

● Number of patent and design registrations



The Group registered six patents and 11 designs in FY2021, which were down by four and up two, respectively, from FY2020. The increase in design registration in FY2021 include Nikko-developed food mixer products, Nikko Sec's temporary scaffolding products, and Tombo Industry's shovels. The Group believes registering patents and designs is important for differentiating products and services and improving brand value, and it plans to continue to actively register them.



Representative Director,
President and CEO

辻 勝

Masaru Tsuji

The Nikko Group, in addition to its 2030 Vision and the Medium-Term Management Plan starting in FY 2022, established the Nikko Corporate Identity, which shows the path to be taken by the Group going forward.

We asked Mr. Tsuji about the strategic points in realizing the 2030 Vision, utilization of management resources for such, initiatives in sustainability management including ESG, and stakeholder engagement based on what the Nikko Group aspires to be as embodied in the Corporate Identity.

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

We will strengthen human capital for achieving the mission.

Session 1. What we aspire to be in terms of Corporate Identity

Nikko Group recently defined its Corporate Identity. First of all, please explain the thoughts that were put into the mission, which is also the Group’s *raison d’être* of “Update the social infrastructure by leveraging engineering that is one step ahead of others,” and your thoughts on how you will link together the company, its employees, and society.

We started formulating the Nikko Group’s Corporate Identity from February this year under the Nikko Mirai Project.

In doing so, we sought participation from employees around the country and more than 10 candidates responded, from young employees to those in the manager class, and we formed a working group (WG) made up of 12 members going beyond the boundaries of position, gender, and department. The WG is made up of members with high aspirations and they interacted many times to exchange various views on matters such as “Why does the Nikko Group exist?”

During the process, they had the opportunity to speak with Mr. Kishi, a former president of the Group in addition to myself, for about two hours regarding the history of Nikko that has been passed down and things that should not be changed. Mr. Kishi is one of the former presidents who had the greatest impact on me, and the ideal person whom I aspired to be. He had been responsible for driving forward sales and service divisions, and the WG members gained inspiration listening to him speaking about his management that did not forget to go on the offensive including the struggles in new businesses. The members leveraged that inspiration in creating the Corporate Identity.

And the mission thus formulated was “Update the

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

As a top manufacturer, Nikko has been offering new products by polishing technologies that were ahead of its time and the industry. So, the words “engineering that is one step ahead of others” was incorporated to show that we would like to remain like that in the future, as well as showing our desire to compete with a technology-based comprehensive ability. Further, we deliberately used the word “update,” instead of a static-sounding word, in order to incorporate the intention to change the social foundation of the future through engineering.

My role here was to be involved with the project as an observer, while respecting the independence of the WG. The mission statement that was developed reveals a forward-looking stance, and I think it is quite good.

Generally, internal meetings are held with members from the same department most of the time, but this time around I felt there were many members who were meeting for the first time. Since we designed the process in a workshop format so that all members share their ideas without fail, there were times when their views clashed. Nevertheless, I could feel that they grew in various aspects, which led to the birth of a team mindset over the course of wrapping up the discussions among the employees from different positions. From a comment by a female employee in charge of public relations who participated in the project, it appears that she felt that the aspirations of the company have not been shared much among the employees.

With the formulation of the Corporate Identity, I believe we have carried out the groundwork to unify the awareness of the employees and share our goal.

Nikko's company motto, although universal in nature, has a different take compared to the Corporate Identity. The objective of the formulation of the Corporate Identity is to make use of expressions that reflect the present and work it into the banner that shows the direction of the company to the employees. We also set up opportunities to gain feedback from other employees during the formulation, and there were many who opined that it had a positive effect that was different from the previous image. This should not end with the Corporate Identity just

being posted throughout the company walls; instead, what is important going forward is to instill it in all of the employees by incorporating video production and system design.

"Making the world a resilient and gentle place." is the new **vision** of the future that we want to realize. If the employees understand the Corporate Identity including the vision, and if we can clearly explain it to the customers and have their understanding, then we can expect this to spread much deeper.

it is important to make investments in and utilize human capital. The fourth one, which is "We will stay close to our customers and support them through the future," expresses our attitude to support the customer forever by providing maintenance and other services. The last one, "We will integrate our engineering capabilities to exceed expectations" is our pledge that we will provide solutions that go beyond the expectations of the customers by combining the aforementioned promises with the Company's strength.

There are two companies we are competing with in the domestic market for **the asphalt plant (AP)** business, which is our mainstay business, and three companies in **the batching plant (BP)** business. It is necessary to develop and offer what customers are seeking as early as possible and ahead from our competition to ensure value improvement. In order to achieve that, I feel that we should never stop new development, and if anything, we should increase our speed. In the future, we are also thinking of jointly developing with our customers a theme that translates to the workstyle reform of Nikko.

We have come up with 12 **Spirit** items that should be treasured by the employees. While it is not imperative for the employees to satisfy all 12 **Spirit** items, it is necessary that they try to keep in mind as many of them as possible. Our **Spirit** includes old-fashioned spiritualism which includes new values such as "Make work interesting," but at the same time has items that were inherited from the Nikko DNA such as "Take on challenges without fear" and "Strive forward sincerely, and with determination."

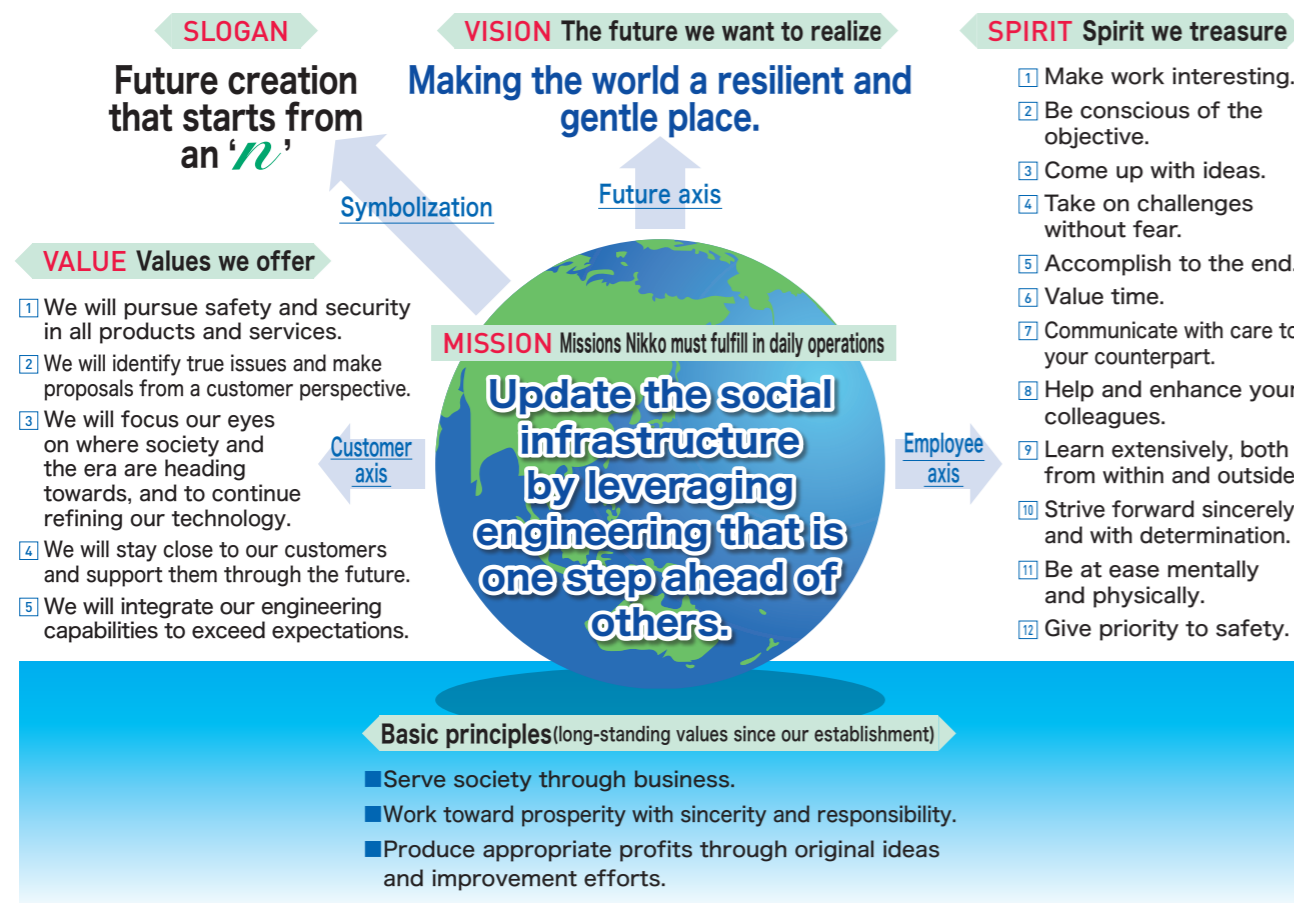
The corporate culture cultivated by Nikko is to act straightforward, be honest, and not to run away from and lie to the customer.

This is something that happened quite a while back ago. A sales representative at that time apparently put together an inordinately profitable business proposal. When he came to know of the scheme, Mr. Higashida, the then president, became furious and told the employee to "never do anything to deceive the customer," and made him rework the contract with appropriate pricing, and deliberately slashed the profits.

Nikko does not run away from difficult projects requested by customers, but instead takes on the challenge and sees it through to the end. That is also our corporate culture. We will continue to treasure this in the future.

What we want to realize in the future vision, is "**Making the world a resilient and gentle place,**" where the word "world" denotes foraying into overseas markets, and leveraging the high infrastructure quality standards of Japan in the growing markets (ASEAN) of the world. Russia's invasion of Ukraine happened during the project and we were once again reminded of the importance of infrastructure and urban development. A "Resilient and gentle place," is urban development that enriches lives, as well as us being conscious of how we can help people around the world at the foundations of their lives, in addition to increasing environmental measures. We anticipated the arrival of an era where a product's value is determined by its eco-friendliness, and we will focus our product development on safety and environment (see p. 1).

● Nikko's Corporate Identity



It is clear that you carried out various new initiatives for drafting the Corporate Identity. Next, what kind of values specifically are you thinking of generating from the mission, based on the basic philosophy of Nikko Group?

The basic philosophy of the Nikko Group is the spirit of the Company Motto to "Serve society through business," "Work toward prosperity with sincerity and responsibility," and "Produce appropriate profits through original ideas and improvement efforts," and these values will remain unchanged.

There are five **values** that are derived from the mission, and they are promises we make to the customer. The first one is "We will pursue safety and security in all products and services," and it shows our intention to pursue safety as a major premise. The second one "We will identify true issues and make proposals from a customer perspective," promises that we will be in the customer's shoes when we are conducting sales activities. The third is "We will focus our eyes on where society and the era are heading and continue refining our technology," which refers to the handling of new technologies such as **carbon neutral (CN)**, and in order to realize such, I believe



Based on Nikko's corporate culture, leveraging value and spirit is imperative for realizing the future vision.

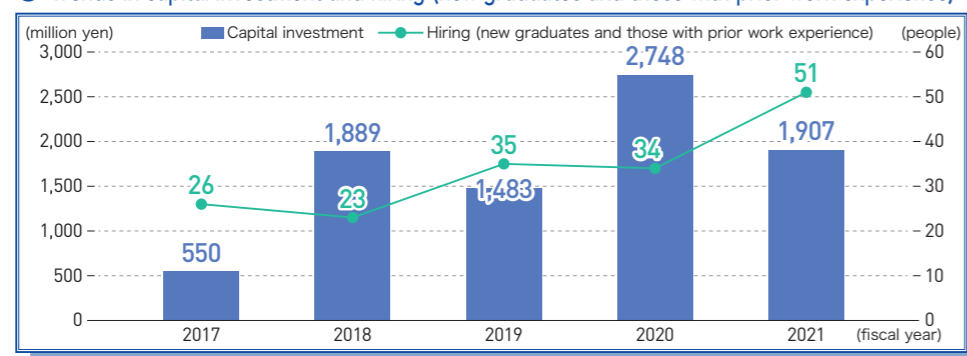
Session 2. Achievements and issues of the previous Medium-Term Management Plan

The previous Medium-Term Management Plan was completed in FY 2021 and while achieving the net sales target, we were unable to meet the operating income target. The slump in profit in FY 2021 appears to have been significant. But if we take that into account, could you tell us about the achievements of the previous plan and the issues the Group faced, and also how we will overcome those issues?

Net sales for FY 2021 achieved the previous Medium-Term Management Plan target of 38.0 billion yen, reaching 38.8 billion yen. By business segments, net sales in BP-related and other businesses exceeded the medium-term plan targets, but they underperformed in AP-related and environment- and conveyor-related businesses. As for business environment, though asphalt mixture and concrete shipment volume showed a slight declining trend, the strong appetite for investment of AP and BP users continued given the disaster prevention and mitigation plans, as well as the Plan for Building National Resilience. In the AP-related business, the demand for upgrading the plants that were rebuilt during the bubble economy era plateaued, while the overseas business recovered in FY 2021 despite being affected by COVID-19 in FY 2020.

Further, as part of the promotion of new businesses, we acquired the industrial machinery manufacturer Ube Kohki, headquartered in Yamaguchi Prefecture, through M&A and made it a subsidiary in FY 2021. The achievements during the previous medium-term plan period are the following three points that would link to the next growth: (1) vitalization of capital investment including the establishment of new overseas subsidiaries, (2) increased hiring of personnel, and (3) implementation of M&As. Project promotion also resulted in the improvements of skill and motivation, as well as clarifying the objective. Looking at the medium- to long-term expansion of overseas business led by ASEAN, the near-term order situation is strong with us establishing a local sales and manufacturing subsidiary in Thailand. Among new businesses, mobile crushers and waterproof boards grew rapidly. In the BP-related business, Nikko's domestic dynamic share for FY 2021 exceeded 40% in both net sales and number of units shipped, coming close to the medium-term plan target of 50% share in units shipped. We were also able to expand the sales of service maintenance better than expected. In terms of company-wide achievement, we improved productivity through workstyle reform including promotion of remote working and introduction of IT tools.

● Trends in capital investment and hiring (new graduates and those with prior work experience)



Meanwhile, issues remain in terms of profit. Operating income in FY 2021 came to 2.05 billion yen, below the 3.0 billion-yen target under the previous Medium-Term Management Plan. By business, the BP-related, environment- and conveyor-related, and other businesses exceeded the target, while the AP-related business significantly underperformed. The reasons behind the AP-related business not meeting the target include the occurrence of unprofitable projects in addition to the rising cost of raw materials, which affected it more significantly than the other businesses. We have been reflecting the rise in prices of raw materials in the quotation from the beginning of FY 2021, but their contribution to the financial performance was limited. We also carried out salary revision (a uniform increase of 30,000 yen for union members) as part of investment in human resources. While our domestic share in AP is high at about 70%, we

were unable to show any overwhelming superiority with our comprehensive ability including product and service. It triggered a price war with competitors, which is a point of introspection. Given this experience, we established a specialized organization for marketing on January 1 this year. We will work on improving product service by enhancing the study of customer requirements and products of competitors. Besides these, the restrictions on movement due to the COVID-19 pandemic affected the overseas and new business fields, and we had a plant shutdown (about two months) in China around the time the COVID-19 pandemic started in 2020 as well as the lockdown in Shanghai (about two months) in 2022, and a seven-month delay in the completion of the manufacturing base of the Thai subsidiary due to travel restrictions. Furthermore, the fact that we advanced the schedule of decarbonization-related development, aiming for full-fledged response to CN,

was also a factor behind the increase in expenses. Among these issues, some no longer have any impact and some have already been addressed. However, the upfront investment for responding to CN will continue for a while. Schedules were changed due to many factors

and we had to make investments upfront, but we plan to promote the medium- to long-term management goals without changing them. Going forward, we will not only strengthen the body, which has become large, but also the internal organs (see p. 23).

Session 3. Strategy related to the 2030 Vision and the new Medium-Term Management Plan

The Group formulated the 2030 Vision as “The top manufacturer of plant facilities and environmental products underpinned by advanced technology and customers’ management partner through operation and maintenance service,” with net sales target of 60.0 billion yen and operating income target of 6.0 billion yen. Please elaborate on your recognition of the business environment in the new medium-term plan and the strategy there.

First of all, regarding business environment recognition, there is a time lag in the AP-related business in passing on the steep rise in cost caused by the increase in prices of crude oil and other materials to road pavement companies, who are our customers, and we are seeing negative impact on the financial results as well as suppression and postponement of capital investment. In our case, there is also the rise in prices of supplies and prolongation of the delivery period, so, in addition to actively maintaining stock, we are addressing this by seeking the customers’ understanding regarding a leveling of the delivery time and the passing of increased costs to the selling prices. At the same time, our guess is that capital investment by the road pavement companies will be sluggish not only in FY 2022 but also in FY 2023. In the case of BP, the ready-mix concrete industry as a whole is pushing cost pass-through on to the products and there is no sense of deceleration in inquiries at present. We therefore feel that capital investment will stay strong (see pp. 39, 41).

Nikko has a 70% market share in the domestic AP

market, and it also has a top market share of more than 40% in the BP market.

The construction of the new plant in Thailand was delayed due to the COVID-19 pandemic, but we held the opening ceremony in March 2022 and the plant has started full-fledged operations. Nikko's used machines have the top share in the AP market in Thailand, with more than 250 units in operation currently. We have officially concluded a distributor agreement with TIPCO, the top supplier of asphalt raw materials in Thailand, and we will capture without fail the expected replacement demand for the ageing used AP machines manufactured by Nikko, aiming for early business expansion. We are receiving inquiries primarily for parts in business negotiations aimed at Russia, but since its invasion of Ukraine we have stopped business negotiations. We cannot predict when the invasion will end, but we hope to contribute to Ukraine's recovery through AP and BP (see p. 29).

There is steady investment in roads in China on the back of measures stimulating internal demand, and Nikko Shanghai's work volume is also increasing. The work volume has more or less doubled compared to five years ago. The level of technology also has improved, with recycling and other technologies at almost the same level as Japan's. Our policy, even now with the robust AP market, is to handle the increase in demand through outsourcing without expanding the production facility of Nikko Shanghai's own factory. Labor cost in China also has more or less doubled compared to 10 years ago. At the same time, China faces medium- to long-term risks such as the worsening of US-China



Nikko Niikhosol Co., Ltd. in Thailand

relations and the Taiwan issue. Though our strategy differs from the major competitors in Europe in the AP business and pursuing expansion of local plants, we will carry out management taking the risks into account. The technological level of local Chinese competitors is also improving, and there is a possibility of a change in the current composition where three companies (two European companies and Nikko) compete in the high-end market. The markets other than the high-end market, though they enjoy high volume, have high credit risk, and there is no change to our policy of not entering these markets.

In new businesses, mobile crushers of the mobile plant (MP) business had great success, and Nikko is continuing to expand its market share. Cumulative units sold have exceeded 110 units, and when counting smaller models, we are looking at annual sales of 40 units. In the medium term, we expect an increase in parts sales, which is a stock business, and therefore we will be pursuing enhancing parts stock and establishing a service structure (see p. 30).

In the 2030 Vision, the Company has revised upward its net sales target from 50.0 billion yen to 60.0 billion yen. Please explain the background and the important points to achieve that target.

When we drafted the previous Medium-Term Management Plan in 2019, the 2030 Vision was closer to a concept. As time passed, management consultants also got involved as we promoted a business administration project to prepare a more accurate medium-term management plan. As a result of that, and based on the performance for the three-year period, we revised upward the 50.0 billion yen net sales target for FY 2030 we set forth in 2019 to

60.0 billion yen. At the same time, we brought forward the 50.0 billion yen target by six years to FY 2024, the final year of the current medium-term plan (see p. 5). We were able to carry out capital investment for future growth in the previous medium-term plan, led by manufacturing capital. While we will continue to make high level investments in the future, in the current medium-term plan our focus will be on enhancing human capital by increasing the personnel count and improving their skills. We are planning to increase the employee count by 145 for Nikko on a non-consolidated basis in the current medium-term plan period (against an increase of 69 during the previous plan period). Of this, 59 people will be AP-related and 20 will be BP-related, and we will also increase the number of development and mobile plant employees. We will also more than double the investment in R&D, which is intellectual capital, to 2.53 billion yen (1.19 billion yen in the previous medium-term plan). This will include not only the development of new environment-friendly products, but also support for remote operations and automation, system development, and IT investment. In capital investment, we are also considering a structure that will bring together cooperating companies, with Nikko at the center, to prepare for future supply chain risks (see p. 25).

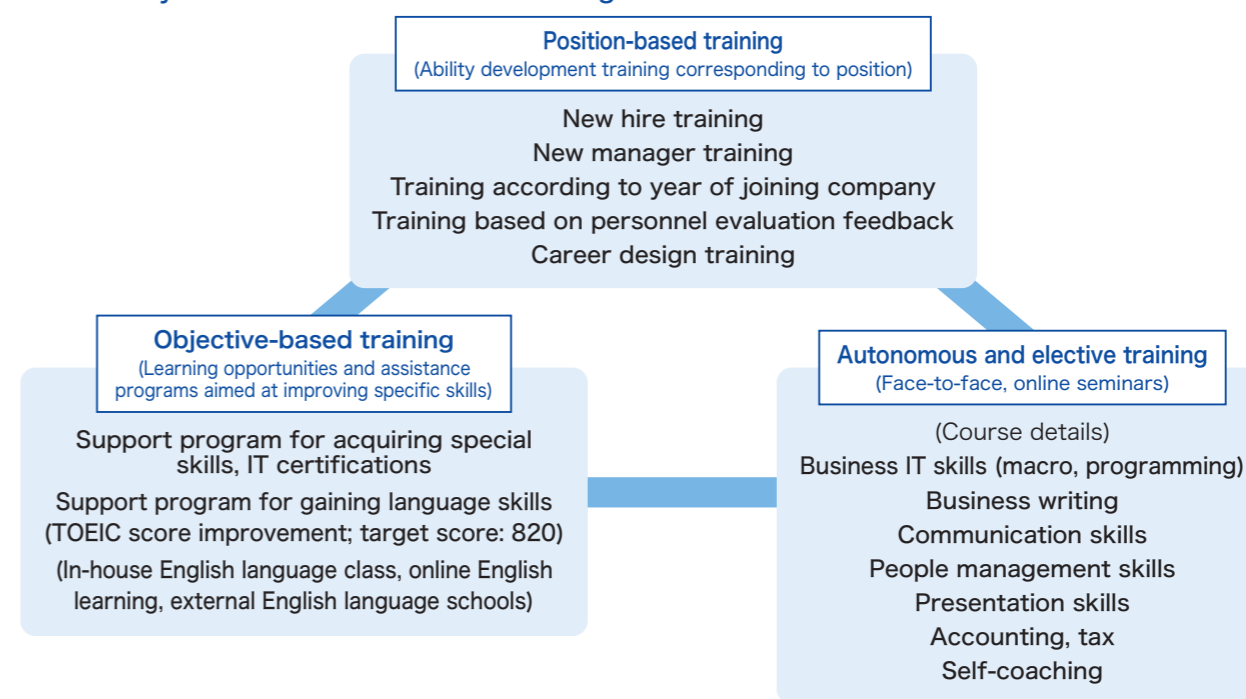
I believe that it will be necessary to review the functioning of the head office plant in the near future. For example, by collaborating with overseas manufacturing subsidiaries and cooperating companies, the head office plant can primarily be involved in assembly, among other scenarios.

By business, we are anticipating an improvement in the profitability of the AP-related business and growth in the other business, which includes Ube Kohki, which has been made a subsidiary, as well as new businesses. Domestic AP-related business will leverage its high technological capabilities as the top manufacturer to ensure decarbonization, remote operations and



The new medium-term plan is the phase to make internal investment for 2030. We will then move on to the business expansion phase starting from FY 2025.

● Three systems of education and training



Amount invested in personnel training and training hours (total for FY 2021):
¥12,847,000 and 3,204 hours (only for major programs)

automation technology to provide plant operation support to customers more than ever. Also, as the top manufacturer in Japan, the BP-related business has in sight to acquire the domestic dynamic share of 50%, and will carry out the comprehensive management of ready-mix concrete plants and product development to meet the high quality requirement of pre-cast concrete plants (see pp. 39, 41).

The key to the AP and BP strategy is the reformation of the maintenance service business, and in addition to streamlining the current operations, we will pursue the spread of subscription and other new services. Net sales of the maintenance service business for FY 2024 are planned to be 13.0 billion yen, which is more or less the same as those of FY 2021, but we aim to improve profitability. **Maintenance service will be considered as asset management (management of customer assets with prevention and maintenance at its core)**, and we will rebuild (segmentation, division of labor, and integration) the service business structure by carrying out remote maintenance with smaller numbers of people or without people. The reason why the net sales of the maintenance service business are flat is because we are placing importance on pursuing profitability by proceeding with improving the constitution within operational reform. It will be necessary to make significant changes to the division of roles of the business in these three years (see p. 28).

This medium-term plan is positioned as the internal investment phase to achieve the 2030 Vision. On top of having significant increases led by human and intellectual capital, we are also going ahead with the

establishment of systems, processes, and precision such as the spread of new services and system development, with also a focus towards 2030.

Regarding the utilization of management capital for raising the ability to generate cash flows in the future, which management capital does the Group lack upon achieving 2030 Vision, and how do you plan to strengthen that?

For achieving the 2030 Vision, it is imperative that we bolster and utilize human capital, which is the management capital that we lack the most. There are various ways to do that such as securing diversity, and raising the employees' skills and is not just limited to increasing hiring. So, first of all we have to think of how we will leverage the current employees to strengthen such. We also need to develop more women-friendly workplaces. We are currently reviewing our personnel system including these factors, and plan to enact it on April 1, 2023. The new personnel system carries out evaluations based on the level of performance, and if that mechanism is implemented further, it will raise the motivation of talented employees, which is expected to strengthen human capital. We are breaking away from the seniority system, and we will also allow employees to skip grades (job position). We will also review the existing old-style allowance system, link it with the new personnel system and distribute that capital to where it will lead to the Company's growth. We are also considering diverse

workstyles such as side job and second job system as well as an open recruitment system (see pp. 35, 65).

To be specific, we are lacking human capital the most in the maintenance service business.

The workload is high here, and since it also accounts for the highest share in net sales of Nikko Group, this is the most important challenge in achieving 2030 Vision. To that end, we need to change the business from a maintenance service to one where we manage the customers' assets. We are aiming for a win-win system where we not only respond to the emergency repair demands of customers but also offer customers a steady operation of plants, while we earn asset management revenue. For that purpose, we will build a business model that will level the maintenance service business work.

This also requires streamlining operations. The operations carried out by the maintenance staff not only require the knowledge of machinery and maintenance techniques, but also negotiations skills and spontaneity. On top of these, it involves numerous management items such as safety, process, credit, ordering, billing, and sales, and it will take more than 20 years to gain proficiency in all operations. We hope to also get some outside help and develop an outstanding system to streamline operations. Also, instead of recruiting maintenance staff, if we can hire a staff for system and data management, it will provide immediate firepower. We will restore the maintenance service business from its overflowing condition right now to what it should be, and set the net sales target for the business at 13.0 billion yen in the new medium-term plan. Along with modifying the harsh business details, we will also pursue streamlining by carrying out segmentation and reconstruction of the contents, after taking into consideration the operation's specialization. Through this we can expect to utilize and strengthen human capital. We have been blessed with high sales in the maintenance service business. Going forward, we will be focusing on data analysis, IoT, and DX, by combining the utilization of intellectual capital of IT and sensors along with human capital (see p. 61).

We also need to strengthen intellectual capital. Though we have installed development and testing devices inside the company, it is not possible to recreate the field experience inside a company. We hope Nikko will get an opportunity to make investments and operate the plant along with its customers. That is because the situation is different between the testing device and the site. Gaining actual experience in plant operation would enable the development of better plants, and the

staff will be able to carry out plant management while being an engineer. Furthermore, we hope to be able to carry out development along with customers as equal partners at the business level (see p. 36).

What are the important ESG issues for improving sustainability? What kind of strategies and figures do you have in mind regarding environment (E) including realization of CN? Please explain along with the sustainability initiatives in governance (G).

We have listed CN-related initiatives for the environment (E). We have presented our decarbonization road map for asphalt mixture plants towards 2050 to customers. Nikko aims to achieve 4.0 billion yen in net sales of decarbonization-related products in FY 2030 (1.2 billion yen in the FY 2022 plan). Environment has not only AP- and BP-related themes but also company-wide themes, and we will also focus on the environmental recycling business, which is a new field. The target is urban mines. We consider recycling equipment for waste consumer electronics, construction waste, and waste materials generated at each manufacturing factory as a pillar of our business. In recycling construction waste materials, major business opportunities exist for treatment systems for plasterboards, soil contamination, and waste soil from dredging, and this is a field where we can contribute to society. We will expand our track record of recycling system for batteries, which are going to increase as we go forward. Maekawa Kogyosho, a subsidiary, has received requests for processing solar panels, and we also expect demand for recycling processing in the future. Nevertheless, cross-business initiatives are necessary for environmental recycling and we need to rebuild the teams that are working on it (see pp. 49, 51).

In governance (G), we established the Nomination and Remuneration Committee after announcing that we would list our shares on the Prime Market of Tokyo Stock Exchange. As for the composition of the board of directors, it has four outside directors including one female director, which satisfies the new Corporate Governance Code. We need to build a board structure and acquire the skills that are suitable for improving medium- to long-term business sustainability. Until now, there were times where I felt that the agenda items were adopted depending on the sensitivities of the times. In the future, however, we will need effectiveness of governance adapted to sustainability. It is also important to work on nurturing directors and officers' successors, including the president (see p. 73).

connect in fields that go beyond existing boundaries. In terms of engagement with employees, we need to create opportunities for female employees to participate actively, which has been an issue, and make progress in diversity and inclusion so as to solve matters that are likely to grow into issues in the future. On April 1, 2022, we uniformly raised the salary of employees, and along with the new personnel system to be introduced in the next fiscal year, we will also aim to instill our corporate identity.

We would like to discuss our initiatives for achieving growth with our shareholders and investors by engaging with them through business results briefings, individual meetings and other means, while offering shareholder benefits and conducting questionnaire surveys by keeping in mind the payout ratio (dividends) they expect from us.

We will drive forward collaboration with customers and suppliers by working together on new challenges (joint development) and identifying themes that will lead to a mutual work style reform.

We would like to step up to a phase that is different from where we are at the moment by incorporating the viewpoints of sales and technology in the conversation (see p. 67).

Finally, please give us a message including a review of your tenure from the time you were appointed president to the present, as well as the corporate value that you consider important, and your responsibilities being in top management.

I took office as president on April 1, 2019, the same year that Nikko marked its 100th anniversary. At that time, we built the Techno Center on the west side of the

head office building and consolidated our technology divisions there. That building is now running at full capacity as the number of engineers increased.

As the scale of our business grew, our impact (contribution) to society also increased, magnifying our corporate responsibility and raison d'être. In recent years, our employees have also started feeling the growth of the company, and we will aim for 60.0 billion yen in net sales in 2030 with the 40.0 billion yen as a waypoint. If the scale of the company grows further, the number of Nikko Group employees is also expected to grow significantly from the current 1,300. The most important matter upon considering corporate value, I believe, is continuity and it is my role to take that responsibility. Nikko is not an owner-operated company and the term of office of the president is also fixed to a certain extent, and it is my duty to create a mechanism for continued growth during this period. I would like to ensure a passing of the baton on to the next chief executive so that the company continues to move in the growth trajectory.

It is necessary to also improve the earning power to raise the corporate value in capital markets. Rather than simply increasing the volume of existing business, what is important here is operational reforms. For example, we need operational reforms that lead to the enhancement of earning power such as next-generation preventative and predictive maintenance services through asset management and developing designs that are convenient for maintenance and manufacturing. In operational reforms, we would like to offer valuations that are satisfactory to the employees by accepting higher costs when it is necessary (see p. 21).

We look forward to the continuous support from our stakeholders. We will strive to deliver management that lives up to their expectations.

Session 4. Stakeholder engagement-related initiatives

In order to achieve the 2030 Vision and raise the corporate value, it is necessary to win the trust of the stakeholders by cooperating with them. What kind of engagement do you think is necessary in the future for this?

Nikko's corporate philosophy has been customer first over a long period of time. To solve social issues, it is necessary to build a relationship of trust through repeated engagement with the stakeholders, including customers, and share the same goal (interest) with them. Going forward, it is also important that we

We will aim for the same goal as our stakeholders in order to improve our corporate value.



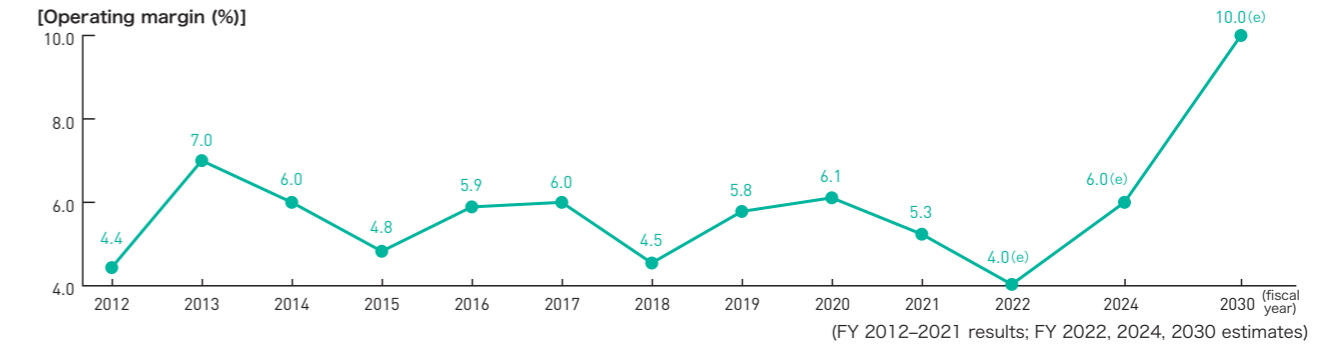
In its 2030 Vision, Nikko Group aims to achieve 60.0 billion yen in net sales and 6.0 billion yen in operating income (operating margin of 10.0%) in terms of economic value by expanding service business while maintaining and strengthening the Nikko brand, symbolized by its technical prowess and product appeal as a manufacturer. Further, of the four material matters related to social and environmental values, it lists; “realization of carbon neutrality” and “establishment of a recycling-oriented society,” which are related to environmental value, and “human resource development and improving job satisfaction,” which is related to social value. The Group aims to improve its corporate value by simultaneously raising economic value and social and environmental values.

Image of corporate value improvement from FY 2021 to FY 2030

The Nikko Group created a graph illustrating how it will raise its corporate value from FY 2021 (results) to FY 2030. The Group positions the period of the current Medium-Term Management Plan till FY 2024 as a phase for internal and upfront investment for business transformation and scale expansion leveraging Nikko’s technology. It positions the period after that as a phase for business expansion in terms of both social and environmental values. The Group expects operating margin, which is a KPI of economic value and was 5.3% in FY 2021

(results), of 6.0% in FY 2024 and forecasted to be 10.0% in FY 2030. At the same time, net sales of carbon neutrality-related products, which are KPIs of environmental value were almost 0.5 billion yen in FY 2021 (results) and are expected to be 1.2 to 1.3 billion yen in FY 2022–2024, almost 2.0 billion yen in FY 2025–2027, and about 4.0 billion yen in FY 2028–2030. The Group aims to achieve 50.0 billion yen in market cap, which is a KPI for corporate value, as of the end of FY 2030 (24.3 billion yen as of the end of FY 2021).

Operating margin of Nikko (graph)



Social and environmental values - net sales of carbon neutrality-related products

Nikko Group combines seven technologies for developing products to achieve carbon neutrality: 1) fuel transition, 2) warm mix, 3) transformation of the material storage system, 4) reform of the plant system, 5) CCU, 6) transformation of the mixture delivery system, and 7) electrification. In FY 2021, most of the net sales of carbon neutrality-related products,

which is a KPI of environmental values, were from fuel transition and the remaining were from warm mix. In fuel transition, fuel is expected to be switched from heavy oil, which emits large volume of CO₂, to city gas, natural gas, and biomass fuel for the time being, and will subsequently switch to ammonia and hydrogen, which are free of CO₂ emissions (see p. 53).

Net sales target of related products and investment plan (the figures for FY 2021 are results)

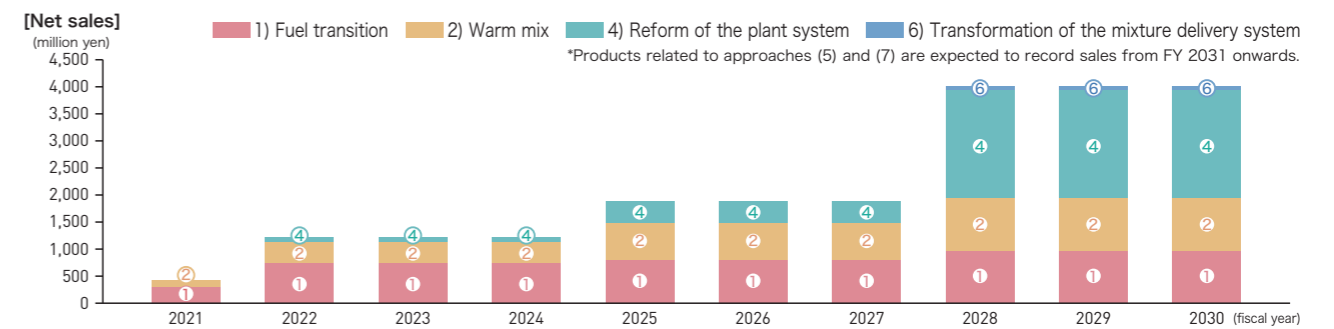


Image of corporate value improvement towards FY 2030

Economic value KPI

Operating margin

FY 2021:	5.3%
FY 2024:	6.0%
FY 2030:	10.0%

Environmental value KPI

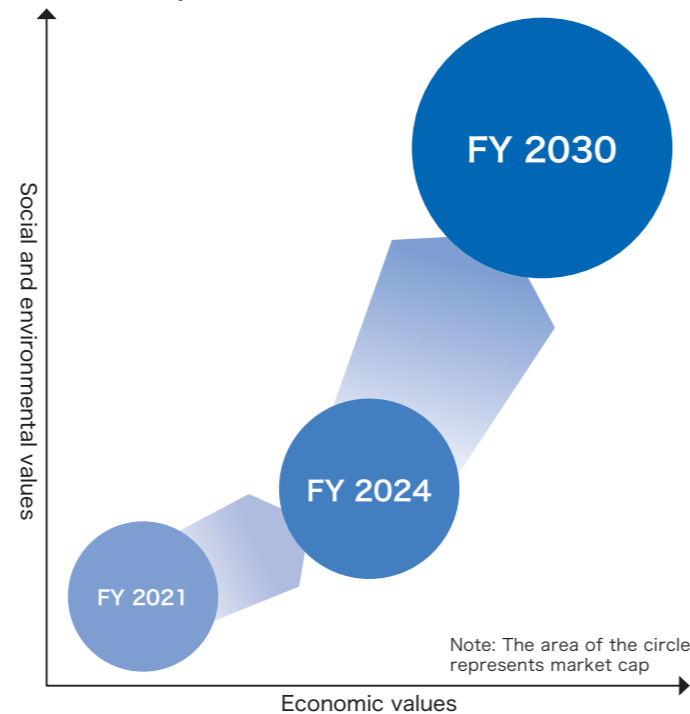
Net sales of CN-related products

FY 2021:	0.5 billion yen
FY 2025:	2.0 billion yen
FY 2028 onwards:	4.0 billion yen

Corporate value KPI

Market cap

FY 2021:	24.3 billion yen
FY 2030:	50.0 billion yen



Economic value - operating margin

Looking at the operating margin of Nikko Group over the long term, it was low and trending within a narrow range of 0 to 2% until FY 2011, but since FY 2012, it has been in the range of 4 to 6% in general. However, the topline continued to expand steadily and net sales have grown from 27.1 billion yen in FY 2012 to a record 38.8 billion yen in FY 2021, even though growth in operating margin appeared sluggish. The cause for the slackened growth in operating margin in the recent several years lies in the slow growth in profitability of the mainstay AP-related

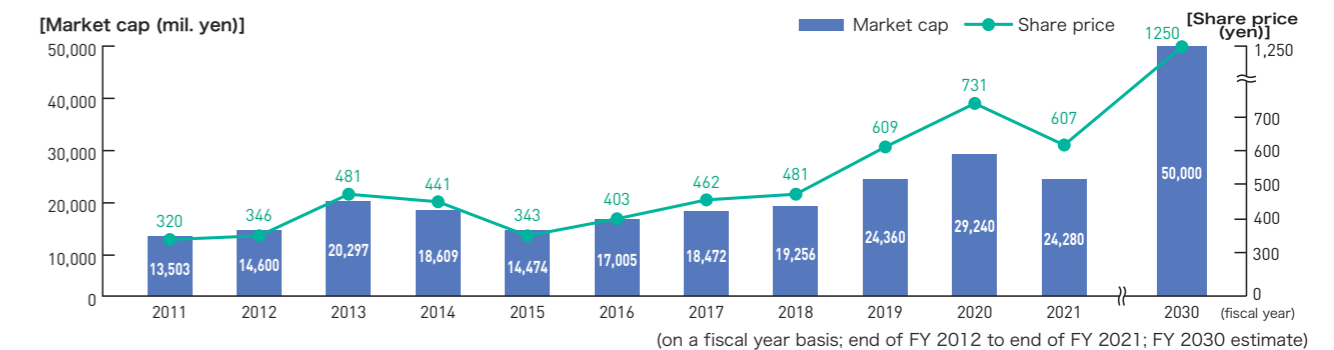
business. In the previous Medium-Term Management Plan, operating margin of the AP-related business was 6.4% in FY 2019, 6.4% in FY 2020, and 3.1% in FY 2021. Profitability of the AP-related business has been affected by factors such as recording sales on strategic order projects anticipating future maintenance revenues and cost increases especially in FY 2021 due to soaring steel and supply prices. In the current medium-term plan, the Group expects gradual recovery in the AP-related business of 4.3% in FY 2022, 7.0% in FY 2023, and 7.0% in FY 2024.

Corporate value - market cap

Nikko’s share price reached 919 yen (36.8 billion yen in market cap) at one time partly as announcement of the capital policy and strengthening information disclosure in 2019. Also, during the previous medium-term plan period, Nikko’s market cap trended from 19.25 billion yen as of the end of FY 2018 to 24.36 billion yen as of the end of FY 2019, to 29.24 billion yen as of the end of FY 2020, and to 24.28 billion yen as of the end of FY 2021, posting satisfactory total shareholder return (TSR) in general.

The 50.0 billion yen in estimated market cap as of the end of FY 2030 is based on an estimated share price of 1,250 yen (40.0 million shares outstanding). If EPS for FY 2030 is 105 yen, PER would be almost 12 times. Looking at PER for the past three years, at its lowest PER was just below 12 times and almost 18 times at its highest, with the median being almost 15 times. For this reason, the expected PER of almost 12 times as of the end of FY 2030 is considered to be reasonable, in light of the results from the past three years.

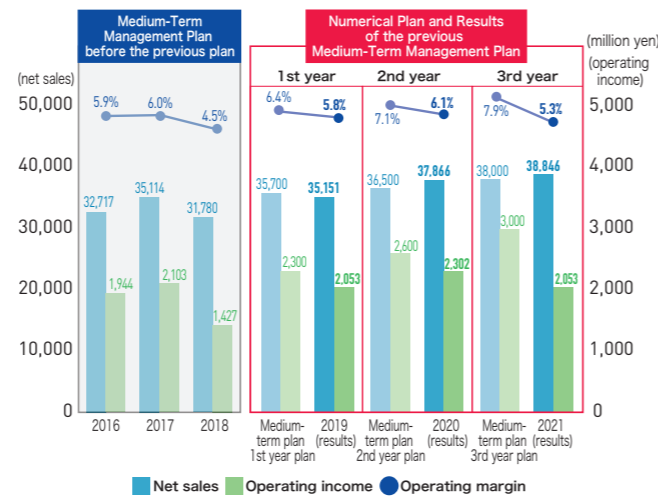
Nikko’s market cap



Review of the previous Medium-Term Management Plan

In the previous Medium-Term Management Plan (FY 2019–FY 2021) announced on August 8, 2019, we aimed to realize highly transparent and vibrant corporate business operations with five long-term (10 years) basic policies at the core. The plan's numerical targets for FY 2021, which was the final fiscal year, included net sales of 38.0 billion yen, operating income of 3.0 billion yen (operating margin of 7.9%), net income of 2.1 billion yen, net assets of 32.3 billion yen, ROE of 6.5%, and dividend per share before the stock split of 160 yen (payout ratio of 60.9%). However, we could not achieve the numerical targets other than those for net sales (record high) and payout ratio due to worsening external environment such as the global COVID-19 pandemic and soaring prices of various raw materials and logistics costs as well as internal factors of active capital investment and R&D efforts. Nevertheless, we made more-than-anticipated progress in employees' workstyle reform, improvement in the workplace environment, development of products for decarbonization, and strengthening of the fixed-rate maintenance service business by leveraging DX.

Summary of Previous Medium-Term Management Plan (1)



Review of the Long-term (10-year) Basic Policy, looking into the future, for the period of the previous medium-term plan

	Previous Medium-Term Management Plan		
Previous Medium-Term Management Plan	FY 2019 (1st year) results	FY 2020 (2nd year) results	FY 2021 (3rd 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%	Operating margin in Japan FY 2019: 6.0% → FY 2020: 6.5%	Operating margin in Japan FY 2020: 6.5% → FY 2021: 5.3%
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).	Overseas net sales: 4.39 billion yen Feb. 2020: Established Nikko Asia(Thailand)Co.,Ltd. an AP sales and maintenance company	Overseas net sales: 3.73 billion yen (Sales declined due to the impact of COVID-19) Oct. 2020: Started full-fledged operation of Nikko Asia (Thailand)Co.,Ltd. Received orders for two APs	Overseas net sales: 4.74 billion yen (estimate) Signed an agent agreement with TIPCO, the manufacturer with the top asphalt sales in Thailand The Thailand factory was completed in FY 2021.
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 2020: 1,070 million yen Waterproof board FY 2020: 900 million yen	Mobile plant business FY 2021: 1,440 million yen (estimate) Waterproof board FY 2021: 1,010 million yen (estimate) M&A March 1: M&A of Ube Kohki
4 Put work-style reform into practice Improve operation efficiency and significantly raise labor productivity (centralization of office work and utilization of IoT and AI).	<ul style="list-style-type: none"> Enhanced 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 to improve productivity dramatically (fiber laser, etc.). 	<ul style="list-style-type: none"> Continuing with the FY 2019 initiatives. Remote maintenance contract rate: Jan.-end 2020: 46% → Aug.-end 2020: 67% → May-end 2021: 73.8% Created materials and movies for webinar training, etc. (30 videos have been shot for the maintenance division) 	<ul style="list-style-type: none"> Continuing with the FY 2019 initiatives. Remote maintenance contract rate: 76.1% as of the end of March 2022 Received orders for 13 flat-rate maintenance service contracts.
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 End of FY 2018: 19.25 billion yen → End of FY 2019: 24.36 billion yen ROE End of FY 2018: 4.4% → End of FY 2019: 5.2% FY 2019 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)	Market cap End of FY 2021: 24.28 billion yen ROE End of FY 2021: 5.2% FY 2021 payout ratio: 69.5%

Key Points for Each Segment

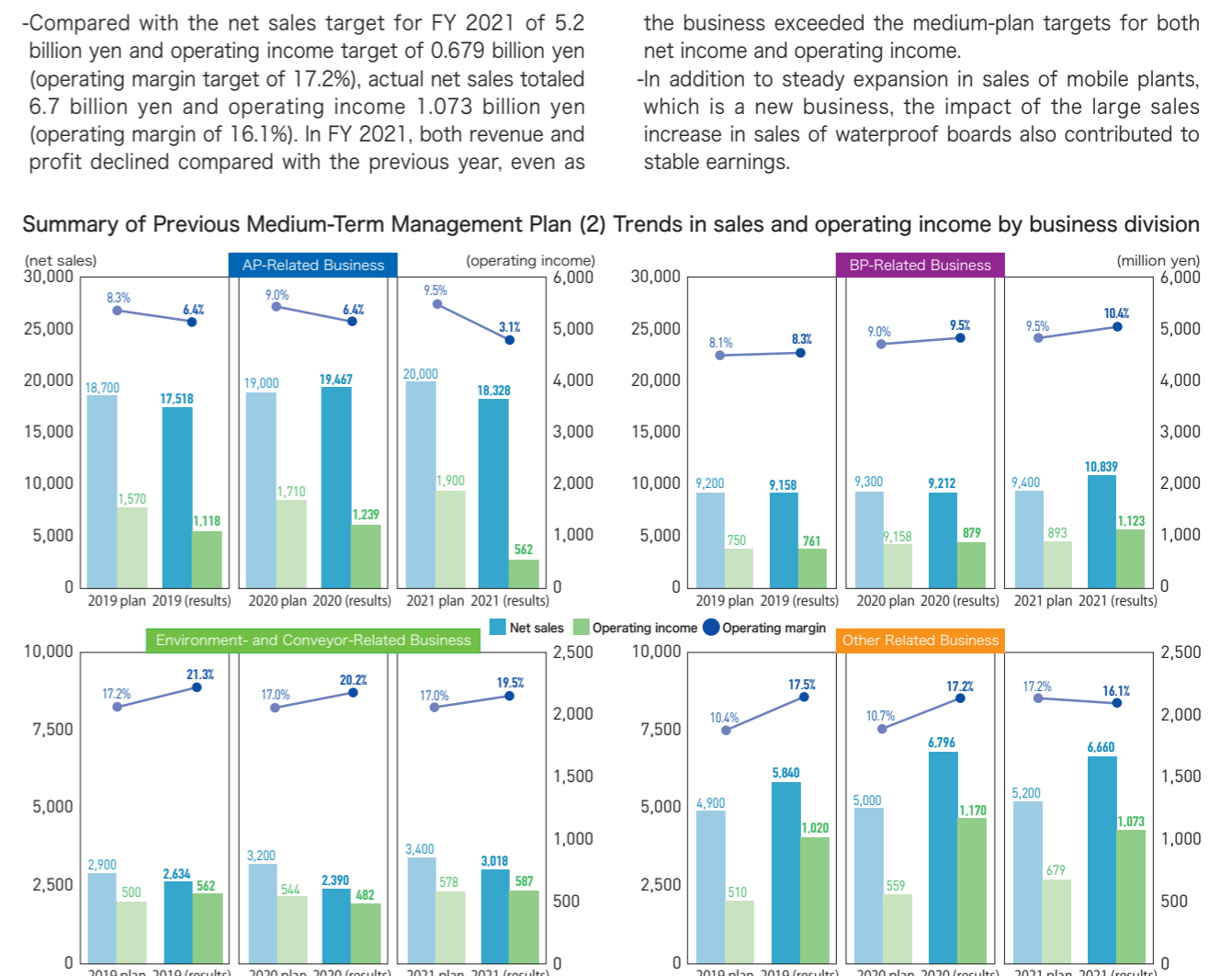
Asphalt Plant (AP)-Related Business: An issue with profits
 -Compared with the target net sales for FY 2021 of 20.0 billion yen and operating income of 1.9 billion yen (operating margin of 9.5%), actual net sales were 18.3 billion yen with operating income of 0.562 billion yen (operating margin of 3.1%). All three items fell short of the targets.
 -As COVID-19 continued to spread, the overseas business expansion with focus on Thailand got delayed in the first two years and we could not fully transfer the soaring steel price onto selling price as the delivery time of procured parts became longer.

Batcher Plant (BP)-Related Business: Cleared all three targets
 -Compared with the net sales target for FY 2021 of 9.4 billion yen and operating income target of 0.893 billion yen (operating margin target of 9.5%), actual net sales came to 10.8 billion yen and operating income was 1.123 billion yen (operating margin of 10.4%), exceeding the targets by large margins.
 -In addition to the impact of the revenue increase supported by strong replacement demand, planned production and cost reduction were successful.

Environment- and Conveyor-Related Business: Secured almost 20% in operating margin
 -Compared with the net sales target for FY 2021 of 3.4 billion yen and operating income target of 0.578 billion yen (operating margin target of 17.0%), actual net sales were 3.0 billion yen and operating income 0.587 billion yen (operating margin of 19.5%). Net sales were short of the plan but the profit came in line with the plan. Operating margin has reached a level close to 20%.
 -Sales were lower than the target, as we could not sufficiently carry out route sales activities for the conveyor business due to the impact of COVID-19 and as some customers postponed their plans. Nevertheless, the business achieved the profit target, as the effect of product price increases contributed.

Other Related Business: Posted stable profits
 -Compared with the net sales target for FY 2021 of 5.2 billion yen and operating income target of 0.679 billion yen (operating margin target of 17.2%), actual net sales totaled 6.7 billion yen and operating income 1.073 billion yen (operating margin of 16.1%). In FY 2021, both revenue and profit declined compared with the previous year, even as the business exceeded the medium-plan targets for both net income and operating income.
 -In addition to steady expansion in sales of mobile plants, which is a new business, the impact of the large sales increase in sales of waterproof boards also contributed to stable earnings.

Summary of Previous Medium-Term Management Plan (2) Trends in sales and operating income by business division



Overview of the new Medium-Term Management Plan (FY 2022–FY 2024)

On March 29, 2022, Nikko Group announced the 2030 Vision (the top manufacturer of plant facilities and environmental products underpinned by advanced technology and customers' management partner through operation and maintenance service), which details what it aspires to be in 2030, as well as the new three-year Medium-Term Management Plan (FY 2022–FY 2024) starting FY 2022. The Group positioned the new medium-term plan period as the internal investment phase for building structures, processes, and systems towards the realization of the 2030 Vision and plans to actively make investment for market introduction of new products and services and strengthening the organizational capability required for achieving goals. Numerical goals were set forth reflecting the issues and introspection regarding the previous medium-term

plan, and the Group aims for 50.0 billion yen in consolidated net sales, 3.0 billion yen in operating income (operating margin of 6.0%), and a payout ratio of 60% or higher. Furthermore, it positioned the period from 2025 to 2030 as the business expansion phase with improved profitability in which the Group expects to succeed in full-fledged sales of environmentally friendly products for decarbonization, business area expansion into the ASEAN region, actualizing the impact of introduction of technologies such as automation and remote operations, and review of production process. In the 2030 Vision, the Group aims to achieve consolidated net sales of 60.0 billion yen and operating income of 6.0 billion yen (operating margin of 10%) as well as 50.0 billion yen in market cap, which is part of the Long-term Basic Policy.

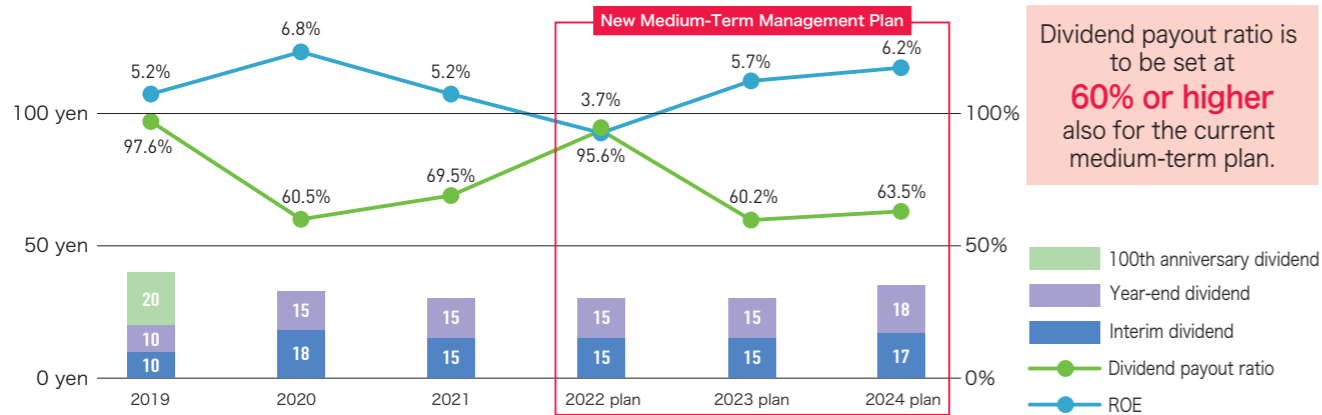
Growth investment

Item	Investment (three years)
Staff reinforcement Addition of 145 employees at parent Nikko (up 69)	<ul style="list-style-type: none"> AP-related business field: 59 BP-related business field: 20 Environment- and conveyor-related field: 12 Overseas: 6 Development: 12 Mobile plants: 11 Other: 25
R&D expenses 2.53 billion yen (1.19 billion yen)	<ul style="list-style-type: none"> AP-related business field: New environmentally friendly products, Remote operations and automation support, Operation support center, Product improvement, System development BP-related business field: Product development, EC and other IT investment, Development of standard model Environment- and conveyor-related field Overseas
Capital investment 6.0 billion yen (6.3 billion yen)	

*The figures in parentheses denote figures during the previous Medium-Term Management Plan.

Shareholder returns

	Previous Medium-Term Management Plan			New Medium-Term Management Plan		
	FY 2019 results	FY 2020 results	FY 2021 results	FY 2022 plan	FY 2023 plan	FY 2024 plan
Sales	35,151	37,866	38,846	42,000	48,000	50,000
Operating income	2,053	2,302	2,053	1,700	2,800	3,000
Net income attributable to owners of parent	1,588	2,082	1,649	1,200	1,900	2,100
Dividend per share (yen)	40	33	30	30	30	35
Total dividend	1,550	1,260	1,146	1,144	1,144	1,334
Dividend payout ratio	97.6%	60.5%	69.5%	95.6%	60.2%	63.5%
Net assets	30,293	31,451	32,050	32,106	33,262	34,028
ROE	5.2%	6.8%	5.2%	3.7%	5.7%	6.2%



*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.

Medium-term plan numerical targets by segment

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

-Net sales target for FY 2024 of 23.0 billion yen and operating income target of 1.6 billion yen (operating margin target of 7.0%).

-We plan to restore operating margin to the 7% level through growth of environmentally friendly products and profit recovery at overseas subsidiaries.

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

-Net sales target for FY 2024 of 10.8 billion yen and operating income target of 1.05 billion yen (operating margin target of 9.7%).

-We expect the prices in the market to remain high. We will maintain the market share and focus on growth investment such as development of decarbonization products.

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

-Net sales target for FY 2024 of 2.7 billion yen and operating income target of 0.558 billion yen (operating margin target of 20.4%).

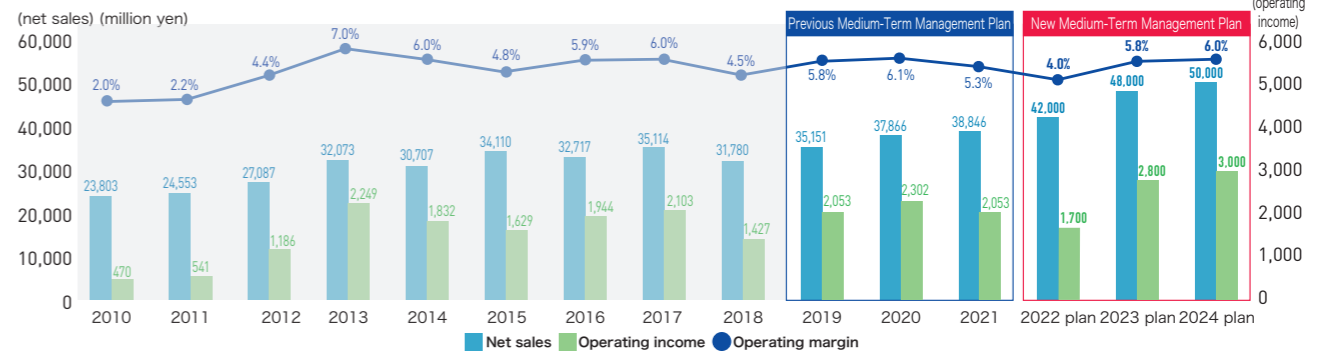
-We will prioritize securing high profitability even as we anticipate both sales and operating income to remain roughly unchanged.

Other Related Business: Aiming to secure stable operating income

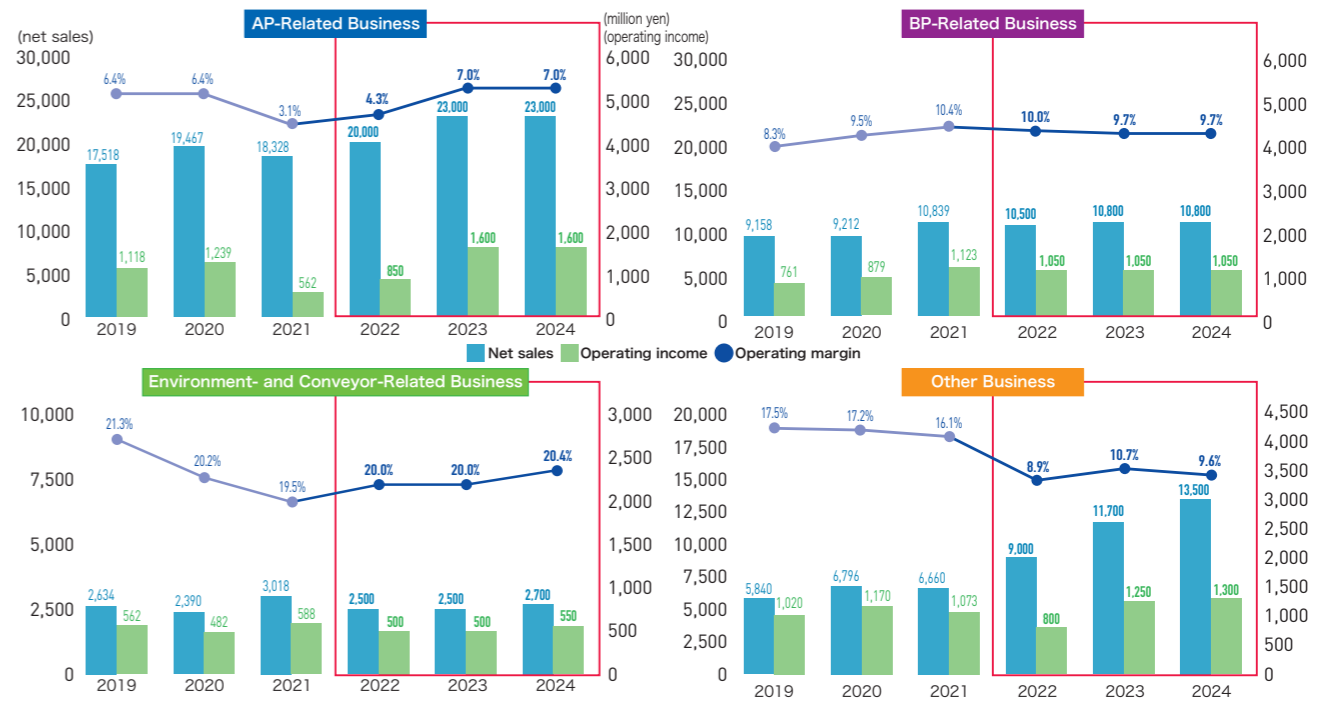
-Net sales target for FY 2024 of 13.5 billion yen and operating income target of 1.3 billion yen (operating margin target of 9.6%).

-While we anticipate a negative impact from imported products due to the depreciation of yen, we aim to secure stable operating income from sales expansion and other means.

Sales and operating income plan



Sales and operating income plan by business

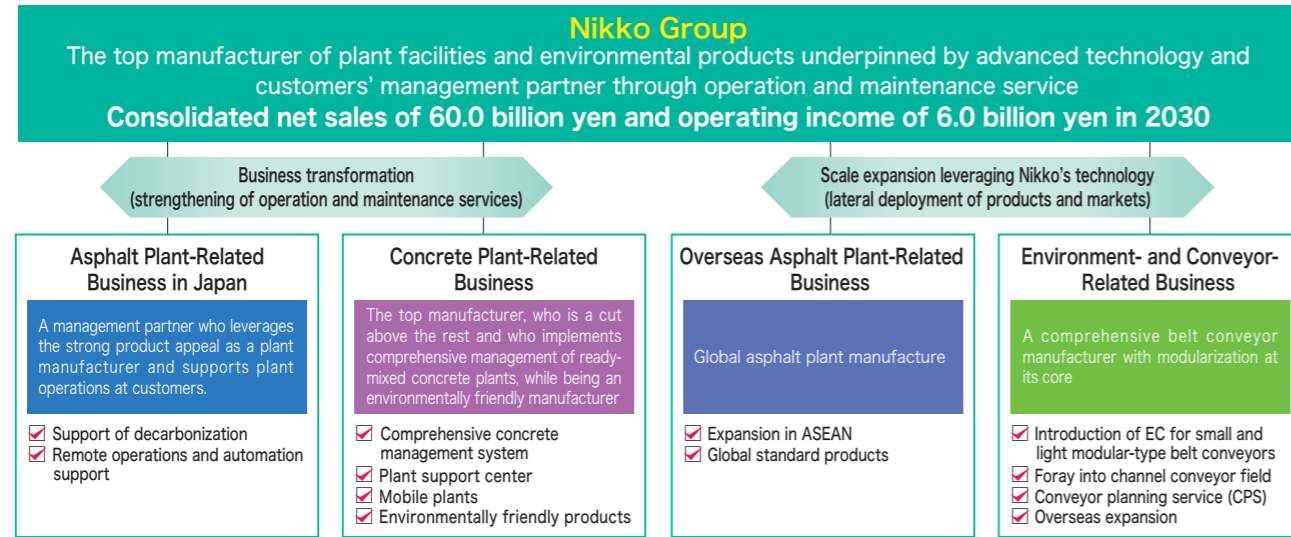


Story for achieving the Medium-Term Management Plan

The new three-year Medium-Term Management Plan is positioned as the internal investment phase for achieving the numerical targets of 2030 Vision. The Group's basic policy is to make active investment for strengthening organizational structure while working on 1) business transformation

(strengthening of operation and maintenance services at the AP-related business and BP-related business in Japan) and 2) scale expansion leveraging Nikko's technology (lateral deployment of products and markets at the overseas AP-related business and environment- and conveyor-related business).

2030 Vision ■ We will expand the service business while maintaining and strengthening Nikko brand, symbolized by our technical prowess and product appeal as a manufacturer, to achieve net sales of **60.0 billion yen and operating income of 6.0 billion yen** in 2030.



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



Business transformation (strengthening of operation and maintenance services): We aim to become customers' management partner

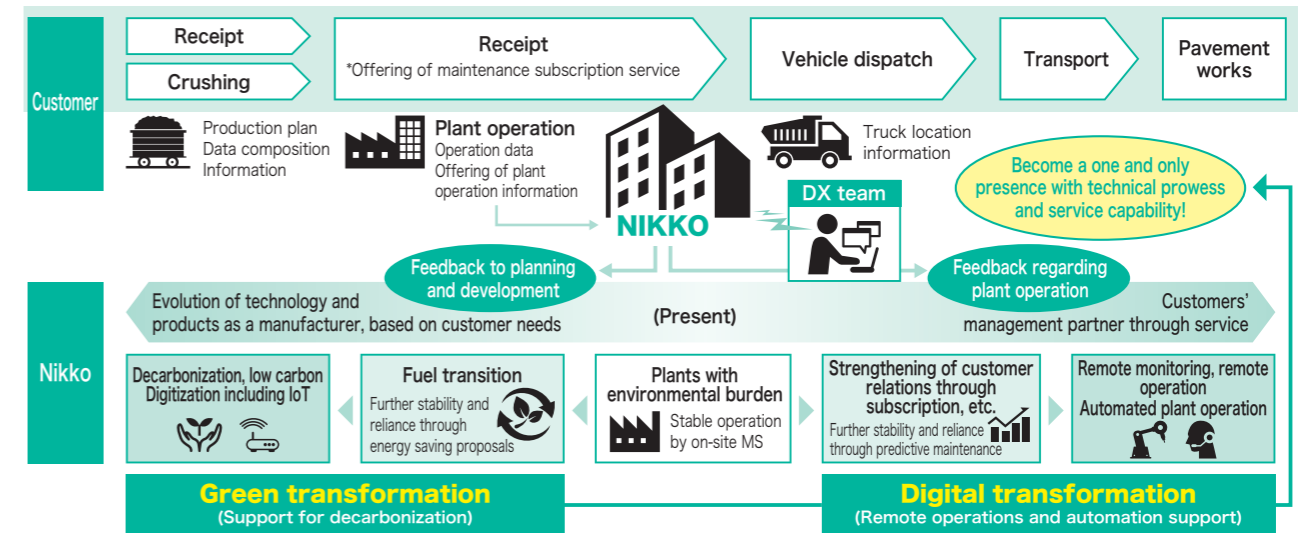
Nikko boasts the top market shares in asphalt plants and batcher plants in Japan. At the same time, the maintenance service business accounts for 45% of the total net sales of the two businesses. We aim to secure firm technological advantage by powerfully driving forward sales expansion of environmentally friendly products and strengthening of product development. At the same time, we aim

to become a one and only presence with both technical prowess and service capability, as we offer measures against on-site labor shortage by strengthening remote operations and automation support for operational customer plants as well as support for work style reform and values such as predictive maintenance through accumulation and analysis of plant operation data.

AP-related business in Japan: Full deployment of subscription service for maintenance service

-We will provide more support than ever for customers' plant operation by leveraging our high technical prowess as the top manufacturer with approximately 70% market share in Japan and establishing decarbonization, remote operations, and automation technology.
-We aim to improve profitability using outstanding technical prowess and service capability by hiring more people and strengthening our development of new environmental-friendly products and systems since needs for such products are expected to grow in order to realize carbon neutrality.

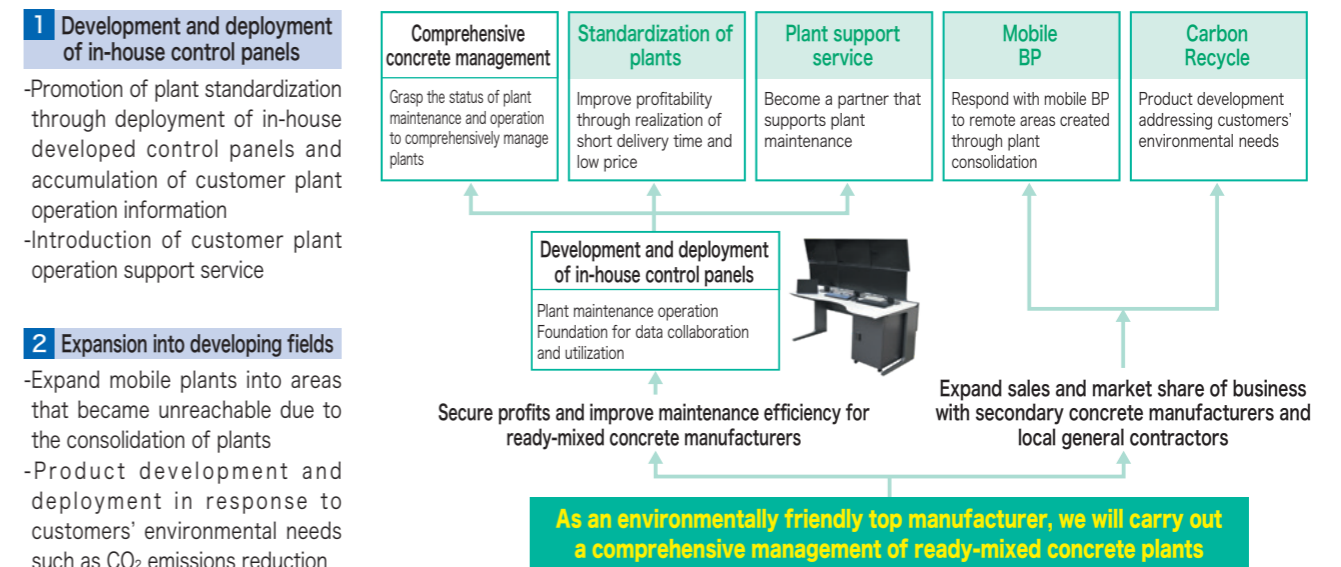
- Support for decarbonization**
 - Development of low-carbon mixture manufacturing system
 - Development of combustion technology for decarbonized fuels
 - Offering of biomass and gas combustion technology
- Remote operations and automation support**
 - Offering of partially remote shipping system
 - Development of remote operations and automation technologies
 - Accumulation of plant operation data based on expansion of the number of maintenance subscription contracts



BP-related business in Japan: To strengthen the plant operation support service for our customers

-We aim to become the number one and environmentally friendly manufacturer through the comprehensive management of ready-mixed concrete plants and development of products that respond to requirements for high quality precast concrete.
-We have secured a 46.5% market share in Japan, which is

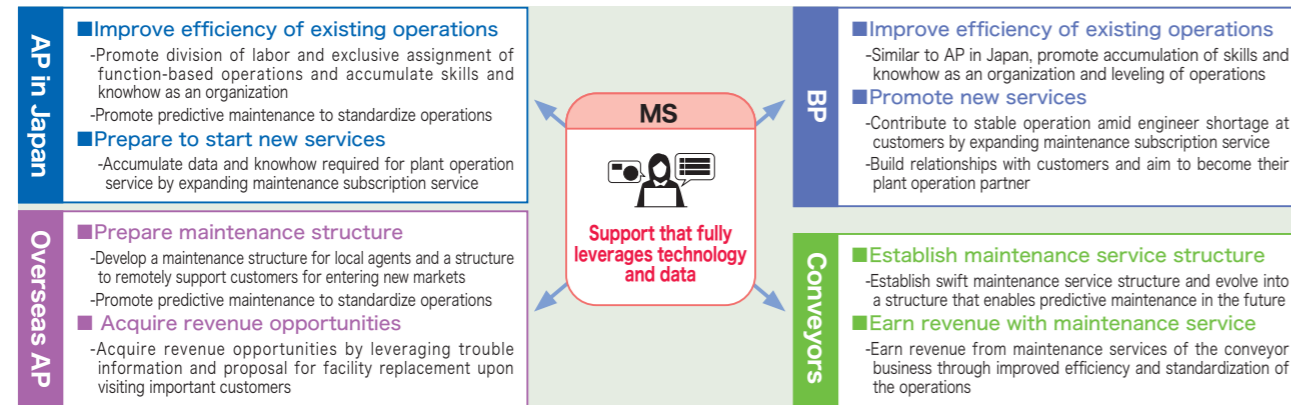
the top share. We need to boost our market share to grow further as the market remains high. We are positioning the new medium-term plan period as a time for building a structure for ensuring the top position by far, and will focus on increasing personnel and development of products.



Maintenance service: Expand maintenance service subscription and develop structure for overseas

-We aim to become an indispensable management partner for customers by improving the efficiency of existing operations through utilization of technology and data and providing support for the plant operation of our customers.
 -The maintenance service accounts for 48% of the net sales of the AP-related business and 39% of that of the BP-related business. The AP- and BP-related businesses in Japan will expand sales of maintenance subscription service and aim to stabilize customer

plant operations, data accumulation, and further strengthening of customer relations. In the new medium-term plan, we plan to increase net sales of maintenance service by about 20%.
 -The conveyor service accounts for about 3% of net sales of the environment- and conveyor-related business. In the new medium-term plan, we aim to build a structure that encompasses preventative maintenance by developing a swift maintenance structure in the conveyor business.



Scale expansion leveraging Nikko's technology (lateral deployment of products and markets): The overseas AP-related business to become the driving force of Nikko in 10 years

Business transformation is a qualitative strategy that involves improvement of profitability. At the same time, the overseas AP-related business, conveyor business, and mobile plant business aim to quantitatively expand profits by laterally deploying successful cases of the existing businesses and Nikko's technology. In particular, the overseas AP-related business, where the Thailand factory started full-

scale operations, will develop low-priced global models and position the Thailand factory as the production base for the ASEAN market while driving forward market development in Indonesia and Vietnam. The conveyor business will start expanding the sales of channel conveyors, which have high unit price, targeting existing customers. The mobile plant business will promote enhancement of its product lineup.

Overseas AP-related business: From being No. 1 in Japan to Asia's leading company

-In addition to full-scale operation of the Thailand production base, we aim to build a sales structure in Indonesia and Vietnam.
 -For the Chinese business, we plan to raise net sales for FY 2024 to 5.5 billion yen (4.5 billion yen in the previous fiscal year) and operating income to approx. 0.4 billion yen (breakeven) as an environment of favorable orders continues and the business also benefits from the impact of product price revision.
 -The Thailand business aims for net sales of about 1.2 billion yen in the final fiscal year of the medium-term plan (more than 0.1 billion yen in FY 2022) and posting operating income (approx. 0.3 billion yen in loss), as its local factory began operations in March 2022 against the backdrop of the robust demand environment.
 -In terms of market, there are about 700 estimated units being operated in Thailand, about 1,000 in Indonesia, and about 500 units in Vietnam. We aim to expand our business into Indonesia and Vietnam by laterally deploying the successful case study in Thailand.

2 Develop the structure to foray into new markets

-During the new medium-term plan period, we will newly enter into the Indonesian and Vietnamese markets
 -Enhance production capacity in China and Thailand to cover the entire area of ASEAN
 -Build collaboration structures with local sales agents



1 Design standard plants for overseas (universal model)

-Launch a marketing team for grasping the needs of each country
 -Design a new standard plant with price competitiveness that corresponds to the needs of the overseas markets by introducing supplies, etc.

Conveyor business: Enter the stringer conveyor market, which has a large market

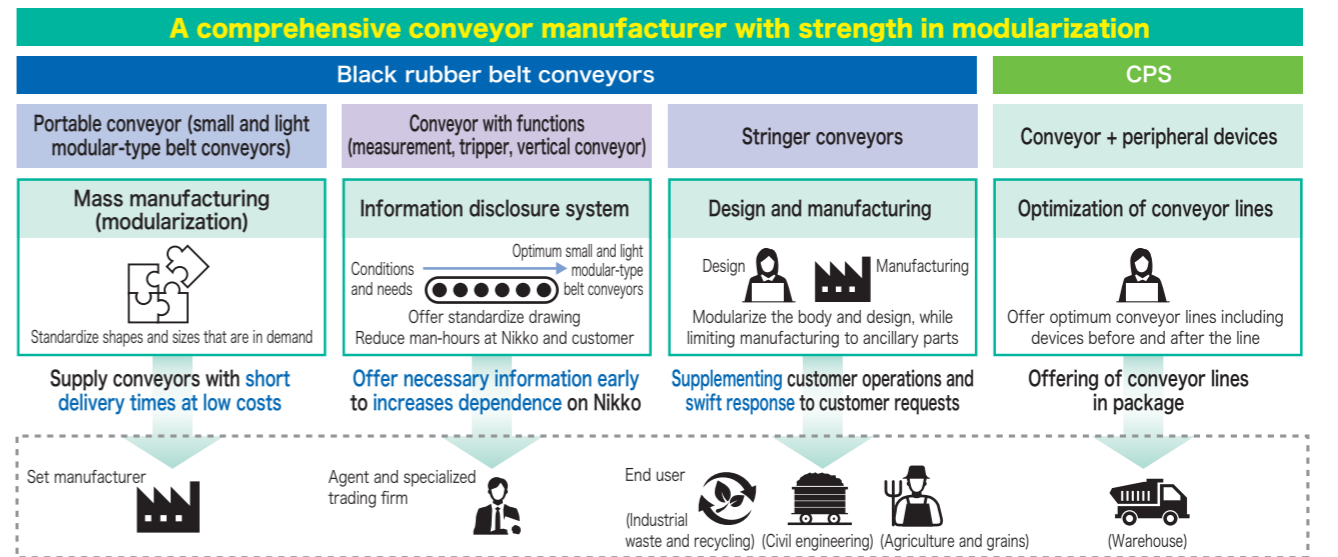
-We aim to become a manufacturer that realizes short delivery time and low price through modularization and offer conveyor lines in a package.
 -We will modularize and strengthen the design and manufacturing of our portable conveyors, which have about 60% market share in Japan and account for about 80% of the business's net sales, so as to respond to customize requirements. We will also aim to expand sales of stringer conveyors, which are slated for a full-scale launch, based on a strategy of shortened delivery time through modularization. The stringer conveyor belt market is estimated to be 6.0 billion yen compared with the estimated 3.0 billion yen market for portable conveyors.

1 Further modularization of portable conveyors

-We will become customers' partner, offering speed, cost competitiveness, and security based on standardization of options.

2 Package offer of conveyor lines

-Offer modularized stringer conveyors with short delivery times at low prices.
 -Contribute to the convenience and efficiency for the users by working on the engineering of the conveyor system and its peripherals.



Mobile plants (other business): Strengthen sales expansion by using environmental superiority as a weapon

-Against the background of strong replacement demand, we plan to capture the largest sales share by expanding the product lineup to strengthen profitability.
 -We aim for net sales of 2.5 billion yen in the final fiscal

year of the medium-term plan (approx. 1.5 billion yen in the previous fiscal year) and net sales from maintenance services of around 0.1 billion yen in FY 2023.

Mobile plants = self-propelled Crushers, belt conveyors, soil improver

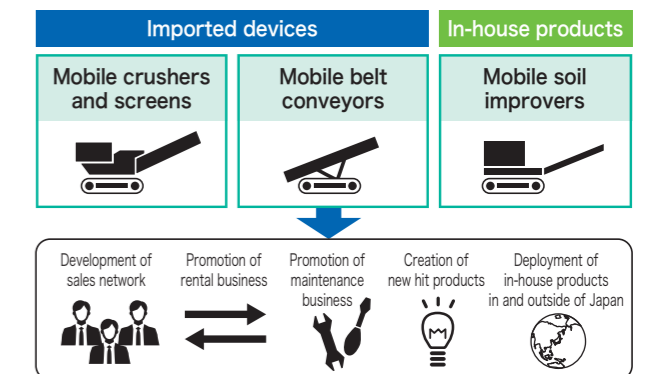
■ Advantages: Easy to install, quick to use, easy to move to the location, sales channel for selling second hand machinery

1 Towards stabilization of business

-Build sales network, establish and promote rental business
 -Promote maintenance business

2 New product development, development of proposed products

-Research of market and customer needs
 -Promote sales in Japan and overseas through the development of in-house products



Creation of new hit products
Market for self-propelled crushers, screens, soil improvers
199 units Japan Construction Equipment Manufacturers Association data

Strengthen performance, ability to propose technology, and maintenance support capability

➔ FY 2024: To achieve a 50% market share and NO.1 sales share ➔ **Growing profitability**



We will increase investment in growth, including in human capital, while maintaining the 60% dividend payout ratio in the Medium-Term Management Plan, to achieve the 2030 Vision.

Senior Managing Director and General Manager of Administrative Division
Hiroshi Fujii

Nikko Group's financial and capital policy and approach as the officer in charge of finance

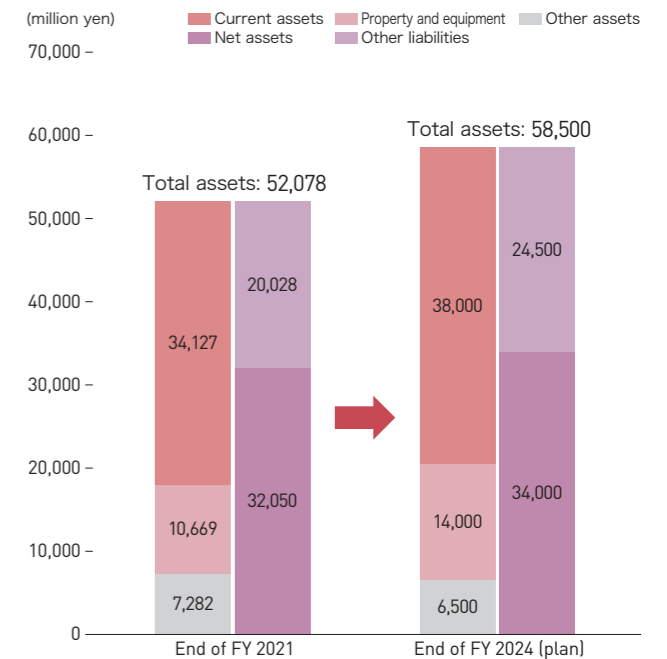
In recent years, Nikko Group's financial strategy has been mindful of making active capital investment as well as R&D, human resources, and other investments that will lead to growth. In the past the policy was about further reinforcing a stable financial base, but as the officer in charge of finance, I am currently not thinking of putting the brakes on investment for growth. Nevertheless, we are not going to spend that cash wastefully, and will make the equity ratio above 50% as a benchmark for our financial base (61.5% as of the end of FY 2021). If we assume a net asset of 34.0 billion yen (32.0 billion as of the end of FY 2021) in FY 2024, the final year of the current medium-term

management plan, we can raise the total assets up to 68.0 billion yen (52.0 billion yen as of the end of FY 2021). Our capital policy is to keep in check the accumulation of total assets to improve the ROE by maintaining a payout ratio of above 60% also during the current medium-term management plan period, as a measure to ensure shareholder returns. We expect a ROE of 6.2% in FY 2024, which will exceed the average cost of shareholders' equity of 4.4% over the past five years. In the 2030 Vision, we are aiming for an ROE of 10%, and therefore it is necessary to further expand the equity spread of the cost of shareholders' equity.

1 Outlook of balance sheet in the Medium-Term Management Plan taking into account the financial performance in FY 2021

Changes to the FY 2021 balance sheet in the assets side involved a 2.23 billion yen increase in inventories, while on the liabilities side, contract liabilities, which is roughly equal to down payments, was 4.42 billion yen. I do not consider the rise in inventories as excessive as most of the increase was for order-based production. It also includes the 0.45 billion yen prior to AP shipment at the Thailand subsidiary, which constructed a local plant. Another factor is that the shipment in the first quarter of FY 2022 was large. Account title of down payments was changed to contract liabilities, but there was an increase of 1.47 billion yen, which was due to an increase in orders for AP. We are anticipating total assets of about 58.5 billion yen, excluding M&As, in the balance sheet for FY 2024, the final year of the medium-term management plan (FY 2022–FY 2024), and net assets of around 34.0 billion yen. Based on the capital investment plan of 6.0 billion yen during the medium-term plan period, we are expecting property and equipment to be 14.0 billion yen (10.7 billion yen as of end of FY 2021), current assets (cash and cash equivalents + trade receivables + inventory, etc.) of 38.0 billion yen (34.1 billion as of end of FY 2021), and other assets of about 6.5 billion yen (7.3 billion yen as of end of FY 2021). As a result, equity ratio is expected to decline slightly to a little more than 58% (61.5% as of end of FY 2021).

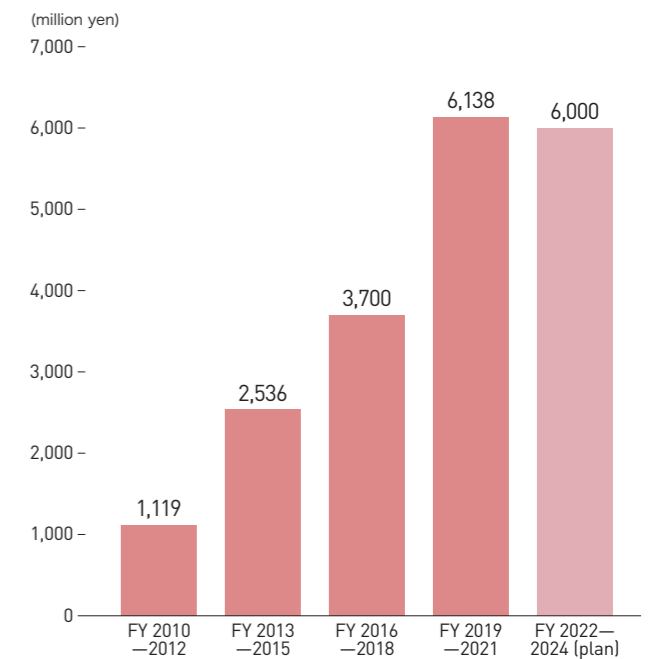
● Balance sheet trends



2 Outlook for growth investment (incl. M&A)

Capital investment for the Medium-Term Management Plan period is expected to continue at a high level of 6.0 billion yen (6.1 billion yen in the previous medium-term plan). Specifically, the breakdown of capital investment is as follows: 1.2 billion yen for the development test center taking into account the decarbonization business expansion, 0.3 billion yen for IT and other system-related investment, 0.4 billion yen for single employees dormitory, and 1.0 billion yen for land and machinery with an eye towards the consolidation of contractors. M&A will be added to this. As there is a possibility of more contractors having difficulties to continue their business in the medium- to long-term, Nikko is thinking of arranging land, construction, and facilities where it can bring together such contractors. In our M&A policy in the Medium-Term Management Plan, we are considering (1) manufacturers engaged in environmental recycling and engineering, (2) industrial equipment manufacturers (with maintenance service) with an eye towards strengthening the maintenance service business, and (3) service providers that can strengthen our maintenance and service business. At the same time, we are not considering the acquisition of companies with large intangible asset value that require a large amount of goodwill amortization.

● Trends in capital investment

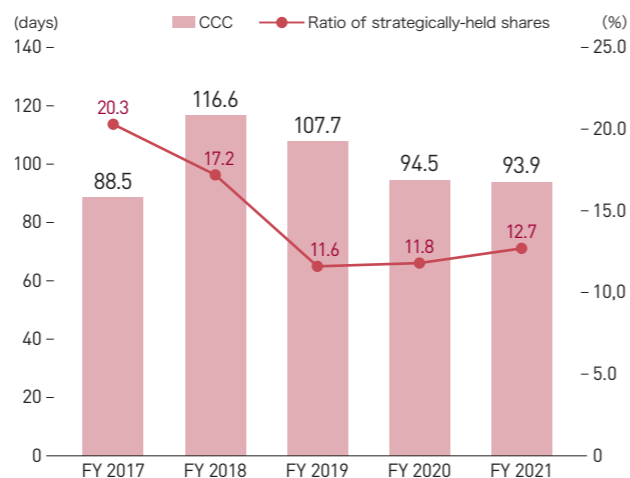


3 Improve CCC for cash flow creation and reduction of strategically-held shares

In terms of cash flow creation by streamlining the balance sheet, we were able to improve the cash conversion cycle (CCC) during the previous medium-term plan, which was 116.6 days at the end of FY 2018, to 93.9 days at the end of FY 2021. The effect of receiving down payments equivalent to a third of the contract amount at the time of order from AP customers was significant, and contract liabilities (account title changed from FY 2021), which are similar to down payments, increased from 1.63 billion yen at the end of FY 2018 to 4.4 billion yen as of the end of FY 2021, contributing to the shortening of CCC. We cannot, however, expect the same effect for this medium-term plan, and it is also difficult to shorten the deadline for notes receivable. Consequently, the key will be improvement through inventory reduction. Specifically, in AP's case, it takes more than a year from the time of the contract signing to delivery. We are pursuing the standardization of AP in order to shorten this. With respect to the reduction of strategically-held shares, we hold such shares in 22 listed companies as of the end of FY 2021 with a total market capitalization of 3.1 billion yen with a shareholders' equity ratio of 12.7%. Its ratio to shareholders' equity has decreased from the 20.3% at the end of FY 2018 in the previous medium-term plan. But in the current plan, we are also planning a reduction in excess of 0.8 billion yen

based on sales that have been finalized as of now. We are anticipating some difficulties in reducing strategically-held shares in the future as many of them are business partners, but we are aiming for a shareholders' equity ratio of 9%. We may have to take measures that involve changing the company-wide policy.

● CCC and ratio of strategically-held shares in shareholders' equity



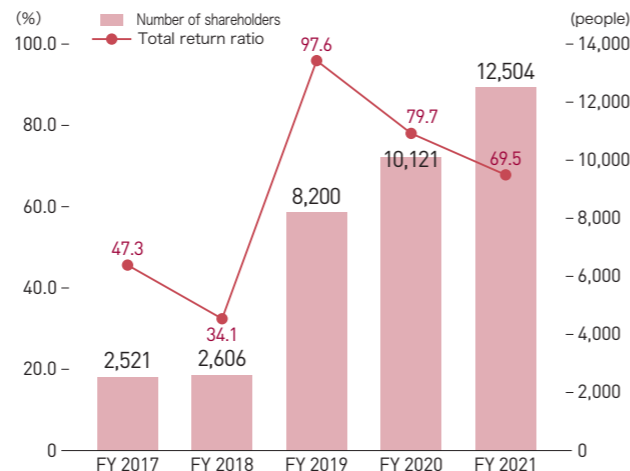
4 Policy regarding shareholder returns

We will continue to maintain the payout ratio of 60% in the current medium-term plan. We may have to consider reviewing the payout ratio in the medium-term if we are to significantly increase the investment for growth from the current level. However, we are currently not feeling its necessity. While we are maintaining our policy of flexibly acquiring treasury stock, we prefer directing the funds to growth investment for the foreseeable future. Cash and cash equivalents came to 12.4 billion yen as of the end of FY 2021, maintaining a high level, but interest-bearing debts rose to 3.7 billion yen and net cash came to 8.7 billion yen (8.62 billion yen as of the end of FY 2018). The increase in interest-bearing debts include the 1.2 billion yen for the launch of the subsidiary in Thailand.

We were able to significantly increase the number of shareholders from 2,606 at the end of FY 2018 to 12,504 as of the end of FY 2021. This could be attributed to the lowering of the minimum purchase price through a stock split making it easier to become a shareholder, as well as the improvement in dividend yield from raised payout ratio and enhanced information disclosure. We also published the result of the questionnaire survey of shareholders that was enclosed with the convocation notice for the Ordinary

General Shareholders' Meeting on our website. The survey had a high response rate of 36%. Moreover, we are planning to invite shareholders to the NIKKO MESSE 2022 held from November 1. The event, which is held at the head office once in every three to four years, is expected to provide opportunities for their interaction.

● Trends in total return ratio and number of shareholders



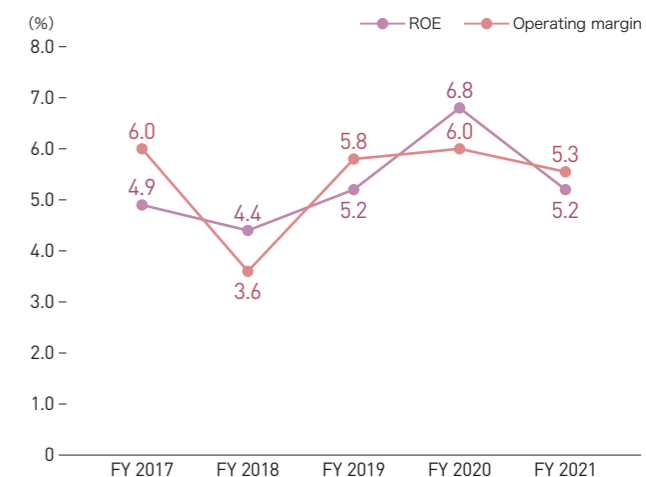
5 Capital efficiency and business portfolio management

We have set ROE as the KPI for capital efficiency. ROE was 5.2% in FY 2021, the final year of the previous medium-term management plan, which slightly exceeded the 5% cost of equity. We had raised the dividend payout ratio during the previous medium-term plan period, and we also managed to keep in check the accumulation of net assets as of the end of FY 2021, but ROE underperformed the forecast as we did not achieve the operating income target.

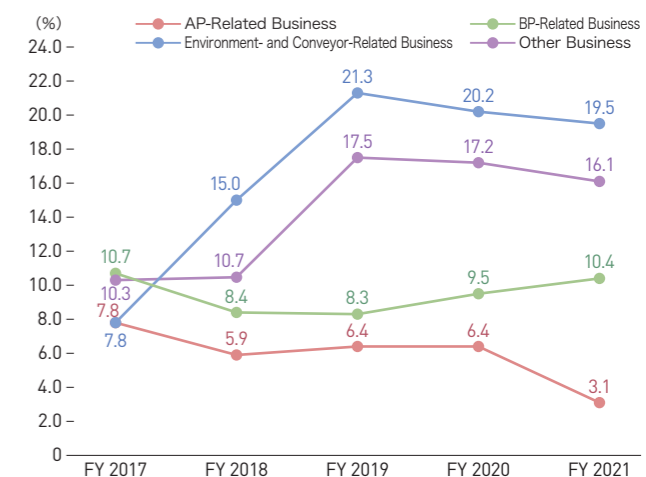
We are expecting a ROE of 6.2% (operating margin of 6.0%) in FY 2024, the final year of the current medium-term management plan, and ROE of 10.0% (operating margin of 10.0%) in FY 2030. We are assuming the shareholders' equity cost to be between 4 and 5% for the medium-term plan period, based on the average for the past five years. As we have been able to reduce the cost of shareholders' equity in the past few years, the increase in ROE is expected to lead to further expansion in equity spread. This is important for raising the corporate value and we are conscious of that. As for business portfolio management, the mainstay AP-related business failed to achieve the operating income target by a large margin in the previous medium-term management plan. The reason behind this is the fact that although we have a 70% share in the domestic AP market, instead of an aggressive strategy, we took a defensive strategy that invited a price war with our competitors and affected profitability. There was also the impact from the lockdown in China caused by the COVID-19 pandemic and the rise in raw material prices.

On the other hand, the BP-related business and the other business, which include waterproof boards, mobile crushers, screens, and other mobile products, delivered better than expected profits. So, we feel there are some issues in business portfolio management. In the current Medium-Term Management Plan, we are anticipating an improvement in profitability through a business model reform of the maintenance service business. By focusing on this management, we hope to improve company-wide profitability and lead to the achievement of a net sales target of 60.0 billion yen and an operating income target of 6.0 billion yen under the 2030 Vision.

● Trends in ROE and operating margin



● Trends in operating margin by business



We will make an effort so that the improvement in ROE will lead to the expansion of equity spread and raise the corporate value.



Financial capital In the new Medium-Term Management Plan, our policy is to maintain an equity ratio of 50 to 60% while actively carrying out investments.

In terms of financial capital, Nikko Group has a strong balance sheet with total assets as of the end of FY 2021 of 52.1 billion yen, invested capital of 33.9 billion yen (shareholders' equity of 30.1 billion yen and interest-bearing debts of 3.8 billion yen), net cash of 8.6 billion yen (cash and cash equivalents of 12.4 billion

yen), and equity ratio of 61.5%. The new three-year medium-term plan period has been positioned as the internal investment phase towards achieving the 2030 Vision, and we will be actively carrying out investment and shareholder returns (payout ratio of 60% or above), while maintaining an equity ratio of about 50 to 60%.

Source of strength

Our AP-related business has a 70% share of the domestic market, while the BP-related business boasts a 40% share, both of which are the top shares in Japan. Net sales in the service and maintenance business, in which Nikko Group expects

stable revenues, account for about 34% of its consolidated net sales, and has high capability to create cash flow. Furthermore, the other businesses, which handles waterproof boards, etc., boasts a relatively high operating margin.

Financial plan in the new Medium-Term Management Plan

Net assets as of the end of FY 2021 stood at 32.1 billion yen, and in the new medium-term plan, we plan to raise that to 34.0 billion yen as the end of FY 2024.

Input	Output	Outcome
Total assets of 52.1 billion yen	Net sales of 38.8 billion yen, net income of 1.6 billion yen	Stable profit creation
Net cash of 8.6 billion yen	Cumulative FCF for the past three years of 4.2 billion yen	High financial stability (equity ratio of 61.5%)
Invested capital of 33.9 billion yen	Dividend of 30 yen per share (payout ratio of 70%)	Attractive dividend yield (about 5%)

Manufactured capital We will deliver high quality products, manufactured under a highly efficient production structure and strict quality control, to our customers.

With the head office factory at Akashi city in Hyogo Prefecture as the mother plant, we have five factories in Japan and two overseas (in China and Thailand). In addition to developing products and systems ideal for our customers, we procure

various equipment and raw materials using a global network. We have a highly efficient production structure in the manufacturing division that combines high-precision machine tools, including a five-face machining center, with automated lines.

Source of strength

Our strength lies in our comprehensive support system based on integrated production where we not only manufacture the plant internally, but also the control panels as well. On top of the high market share, we also boast a track record of constructing more than 1,000 plants in

more than 50 countries around the world, and the stable replacement demand contributes to the stable operation of those plants. As for the maintenance business, we aim to contribute to the stable operation of customer plants by leveraging various data and other means.

Capital investment plan in the new Medium-Term Management Plan

In the new medium-term plan, we are planning to make a capital investment of 6.0 billion yen (6.3 billion yen in the previous plan) over the next three years. Specifically, in addition to constructing a new

support plant (0.5 billion yen) on the adjacent land to the Akashi mother plant, we are planning to build a development and testing center (1.0 billion yen) for product development, etc. towards decarbonization.

Manufactured capital	Output	Outcome
Capital investment of 1.9 billion yen (FY 2021)	Various products in the four businesses	Development of safe and secure roads and infrastructures
Sufficient production capability to achieve the medium-term plan goals	Thorough maintenance services	Environment-friendly recycling society
Five factories in Japan and two overseas	Production of 38.2 billion yen (FY 2021)	Employee-friendly production environment

Human capital We aim to become a professional group that is chosen as a management partner by the customers.

As of the end of FY 2021, Nikko Group had 1,038 employees (an increase of 177 from the previous year) and the net sales per employee were 37 million yen. On a non-consolidated basis, the average age of the employees are 40.8 with an average length of service of 15.3 years. The average annual salary has risen 400,000 yen from three years ago in FY 2018 to 7.10 million yen. We will

rebuild the human resources management foundation and system in the new medium-term plan, and will carry out active investments towards enhancing our human capital. The long-term (10-year) basic policy looking into the future lists the implementation of workstyle reforms for the employees, and are aiming to improve operation efficiency and significantly raise labor productivity.

Source of strength

In September 2019, we granted treasury stock with restriction on transfer to the employees of Nikko Group. In August 2021, we allotted 100 shares in treasury stock to long-time employees, new hires, and hires with prior work experience. Furthermore, we

uniformly raised the monthly wages of the employees by 30,000 yen from April 2022. We are also strengthening support for nurturing the next generation and advancing female participation to further vitalize the organization and improve motivation.

Human resources hiring plan in the new Medium-Term Management Plan

In the previous medium-term plan, we added 69 employees on a non-consolidated basis at Nikko. In the new medium-term plan, we are planning to increase the number of employees by 145 during the three-year period. Specifically, the AP-related

business field will see an increase of 59 people, 20 in the BP-related business field, 12 in the environment- and conveyor-related business, 6 in overseas business, 12 in development, 11 in mobile plant, and 25 in other business.

Human capital	Output	Outcome
Number of employees: 1,038 (of which 194 are foreign nationals)	Net sales per person: 37 million yen	High job satisfaction
Number of female employees: 59 (non-consolidated basis, of which 6 are new hires)	Number of annual paid holidays taken: 10 days	Improving ease of work
Annual education expenses: 11 million yen	Length of service (men: 18.7 years, women: 11.0 years)	High motivation

Intellectual capital We will aim to become a top manufacturer backed by high technological capability for solving social problems.

We aim to strengthen R&D in the DX field for strengthening data analysis of the plants of the AP-related and BP-related businesses and the service and maintenance business such as remote monitoring and operation of plants by

leveraging IoT, AI, etc., in addition to the development of products that contribute to the environment centered on the AP-related business (green transformation) and global standard products for breaking into the ASEAN market.

Source of strength

Nikko boasts the top market share of Japan in not only APs and BPs, but also in conveyors, where it has a 60% market share, with steadily expansion. In addition to the four differentiating core technologies of mixing (kneading), heating,

material handling (cumulative conveyor shipment: 300,000 units), and control (in-house development of the brains behind the plants), we also have a meticulous and comprehensive support system based on our own integrated production.

R&D investment plan in the new Medium-Term Management Plan

In the previous medium-term plan, we invested about 1.2 billion yen in R&D over the three-year period. We plan to increase that to around 2.5 billion yen in the new medium-term plan. In the AP-related business, we will pursue the development of new environmentally friendly products, strengthen support fields for remote operations and automation, and

develop standardized models for foraying into the overseas market. In the BP-related business, our policy involves enhancing the operation support center, product improvement and system development, and in the environment- and conveyor-related business, we will strengthen new product development as well as EC and IT investment.

Intellectual capital	Output	Outcome
R&D expenses (about 0.45 billion yen, or 1.2% of net sales)	Net sales of products contributing to CO ₂ emission reduction (about 0.4 billion in the AP-related business)	Highly differentiating technology (including control panels made in-house)
Number of development personnel: 24 (2.4% of consolidated employee count)	Priority fields for AP-related R&D (10 projects)	Environmentally friendly products that surpass other companies' products
Number of patents held by the Group: 228	Customized products that satisfy diverse customer needs	Creation of new markets

Social and relationship capital We strive towards building a strong relationship of trust with the customers, business partners, and local communities.

Nikko Group's Management Philosophy is customer first and it lists "Serve society through business" as its Company Motto. In addition to building a sustainable supply chain, the MS business, which is the Group's strength, is jointly creating values with the

Akitsu-kai, which has 195 designated contractors. The Nikko Memorial Foundation provides assistance to students who are from Hyogo Prefecture. It also donates disaster supplies to Akashi city in addition to funds for COVID-19 countermeasures.

Natural capital As a global citizen, we aim to become an environmentally friendly company.

The head office factory has acquired the ISO14001 certification, which is the international standard for environmental management systems. As a global citizen, the Nikko Group recognizes environmental preservation as one of the most important issues

based on its basic principle of "environment first." Each production base is continuously working on environmental preservation as well as improvement, and the Group has been focusing on commercializing environmentally friendly products in product development.

In FY 2021, consolidated net sales of Nikko Group totaled a record high of 38.8 billion yen, of which the AP-related business accounted for 47.2% (51.4% in FY 2020), BP-related business 27.9% (24.3%), environment- and conveyor-related business 7.8% (6.3%), and other businesses 17.1% (17.9%). Overseas, sales expansion in China and Thailand contributed significantly, accounting for 12.2% (9.9%) of the total. By segment, net sales of the AP-related business declined 5.9%,

falling greatly in Japan reflecting factors such as the worsening business performance of road pavement companies due to high raw materials prices; those of the BP-related business increased 17.7% thanks partly to the stable ready-mixed concrete market; those of the environment- and conveyor-related business rose 26.3%; and those of the other businesses fell 2.0% owing to a slowdown in sales of temporary construction materials, despite strength in mobile products.

	AP-Related Business	BP-Related Business	Environment- and Conveyor-Related Business	Other Business																																																																																																																
Business description	<p>Main products</p> <ul style="list-style-type: none"> Asphalt plants Recycling plants Crushing plant Mixture silos Electronic control devices, plant management system <p>VP II Ecological model AP, primarily for recycling</p> <p>ABD Made-to-order AP models that can handle diverse needs</p> <p>CBD Global model AP for Thailand and Southeast Asia markets</p>	<p>Main products</p> <ul style="list-style-type: none"> Concrete plants Compact concrete plants Concrete pumps Electronic control devices, plant management system Concrete manufacturing plant facilities, etc. <p>DASH-H275EvoV Twin-ADV Ultra-strong concrete plants</p> <p>DASH-H167 Pro065T Large-scale precast concrete plant</p> <p>ONZEMIX-T50 Mobile BP</p>	<p>Main products</p> <ul style="list-style-type: none"> Belt conveyors, conveyors for facilities, beverage container recycling plants Soil remediation plant, plastic recycling plant <p>Modular conveyor Conveyor using pipe frames whose lengths can be adjusted in increments of 10cm</p> <p>A plaster-based solidification material manufacturing facility It manufactures gypsum hemihydrate by drying gypsum powder. The facility manufactures solidification material by blending with cement and lime.</p> <p>Super modular conveyor Simple sealed-type conveyor using steel plate frames that ensures higher safety</p>	<p>Main products</p> <ul style="list-style-type: none"> Pipe scaffoldings, steel gangplanks Temporary aluminum staircases Shovels, spades Small-sized concrete mixers, mortar mixers Floodgates, waterproof boards, crushers Real estate leasing, construction machinery product leasing Sales of housing renovation <p>Hammer crusher Particle size can be adjusted with grate size and the desired particle size can be obtained with a single crushing.</p> <p>Mobile plant One set of crusher line (crushers, screens, belt conveyors, etc.)</p> <p>Waterproof board Waterproof boards, which are effective against water damage (internal flooding) caused by global warming</p>																																																																																																																
FY 2021 business breakdown	<p>Thailand business 1.0%</p> <p>China business 20.6%</p> <p>Plant sales 26.5%</p> <p>Maintenance service 48.0%</p> <p>Exports 3.8%</p> <p>Sales composition of the plant sales in Japan was down 6.5% pp and that of MS also fell by 0.1 pp, while the composition of Nikko Shanghai was up 2.8 pp and that of exports and Thailand rose 3.7 pp.</p>	<p>Concrete pumps 1.8%</p> <p>Nikko Shanghai 0.4%</p> <p>Exports 0.3%</p> <p>Maintenance service 39.1%</p> <p>Plant sales 58.4%</p> <p>Composition of plant sales rose 5.3 pp, while that of MS and concrete pumps fell 4.7 pp and 2.5 pp.</p>	<p>Conveyor service 3.2%</p> <p>Environmental products 23.6%</p> <p>Conveyor products 73.1%</p> <p>The sales composition of environmental products increased 14.3 pp partly thanks to recording of large-scale projects, and conveyor products was down 14.8 pp while conveyor service rose 0.5 pp.</p>	<p>Other 5.8%</p> <p>Crushers 5.1%</p> <p>Nikko-developed products 9.4%</p> <p>Temporary construction materials 22.9%</p> <p>Waterproof boards, floodgates 24.1%</p> <p>Mobile plants 21.7%</p> <p>Hand tools 10.9%</p> <p>Sales composition of mobile products, which is a new field, grew significantly by 5.9 pp, while that of temporary construction materials and other declined 2.6 pp and 5.3 pp.</p>																																																																																																																
Net sales and operating income by segment (margin)	<table border="1"> <tr><th>(fiscal year)</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022(estimate)</th></tr> <tr><td>Net sales (million yen)</td><td>17,179</td><td>16,434</td><td>17,518</td><td>19,467</td><td>18,328</td><td>20,000</td></tr> <tr><td>Operating income</td><td>1,348</td><td>963</td><td>1,118</td><td>1,239</td><td>562</td><td>850</td></tr> <tr><td>Operating margin (%)</td><td>7.8%</td><td>5.8%</td><td>6.4%</td><td>6.4%</td><td>3.1%</td><td>4.3%</td></tr> </table> <p>In FY 2021, net sales in Japan declined 13.5% (including 6.0% decline in MS sales), while overseas net sales rose 27.1%. Operating income declined 55% due to high raw material costs and strategic projects. The number of strategic projects has declined in FY 2022 and operating income is expected to increase.</p>	(fiscal year)	2017	2018	2019	2020	2021	2022(estimate)	Net sales (million yen)	17,179	16,434	17,518	19,467	18,328	20,000	Operating income	1,348	963	1,118	1,239	562	850	Operating margin (%)	7.8%	5.8%	6.4%	6.4%	3.1%	4.3%	<table border="1"> <tr><th>(fiscal year)</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022(estimate)</th></tr> <tr><td>Net sales (million yen)</td><td>9,521</td><td>7,893</td><td>9,158</td><td>9,212</td><td>10,840</td><td>10,500</td></tr> <tr><td>Operating income</td><td>1,015</td><td>666</td><td>761</td><td>879</td><td>1,123</td><td>1,050</td></tr> <tr><td>Operating margin (%)</td><td>10.7%</td><td>8.4%</td><td>8.3%</td><td>9.5%</td><td>10.4%</td><td>10.0%</td></tr> </table> <p>In FY 2021, plant sales increased 29.5% and MS sales also grew 4.8%, as facility replacement was strong reflecting the rising ready-mixed concrete price and market share also increased. Operating income grew 27.8% as we were able to reduce costs through planned production, while operating margin also improved to 10.4%.</p>	(fiscal year)	2017	2018	2019	2020	2021	2022(estimate)	Net sales (million yen)	9,521	7,893	9,158	9,212	10,840	10,500	Operating income	1,015	666	761	879	1,123	1,050	Operating margin (%)	10.7%	8.4%	8.3%	9.5%	10.4%	10.0%	<table border="1"> <tr><th>(fiscal year)</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022(estimate)</th></tr> <tr><td>Net sales (million yen)</td><td>3,931</td><td>2,775</td><td>2,634</td><td>2,390</td><td>3,018</td><td>2,500</td></tr> <tr><td>Operating income</td><td>308</td><td>417</td><td>562</td><td>482</td><td>588</td><td>500</td></tr> <tr><td>Operating margin (%)</td><td>7.8%</td><td>15.0%</td><td>21.3%</td><td>20.2%</td><td>19.5%</td><td>20.0%</td></tr> </table> <p>In FY 2021, net sales exceeded 3.0 billion yen for the first time in a long while, with sizable contributions also from sales of environmental products. In addition to sales increase, operating income rose 21.7% partly owing to the effect of price increase of conveyor products from the third quarter. In FY 2022, both net sales and operating income are expected to decline.</p>	(fiscal year)	2017	2018	2019	2020	2021	2022(estimate)	Net sales (million yen)	3,931	2,775	2,634	2,390	3,018	2,500	Operating income	308	417	562	482	588	500	Operating margin (%)	7.8%	15.0%	21.3%	20.2%	19.5%	20.0%	<table border="1"> <tr><th>(fiscal year)</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022(estimate)</th></tr> <tr><td>Net sales (million yen)</td><td>4,480</td><td>4,677</td><td>5,840</td><td>6,790</td><td>6,660</td><td>9,000</td></tr> <tr><td>Operating income</td><td>462</td><td>502</td><td>1,020</td><td>1,170</td><td>1,073</td><td>800</td></tr> <tr><td>Operating margin (%)</td><td>10.3%</td><td>10.7%</td><td>17.5%</td><td>17.2%</td><td>16.1%</td><td>8.9%</td></tr> </table> <p>In FY 2021, sales of mobile products and waterproof boards grew, while sales of temporary construction materials for rental services decreased, and as a result the other businesses saw a decline in both net sales and operating income. In FY 2022, though Ube Kohki is expected to contribute 2.0 billion yen to net sales and 0.1 billion yen to operating income, the segment's operating income is expected to decline due to poor performance of waterproof board and mobile products.</p>	(fiscal year)	2017	2018	2019	2020	2021	2022(estimate)	Net sales (million yen)	4,480	4,677	5,840	6,790	6,660	9,000	Operating income	462	502	1,020	1,170	1,073	800	Operating margin (%)	10.3%	10.7%	17.5%	17.2%	16.1%	8.9%
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Market share (based on Nikko's survey)	<p>Nikko share 69%</p> <p>AP demand declined to 42 units in FY 2021 (down 11 units). Nikko's share fell 6 pp to 69%.</p>	<p>Nikko share 32.9%</p> <p>The BP demand fell to 71 units (down 6 units) in FY 2021, the first decline in three years, but Nikko's steady-state share increased 0.9 pp to 32.9%.</p>	<p>Portable conveyor (Nikko share) 60%</p> <p>In FY 2021, the demand for portable conveyors was 4,300 units (unchanged) and Nikko's share also remained at the same level as a year before.</p>	<p>Mobile crushers and screens 23%</p> <p>In FY 2021, demand for mobile crushers and screens was 220 units, up 58 from FY 2020.</p>																																																																																																																

AP-Related Business

We aim to become a one-and-only top manufacturer by leveraging our technology and service capabilities and establishing technologies for decarbonization, remote operation, and automation.

Manager, AP Sales Management Department, Business Division
Toshimasa Miyake



SWOT analysis	Details	Countermeasures by Nikko	PEST analysis	Details	Countermeasures by Nikko
Strengths	Overwhelming share and presence in the Japanese market	Offering of new values such as environmentally friendly production and subscription-based maintenance service	Political factors	Risk of changes in public investment policy due to change of government	Strategy to stabilize revenue including subscription service
	Full support of customer plants including MS			Rising needs for environmentally friendly facilities for achieving decarbonization	Bolstering development of environmentally friendly products
Weaknesses	Price competitiveness	Re-analysis of user needs and introduction of semi-custom-made units	Economic factors	Expect the implementation of recycling laws in Thailand and China	Product development that satisfies local needs
Opportunities	Sales expansion of environmentally friendly products towards a carbon-free society	Development of products that run on hydrogen and ammonia		Worsening performances and suppression of investment by road pavement companies due to soaring asphalt price	Offering of values for improving operating rate of customer plants
	Workstyle reform at customers and remote operation and automation needs	MS proposal utilizing data analysis and DX	Workstyle reform at customers and remote operation and automation needs	Offering of differentiated products and services that satisfy customer needs	
Threats	Development of similar products by rival companies	Strengthening of product development capability and quality of human resources	Social factors	Soaring prices and difficulties in purchasing various materials and equipment	Revision of product prices
	Entry of foreign rival companies	Maintaining an overwhelming maintenance service structure		Growing needs for saving manpower and remote operation reflecting a labor shortage	Promotion of remote operations and automation support
			Technological factors	Data analysis utilizing control panels developed by Nikko	Decarbonization and strengthening of support for remote operation and automation
				Fuel transition using burner technology developed by Nikko	

- Key points**
 - We aim to achieve net sales of 23.0 billion yen in FY 2024, operating income of 1.6 billion yen, and operating margin of 7.0%.
 - We will support our customers' decarbonization efforts by strengthening the development and sales of carbon neutral products.
 - We will support our customers' plant operations more than ever by establishing plant remote operation and automation technologies and offering services.
 - We will start a full-fledged maintenance subscription service as a new service.
 - We will strengthen the full-scale operation of the Thailand plant and the development of strategic standard models and pursue the establishment of a structure for entering into new markets.

- Values to be realized**
 - We will offer asphalt plants that will ensure a secure, safe, comfortable, and sustainable road environment in Japan.
 - We will contribute to the reduction of traffic accidents, easing of traffic congestion, and development of environmentally friendly road transportation network by supporting the road infrastructure development of emerging countries.
 - We will contribute to the decarbonization efforts by the customers by developing and selling foamed equipment as well as burners that would allow fuel transition from heavy oil to natural gas and hydrogen.
 - We will offer safe and highly operational plants that do not shut down and an employee-friendly work environment by offering predictive maintenance as well as remote operation and automation service.

- Source of strength**
 - Quality asphalt that were produced at Nikko plants have been highly rated and we have a 100% market share in asphalt plants for expressways in Japan.
 - We have an overwhelming market share and high in-house manufacturing ratio, and offer maintenance

service for the entire plant of the customers, including recycle crushing plants. We have the capability to develop environmentally friendly products and to commercialize them ahead of our competition.

Business environment

- The road project expenditure, which was on a declining trend after peaking in FY 1995, bottomed out in FY 2012 under the Democratic Party of Japan administration and subsequently have been on a gradual recovery trend. However, as project budgets were allotted with emphasis on addressing the aging bridges and tunnels, asphalt mixture production continued to gradually decline. In FY 2021 it was down 1.8% from a year earlier to 40.71 million tons. The number of APs in operation also fell further to 1,040 units in FY 2021 from 1,652 units in FY 2000. Under such circumstances, total AP demand in FY 2021 declined 11 units from a year earlier to 42 units. The breakdown is 18 units of AP using virgin asphalt materials, up two units from a year earlier, and 24 units of recycling plants, down 13 units. This was primarily due to a decline in appetite for capital investment and postponement of investment projects caused by the deterioration in business performance of road pavement companies stemming from rising asphalt costs following the increase in crude oil price.

Business overview	Details
Products	Asphalt and recycling plants
Customer	Construction companies, road pavement companies
Market share	Static share in Japan: 78%
Sales breakdown	Sales breakdown: 47% (Japan: 78%, Thailand: 21%, China: 1%)
Operating margin	3.1% (FY 2021)
Ratio of MS net sales	48%
Production bases	Akashi head office factory, Thailand, and Shanghai, China

MS: maintenance service

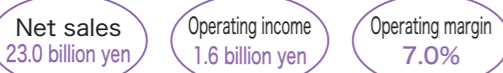
- Nikko's steady-state share of APs operating in Japan in FY 2021 came to 77.7%, down 0.3 pp from FY 2020.
- The orders in FY 2021 were limited to 18.2 billion yen, down 10% from a year earlier, and order backlog as of the end of the fiscal year stood at 7.7 billion yen. Net sales of plants declined 25% year on year to 4.9 billion yen and net sales of maintenance service also fell 6% to 8.8 billion yen. Operating margin declined 3.3 pp from a year earlier to 3.1% reflecting surging steel price, etc.

- Future business opportunities and strategies**
 - For FY 2022, asphalt mixture output is estimated to continue to decline to 39.90 million tons, down 2.0% from a year earlier, and AP demand is also estimated at 37 units, down five units year on year. The budgets of eight road pavement companies show a recovery trend in business performance. While there are concerns of soaring raw material prices and the impact of the depreciating yen, we are expecting the market to be firm, reflecting the consolidation of plants in operation and replacement demand for the plants delivered during the bubble economy era.
 - Nikko has set forth three main strategies for achieving the medium-term plan and long-term vision. The first one is the development and sales expansion of products that support decarbonization by leveraging our technological prowess, which is the best in the industry. In FY 2021, sales volume of decarbonization-related products increased by seven units to nine (approx. 0.4 billion yen). Switch from heavy oil burners to natural gas and biomass burners, and demand for warm mix (foamed) equipment for asphalt are expected to increase until around FY 2025. From FY 2025 onwards, ammonia burners, new dryer models, and exhaust heat recycling systems are expected to contribute to sales and we expect a net sales of about 4.0 billion yen around FY 2028. The second strategy is the support of remote operation and automation of plants by leveraging the analysis of

plant operation data and DX based on an ample track of supply records and control panels developed in-house. We will offer next-generation maintenance service that will solve the various issues faced by customers such as a shortage of engineers, workstyle reform, and improvement of production efficiency, and aim to improve profitability and become a one-and-only presence. The third point is capturing the ASEAN market by leveraging the Thailand manufacturing base, which began full-scale operation. Of the approximately 700 operating units in Thailand, some 240 are Nikko Group plants. Compared with the 100% pavement ratio of Japan, it is about 80% in Thailand. Stable growth in road pavement works is expected to continue and large-scale projects are planned from 2023. Nikko has concluded a contract as an asphalt plant agency with TIPCO ASPHALT, a major asphalt sales company. In addition to sales expansion, we plan to raise our price competitiveness by locally producing strategic standard models currently being developed while exploring replacement demand from high-end customers. Moreover, to achieve the 2030 long-term vision, we will start earnestly considering entering unexplored markets such as Vietnam and Indonesia, where imported second-hand plants are mainly used. The road pavement ratio of Indonesia and Vietnam is estimated to be low at 60% and the room for potential growth is attractive. We aim to establish a business base in the ASEAN market by laterally deploying the successful Thailand model, promoting the development of local agents, and supplying strategic standard models from the production base in Thailand.

- In the new medium-term plan, we will devote all our energy to improving profitability, an issue since the previous medium-term plan, while focusing on the development and sales expansion of environmentally friendly products, which will be at the core of the differentiation strategy for the future.

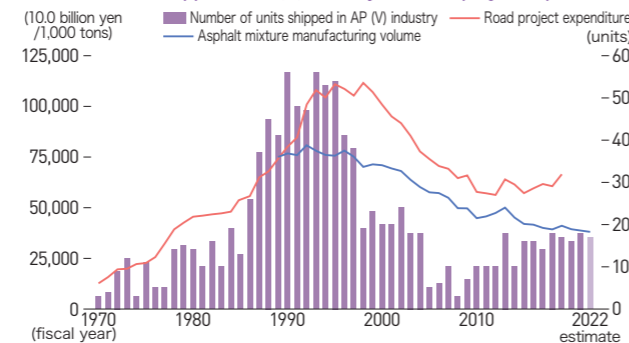
FY 2024 numerical targets



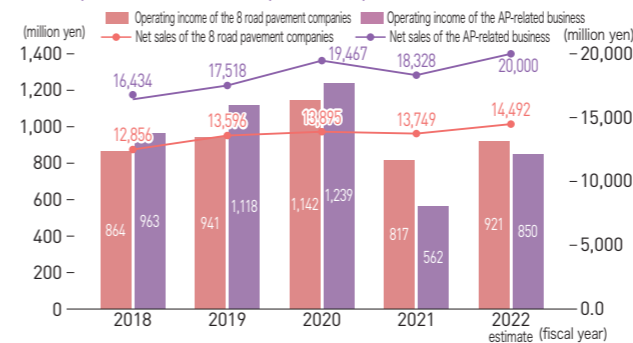
Business Strategies

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

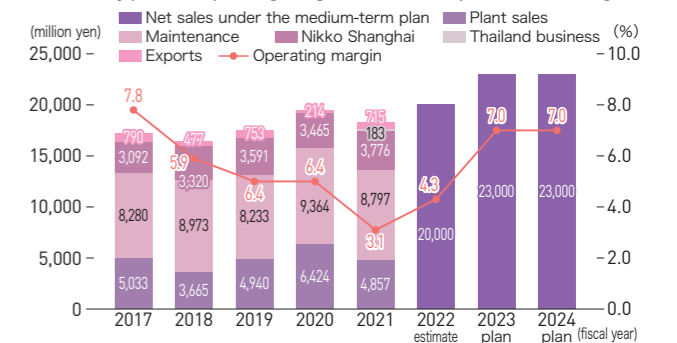
Number of units shipped in AP (V) industry and road project expenditure



Business performance trend of 8 road pavement companies in total and the AP-related business



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



BP-Related Business

We will implement the comprehensive management of ready-mixed concrete plants and aim to become a top environmentally friendly manufacturer.

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

Morie Okaaki



SWOT analysis	Details	Countermeasures by Nikko	PEST analysis	Details	Countermeasures by Nikko
Strengths	Solid in-house maintenance service structure with the top market share in the Japanese market	Offering of new values such as environmentally friendly production and subscription-based maintenance service	Political factors	Risk of changes in public investment policy due to change of government	Operation support service for customer plants
	Weaknesses	Relatively high fixed cost ratio		Provision of differentiated products and services	Re-evaluation of concrete for CO ₂ absorption
Opportunities	Advancement in use of precast concrete for building components	Product development that satisfies high-level demands	Economic factors	Business performance improvement at customers following the improvement in the ready-mixed concrete market and growing replacement investment needs	Offering of values for improving output at customer plants
	Rising needs of CO ₂ absorbing concrete	Product development and deployment addressing customers' environmental needs		Soaring prices and difficulties in purchasing various materials and equipment	Offering of services that address the shortage of engineers at customers
Threats	Decline in the number of ready-mixed concrete plants in operation	Strengthening of mobile plant sales	Social factors	Promotion of workstyle reform at customers	Development of high performance precast concrete
	Price war with rival companies	Overwhelming maintenance service structure combining manufacturing and sales	Technological factors	Improvement of strength and diversification of concrete products	Development of next-generation mixers

- Key points**
- We aim to achieve net sales of 10.8 billion yen in FY 2024, operating income of 1.05 billion yen, and operating margin of 9.7%.
 - We will strengthen the customer plant operation support business leveraging plant operation data analysis based on control panel developed in-house.
 - We will promote product and business development for precast concrete, which requires high quality performance.
 - Amid declining number of ready-mixed concrete plants, we will strengthen the sales of mobile plants in areas that are not covered.

- Values to be realized**
- We will ensure the stable supply of high quality products that meet the standards of not only JIS standard-concrete, which supports Japan's infrastructure, but also special precast concrete and CO₂ absorbing concrete.
 - We will offer highly efficient maintenance service that improve customers' profits through provision of predictive maintenance service as well as stable operation support service for customer plants (subscription service), which addresses workstyle reform and operator shortage at the customer side.

- Source of strength**
- We develop and manufacture control technology and control panels in-house, which are the brain behind plant facilities, and we have a track record of supplying more than 4,000 such units in Japan and abroad. It enables optimum operation and preventative maintenance based on various data analysis in addition to the remote monitoring of plants.
 - We are the only manufacturer that can comprehensively offers everything from design to construction work and maintenance including control panels. We have established superiority in our immediate responses to electrical as well as mechanical problems.

- Business environment**
- The ready-mixed concrete shipment volume in the past had close linkage to the amount of construction investment. However, while about 6.2 trillion yen has been spent against the backdrop of the redevelopment of urban areas, measures under the Fundamental Plan for National Resilience measures, and the Olympic Games Tokyo 2020 since FY 2014, the ready-mixed concrete shipment volume has been showing a declining trend given the increase in buildings and construction works that require smaller amount of concrete. The consolidation in the number of ready-mixed concrete plants also continued, decreasing to 3,157 in FY 2021 from 3,406 in FY 2014. Nevertheless, given the advancement of plant consolidation and increases in various costs, the price of ready-mixed concrete is seen rising in Osaka, which is slated to hold the World Expo 2025 Osaka Kansai, and Tokyo, where the metropolitan area is being redeveloped, as well as Sapporo and Fukuoka. The price of ready-mixed concrete attracts attention as a leading indicator of capital investment as well as the business performance trend of the ready-mixed concrete industry. In fact, replacement investment for plants built about 20 to 30 years ago continues to be strong and total demand in FY 2021 rose 3% to 25.9 billion yen year on year, which was the highest in the past 20 years.
 - Our steady-state share in terms of the number of BPs operating in Japan has been increasing gradually. Nikko's high capability in maintenance service has been highly rated and its share in FY 2021 rose 11.4 pp to 46.5% from FY 2020, up 14.9 pp compared to six years ago.
 - Orders in FY 2021 were strong, increasing 21% to 12.1 billion yen year on year, and net sales of plants rose 30% to 18.6 billion yen and those of highly profitable maintenance service also grew 4% to 4.2 billion yen. Operating margin was also up 0.9 pp, reaching 10.4%.

Business overview	Details
Products	Concrete plants, etc.
Customer	Ready-mixed concrete manufacturers, construction companies, etc.
Market share	Static share in Japan: 33%
Sales breakdown	Sales breakdown: 28% (Japan: 99%, China: 1%)
Operating margin	10.4% (FY 2021)
Ratio of MS net sales	39%
Production bases	Akashi head office factory and Shanghai, China

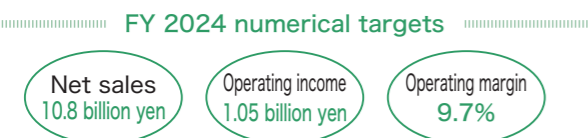
MS: maintenance service

- Future business opportunities and strategies**
- Ready-mixed concrete shipment in FY 2022 is expected to decline 3% to 73.50 million m³. While private demand, which slowed due to the COVID-19 pandemic, is gradually recovering led by redevelopment in the Tokyo metropolitan area including Shibuya and Shinjuku, and it is expected to post a record low for the fourth consecutive year. The number of ready-mixed concrete plants in operation is also expected to decline. Nonetheless, amid steady construction investment, the ready-mixed concrete price has been maintaining a high level nationwide, and it continues to show a rising trend in Tokyo and Sapporo also in FY 2022. For this reason, customers' appetite for making capital investment is high and replacement demand for plants we have supplied in the past is expected to continue surfacing given the need for automation due to manpower shortage for plant maintenance and the improvement of production efficiency from plants becoming larger.
 - In this demand environment, Nikko has set forth three main strategies for achieving the medium-term plan numerical targets. The first strategy is business development leveraging our strength of control panels developed in-house. We will strengthen customer plant operation support service as well as standardization of plants by accumulating

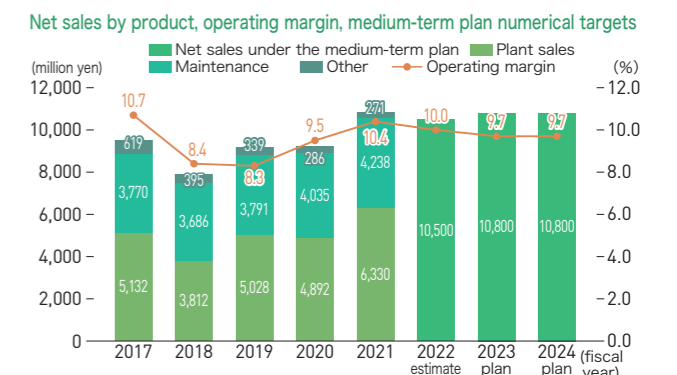
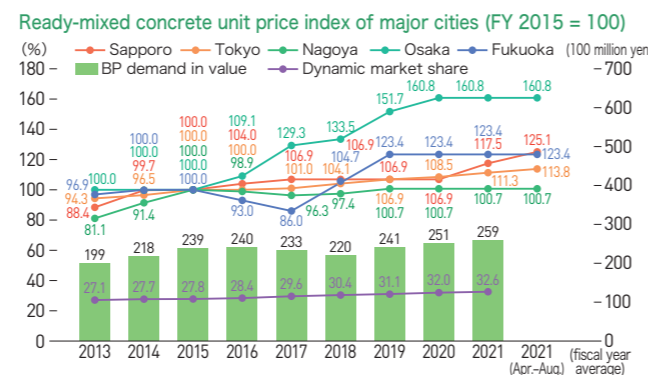
and analyzing various operation-related information of customer plants. In particular, we will offer values such as stable operation and predictive maintenance of customer plants through subscription-based maintenance service. The second strategy is to capture new demand stemming from consolidation of ready-mixed concrete plants. While the number of ready-mixed concrete plants in operation is showing a declining trend in Japan, the areas to which a plant can supply ready-mixed concrete is limited as the concrete needs to be used within 90 minutes after production. We will strengthen the sales of mobile plants that can be easily transported to areas where it is difficult to supply ready-mixed concrete within 90 minutes due to consolidation of the plants. The third one is strengthening the sales of plants for precast concrete building components. There is increasing requirement for producing high quality concrete components inside factories, which are not affected by the weather, rather than on site against the backdrop of manpower shortage and workstyle reform in the construction industry. High quality concrete is required for precast concrete, and the key to quality is the performance of the mixer. We will expand the sales of mobile concrete plants for precast concrete while strengthening the development of mixers.

We consider the impact of the need for CO₂ absorbing concrete on ready-mixed concrete and BP demand to be neutral, as it raises the unit price of concrete. We are still closely monitoring the trend while continuing to work on joint development with customers, as there is a possibility of concrete being given a re-evaluation, due to a backdrop of environmental issues.

- A relatively favorable market environment is expected to continue during the medium-term plan, and we are assuming the size of the market to remain roughly unchanged. We will continue to aim for business operation leveraging Nikko's strengths as well as the expansion of market share and profit growth through resolution of issues faced by customers.



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



Environment- and Conveyor-Related Business

We will drive forward the modularization of conveyors and take on challenges in new fields. The environmental business will aim for the creation of new customer values and achievement of the numerical targets of the medium-term plan.

Manager, Industrial Machinery Sales Management Department, Business Division
Tokuhiro Mitsumune



- Key points**
- We aim to achieve net sales of 2.7 billion yen in FY 2024, operating income of 0.55 billion yen, and operating margin of 20.4%.
 - We will aim to shorten the delivery time through further modularization of the mainstay portable conveyors, which account for about 80% of net sales of conveyors, and improvement in price competitiveness.
 - We will enter the stringer conveyor market, which is large and require high strength, through modularization.
 - We will push forward the development of new markets and customers for environmental products using the four core technologies unique to Nikko.

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

- Source of strength**
- We have the capability to modularize conveyors that ensures shortened delivery time and easy assembly as well as high-level maintenance service and the ability to handle complaints that surpass other companies.
 - In the environmental business, we have an integrated system starting from development to maintenance services that satisfy customer requirements in addition to various testing facilities based on Nikko's four unique core technologies (mixing and kneading, heating, material handling, and control).

- Business environment**
- The conveyor business has been delivering stable performances with an average annual net sales of approx. 2.2 billion yen for the past five years. While the portable conveyor market is stable, there are concerns that opportunities to use them on site may decline in the future. We will also promote the shift towards higher costs to product prices in response to the soaring prices of supplies such as frame materials and motors. We will continue to aim for high profitability.
 - The performance of the environmental business fluctuates significantly depending on projects. In addition, the number of inquiries has been increasing from the perspectives of ESG and SDGs, buoyed by the rising

needs related to natural environment and recycling. New demands such as recycling lithium batteries due to the expansion of the market are also rising.

Business overview	Details
Products	Various types of conveyors and environmental recycling equipment
Customer	Various manufacturers, crusher manufacturers, agents, etc.
Market share	Share of the portable conveyor market in Japan: 60%
Sales breakdown	8% of overall sales (conveyors: 73%, environmental equipment: 24%, service: 3%)
Operating margin	19.5% (FY 2021)
Ratio of MS net sales	3%
Production bases	Akashi head office factory

MS: maintenance service

- Future business opportunities and strategies**
- Conveyors are used in various and diverse fields from civil engineering to food, chemicals, steel, and waste processing, and we continue to expect stable demand. We will strengthen our modularization and customization ability for portable conveyors, which has a market share of 60% in Japan, and promote the high added values of products. At the same time, we aim to enter the stringer conveyor market, whose size (estimated 6.0 billion yen a year) is double the portable conveyor market. Stringer conveyors require high strength and are priced highly, and we will enter the market with short delivery time and low prices leveraging our modularization capability. We will also enhance system proposals by combining with crushers, etc.
 - For the environmental business, we, while emphasizing on profitability, will advance new market development and business deployment that satisfy customer needs to achieve the numerical targets of the medium-term plan.

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

Other Business

We aim to capture the top share of 50% in mobile crushers. Waterproof boards are aimed at minimizing the damage of torrential rain, and we will further expand their sales.

Senior Executive Officer General Manager, Mobile Plant Business Department, Business Division
Takeshi Sone



- Key points**
- We aim to achieve net sales of 13.5 billion yen in FY 2024, operating income of 1.3 billion yen, and operating margin of 9.6%.
 - Mobile crushers, our mainstay product, is an imported machine business and the continued depreciation of the yen will affect it negatively.
 - We are expecting net sales of 2.0 billion yen from Ube Kohki, which we acquired, in FY 2022 and 2.3 billion yen in FY 2024.
 - Waterproof boards are expected to continue posting stable growth in the future.

- Values to be realized**
- Mobile products are fuel-efficient and emit less CO₂ and offers high economic values such as ease of transport and sale as second hand machinery.
 - Waterproof boards protect housing, building, and train stations from torrential rains.
 - Temporary construction materials offer construction scaffold environment that is safe, secure, and efficient.

- Source of strength**
- As for mobile products, we mainly offer KLEEMANN products, which are highly fuel efficient with CO₂ emissions a fifth to a half of the products of other companies.
 - We have an integrated structure from design to construction work for waterproof boards and a good track record.

- Business environment**
- Although the continued depreciation of the yen affects mobile equipment negatively, there has been a sustained favorable business environment given the shift from stationary machinery to mobile models and the highly rated product performances that boasts the world's highest fuel efficiency and low CO₂ emissions (net sales have risen three-fold over the past two years). In terms of measures against foreign exchange fluctuations, we are pursuing price revision and enhancement of product lineup. There is large potential demand for waterproof boards, but the delivery time has been extended due to postponement of construction works caused by material shortage. Subsidies for such products from the central and local governments have been increasing. The temporary construction materials market is a niche market, with an environment of strong demand. We are working on raising product prices given the soaring prices of aluminum materials.

- Future business opportunities and strategies**
- Construction waste materials are currently transported and disposed from construction sites to intermediary processing facilities. However, the Japan Construction Equipment Manufacturers Association is currently discussing

Business overview	Details
Products	Mobile crushers, waterproof boards, floodgates, temporary construction materials, hand tools, etc.
Customer	Stone crushing, mining, civil engineering and construction companies, rental services, OEMs, etc.
Market share	Mobile crushers: 20% share in Japan; small-sized aluminum staircases: 40%
Sales breakdown	17% of overall sales (waterproof boards and floodgates: 24%, temporary construction materials: 23%, mobile crushers: 22%, hand tools: 11%, Nikko-developed products: 9%; other: 11%)
Operating margin	16.1% (FY 2021)
Ratio of MS net sales	1%
Production bases	Satte factory, Fukusaki factory, Mobile Center, Kakogawa factory, Tokyo factory, Akashi head office factory, Japanese subsidiaries

MS: maintenance service

- processing and reusing them at construction sites from the perspective of switching to a processing method that is more friendly to the earth's environment. This may result in an increased demand for mobile equipment. Going forward, we aim to expand sales to new customers and rental services leveraging our products' economic superiority such as high fuel efficiency, while pushing forward with the introduction of mobile soil improvers, which is under development, and reinforcement of the structure to handle the increasing demand for maintenance of supplies, etc. caused by the growth in the cumulative sales of equipment.
- Waterproof boards are expected to enjoy an environment of continued strong demand, and we are pursuing an upgrade from the current structure with an annual production of 1.0 billion yen to one with annual production of 1.5 billion yen. Amid concerns of an increase in the number of new entrants, we plan to raise the sales ratio of highly profitable slide-type and door-type special products, which currently account for 35% of net sales, to 50% in the final fiscal year of the medium-term plan.

SWOT analysis	Details	Countermeasures by Nikko
Strengths	Mainstay KLEEMANN products boast the top share globally	Expansion of product lineup and sales channels
	Ample experience and business ability starting from design to construction work	
Weaknesses	A weaker yen is a disadvantage for mobile equipment, as they are imported	Expansion of the products we offer and price revision
	Shift of demand from stationary machines to mobile ones	
Opportunities	Trend towards recycling waste materials within the construction site	Propose high product performance including high fuel efficiency
	An increase in natural disasters such as torrential rains	
Threats	Entry of rival companies	Offering of products and services with higher customer satisfaction
	Intensifying price competition	Focus on special products, which have high profitability

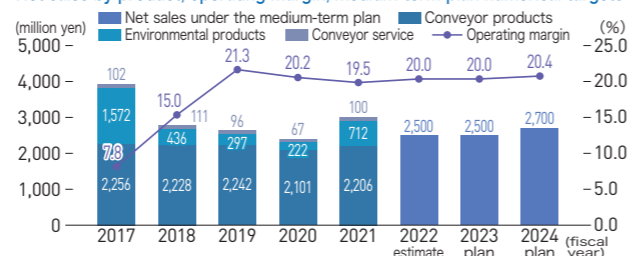
FY 2024 numerical targets



Business Strategies

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

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



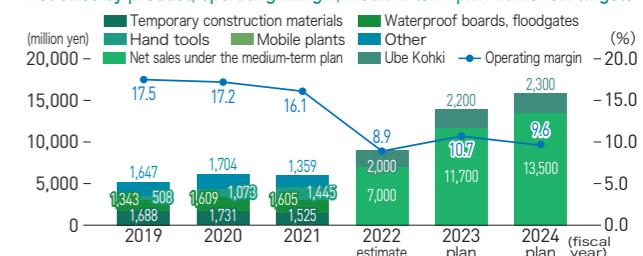
FY 2024 numerical targets



Business Strategies

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

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



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








Related risks and opportunities		Details of risks and opportunities
(1) Risks related to the asphalt plant (AP)-related business in Japan	Risk of insufficient differentiation with competitors	<p>Risk The asphalt plant market in Japan is an oligopoly where two companies, Nikko and another company, together account for almost 100% of the market. Nikko's market share exceeds 70% and our position as the top manufacturer has not changed for a long time. However, our ability to showcase our differentiation to customers may weaken if we fail to carry out sufficient product development or if the other company develops a meticulous maintenance structure equivalent to ours.</p> <p>Opportunity The Company will pursue differentiation by developing new products that contribute to realizing carbon-neutral society and CO₂ reduction and through business model reform of the maintenance service business to secure our position as the overwhelming top manufacturer.</p>
	Risk of overseas manufacturers entering the Japanese market	<p>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.</p> <p>Opportunity It is difficult for a foreign manufacturer without a sufficient maintenance structure to enter into the Japanese market. Therefore, if a customer, who purchased a product from a foreign manufacturer, realizes the excellence in our after sales service, we can expect it to boost our rating among customers.</p>
	Risk of shrinking market due to reorganization of road pavement industry	<p>Risk Major road builders are going through active reorganization, which may develop into reorganization of the road pavement industry in the future. If integration of asphalt plants advances due to the industry reorganization, the market may shrink.</p> <p>Opportunity If shipment from a plant increases because of integration, we can expect the amount spent on capital investment to increase in total.</p>
(2) Risk related to Nikko's technological innovation not catching up with the initiatives for reducing environmental burden		<p>Risk Asphalt plants primarily use fossil fuels as energy source. About 1.5 million tons a year of CO₂ 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.</p> <p>Opportunity In close collaboration with road pavement companies, who are the customers, Nikko is working on early social implementation of technological innovations such as combustion efficiency improvement and shifting of heat source at asphalt plants (carbon-neutral fuels, electrical heating technology, etc.), improvement of transportation efficiency through innovation of mixture transportation method, collection of CO₂ emitted by asphalt plants, and CO₂ absorption using ready-mixed concrete.</p>
(3) Risks related to the overseas business	Risk of intensifying competition in the high-end AP market in China	<p>Risk In the asphalt plant market in China, Nikko has secured a certain position in the high-end model category and we are steadily recording sales and profits every year. In recent years, however, Chinese companies in general have gained technological capability and there is a possibility of many Chinese manufacturers entering the high-end model market in the future leading to intensified competition.</p> <p>Opportunity So far, the rivals in the high-end market are two European companies and one or two top Chinese companies, and the competition is not very tough. As competing companies in the high-end model market increase, the market itself is expected to expand.</p>

Related risks and opportunities		Details of risks and opportunities
(3) Risks related to the overseas business	Risk of failing to achieve sales in accordance with the plan in the ASEAN market	<p>Risk As part of the growth strategy, we established a manufacturing subsidiary in Thailand in FY 2020 and invested more than 1.0 billion yen in the factory. The premise of this investment is that we can stably sell asphalt plants every year in Thailand and other ASEAN countries. However, if our plants are not able to sufficiently gain the trust of customers in Thailand and other ASEAN countries contrary to the plan and sales volume falls short of the plan, the factory would post loss, resulting in risk of impairment of the factory.</p> <p>Opportunity The ASEAN market is not yet large enough for two European companies, Nikko's competitors, to invest resources. Hence, competition with European manufacturers is not intense, and we can expect to capture the market early on.</p>
(4) Risk of reduction in public investment budget		<p>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.</p> <p>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.</p>
(5) Risk regarding securing of human resources to engage in on-site operations		<p>Risk With our business model, we carry out the entire process from plant manufacture to installation on site and offering of maintenance service all in-house. In recent years, manpower shortages has made it difficult to hire on-site workers such as maintenance service staff and construction work staff. If we are unable to hire the required number of on-site workers, it may become difficult to maintain a competitive edge with our business model.</p> <p>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.</p>
(6) Risk of spread of COVID-19		<p>Risk If an employee gets infected with COVID-19, he or she must stay away from operations temporarily. As our products are designed according to the order and then manufactured, it may significantly affect delivery to customers, especially if an employee in a technology division is infected, design work will be suspended for a certain period of time. 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. In particular, if the infection spreads in China, Thailand, and Taiwan, where the Nikko Group has business bases, it may have a direct impact.</p> <p>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.</p>
(7) Risks related to increases in material prices		<p>Risk As the global economy tries to recover from the worldwide COVID-19 pandemic amid widespread price increases caused by supply restrictions, logistics constraints, etc., the prices of fuels such as crude oil and natural gas rose markedly due to the Russia-Ukraine situation, resulting in accelerated price increase. The prices of the materials Nikko purchases also continue to rise, and the Group's profitability may worsen if this situation continues into the future.</p> <p>Opportunity Nikko reflects the material price increases in the quotations for AP and BP customers and this is expected to lessen the impact on profits in the future. Nikko is raising the price of modular conveyors sold by its agents, which has been largely accepted by customers.</p>
(8) Risks related to the Russia-Ukraine situation		<p>Risk Nikko has suspended business with Russia. The impact of the suspension of business with Russia is negligible, as they were limited to parts transactions worth several tens of millions of yen a year in recent years. However, there is a possibility of capital investment plans at Nikko's customers getting affected by the increases in crude oil prices due to the Russia-Ukraine situation and the changes in the global economy.</p> <p>Opportunity Even if the price increases in crude oil, etc. and changes in the global economy affect customers' capital investment plans, etc., it is unlikely to result in a significant decline in sales, as net sales in service maintenance, which is stable, account for more than 60% of AP and BP net sales.</p>

Note: Items (7) and (8) were newly added in FY 2021.

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

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

Platform for delivering value	Measures to Reinforce Platform for Delivering Value to Realize 2030 Vision					
	Input (management resources)	Goals in 2030	Issues to be addressed (short, medium, and long term)	Measures (short, medium, and long term)	Progress, outlook	FY2021 evaluation
R&D  Kawamura, Manager	-R&D expenses: 0.73 billion yen -Development division engineers: 28 people -Joint development with customers and external organizations -4+ core technologies (drying, mixing and kneading, material handling, and control) + measurement	-Full-scale installation of low-carbon and environmentally friendly products -Installation of automated products leveraging AI and IoT technologies -Lateral deployment of environment-related equipment	-Human resource development for transfer and expansion of core technologies -Short-term and medium- to long-term product development aimed at decarbonization -Building a development platform for environment-related equipment -Acceleration of development for increasing the amount of social implementation	-R&D expenses from FY 2022 to FY 2024: 2.5 billion yen (2.1 times) -The number of development personnel to be hired from FY 2022 to FY 2024: 12 -Nurturing based on active implementation of human resource rotation -Promotion of open innovation with customers and external organizations including universities -Update of product development roadmap and redistribution of resources -Promotion of company-wide project themes	-Human resource rotation implemented in the current fiscal year: 2 employees -FY 2021 -> FY 2022: employees increased by 4 -Joint R&D: 4 projects being implemented -Updating product development roadmap -2 company-side projects to be implemented	○
Sales and consultation  Nakayama, General Manager	-Establishment of a marketing division -Adaptation of the organization for globalization -Utilization of past and future data -Support of comprehensive operation of plants	-Offering of environmentally friendly products for low carbonization -Offering of products + operation through remote operation and automation -No. 1 manufacturer in Asia	-Development of environmental products -Acquisition of plant operation knowhow -Acquisition of overseas partners (agents) -Nurturing of human resources who will play the main role in developing fields	-Trade shows for new products -Collaboration with customers (development, education) -Establishment of overseas planning division and support for acquisition of products and partners -Enhance the hiring of new graduates -Arranging more environmentally friendly products by joining an industry association	-Trade show for new products: Scheduled in November -Collaboration with customers: To be implemented for mutual education -Acquisition of partners in neighboring countries by utilizing the Thailand House Messe -Joining Japan Road Contractors Association (JRCA) as a support member	○
Planning and designing  Uehara, Manager	-Group of skilled engineers who respond to customer needs -Core technologies (mixing and kneading, heating, material handling, and control) -Accumulation of knowhow regarding plant design and technical bases -Cooperation structure with technical design partner companies	-Plant solution provider -Proposals that create values at both customers and society -Comprehensive support of remote operation, automation, saving manpower -Overseas expansion of global standard products	-Systematic human resource hiring, strengthening the knowledge of the workers through nurturing -Enhancement of core standard products that respond to customer needs -Improve customer satisfaction in quality, safety, and environment friendliness -Propose suitable products that reflect customer requests and meeting the delivery date -Improvement of design work efficiency and shift of resources to new expanding business fields	-The number of engineers to be hired from FY 2022 to FY 2024: 35 -Promotion of standardization and development of products with high added values -Build engineering structure that combines sales and maintenance service -Restructuring and development of global models and technological involvement in overseas production -Promotion of outsourcing and digitization of operations	-Active investment in resources, placing engineers at the eastern and western bases -Offering of a series of block-type plants, a high percentage of which is built in-house -Restructuring of organizations in charge of mission implementation and building engineering methods -Establishment of a team dedicated to overseas markets, hiring of human resources for overseas expansion -Development of a new control panel model	○
Procurement  Umezawa, Manager	-Introduction of a new core system -Construction of new materials warehouse -Human resources to build procurement base	-Operation structure focused on stable purchasing and cost reduction -Information sharing with suppliers and favorable relationship of trust with them -Acquisition of ample knowledge of products and industry trends and enhancement of communications with suppliers and within the company -Contribute to the mitigation of environmental burden	(Short term) -Soaring prices of supplies and prolonged delivery time -Large burden of daily operations including receiving and placing orders -Aging of the core systems (Long term) -Surging raw material prices, their shortage, and depreciating yen -Discontinuation of the production of supplies -Downsizing and closure of suppliers	(Short term) -Early dissemination of information regarding price revisions and delivery information -Improvement of operating efficiency using a new system (cost accuracy, divisional collaboration, EDI) (Long term) -Work with designing section and promote functional purchase -Cost reduction through centralized and distributed purchasing -Reconsider sustainable supply chain -Promote communication with suppliers	-Information on price revision status and delivery => Continue to disseminate. Details are being prepared at individual levels -New system => The Purchasing Department has already implemented, and other departments' EDI implementation rate exceeds 30% -Cost reduction => rate of achievement in FY 2021: approx. 80% -Reconsider supply chain => Being implemented	△
Manufacturing  Yamada, Factory Manager	-Three latest fiber laser processing machines, etc. -Technology and skills of integrated in-house manufacturing from primary processing of materials to canning welding, machine processing, final assembly, and trial run as well as production and shipment control	-Further improving productivity by 10% -Flexible, large variety and enhancement of production corresponding to destinations -Achievement in both quality improvement and reduction of manufacturing cost -Thailand subsidiary NIC to turn profitable in a stable manner	-Further improving productivity by 10% -Flexible, large variety and enhancement of production corresponding to destinations -Achievement in both quality improvement and reduction of manufacturing cost -Thailand subsidiary NIC to turn profitable in a stable manner	-Expansion of the manufacturing factory block of head office factory -Replacement of aged equipment -Reconstruction of factory layout -Promoting engineers to acquire multiple skills -Utilization of foreign technical interns	-Human resource rotation -Vitalization through appointment of young employees as group leaders -Number of technical interns accepted in FY 2022: 6 -Implementation of environmentally friendly factory construction plan	○
Construction work  Noguchi, Section Manager	-Operation engineers: 20 including 8 field management engineers and 17 chief engineers -Contractors around the country -End-to-end structure from assembly to operation adjustment	-Operation engineers: 30 -Increase field management engineers and chief engineers and take on all sorts of plant installation works -Digitization of work plan, safety documents, etc. to enable a structure where anyone can handle them	-Reduction of work processes and response to safe operations or safety instructions -Identifying new contractors and collaboration with other departments -Easy-to-implement structure in the design and construction work stages	-Digitization of work plans and safety documents (conversion to online, and online work) -Easy-to-construct unit structure, increasing the percentage of parts built in-house, forming JV with other companies -Promotion of structure designs that facilitates safe work -Proactive negotiations with contractors throughout Japan	-Reduction of on-site construction man hours by improving the degree of product completion -Initiatives for reviewing construction work processes -Two new contractors. Continued efforts for discovering more contractors	○
Maintenance  Tanaka, Manager	-Service men: 110 employees -Transfer of front office operation, strengthening of organization -Development of workplace safety and machinery management system	-Plant management through asset management -Start of operation service -Global operation of customer support	-Shift from after-incident maintenance to predictive maintenance -Acquisition of on-site human resources -Remote management and utilization of plant operation data for prevention and prediction	-Predictive maintenance based on next-generation diagnosis and promotion of shift to next-generation preventative and predictive maintenance -Hiring, reduction of emergency repair, and improvement of efficiency through division of labor -Starting actual operations at cooperating factories and refining it	-Expecting contracts with 10 AP users and 20 BP users -Plan to appoint employees who are in charge of area-based front office operations -Start of data monitor operation	○

Since its founding in 1919, Nikko Group has been focusing on solving various social issues for more than a century. Furthermore, in the next 100 years we will continue our aim towards solving the problems facing society, as well as creating a sustainable corporate value. To solve customers' issues, it is essential to realize green transformation including offering of plants supporting decarbonization in addition to digital transformation, which enables automatic operations using remote monitoring and remote operation of plants leveraging IoT and AI technologies. In the new Medium-Term Management Plan, we will further accelerate the implementation of such initiatives.

Sustainability issues Nikko Group is working on



1 Strengthening of national resilience

For early restoration from intensifying natural disasters, such as large typhoons, severe rainstorms, and earthquakes, we need the quick recovery of the Groups' plants. We are strengthening our emergency responses including early identification of damages (by natural disasters), supply

chains, subsidiaries, and partner businesses and working to offer multifaceted support for customers. We also immediately respond to customer needs related to disaster prevention and mitigation as well as measures to address aging infrastructure. (See p. 60)

2 Harmony with natural environment

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'. (See p. 55)

resources and for reducing the environmental burden (recycling rate of 99%). Currently we are working on recycling cement sludge (waste generated from rinse water of mixers and secondary concrete products). It is also expected to contribute to decarbonization, as the recycling process of precipitated calcium carbonate (reused as a raw material for pharmaceuticals, ferrite, coatings, etc.) that is generated from concrete sludge absorbs CO₂. (See p. 59)

3 Development of a prosperous society

Partnership with diverse stakeholders is indispensable for solving social issues. We aim to simultaneously realize sustainable economic and social values by raising the level

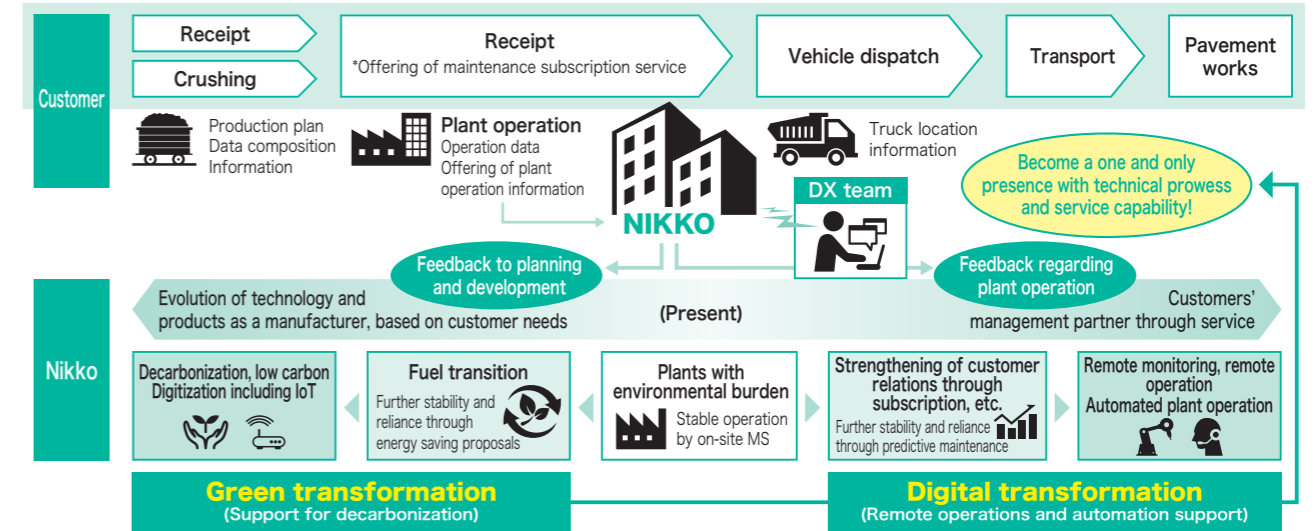
of satisfaction and nurturing empathy through the offering of new values to customers, employees, business partners, local communities, and shareholders. (See p. 67)

Green transformation and digital transformation in the Medium-Term Management Plan

Nikko Group aims to become the plant operation partner of its customers by establishing, as a plant manufacturer, absolute superiority in environmentally friendly services such as decarbonization as well as by building lasting relationships with customers through plant operation service. To this end, it is essential to realize green transformation including offering of plants supporting decarbonization in addition to

digital transformation, which enables automatic operations using remote monitoring and remote operation of plants leveraging IoT and AI technologies. We have been actively working on these two transformations to enable us to be the chosen management partner of our customers for reforming their plant operations by leveraging our strong product appeal as a plant manufacturer.

Sustainability Strategy in the AP-related business in Japan



Green and digital transformation promotion structure

At Nikko, three cross-divisional teams are active directly under the president to transform the business model from a model based on plant manufacturing and sales into "a leading company in a decarbonized society," which supports

automated plant operation at customers. Nikko will pursue business model innovation and sustainable growth, as the three cross-divisional teams deepen collaboration and work to solve various issues.



R&D and human resource development and enhancement

R&D in priority areas and development and enhancement of human resources are important to promote and achieve the two transformations. We will actively hire external human resources including science major students,

visualize the skill levels of our internal human resources, and implement reskilling for developing and enhancing human resources, and achieve innovation by boosting expertise and diversity.

[Priority fields for R&D]

- Warm mix plant facilities
- AP regenerative burner
- Long-distance mixture transportation technology
- New RAV system
- AP exhaust gas CO₂ capture system
- New burner control technology
- Co-generative system
- Ammonia burner
- Shipment-linked plant operation system
- Sand drying equipment

[Priority fields for human resource development and enhancement]

- Product development
- Control, remote, automation technologies
- Technical support and plant operation support
- Remote maintenance
- Design and engineering

Nikko Group set forth to achieving virtually zero CO₂ emissions (carbon neutrality) in 2050 as a management goal and has started implementing various initiatives to achieve this.

Initiatives for reducing CO₂ emissions (Scope 2)

1 Installation of solar power generation facilities

The Group installed solar power generation facilities at the head office factory of Nikko Co., Ltd. in March 2013.

- ◎Area: 338 m²
- ◎Power generated: 415,163 kWh (cumulative total for FY 2013-2021)

Nikko plans to further increase the number of solar energy power generation facilities within its premises.

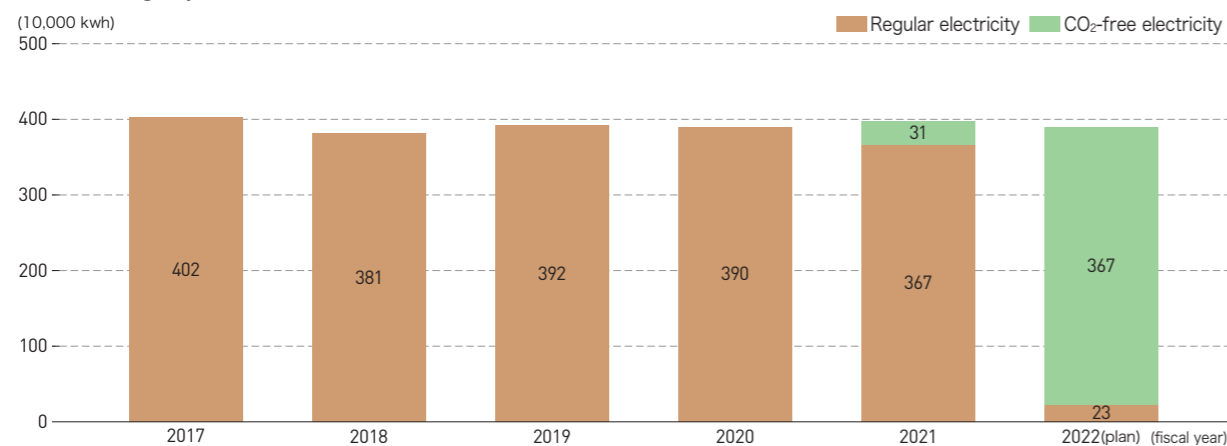


2 Switch to CO₂-free electricity

Nikko Co., Ltd. switched all electricity used at its head office to electricity generated from renewable energy sources in March 2022. It has been promoting similar

initiatives at its offices and group companies, and Nikko Group aims to achieve RE100 (100% shift to electricity made using renewable energy) in 2030.

Power usage (parent Nikko)



Initiatives for reducing CO₂ emissions (Scope 3)

1 Shift to warm mix

We have succeeded in developing and commercializing a mechanical foamed asphalt generation equipment, something which road pavement companies had been actively working on. We are the first Japanese plant manufacturer to develop and commercialize such. The equipment lowers the temperature during the manufacturing of asphalt and thus contributes to a reduction in CO₂ emissions.

Tokyo Metropolitan Government had been verifying the technological aspects of low-carbon (warm mix) asphalt mixture, which is expected to curb CO₂ emissions, and it approved the technology as a new mixture in June 2022.

According to calculation by the Tokyo Metropolitan Government, if the low-carbon (warm mix) asphalt mixture, whose manufacturing temperature is reduced 30°C, are used in projects ordered by the metropolitan government, it is expected to reduce CO₂ emissions by 3,470 tons a year.



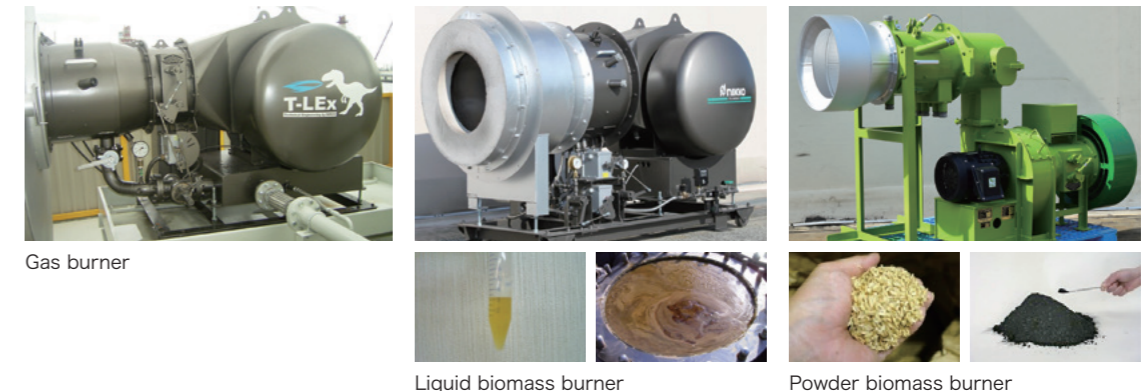
Complete the commercialization of mechanical foamed asphalt generation equipment

2 Fuel transition

The Group has been developing liquid and powder biomass burners as well as gas burners that has low CO₂ emissions to replace existing heavy oil burners by applying Nikko's combustion technology. We have been

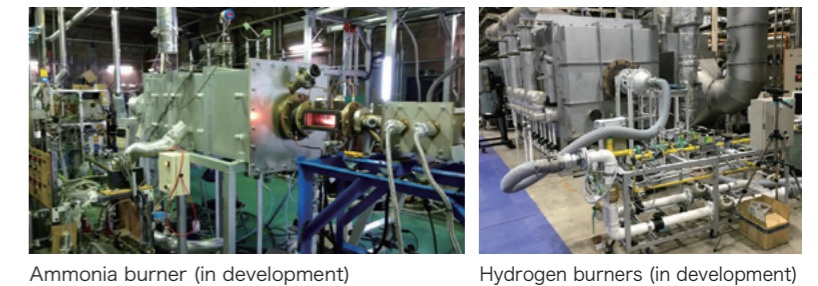
making efforts to change the fuel used in its asphalt plants to low-carbon and decarbonized fuels and have been actively proposing the alternatives to our customers for achieving carbon neutrality.

Alternative fuel burners that have been developed and launched



Alternative fuel burners in development

Nikko Group has been driving forward to develop burners that use ammonia and hydrogen, which do not emit CO₂ in the combustion process. The development is not just aimed at asphalt plants, as the Group is conducting joint research with Osaka University and Tokyo Gas Co., Ltd. to enable the application of its technology in various industries.

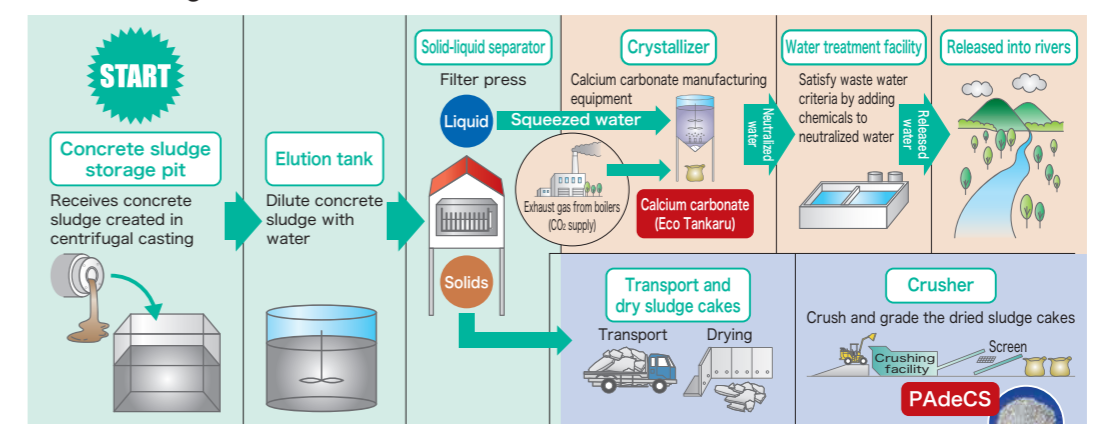


3 CO₂ absorption effect in the recycling process of concrete sludge

Calcium carbonate is created when highly alkaline calcium-rich waste water reacts with the exhaust gas (CO₂) in

the air. The use as a concrete admixture is expected to reduce CO₂ emissions by 440 kg CO₂-t.

Manufacturing flow of PAdeCS and Eco Tankaru



Features It can capture CO₂ at normal temperature and pressure without using chemicals. *The technology is called Mineral Carbon Capture & Utilization <MCC&U> technology, and is one of CO₂ reduction technologies.

◎Eco Tankaru (precipitated calcium carbonate): A low environmental burden product manufactured by capturing the CO₂ in the boiler exhaust of secondary concrete product factories. It is used in concrete admixtures, paper, coating, rubber products, etc.

◎PAdeCS: A highly alkaline environmental purification material derived from cement. It is used as water pollutant remover, as material for recovering phosphorus, which is getting depleted, in deodorizers, etc.

<Source: PAdeCS Study Group>

Information disclosed based on TCFD framework



Climate change caused by greenhouse gas (GHG) emission has an enormous impact on society and economy, and Nikko Group recognizes that it is the most pressing social issue the Group should work on. For the realization of a decarbonized society targeted in the Paris Agreement, Nikko Group is aiming to achieve a 50% reduction in CO₂ emissions (compared with FY 2021) from its business activities as well as operation of Nikko-made plants at customers as an interim target for FY 2030.

The Group is promoting the development of technologies for reducing CO₂ emissions and provision of related products and services towards achieving carbon neutrality in 2050. After endorsing the TCFD recommendations in October 2021, it has been disclosing information in accordance with the TCFD framework for smooth communication regarding climate change issues with stakeholders including shareholders and investors.

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

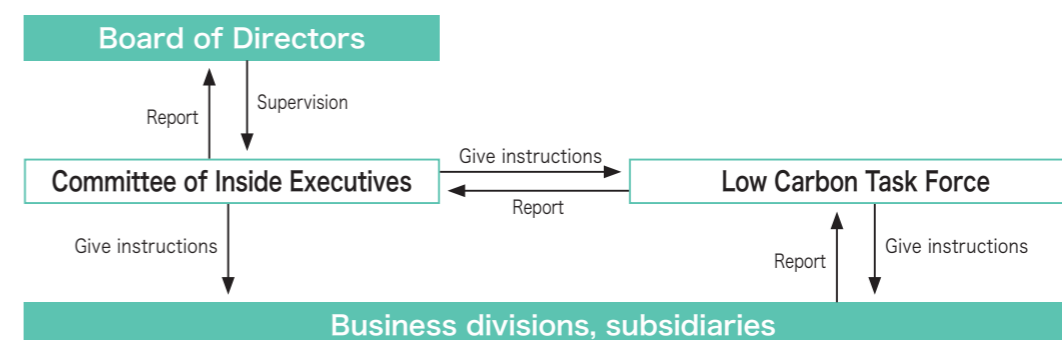
Nikko Group's initiatives	
Governance	<ul style="list-style-type: none"> The Group has established the Low Carbon Task Force (LCTF) led by the managers of business and development divisions, which gathers and analyzes carbon neutrality-related information and carries out planning (once a month meetings). The Committee of Inside Executives sets forth targets based on the proposals by LCTF and formulates detailed strategies for achieving them. Key measures and action plans formulated by the committee are promoted company-wide and the progress is reported to the Board of Directors. The Board of Directors deliberates on the validity of strategies and inherent risks and supervises the progress towards targets.
Strategy	<ul style="list-style-type: none"> Identify risks and opportunities in scenario analysis considering the 2°C and 4°C scenarios Analyze the impact of risks and opportunities on business and finance Formulate plans for product development and market introduction towards achieving carbon neutrality
Risk Management	<ul style="list-style-type: none"> The Risk Management Committee chaired by Senior Managing Director and General Manager of Administrative Division identifies and manages risks that have major impact on business and finance as priority management risks. The committee shares risk information with the Committee of Inside Executives and the Board of Directors and decides appropriate responses from the perspective of company-wide risk management.
Metrics and Targets	<ul style="list-style-type: none"> Verification of CO₂ emissions by Nikko Co., Ltd. (Scope 1 and 2) Switch to renewable energy-based electricity and establishment of RE100 target Verification of CO₂ emissions in Scope 3 Establishment of the interim target for 2030 and formulation of product development and market introduction plans <p><FY 2021 results> - CO₂ emissions (Scope 1 and 2): 2,759 t-CO₂ - CO₂ emissions (Scope 3): 779,260 t-CO₂</p> <p><FY 2030 target> - CO₂ emissions (Scope 1, 2, and 3): 391,000 t-CO₂</p> <p><FY 2050 target> - CO₂ emissions(Scope 1, 2, and 3): aim for virtually zero</p>

Governance Carbon neutrality promotion structure

Nikko established the Low Carbon Task Force (LCTF) led by the managers of the Business and Technology Development Divisions as an organization that promotes the realization of carbon neutrality. Through its monthly meetings, it has a system in place to examine and discuss the issues in a cross-divisional manner for the realization of

carbon neutrality based on data verification and evidence. The Committee of Inside Executives discusses the plan proposal drafted by LCTF and formulates concrete target values and specific strategies for achieving the targets. The Board of Directors deliberates on what the Committee of Inside Executives formulated and monitors its progress.

Governance structure diagram



Strategy Climate change scenario analysis

Nikko assumes the future temperature rise scenarios in the range of 2°C and 4°C upon and carries out the medium-term (2030) and long-term (2050) scenario analyses.

- <Reference scenarios>
- IEA "World Energy Outlook 2020"
 - STEPS (stated policies scenario)
 - SDS (sustainable development scenario)
 - IPCC AR5
 - RCP2.6 (2°C scenario)
 - RCP8.5 (4°C scenario)

Business and financial impact of climate-related risks and opportunities based on scenario analysis

	Risks	Impact on finance	Opportunity	Impact on finance
2°C scenario (Assuming progress in low-carbonization)	Rapid shift to decarbonized burners (plants)	High	Demand for updating to low-carbon or 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	Growth in market share due to superiority in the R&D competition	High
	Increase in R&D expenses and capital investment (decarbonized burners, CO ₂ capture and storage technology, etc.)	Medium	Increase in demand for concrete products (roadbed materials alternative to asphalt)	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	Growth in demand for recycling and low-carbon plants due to stricter environmental restrictions in China and Southeast Asian countries	Medium
	Increase in the cost of procurement of raw materials (steel materials, etc.)	Low	Provocation of demand for new plants due to spread of CO ₂ fixation concrete	Low
	Increase in the cost of electricity derived from renewable energy	Low		
4°C scenario (Assuming no progress in low-carbonization)	Increase in the cost of procurement of alternative fuels	Low	Increase in demand for lithium battery recycling equipment due to expansion of the EV market	Low
	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 demand for preemptive maintenance for stable operation	High
			Increase in demand for disaster prevention or mitigation models	Medium
	Increase in the cost of procurement of materials due to suspension of supply chains	Low	Increase in demand for disaster prevention products (waterproof boards, temporary scaffolding, etc.)	Medium
			Increase in demand for counter-disaster mobile plants	Low
Increase in BCP expenses	Low	Increase in demand for transferring plants to areas with low disaster risk	Low	

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

Four steps and seven approaches towards the realization of carbon neutrality

● Four steps

To grasp CO₂ emissions in Scope 1, 2, and 3 as accurately as possible, we verified major categories by setting certain conditions. As a result of the verification, CO₂ emissions from using products such as the Nikko-made plants we sold were 692,000 tons, accounting

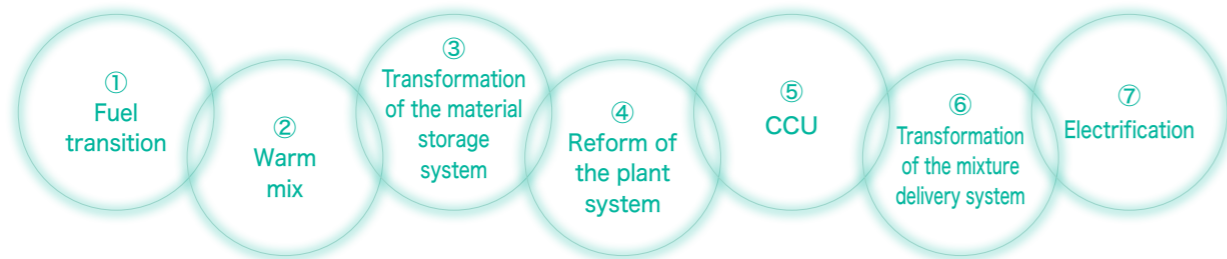
for 89.3% of overall emissions in Scope 3. The Group will offer products and services by identifying the most cost-effective methods for reducing CO₂ emissions, while sharing with customers the evidence extracted from verification data.



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



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

① Fuel transition

To replace heavy oil, which has high CO₂ emissions, the Group is considering the R&D of burners using ammonia and hydrogen, which are promising CO₂-free fuels, in addition to the development and improvement of burners that use city gas, natural gas, and biomass fuels.

② Warm mix

Manufactures asphalt mixture at a temperature lower than the usual heating temperature by reducing the viscosity of asphalt by adding water to heated asphalt and foaming it. The energy consumption in heating is reduced as we use warm mix, thus reducing CO₂ emissions.

③ Transformation of the material storage system

Reducing water in aggregate, which is the raw material of asphalt mixture, enables to lower energy consumption in the aggregate incineration process, thus reducing CO₂ emissions.

④ Reform of the plant system

CO₂ emissions can be reduced by reducing the amount of newly used consumption energy by recycling exhaust gas and heat from plant operation for heating and processing aggregate.

⑤ CCU

The external CO₂ emissions of a plant can be reduced by absorbing CO₂ emitted at the plant using the technology to absorb CO₂ with concrete. We are also considering absorbing the CO₂ emitted from the asphalt plant at the concrete plant.

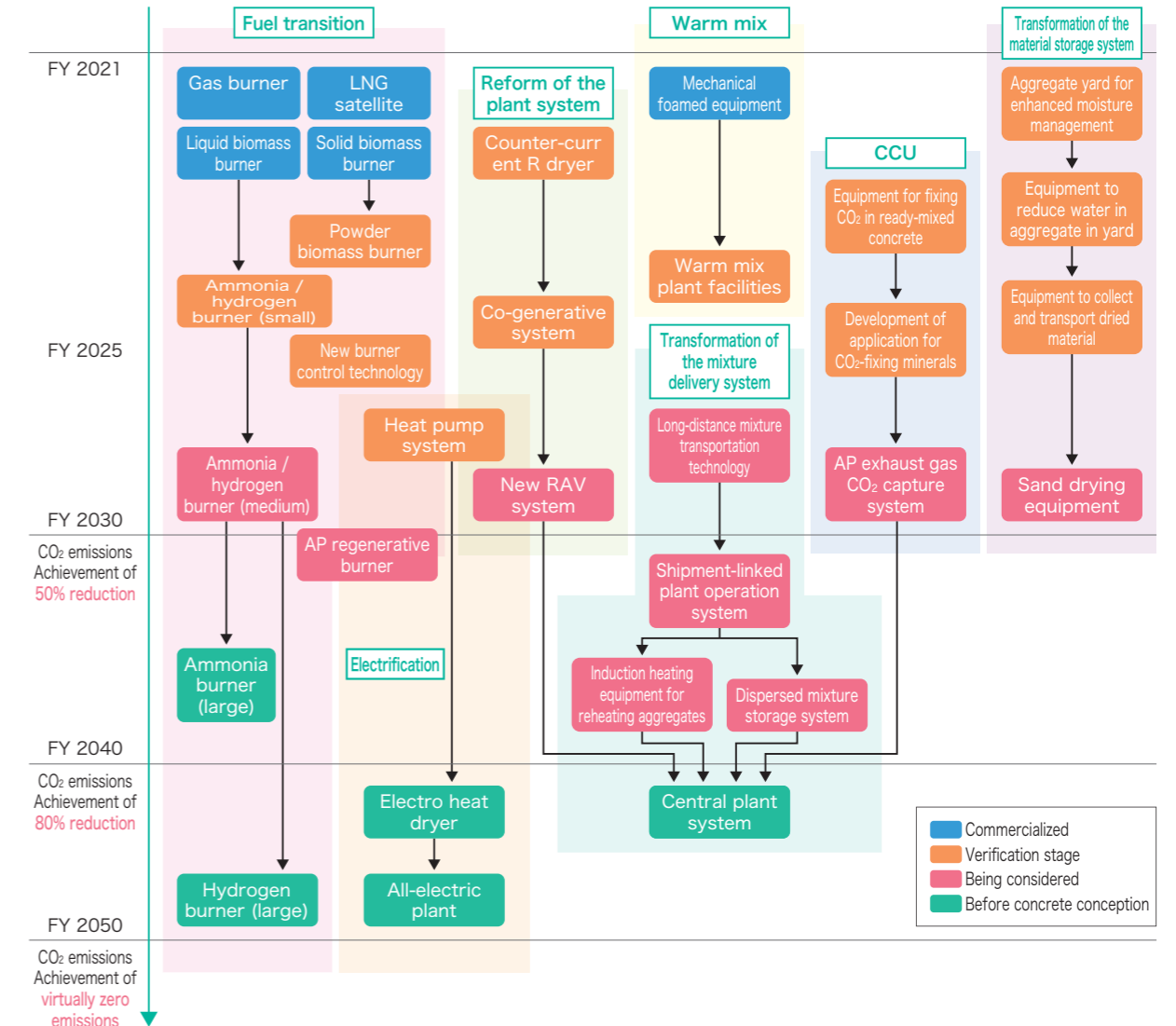
⑥ Transformation of the mixture delivery system

CO₂ emissions can be reduced by lowering energy consumption by improving production efficiency of mixture through establishment of technology for extending the distance of mixture transport and improving transport efficiency from the plant to the destination.

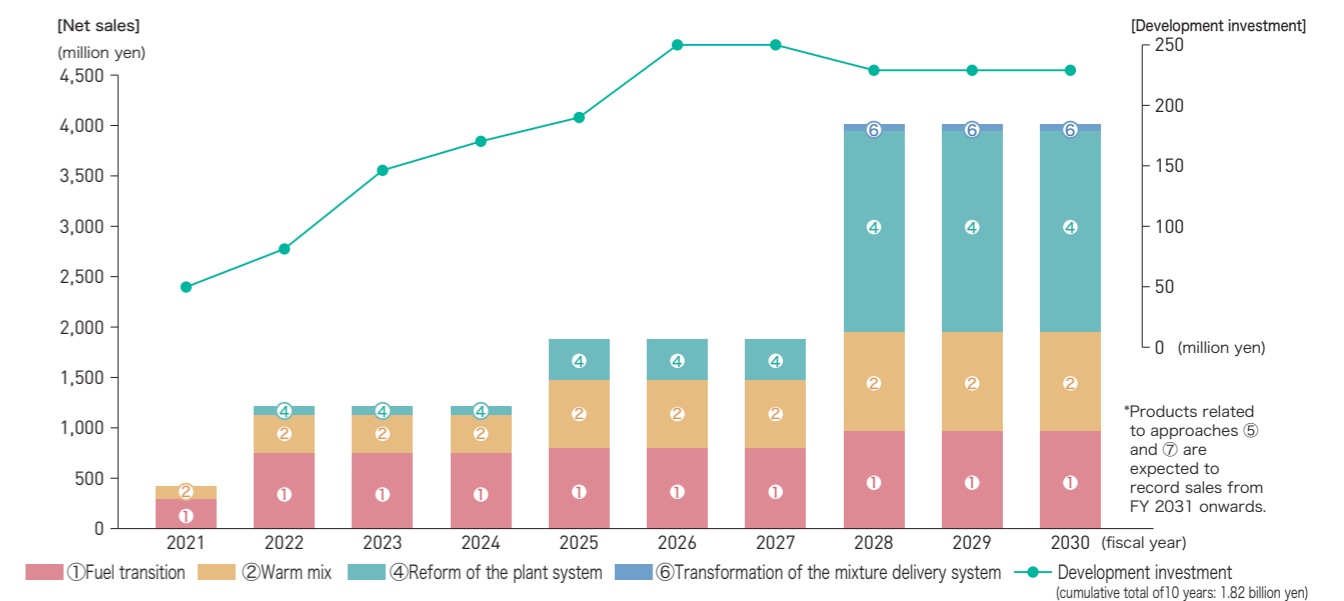
⑦ Electrification

Assuming that the use of CO₂-free electricity would spread, we are considering development of an all-electric plant to replace fossil fuels by promoting the electrification of drying and heating equipment.

Road map for the development of carbon-neutral products



Net sales target of related products and investment plan (the figures for FY 2021 are results)



Risk Management

The Low Carbon Task Force (LCTF) formulates and drafts the carbon neutrality-related plans and promotes company-wide response to climate change. The Risk Management Committee evaluates and identifies climate change-related impact on the Company and manages the effects. Furthermore, it plays the role of integrating the impact of climate change-related risks into company-wide risks by closely collaborating with the Committee of Inside Executives. The Committee of Inside Executives discusses the impact of and response to climate change and evaluates

them. It also formulates policies, key measures and targets, and action plans for minimizing climate risks. The contents of the discussion at the meetings of the Committee of Inside Executives are reported to the Board of Directors twice a year or more. The Board of Directors performs the supervisory function, regularly receiving reports on climate change-related action plan and risk evaluation from the Committee of Inside Executives and the Risk Management Committee, and deliberating on those reports.

Metrics and Targets

Nikko Group aims to realize virtually zero CO₂ emissions from its business activities and Nikko products it sells in FY 2050. It promotes the development of products

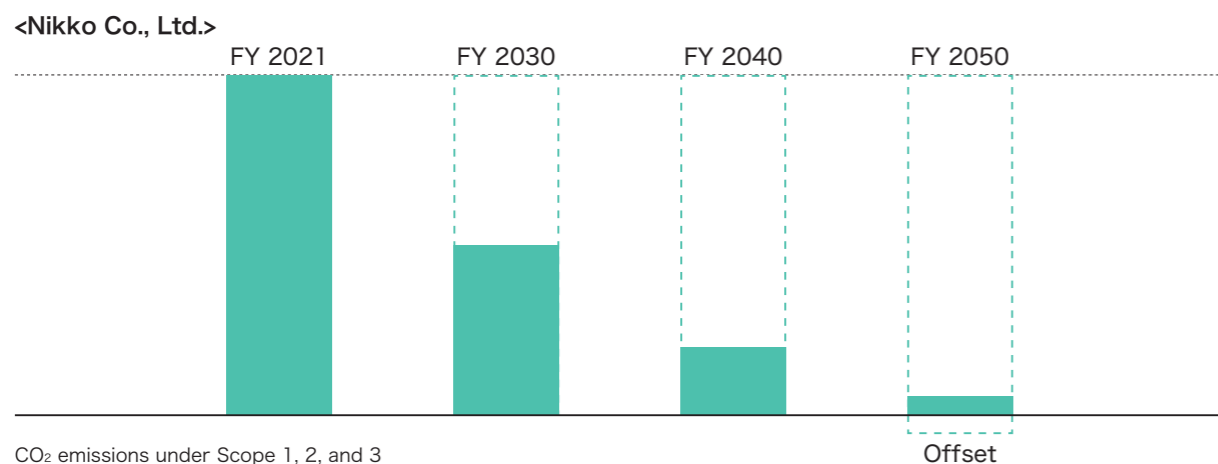
that contribute to the reduction of CO₂ emissions as well as thorough energy saving activities and proactive utilization of renewable energy.

Result of CO₂ emission verification (from April 2021 to March 2022)

Category	CO ₂ emissions (t-CO ₂)	Target activities
[(Scope 1 and 2)]	2,759	
Combustion of fuels	305	Emissions from manufacturing, processing, and experimenting
Use of electricity	2,454	Manufacturing, all offices, branches, and sales offices
[Scope 3]	779,260	
1. Purchased products and services	48,002	Emissions in upstream of the product purchased
2. Capital goods	9,206	Emissions in upstream of capital investment that has been recently introduced
3. Fuel- and energy-related activities not included in Scope 1 and 2	328	Emissions from mining, refining, etc. of fuel used
4. Transport and distribution in upper stream	24,670	Procurement and transport of raw materials and parts, and shipment of products
6. Business trips by employees	83	Use of rail service, airplane, etc.
7. Commuting by employees	323	Rail service, private vehicle, bus, motor cycle, etc.
11. Use of products sold	696,553	Emissions from operation of AP, BP, and conveyors sold
12. Disposal of products sold	95	Emissions from disposal of AP, BP, and conveyors sold

Interim targets (FY 2030) of CO₂ emissions (Scope 1, 2, and 3)

FY 2021 emission results: 2,759 t-CO₂ (Scope 1 and 2); 779,260 t-CO₂ (Scope 3)
 FY 2030 emission targets: 39,100 t-CO₂ (Scope 1, 2, and 3; down 50% from FY 2021)



Utilization of renewable energy-based electricity

Nikko Co., Ltd. switched all electricity used at its head office to electricity generated from renewable energy sources in March 2022. A similar initiative will be promoted at its offices around Japan and group companies.

Rate of renewable energy-based electricity used		
FY 2021 (results)	7.9%	The result and plan are on a parent Nikko basis
FY 2022 (plan)	94.2%	
FY 2030 (target)	100%	RE100 target Nikko Group (Japan)

Environment-related data

Consumption of fossil fuels (kl) <head office factory + sales offices>	
FY 2021	1,145
FY 2020	1,104

CO ₂ emissions (t-CO ₂) Scope 1 and 2 <head office factory + sales offices>	
FY 2021	2,759 (Scope 1: 305; Scope 2: 2,454)
FY 2020	2,892

Power usage (kwh) <company-wide>	
FY 2021	3.98 million (down 13% from the peak)
FY 2020	3.90 million
FY 2019	3.92 million
FY 2018	3.81 million
FY 2017	4.02 million

Power usage (kwh/production) output intensity <entire company>	
FY 2021	1,858 (down 39% from the peak)
FY 2020	2,038
FY 2019	2,496
FY 2018	2,738
FY 2017	2,370

Power expenses (10,000 yen) <entire company>	
FY 2021	6,734 (down 28% from the peak)
FY 2020	6,366
FY 2019	8,051
FY 2018	7,969
FY 2017	7,955

Solar power generated by the company (kwh) <head office building>	
FY 2021	45,075
FY 2020	45,713
FY 2019	19,896
FY 2018	31,281
FY 2017	50,160

Industrial waste generated (by category)		
	Wood chips	Waste plastics
FY 2021	386m ³	13,915kg
FY 2020	368m ³	20,519kg
FY 2019	332m ³	13,300kg
FY 2018	335m ³	216m ³
FY 2017	365m ³	182m ³

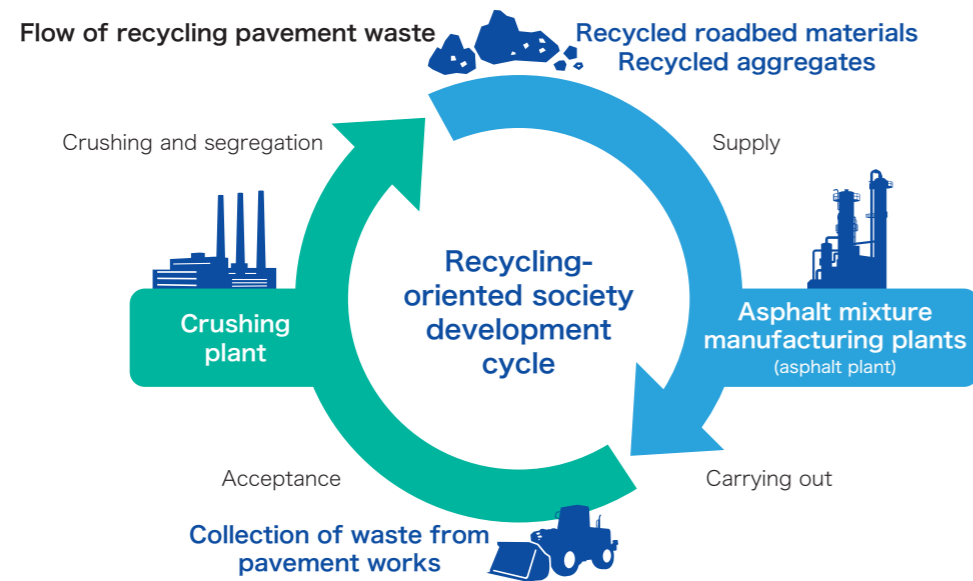
Water usage (m ³)	
FY 2021	9,416
FY 2020	9,488
FY 2019	10,509
FY 2018	12,448
FY 2017	14,253

Since the 1970s, the Nikko Group has been pursuing the development of plants capable of recycling construction and road waste materials for reducing the environmental burden, thus contributing towards improving resource productivity and establishing a recycling-oriented society. We are also actively pursuing new initiatives for minimizing industrial waste such as resource recycling of cement sludge and development of camping gear using the residual steel generated in the manufacturing process of plants and other products.

1 Recycling of asphalt waste

To advance the recycling of asphalt and concrete waste materials, Nikko in the 1970s commercialized asphalt plants that handled resource recycling. Since then, we have been continuously improving the

products, and as a result, have been recycling almost all of the asphalt waste generated. Currently, about 75% of the asphalt mixtures used for paving roads are recycled mixtures mixed with asphalt waste.

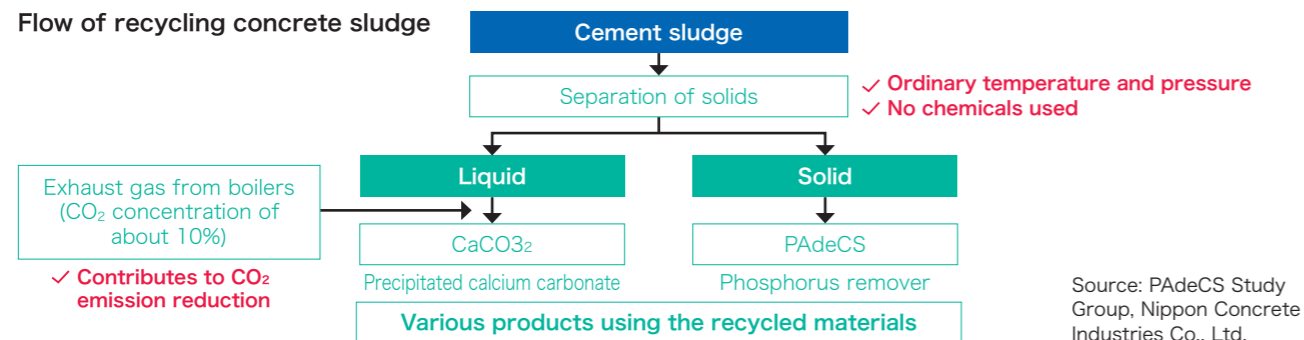


2 Recycling of cement sludge

Cement sludge comes from residual concrete and returned concrete generated during the manufacture of ready-mixed concrete and secondary concrete products. Cement sludge requires specific processes, such as dewatering and drying, before being disposed of as industrial waste. Japan produces about 3.5 million tons of cement sludge every year, and the disposal cost is 5,000 yen to 10,000 yen per ton. When cement sludge is separated into liquid and solid, precipitated calcium carbonate (CaCO₃) is extracted from the liquid and phosphorus remover (PAdeCS) is extracted from the solid portion. Various products use precipitated calcium carbonate as a

raw material: pharmaceuticals, paper, cosmetics, ferrite, condensers, optical glass, coatings, rubber, and plastics. Phosphorus remover is also expected to have many applications: rock phosphate substitute, neutralizer, night soil treatment agent, deodorizer, antiseptic, heavy metal remover, and water-bloom suppressant. Precipitated calcium carbonate absorbs CO₂ in the refining process that could reduce CO₂. Nikko will contribute to technology development for recycling cement sludge and its practical applications by closely working with the ready-mixed concrete, secondary concrete products, and cement industries.

Flow of recycling concrete sludge



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

3 Effective use of residual steel generated in the manufacturing process of plants and other products

We launched Nihon Tetsugu Seisaku, a camping gear brand for BBQ plates, bonfire stands, etc., for effectively reusing the residual steel generated in the manufacturing process of plants and other products. We are working to enhance the product lineup. As a "made-in-Akashi" brand, where everything from the material processing to the packaging of the products are carried out at the Akashi head office factory, it is also registered as a hometown tax return gift of the city of Akashi.



Early restoration from intensifying disasters

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

concrete plants, Nikko Group strives to ensure early recovery from disasters by closely collaborating with customers so as to fulfill its supply responsibility.

	Number of disaster sites (locations)
FY 2021	72
FY 2020	62
FY 2019	52
FY 2018	53
FY 2017	46

Co-existence with local communities

Our Head Office is located in Akashi City, Hyogo Prefecture—the place our factory was located when the company was established. The Nikko Business Foundation has been offering scholarships that do not require repayment since 1989 to domestic and overseas students enrolled in universities and institutes of technology offering a five-year program specializing in technology/engineering in Hyogo Prefecture and to students from Hyogo Prefecture studying outside the prefecture. Furthermore, the Foundation provides research grants to researchers 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. It incorporates the strong feeling of the Nikko Group "to contribute to the development of the local economy and communities by providing assistance for human resource development and technological innovations."

[Number of scholarships and grants offered so far (cumulative from FY 1989 to FY 2021)]

Number of scholarships awarded: **139**
 Number of research grants awarded: **195**

[New scholarships and research grants awarded in FY 2021]

Number of scholarships awarded: Two
 • Kobe City College of Technology
 • Kansai Gakuin University

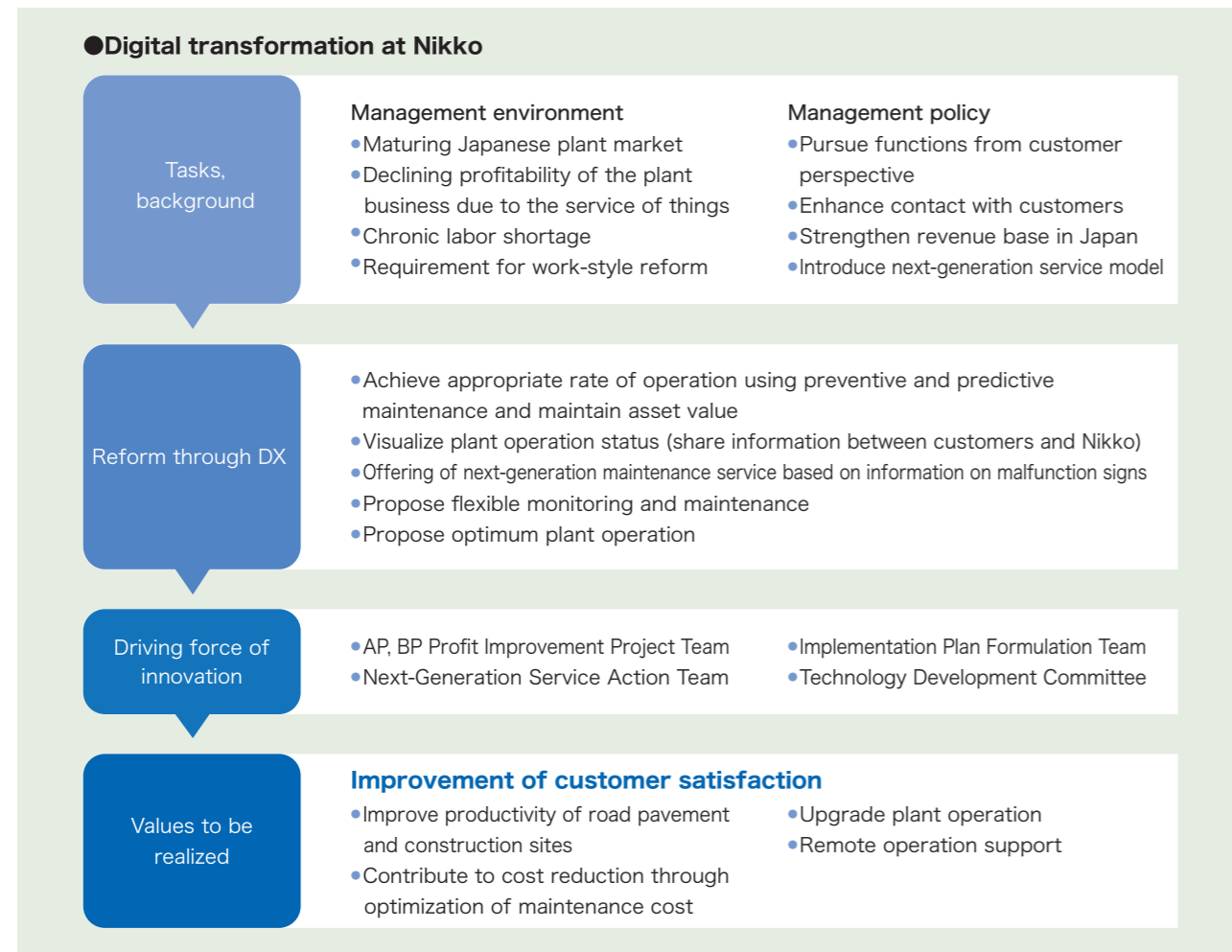
Number of research grants awarded: Two
 • Kobe City College of Technology
 (Research theme: High-speed crystal thin-film fabrication of magnetic garnet using organometallic decomposition by baking with ammonia flame)
 • Kobe City College of Technology
 (Research theme: Development of combined non-destructive probing method of exfoliated concrete through deep learning)

Nikko Group offers solid after sales service so that customers can use the products with ease of mind. In addition to the nation-wide service network, we also carry out regular inspections to prevent troubles and provide plant operator training to nurture engineers. The analog-type plant maintenance service until now was based on post-incident maintenance where repair was carried out after malfunction and preventive maintenance that relied on the experience and intuition of the service personnel. We are currently working on establishing a next-generation preventive and predictive maintenance that utilizes advance measuring equipment and communication network, in addition to introducing a new service model, aiming to create new customer values.

Creating new values through digital transformation

Stable operation of asphalt and concrete plants is indispensable for improving the productivity of road pavement and construction sites. To this end, it is important to detect the necessary maintenance in advance and take required action before the operation

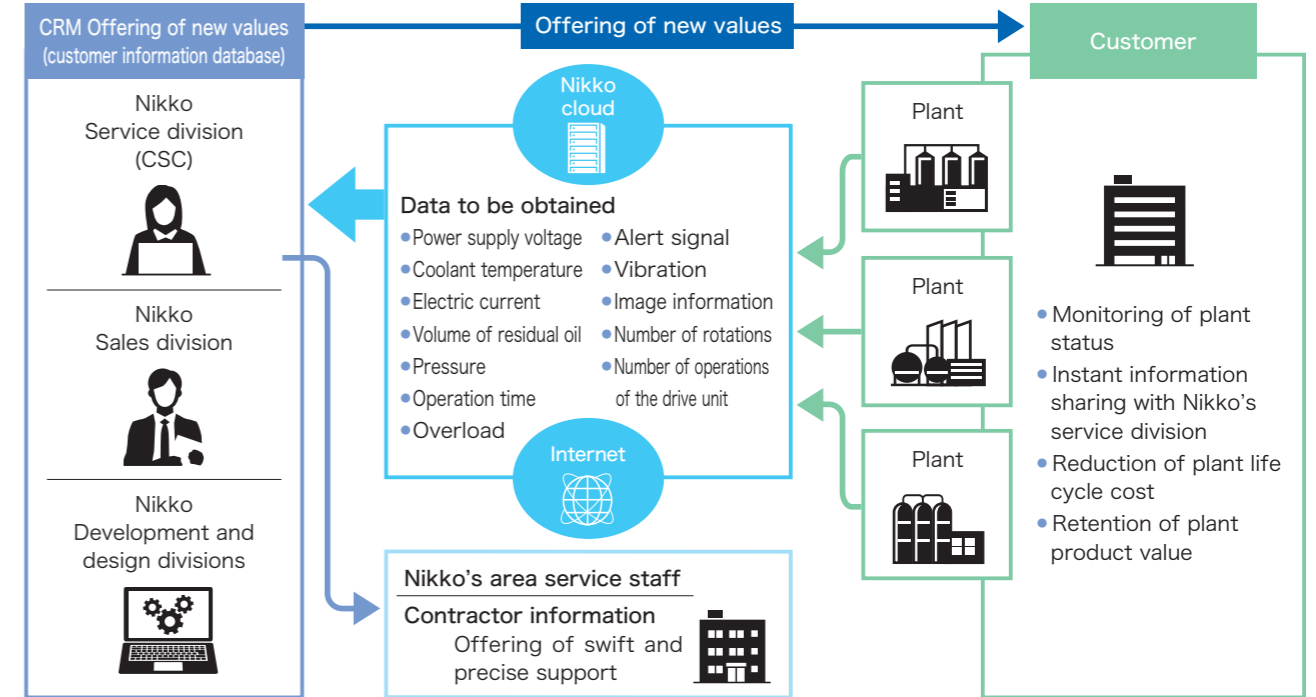
status of the plant becomes unstable. In order to resolve such issues, Nikko Group will remotely monitor the plant operation status, catch signs of malfunction based on data analysis, and replace parts and carry out repair in advance.



We can propose appropriate advance maintenance by accumulating various operation information, inspection data, and repair and work history of user plants in the Nikko cloud and visualizing operation status. Taking action after the occurrence of malfunction requires suspension of plant operations, which significantly lowers productivity. In addition to the operation information of the plant, collecting and analyzing facility environment information enables to identify

the cause of the problem. We also offer plant failure prediction reports by analyzing the accumulated data, which can be utilized to formulate a maintenance plan over the life cycle of the plant. Visualizing the operation status allows to collect failure information and identify the location of the fault. It enables to examine the cause without waiting for an engineer to arrive and greatly shortens the time taken for recovery.

●Next-generation preventive and predictive maintenance



Introduction of flat-rate service and contribution to the cost performance of customers

Along with offering the next-generation preventive and predictive maintenance service, we are considering the introduction of a flat-rate charge to replace the existing charge system based on each recovery project. We will contribute

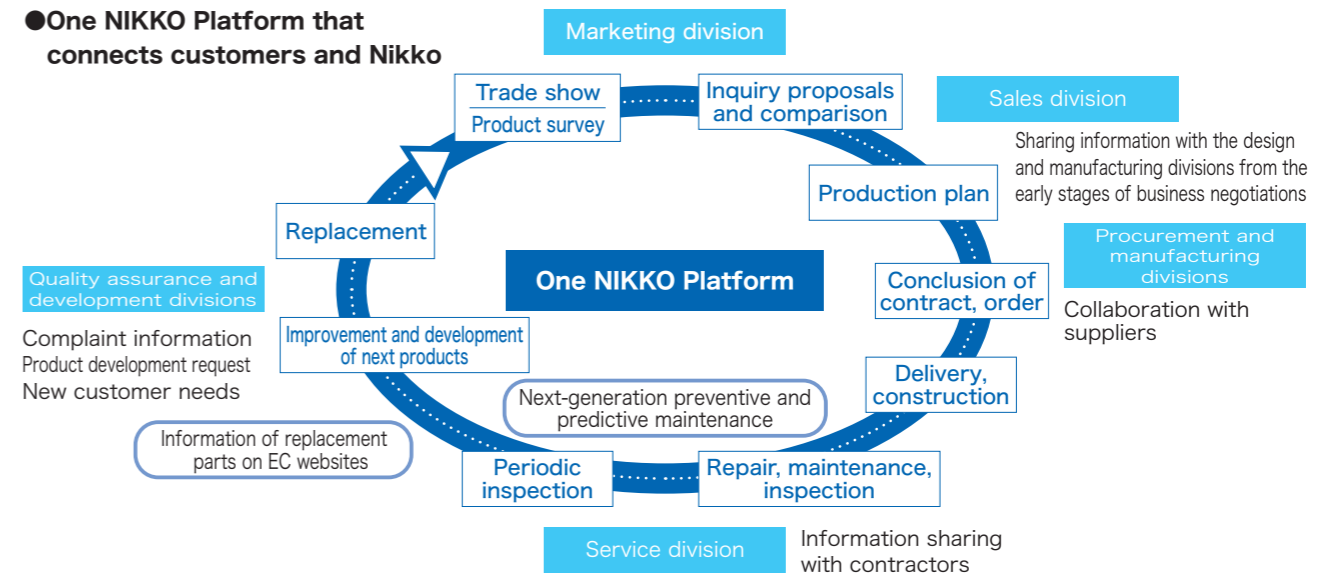
to improved cost performance at customers by carrying out regular repairs and parts replacement in accordance with the long-term preliminary maintenance plan and by reducing maintenance cost as well as emergency post-incident repairs.

One NIKKO Platform, which realizes lifecycle support

We are building a new CRM (customer information database) that will connect customers with Nikko. We will utilize big data accumulated in the next-generation preventive and predictive maintenance service to support

plant life cycle management at customers through Nikko's value chain and develop new products. We will create new values by enhancing customer contact in the digital space in addition to face-to-face services.

●One NIKKO Platform that connects customers and Nikko



All employees are the most valuable asset 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 theme of ours to improve employee engagement by understanding the expectations of each employees with different attributes and values to develop a rewarding work environment.

Employee situation

Nikko Group (including affiliated subsidiaries) (people)

fiscal year	Number of employees*1	Number of temporary employees*2
End of FY 2021	1,058	135
End of FY 2020	861	144

Situation by segment (people)

Segment name	Number of employees*1		Number of temporary employees*2	
	End of FY 2020	End of FY 2021	End of FY 2020	End of FY 2021
Asphalt Plant-Related Business	461	518	54	43
Concrete Plant-Related Business	202	233	31	30
Environment- and Conveyor-Related Business	32	43	7	10
Reportable segment subtotal	695	794	92	83
Other	128	206	46	43
Common for all companies*3	38	38	6	9
Total	861	1,038	144	135

*1 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 Common for all companies: employees of the planning, administrative divisions, etc.

Situation at affiliated subsidiaries (as of end of FY 2021) (people)

Name	Executives (full-time)	Employees	Number of temporary employees	Total
Nikko Electronics Co., Ltd.	4	93	5	102
Nikko Machinery Co., Ltd.	3	43	25	71
Tombo Industry Co., Ltd.	3	12	2	17
Nikko Sec Co., Ltd.	3	30	6	39
Nikko Kosan Co., Ltd.	2	9	9	20
Maekawa Kogyosho Co., Ltd.	1	17	2	20
Ube Kohki Co., Ltd.	3	67	2	76
Nikko Baumachinen GmbH	2	0	0	2
Nikko Asia Thailand Co., Ltd	1	14	0	15
Nikko Nilkhosol Co., Ltd	3	78	0	81
Nikko (Shanghai) Construction Machinery Co., Ltd.	2	106	0	108
Total	49	469	51	551

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

	Male	Female
Company employees	508	19
Regional employees	2	41
Contract employees*1	40	0
Master*2	18	0
Senior*3	13	0
Partner employees*4	0	17
Fixed-term employees*5	0	16
Total	581	93
Year-on-year change (%)	+1.9	+6.9
Average age	43.3	44.8
Average years of service	18.7	11.0
Average wage (1,000 yen)*6	7,682	3,357

*1 Contract employees: rehired employees who are post-seniors or post-masters (non-regular employees) *2 Master: employees rehired after retirement (non-regular employees) *3 Senior: employees who are post-masters with extended employment (non-regular employees) *4 Partner: part-time employees with no fixed term (non-regular employees) *5 Fixed-term employees: part-time employees whose terms have been renewed (non-regular employees) *6 Male and female average wage: While there is no wage gap between men and women in the same position, wage gap does occur due to differences in office organization and lengths of service.

Trend of the number of hires

(people)

fiscal year	New graduates		People with prior work experience (global)		People with prior work experience (area)		Total
	Male	Female	Male	Female	Male	Female	
FY 2022 (as of end of June)	26	6	6	2	0	0	40
FY 2021	26	3	15	0	2	5	51
FY 2020	13	0	17	0	0	4	34
FY 2019	14	0	9	2	0	10	35
FY 2018	15	0	3	0	0	5	23
FY 2017	19	0	6	0	0	1	26

Retention rate three years after joining (employees who joined in FY 2019)

New graduates	85.7%
Hires with prior work experience	80.0%

Development of working environment

Nikko has established the following policy regarding development of working environment and is promoting related measures.

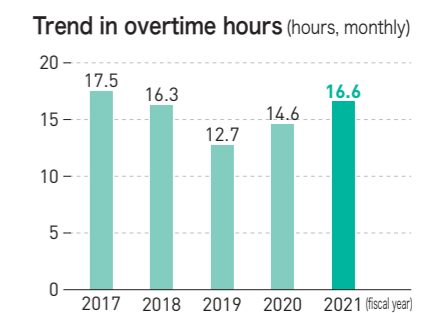
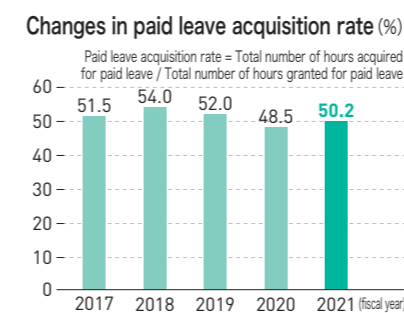
[Measures to support development of next generation]

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

[Promoting active participation of women]

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

Nikko has been developing an environment that facilitates active participation by female employees from the perspectives of both infrastructure and services through efforts such as setting up a dormitory for singles where women can stay safely. It is also reviewing its personnel system and will continuously strive to ensure diversity.



Initiatives for flexible workstyle and enhancement of health

Number of employees who have utilized childcare leave system (people)

fiscal year	Female	Male	Total
FY 2021	5	1	6
FY 2020	3	0	3
FY 2019	5	0	5
FY 2018	1	0	1
FY 2017	2	0	2

Number of employees who have utilized shortened working hours for childcare (people)

fiscal year	Female	Male	Total
FY 2021	4	0	4
FY 2020	2	0	2
FY 2019	2	0	2
FY 2018	1	0	1
FY 2017	2	0	2

Number of employees who used workplace clinics (people)

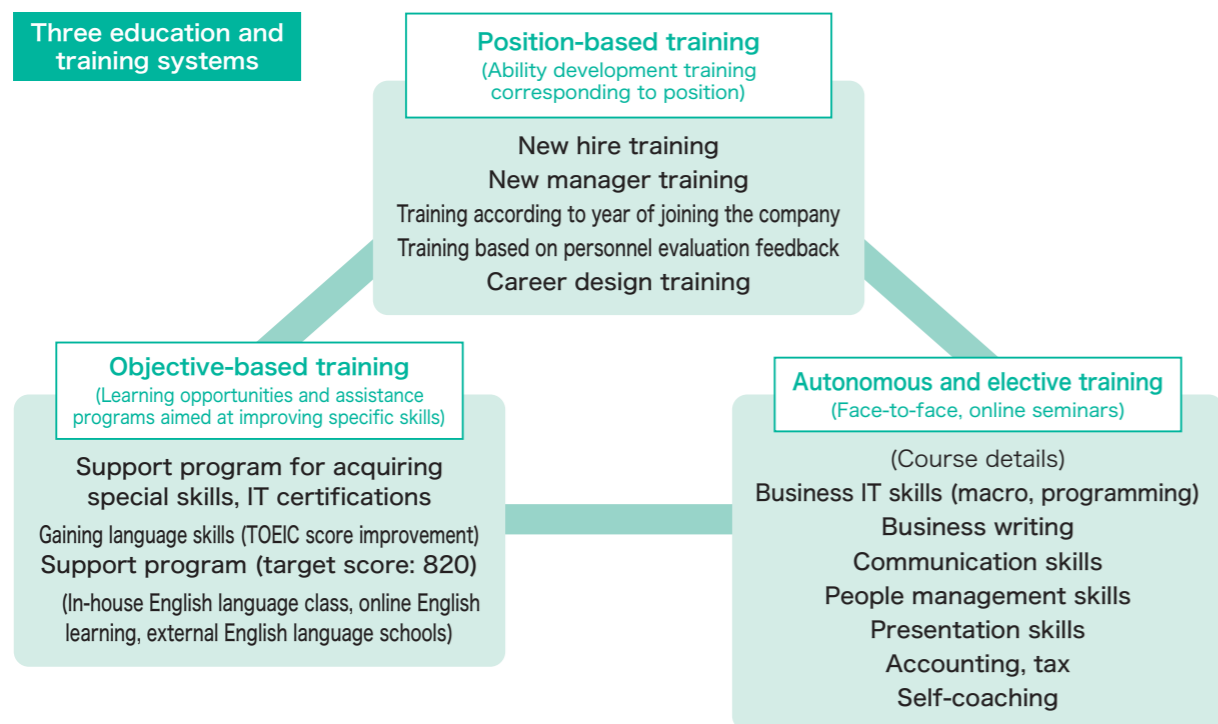
fiscal year	Number of patients
FY 2021	992
FY 2020	873
FY 2019	948
FY 2018	912
FY 2017	953

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

Human resource development and training programs

Nikko is striving to enhance employee education through offering of three types of human resource development programs. Supports the skill acquisition and career

development that are required of each employee based on position-based training, objective-based training, and autonomous and elective training programs.



Amount invested in personnel training and training hours (total for FY 2021):
¥12,847,000 and 3,204 hours (only for major programs)

Development of a safe and healthy environment

Nikko Group has been ensuring compliance with safety and health-related laws and regulations and has been working to improvement its level of safety and health management. It is also making sure to implement stress level tests and special health examination for employees

with focus on improvement of personal as well as workplace environment. In the manufacturing divisions, which are associated with higher risks of accidents, the Group aims to achieve zero occupational accidents through the enhancement of education and support.

Nikko Group accident prevention slogan

Let's lower risks through continuous risk assessment and achieve zero accidents!
Let's prevent accidents by pointing and calling as well as by paying attention to each other
Ensure "don't fall," "stop," "step aside," and "confirm"

Goals

- [Safety and health] Zero accidents (employees, employees at contractors, factory floors and work sites)
- [Health] Zero long-term medical treatment (1 month or longer)
- [Traffic safety] Zero accidents at fault, own injury

Trend of occupational accidents

(number of accidents)

		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Nikko Group	Severe accidents	0	0	1	1	0
	Accidents with lost workdays	1	3	1	1	2
	Accidents without lost workdays	8	5	4	3	10
	Total	9	8	6	5	12
Contractors (Nikko-related local projects)	Severe accidents	0	0	1	0	2
	Accidents with lost workdays	3	0	2	7	6
	Accidents without lost workdays	0	6	8	6	9
	Total	3	6	11	13	17

Allotment of treasury stock with restriction on transfer to employees

Commemorating the 100th anniversary of its foundation, Nikko allotted 100 shares in treasury stock to all employees of Nikko Group (worth 293,000 yen) in September 2019. Subsequently, the Company in 2021 introduced a system for allotting shares in treasury stock with restriction on transfer to its employees with the main aims of improving employee

engagement and stimulating their awareness as a shareholder for participating in management. Almost all employees have become Nikko shareholders and the Company expects their active contributions from a shareholder perspective to achieve 60.0 billion yen in net sales and ROE of 10%, which are Nikko Group's long-term goals.

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

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



The business of Nikko Group is established on the relationship of trust with its stakeholders. Nikko Group, through continuous dialogues with its stakeholders, aims to gain their understanding regarding the direction it is pursuing and the path of its value creation, and along with contributing to the sustainability of society based on the stakeholders' understanding, it ultimately aims to realize a sustainable growth as a company.

Value co-creation with Stakeholders



Relationship with stakeholders and main channels of dialogue

	Relationship with stakeholders	Stakeholders' main interests	Main dialogue channels
Customers	Nikko Group is contributing to business expansion and productivity improvement at customers through the provision of products and services. At the same time, it contributes to the development of a prosperous society together with customers through the development of social infrastructure.	<ul style="list-style-type: none"> Offering of high-performance, high-quality products Service structure that offers safety and security Appropriate price setting Ability to propose solutions to issues Response to technological innovation Early restoration from natural disasters 	<ul style="list-style-type: none"> Daily sales and service activities Various trade shows (participation to the 2021 MP Messe and N-EXPO 2021) Offering of plant operator training Journals (editing and publication of NAP NEWS and BP EYES) Nikko website
Employees	Employees are the most valuable asset of Nikko. We focus our efforts on building an organization and nurturing our human resources so that we can quickly respond to all changes surrounding our business to make sustained contribution to society. We will strive to develop a workplace environment that offers job satisfaction by responding to the expectations of employees, who have diverse attributes and values.	<ul style="list-style-type: none"> Respect to basic labor rights Offering opportunities for growth and self-realization Equal opportunities and fair evaluation Creating a workplace that is very safe mentally Ensuring safe operations and consideration for natural environment Realization of work-life balance Securing of diversity and workstyle options 	<ul style="list-style-type: none"> Intranet Company newsletter (Tombo) Target setting and progress confirmation, evaluation feedback English and special skill training, autonomous and elective development seminars Campaign to improve operating efficiency Whistleblowing system Allotting shares with restriction on transfer

	Relationship with stakeholders	Stakeholders' main interests	Main dialogue channels	
Business partners	Materials suppliers	<ul style="list-style-type: none"> Suppliers of outsourced products based on Nikko design (about 20 companies) General materials suppliers (about 100 companies) 	<ul style="list-style-type: none"> Equal, fair transaction terms Quality assessment Centralized purchasing Support for business succession, technology transfer 	<ul style="list-style-type: none"> Daily procurement activities Quality improvement support Factory, warehouse visits Quality audit
	Tombo-kai (Sales agent network)	Members: 123 companies	<ul style="list-style-type: none"> Proposal of new products Support for seeking new sales channels 	<ul style="list-style-type: none"> Holding general meetings and subcommittee meetings
	Akitsu-kai (contractors' network)	Members: 195 companies	<ul style="list-style-type: none"> Safe work environment Advice regarding specialized skills and technologies Securing stable work load over the long term 	<ul style="list-style-type: none"> Safety and health meeting
Local community, future generation	For Nikko Group to develop and grow, it needs to contribute to raising the sustainability of society. Nikko considers the realization of carbon neutrality as its responsibility towards future generations.	<ul style="list-style-type: none"> Co-existence with local communities Creation of employment Contribution to local development Preservation of the local natural environment Safe operation 	<ul style="list-style-type: none"> Offering of grant-type scholarship to students from Hyogo Prefecture Offering of research grants to researchers from Hyogo Prefecture Support for disaster prevention education at primary and special needs schools (14 of them) within Akashi city (offering of disaster prevention tenguui towels) Responsible responses to climate risks Investment in SDG bonds issued by Hyogo Prefecture (endorsing the purpose of issuance such as the renewable energy project) 	
Shareholders, investors	Shareholders and investors, who offer financial capital, support the growth of Nikko Group and has the role of monitoring its management. We will further strengthen our relationships of trust with them through our efforts in improving corporate value and enhancing information disclosure.	<ul style="list-style-type: none"> Improving our corporate value Promotion of fair disclosure Capital policy that is conscious of capital efficiency Achievement of business returns that exceed the capital cost Strengthening of initiatives towards ESG and sustainability, and enhancement of information disclosure Improvement in effective governance 	<ul style="list-style-type: none"> General Shareholders' Meeting (attended by 5,081 people including online participants) Financial results briefing sessions (four times) Individual meetings with institutional investors (10 meetings with 18 investors) 	

The figures are results for FY 2021.

Directors



Takahisa Nishikawa
Born on March 31, 1959

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

Shareholding in the Company: 117,100 shares



Masaru Tsuji
Born on June 4, 1960

September 1987 Joined Nikko Co., Ltd.
June 2007 Executive Officer, Manager of Market Development Department, and General Manager of Business Development Promotion Office
June 2008 Director, Manager of Market Development Department, and General Manager of Business Development Promotion Office
June 2011 Managing Director and General Manager of Sales Division
June 2015 Senior Managing Director, General Manager of Business Division, General Manager of the Tokyo Head Office
April 2019 Representative Director and President Internal Control in-charge and General Manager of Technology Division (current)

Shareholding in the Company: 103,100 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 and Manager of Financial Department, Nikko Co., Ltd.
June 2018 Managing Director and General Manager of Financial Division
April 2020 Managing Director, General Manager of Financial Division, and Security Export Control in-charge
June 2021 Senior Managing Director General Manager of Management Division and Security Export Control in-charge (current)

<Important concurrent position>
Representative Director and President, Nikko Kosan Co., Ltd.
Shareholding in the Company: 61,900 shares



Tomomi Nakayama
Born on January 10, 1963

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

Shareholding in the Company: 38,960 shares



Minoru Tanaka
Born on December 18, 1960

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

<Important concurrent position>
Representative Director and President, Nikko Electronics Co., Ltd.
Shareholding in the Company: 35,600 shares



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 Outside Director, Nikko Co., Ltd. (current) Director, Kobe Commerce, Industry and Trade Center (current)

<Important concurrent position>
Representative Director and President, Usystem Co., Ltd. Director, Kobe Commerce, Industry and Trade Center
Shareholding in the Company: None



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

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

<Important concurrent position>
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 2010 Executive Officer and Branch Manager of Chubu Branch
January 2011 Executive Officer and Manager of Batching Plant (BP) Business Department
June 2012 Executive Officer and Manager of Business Planning Department
June 2013 Executive Officer, General Manager of the Tokyo Head Office, Business Division, and Manager of Business Planning Department
June 2015 Audit & Supervisory Board Member
June 2019 Standing Audit & Supervisory Board Member (full-time) (current)

Shareholding in the Company: 37,000 shares



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



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



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

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

Shareholding in the Company: None

Executive Officer

Masao Natori
Born on May 22, 1961
Senior Executive Officer

April 1984 Joined Nikko Co., Ltd.
November 2007 Director of R&D Center
June 2008 Executive Officer and Director of R&D Center
April 2010 Executive Officer and Manager of Engineering Department
June 2012 Executive Officer, Deputy General Manager of Technology Division, and Manager of Technology Department
April 2016 Executive Officer, Manager of Corporate Planning Department, Manager of General Affairs Department, and Manager of Cost Management Department
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
June 2022 Senior Executive Officer Manager of General Affairs Department and Head of First-Class Architect Office of Technology Division (current)

Morie Okaaki
Born on November 2, 1963
Senior Executive Officer

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

Takeshi Sone
Born on February 25, 1970
Senior Executive Officer

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

Kazuhiro Yamada
Born on December 16, 1970
Executive Officer

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

Koichi Kawakami
Born on July 8, 1965
Executive Officer

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, Nikko Co., Ltd.
May 2012 General Manager of International Planning Office, International Business Department (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, Business Division
April 2021 General Manager of President Office and General Manager of Quality Assurance Office
June 2021 Executive Officer, Manager of Corporate Planning Department, CEO's Office, and General Manager of Quality Assurance Office
June 2022 Executive Officer Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO), and General Manager of Quality Assurance Office (current)

Toyokazu Uehara
Born on July 3, 1969
Executive Officer

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

Katsuhiko Kawamura
Born on February 26, 1968
Executive Officer

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

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.

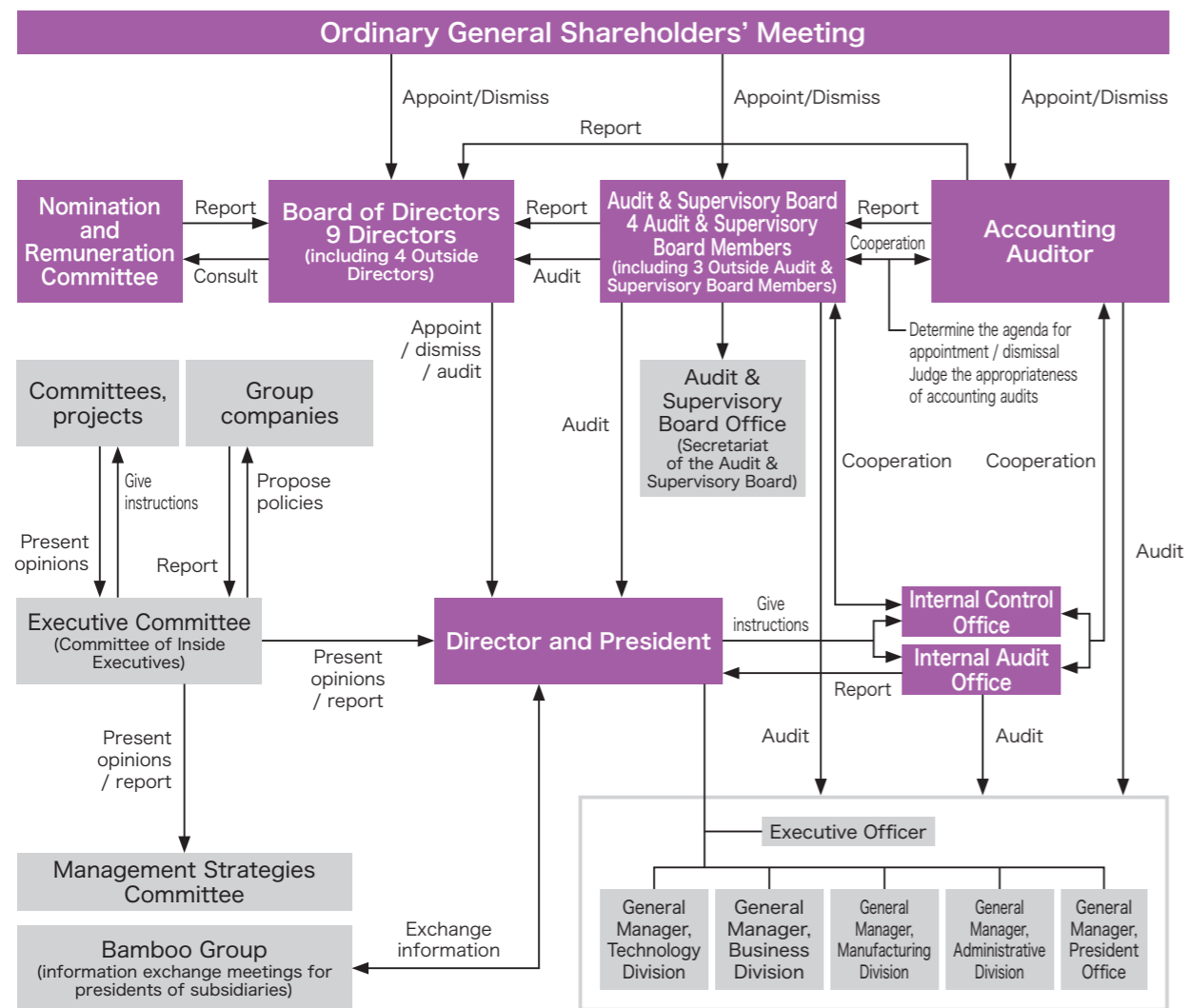
The Company’s decisions based on the on-site situation are made in an appropriate manner by

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. Nikko appoints four Outside Directors and three Outside Audit & Supervisory Board Members as independent officers to enhance corporate governance and ensure the objectivity and neutrality of management and supervision functions.




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.



Roles and composition of supervisory bodies

Organization	Board of Directors	Audit & Supervisory Board	Nomination and Remuneration Committee
Composition	 Chair • 5 inside members + 4 outside members • Representative Director and President is the chair	 Chair • 1 inside member + 3 outside members • Internal, full-time Audit & Supervisory Board Member is the chair	 Head • 1 inside member + 2 outside members • Representative Director and President is the head
Purpose and authority	<ul style="list-style-type: none"> Resolution of matters including determination of the basic management policies Supervision of the execution of duties by Executive Officers, etc. 	<ul style="list-style-type: none"> Supervision of the duties of Directors and Executive Officers Preparation of audit reports Determination of the agenda details regarding the appointment and dismissal of an accounting auditor 	<ul style="list-style-type: none"> Determination of agenda details regarding appointment and dismissal of Directors to be submitted to Ordinary General Shareholders' Meeting Appointment and evaluation of Executive Officers, etc. Determination of policies regarding remuneration, etc. of Directors and Executive Officers Determination of policies regarding performance evaluation of Directors and Executive Officers
Ratio of independent outside officers	44%	75%	67%
Number of meetings in 2021	13	14	4
Office	Corporate Planning Department	Assistant to Audit & Supervisory Board	Corporate Planning Department

 Inside directors  Independent outside officers

Main decision-making bodies










<Meeting bodies on the monitoring side>

- ◆ **Board of Directors** 9 Directors (including 4 Outside Directors) + 4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members)
Chair: Masaru Tsuji (Representative Director and President)
- ◆ **Audit & Supervisory Board** 4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members)
Chair: Nobutaka Yasuda (Full-time Audit & Supervisory Board Member)
- ◆ **Nomination and Remuneration Committee** 3 Directors (including 2 Outside Directors)
Head: Masaru Tsuji (Representative Director and President)
- ◆ **President and Outside Officers Meeting** (1 Inside Directors + 7 Outside Officers)
Chair: Masaru Tsuji (Representative Director and President)





<Meeting bodies on business executive side>

- ◆ **Committee of Inside Executives** 5 Inside Directors + 1 Full-time Audit & Supervisory Board Member + 7 Executive Officers + General Managers of Internal Control Office + Internal Audit Office
Chair: Masaru Tsuji (Representative Director and President)
- ◆ **Management Strategies Committee** Internal directors involved in strategic themes + Executive Officers + Divisional General Managers
Chair: Masaru Tsuji (Representative Director and President)
- ◆ **Compliance and Risk Management Committee**
Head: Hiroshi Fujii
- ◆ **M&A Examination Committee**
Head: Hiroshi Fujii
- ◆ **Finance Committee**
Head: Hiroshi Fujii
- ◆ **Development Technology Committee**
Head: Katsuhiro Kawamura
- ◆ **Safety and Health Committee**
Head: Masao Natori
- ◆ **Company-wide Promotion Selection Committee**
Head: Masao Natori
- ◆ **Reward and Punishment Committee**
Head: Masao Natori
- ◆ **Personnel System Committee**
Head: Koichi Kawakami
- ◆ **Improvement Activity Committee**
Head: Kazuhiro Yamada
- ◆ **Tombo-kai Vitalization Committee**
Head: Morie Okaaki
- ◆ **Product Commercialization Committee of each business**
Head: General Manager of each business division
- ◆ **Bamboo Group** (information exchange meetings for presidents of subsidiaries)
Chair: Masaru Tsuji

Members of Board of Directors Meeting (as of July 2022)

Name	Title	Attendance (Board of Directors Meetings in 2021)	Appointed in	Number of Nikko shares held	Main expertise and experience										Delegation of authority of chair and head	
					Independence (outside officers alone)	Insight and experience ¹ expected								Administrative experience		
						Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT ²	Technical experience			
 Takahisa Nishikawa	Director and Chairman	13/13	June 2008	117,100 shares		●	●							●		
 Masaru Tsuji	Representative Director and President	13/13	June 2008	103,100 shares		●	●				●	●	●			Chair of Board of Directors Head of Nomination and Remuneration Committee
 Hiroshi Fujii	Senior Managing Director (General Manager, Administrative Division)	13/13	June 2011	61,900 shares		●		●	●	●						
 Tomomi Nakayama	Managing Director (General Manager, Business Division)	13/13	June 2019	38,960 shares		●	●				●		●			
 Minoru Tanaka	Directors (Manager of Service Planning Department, Business Division)	13/13	June 2021	35,600 shares		●	●				●	●	●			
 Tsutomu Yuasa	Directors	13/13	June 2016	5,000 shares	●	●		●				●				Nomination and Remuneration Committee member
 Masafumi Ishii	Directors	10/10	June 2021	None	●				●	●					●	
 Rika Saeki	Directors	10/10	June 2021	None	●	●						●				
 Shigeru Sadakari	Directors	13/13 (attended as Outside Audit & Supervisory Board Member)	June 2022 (newly appointed)	None	●	●		●	●							Nomination and Remuneration Committee member

Members of Audit & Supervisory Board (as of July 2022)

Name	Title	Attendance (Upper row: Audit & Supervisory Board Meeting in FY 2021) (Lower row: Board of Directors Meeting in FY 2021)	Appointed in	Number of Nikko shares held	Independence (outside officers alone)	Main expertise and experience								Delegation of authority of chair and head		
						Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT ²	Technical experience		Administrative experience	
 Nobutaka Yasuda	Full-time Audit & Supervisory Board Member	14/14 13/13	June 2016	37,000 shares		●	●				●					Chair of Audit & Supervisory Board
 Naoki Ota	Audit & Supervisory Board Member	14/14 13/13	June 2019	None	●	●				●						
 Tsuyoshi Fukui	Audit & Supervisory Board Member	14/14 13/13	June 2019	None	●			●								
 Koji Yoneda	Audit & Supervisory Board Member	(Not applicable)	June 2022 (newly appointed)	None	●				●							

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

*2 ICT in the above list stands for information and communication technology.

Reasons for appointment and expected roles of Outside Officers

Outside Officers	Name	Appointed in	Date of birth	Career background	Reasons for appointment and expected roles
Independent Outside Director (reappointed)	Tsutomu Yuasa	June 2015	July 18, 1951	Corporate management	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. As a Nomination and Remuneration Committee member, he is engaged in the selection of officer candidates and decision on the remunerations from an objective and neutral standpoint.
Independent Outside Director (reappointed)	Masafumi Ishii	June 2021	November 3, 1957	Diplomatic official	Ishii possesses extensive insight into international affairs, nurtured through his rich international experience including long service in various key positions at the Ministry of Foreign Affairs, as well as knowledge of the Asian region where Nikko aims to expand in the future. He is expected to provide a diverse and broad range of advice.
Independent Outside Director (reappointed)	Rika Saeki	June 2021	February 27, 1961	Corporate management	Saeki is expected to reflect her abundant knowledge and experience, nurtured through her engagement in corporate management as a founder and current executive of an operating company. She is also expected to supervise and advise Nikko on its business execution with her knowledge of ICT, which is Saeki's main field of business, as well as from a diversity perspective.
Independent Outside Director (newly appointed)	Shigeru Sadakari	June 2022	September 22, 1957	Corporate management	Sadakari is expected to reflect his abundant experience and broad knowledge, nurtured through his long engagement in corporate management at financial institutions and business companies, in Nikko's management. As a Nomination and Remuneration Committee member, he is engaged in the selection of officer candidates and decision on the remunerations from an objective and neutral standpoint. Sadakari has served as an Outside Audit & Supervisory Board Member since June 2019.
Independent Outside Audit & Supervisory Board Member	Naoki Ota	June 2019	March 1, 1955	Corporate management	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.
Independent Outside Audit & Supervisory Board Member	Tsuyoshi Fukui	June 2019	July 24, 1965	Certified as Certified Public Accountant of Japan	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.
Independent Outside Audit & Supervisory Board Member (newly appointed)	Koji Yoneda	June 2022	February 17, 1957	Attorney	Yoneda has been demonstrating high performance from a specialist perspective as an attorney and also has deep insight in management, and he is expected to supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint.

Ensuring transparency of management

Nikko Group has been strengthening the foundation of its corporate structure based on the judgment that ensuring transparency of management is indispensable in gaining the trust of stakeholders. In 2021, the Group increased the number of outside directors, appointed a female director,

and established the Nomination and Remuneration Committee, to develop a structure that enables discussions from more diverse perspectives. We will continue to work on governance reform so as to gain even more trust of stakeholders and to realize sustainable growth.

Nomination and Remuneration Committee (established in FY 2021)

- ◆ President and Representative Director: 1 Masaru Tsuji
- ◆ Independent Outside Directors: 2 Tsutomu Yuasa and Shigeru Sadakari

Evolution of Nikko's governance reform

fiscal year		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Director and Chairman	With representative right								Masaru Kishi			Takahiko Fukatsu							Takahisa Nishikawa		
	Without representative right		Kenkichi Inoue										Takahiko Fukatsu								Takahisa Nishikawa
Representative Director and President		Kenkichi Inoue	Masaru Kishi						Takahiko Fukatsu			Takahisa Nishikawa						Masaru Tsuji			
Number of members of Board of Directors	Inside	10	9	9	8	6	7	8	7	6	6	6	6	6	5	5	5	5	6	6	5
	Outside	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2	2	2	2	2	4
Number of members of Audit & Supervisory Board	Inside	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1	1	1	1
	Outside	2	2	3	3	2	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Advisory committees	Inside	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Outside	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Corporate slogan	Big Passion	Customer-first policy																			
Medium-Term Management Plan (name)	PLAN 5·7·9 with Best CS	Direction to be pursued, achievement of "vision"				Group management that is well-balanced between sales and profits			Promote activities to further raise the image of the Nikko brand and become a manufacturer that our customers truly depended on			INNOVATION			Future creation that starts from an 'n'						

Matters regarding officers' remuneration

● Basic policy

Nikko set out a basic policy to develop a system of remuneration of its Directors that adequately functions as an incentive to sustainably improve corporate value while paying attention to the interests of shareholders, and to decide remuneration of each Director at an appropriate level based on their duties in accordance with the Internal Regulations on Remuneration and Bonuses of Executives (hereinafter, "Internal Regulations") set by the Board of Directors. Remuneration of Executive Directors comprises basic compensation

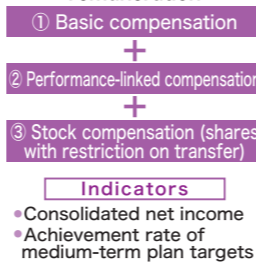
as fixed compensation, performance-linked compensation, and stock compensation. To Outside Directors whose main function is supervision, basic compensation and performance-linked compensation are paid.

From April 2021, the optional Nomination and Remuneration Committee (hereinafter, the "Committee") was established, where remuneration is revised as necessary based on reports from the Committee.

Total remuneration of Directors and Audit & Supervisory Board Members

Officer ranks	Total amount of remuneration (million yen)	Total amount of all types of remuneration (million yen)				Those entitled (people)
		Fixed compensation	Performance-linked compensation	Shares with restriction on transfer	Retirement allowance	
Directors (excluding Outside Directors)	142	103	25	13	–	7
Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Members)	22	17	3	2	–	1
Outside Officers	40	36	3	–	–	7

Breakdown of Director's remuneration



① Basic compensation

It 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.

② Performance-linked compensation

It 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.

As for specific figures, 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. 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 Medium-Term 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.

③ Stock compensation (shares with restriction on transfer)

Its percentage is set around 10% of the monthly compensation, and the number of shares is determined based on the share price as of a specific date, for each officer rank and in accordance with the Internal Regulations. The timing of allotment is 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 officers are not entitled to the stock compensation.

● Ratio of remuneration composition

Composition ratio of remuneration for executive directors is set at 7 : 2 : 1 for basic compensation, performance-linked compensation, and stock compensation. The Committee will continue to discuss the future remuneration system.

● Determination of the amount of individual remuneration

To determine the amount of individual remuneration, the Committee deliberates on it and provides a report, and the Director and President decides the amount within that scope.

Initiatives for improving the effectiveness of Board of Directors

Nikko is implementing initiatives for improving the corporate governance structure and its effectiveness, which it considers as the most important management issue. Every year in July,

we carry out an evaluation of the effectiveness of Board of Directors to measure the success of the development and operation of the governance structure in the past fiscal year.

● Evaluation of the effectiveness of Board of Directors for FY 2021

In the evaluation of Board of Directors for FY 2021, nine Directors (including four independent outside members) and four Audit & Supervisory Board Members (including three independent outside members) were asked to respond to a questionnaire with 30 questions regarding six items of overall evaluation of Board of Directors, composition of Board of Directors, Operation of Board

of Directors, quality of discussions at Board of Directors, provision of information and training, and other (free description). As a result of deliberations based on the outcome of the survey, the Board of Directors judged that it was functioning at favorable level in terms of all of the above six items in FY 2021. We will work on improving the issues grasped in the survey in FY 2022.

Issues identified in the survey of the effectiveness of Board of Directors in FY 2021 and initiatives for improvement

	Issues identified in Board of Directors in FY 2021	Initiatives from FY 2022 onwards
Issue 1	Enhancement of opportunities for deliberation regarding medium- to long- term strategies and management vision	● Strengthening the progress management of the medium-term plan ● Identifying important agenda items
Issue 2	Enhancement of opportunities for deliberations regarding SDGs and diversity	● Enhancement of disclosure of ESG and non-financial information ● Strengthening of supervisory function regarding climate change problems
Issue 3	Improvement of provision of information in advance	● Consideration of the timing to provide materials distributed in advance
Issue 4	How to carry out continued deliberation of important matters	● Identifying matters for continued deliberation and securing deliberation time

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 five years, we sold a total of 35 issues (17 sold-off issues) at a total value of 2.52 billion yen. We aim to achieve the ratio of market capitalization to shareholders' equity of 9%.

We judge exercise of voting rights upon comprehensive consideration of not only short-term results and stock price of the issuers but also Nikko's relationship with them.

Status of reducing strategically-held shares

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Number of shares sold	7(5)	6(1)	6(2)	9(5)	7(4)
Amount sold	405	194	720	506	691
Book value	1221	106	272	469	376
Gain on sales	184	88	448	38	314
Ratio of market capitalization to shareholders' equity (%)	20.3	17.2	11.6	11.8	12.7

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

Dialogues with shareholders and investors

We position the building of long-term, trusting relationships with our shareholders and investors as an important management issue. We proactively work on improving constructive dialogues through the appropriate information disclosure in both Japanese and English and regular information dissemination

by our management staff. The opinions of our Japanese and overseas shareholders and investors we have learned through meetings with them are reported to the Board of Directors and shared with relevant sections to reflect them in our management decisions and reports for investors.

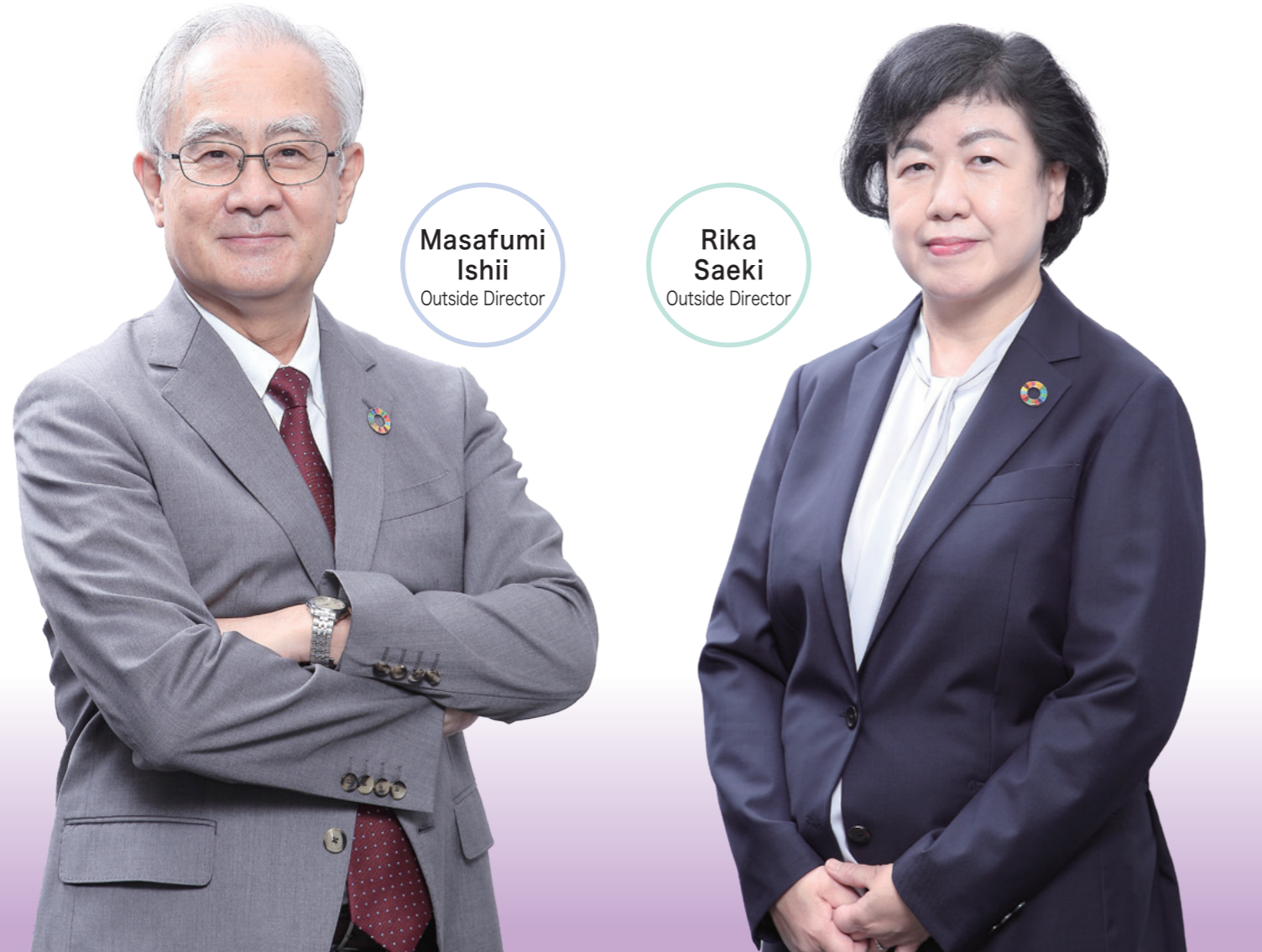
Results of dialogues with shareholders and investors

Event types	FY 2018		FY 2019		FY 2020		FY 2021	
	Number of events	Number of participants	Number of events	Number of participants	Number of events	Number of participants	Number of events	Number of participants
Financial Results Briefing Session	4	58	4	69	4	90	4	134
Individual meetings	12	15	23	28	17	23	10	18
Small group meetings by Nikko	1	6	2	8	0	0	0	0
Ordinary General Shareholders' Meeting	1	53/791	1	21/3,303	1	19/4,709	1	23/5,062

(attendance in person/attendance in writing)

We asked the two Independent Outside Directors, who were appointed in June 2021, about the initiatives they undertook in their first year as well as their respective views on Nikko's sustainable corporate value creation.

Date of the discussion: August 10, 2022 Location: Conference room at the head office (Akashi City, Hyogo Prefecture)



Masafumi Ishii
Outside Director

Rika Saeki
Outside Director

Q. How have you been contributing to the corporate value creation of the Nikko Group?

Ishii : As I had worked overseas for many years as a diplomatic official, I recognize that the Group expects my insights regarding international affairs and geopolitics as well as knowledge of the Asian region, where Nikko is strengthening its business foundation. With the domestic market maturing, the Group, in order to focus on the Asian region as a source of growth, entered Thailand as the core base in the ASEAN market after China, and is steadily laying the groundwork. At the same time, I feel there are issues with the establishment of the framework for overseas expansion. The urgent task ahead is to expand the

battle-ready human resource pool for the overseas business and to build awareness that would break down the wall between the domestic and international operations.

I started an online class, held once a month, to raise the employees' interest in international affairs. It is a relaxed seminar in which any employee can participate. And given the impact of Russia's invasion of Ukraine and the Shanghai lockdown due to COVID-19 on Nikko's business activities, the participants are highly motivated, which is encouraging.

Saeki : I believe there are expectations on my experience as an entrepreneur who built an IT company as well as my ability in promoting diversity from the female standpoint. In the construction machinery field, having fewer number of female

employees is understandable. However, there still remain shades of the traditional Japanese manufacturing industry, and I feel there is a kind of gender bias that deems on-site work to be impossible for women because it is dangerous. It is necessary to create many workplaces where women, who lack in terms of physical strength, can participate actively through the promotion of DX, and I believe I can leverage my experience and knowledge for that.

I did not have opportunities to interact with employees on-site during the first year, partially due to COVID-19, but this year I would like to listen to the voices from the work sites, especially of female employees. As for the gender issue, I would like to aim for a level comparable to other companies listed in the Tokyo Prime Market over the long term. The ratio of women among new hires is also rising with each passing year, which gives hope, but at the same time, I believe it is imperative to take drastic measures such as hiring female managerial positions from outside the company.

There is a career program for students instituted by Hyogo Prefecture, where a team formed of several female students prepare proposals based on a theme provided by a company in the prefecture. I was able to have Nikko participate in that program. It will be an opportunity to objectively learn how present-day female students perceive Nikko, and there could also be suggestions as to the approaches to take when hiring females.

There is data that says people who are highly interested in SDGs are open-minded about relocating to rural areas. I feel this is a tailwind for Nikko, given its seriousness in tackling the social issue of carbon neutrality and the fact that it is based in the city

of Akashi, which offers excellent child care support.

Ishii : It is necessary to raise the name recognition of Nikko to hire diverse human resources, including females and students with interest in working overseas. The fact is that Nikko is not that well known, despite having an overwhelming market share in an especially important industry that is responsible for infrastructure development. Human resources are the source for long-term growth, and therefore I intend to deepen the discussions in the Board of Directors Meetings as to what can be done to grab the attention of potential job seekers regarding Nikko's business, while also considering cost performance. Since Nikko has embarked on re-drafting its corporate philosophy and comprehensive reforms of its personnel system, it is a good opportunity to not only actively appeal to the capital market but also to the labor market.

Q. What do you think of the contents that ought to be discussed in the Board of Directors Meetings and the dynamics of the debates?

Saeki : I have requested to slightly advance the timing of providing information in order to energize the discussions. There were times when large volumes of documents were provided on the eve of the board meeting, and I felt it was difficult to sort out the issues given the time constraints. In addition to providing the materials in advance, if we can get the briefing directly from the persons in charge, it would deepen the discussions as we would be able to sufficiently understand the points at issue.

"It is necessary to establish a career path centered on the overseas business field."



“In order for a company to promote DX, it is imperative that all its employees are also engaged in the DX of their own issues.”



Ishii : Another option to secure enough time for discussions is to reduce the number of agenda items. If the Outside Directors can attend the executive officers' meeting held prior to the Board of Directors Meeting as observers, we would be able to deepen the understanding of the reasoning and background of the presented agenda item, which I think is worthy of consideration.

Saeki : One of the important decisions made in the previous fiscal year was the acquisition of Ube Kohki. I believe we were able to discuss the risks and opportunities by having sufficient time. At the same time, I also felt that more time could have been spent on discussing the post-merger integration process including the alignment of corporate cultures.

Ishii : M&A is an important option for strengthening the business foundation and for identifying new businesses, and we are seeing an increase in agenda items that call for major decisions. Of course, it is possible to consider the increase in agenda items positively as being prepared for taking the risks necessary for growth. I hope to engage in lively discussions regarding matters such as the realization of carbon neutrality stated in the long-term vision, progress towards transforming the business model through DX, and measures to tackle newly arising issues. I can deeply feel the spirit of “we will set high goals and take on new challenges” coming from the company's directors led by the president. So, I hope to actively offer opinions from a perspective that is clearly distinct from Nikko's perspective.

Saeki : How to drive forward DX is quite an important discussion point. As DX is the core of business model transformation, a certain level of internal manufacturing is necessary. If you rely too much on external vendors, you will lack in speed and flexibility. It is important that managerial staff with knowledge of IT take the lead at the development site. Simultaneously, it would be good if all the employees visualize their work and ensure that whatever could be automated is being carried out with the help of IT. In order for a company to promote DX, it is imperative that all employees also engage in DX of their own issues. If you write down the business process in the form of a flow chart, it will reveal concrete issues such as how much you are still doing manually, inter-divisional transactions that no one noticed existed, and processes that can be done in one-take by using an automated implementation tool. Automation improves efficiency, while identifying needless work raises operational efficiency. With all employees getting used to DX, Nikko's DX progress will also gain speed. If DX makes progress, it would become easy to address the issues of labor shortage and diversity, and I think this point should be discussed at the Board of Directors Meetings.

Ishii : There are two themes I would like to discuss at the Board of Directors Meetings. One is the measures to enhance the human resource pipeline upon expanding the overseas business. It is necessary to hire overseas-oriented human resources, develop nurturing programs including on-the-job training, and establish career paths centered on overseas business fields. Nikko will have to start preparing from here on forth so that

a shortage of overseas human resources does not become a bottleneck for growth overseas. Another is the public relations activities aimed at raising the social visibility of Nikko. I feel more efforts need to be made toward getting more and more people to know that Nikko is a company that is supporting the prosperous lives of people both in Japan and abroad.

Q. What are your views on the successes and issues of Nikko's sustainability initiatives?

Saeki : I think it is important to raise the job satisfaction of employees. It would be difficult to sufficiently increase the job satisfaction of mid-level and young employees with conventional human resources management that are premeditated on mass hiring fresh graduates, the seniority system, and lifetime employment. As Nikko is in the midst of discussing comprehensive changes to the personnel system, I am looking forward to the upcoming changes. It is also necessary to simultaneously promote the development of employee-friendly workplaces. As the requirements for being employee-friendly vary depending on the life stage of the employee, if an employee is able to choose a workstyle that suits his or her situation, their motivation would also rise. If the starting time is restricted to 8 a.m., there may be people who are put off by that alone.

Ishii : I believe job satisfaction will increase if a person has choices and a sense of security that he or she can work autonomously. In my previous workplace at the Foreign Ministry, it was natural to work overseas regardless of gender or the place or time. Now, however, they accept individual situations such as not being able to take overseas responsibilities because of the necessity to provide care to a parent. At the same time,

there are people who are not worried about transfer and are eager to work overseas. So, if the company is able to offer opportunities for self-realization and growth that correspond to their respective situations, employee engagement will also improve. As for gender diversity, while we are waiting for internal appointments of female managerial staff, the reality is that the available pool is limited and it is likely to take time. Meanwhile, the ratio of women among new graduates hired by Nikko has been increasing by the year. The management also are keenly aware of the issue and we are seeing a certain level of success. As Ms. Saeki pointed out, promotion of external human resources is also an effective option. It will be a major advantage for female employees who joined Nikko as new graduates to have a familiar role model they can relate to.

Saeki : When thinking of Nikko's sustainability, it is very important to have the perspective of whether or not it can be the “company of choice” of its stakeholders. Along with being chosen by the customers by offering new values such as our contribution to the realization of carbon neutrality, we need to keep asking ourselves what is necessary for constantly being chosen by the employees, suppliers, investors, job seekers, and local communities.

Ishii : What I felt through the discussions at Nikko's Board of Directors Meetings this one year is that the company has vitality, ideas, and technical prowess, and all the necessary elements for supporting sustainability. In my second year, I would like to confirm what I felt in the Board of Directors Meetings through the exchange of opinions with those working on-site. I am also paying attention to the process through which the new personnel system becomes established by winning the understanding of the employees.



Business overview of FY 2021

Construction investment in FY 2021 (fiscal year ended March 2022) is expected to have risen 2.6% compared to the previous fiscal year to 62.6 trillion yen. This is about 75% of the 84 trillion-yen peak recorded in FY 1992. Private construction investment, which account for 59% of the investment, is expected to have risen 3.0% to 38.1 trillion yen, while government investment, which accounts for 38%, is expected to have increased 2.1% to 24.5 trillion yen. By region, Kanto is expected to have seen a 4.7% increase in investment. It probably has gone up by 0.9% in Chubu, 5.7% in Tohoku, and 1.6% in other regions, while declining 1.3% in Kinki. While the Tohoku region had witnessed an increase in investment since FY 2011 due to the recovery and reconstruction demand for the Great East Japan Earthquake, the ratio in the Kanto region began increasing as investments grew for urban redevelopment and Tokyo Olympics-related construction. Going forward, we expect increased investment in construction related to the EXPO 2025 in Osaka, Kansai.

While construction investments grew on one hand, the number of workers in the construction industry decreased on the other by 1.4% from a year earlier to 4.92 million people in 2020, falling to 72% of the 1997 peak of 6.85 million. Of that, those above 55 years in age accounted for a record 36% (in comparison, it was 24% in 2001). With construction investment expected to remain steady, the aging of workers in the industry coupled with the labor shortage is becoming a structural issue in the medium- to long-term. We can expect increasing requirements for workstyle reforms in the construction industry as well as for automation and labor-saving in various construction equipment and plants. At the same time, we are looking at procurement difficulties and cost increases of various raw materials led by asphalt in the short term, with potential impact on not only customers but also on the supply chain and by extension on our business performance.

Business performance in FY 2021

In FY 2021, new orders remained flat at 39,852 million yen compared with a year earlier, while net sales rose 2.6% to 38,846 million yen, and BB ratio (new orders received / net sales) was 1.03 times. As a result, order backlog at the end of

the fiscal year increased 14.8% to 16,490 million yen (about 5.1 months' worth of the annual sales). Despite increased revenues, operating income decreased 10.8% year on year to 2,053 million yen, and operating margin fell 0.7 pp to 5.3%. The main factors behind the decrease are the expenses of the launch of the Thailand subsidiary, increases in sales and administrative expenses such as R&D expenses, and recording of sales of unprofitable projects in the AP-related business. Ordinary income declined 23.5% from a year earlier to 2,274 million yen due to the absence of the 340 million yen in special dividends from Maeda Road Construction Co., Ltd. recorded in FY 2020. Net income attributable to owners of parent declined 20.8% from a year earlier to 1,649 million yen, partly reflecting the 326 million yen in proceeds from sale of investment securities recorded as an extraordinary income.

FY 2021 was the final fiscal year of the three-year Medium-Term Management Plan. Orders received exceeded the forecast for FY 2021 of 38,800 million yen by about 3%. While net sales exceeded the medium-term plan target of 38,000 million yen, they slightly underperformed the FY 2021 forecast of 39,000 million yen. By contrast, operating income fell short of both the medium-term plan target of 3,000 million yen and the FY 2021 forecast of 2,300 million yen. It was primarily attributable to the shortfall at the AP-related business due to soaring raw material prices and recording sales of unprofitable projects. Regarding shareholder returns, the dividend of 30 yen per share (mid-term dividend of 15 yen and year-end dividend of 15 yen), which translates to a dividend payout ratio of 69.5% given the 1,649 million yen in net income attributable to owners of parent (43.16 yen per share). The payout ratio exceeded the target of 60% or higher presented in the previous medium-term plan.

Business overview by segment

In the AP-related business, new orders in FY 2021 declined 10.4% from a year earlier to 18,180 million yen, net sales fell 5.9% to 18,328 million yen, and BB ratio, derived by dividing orders with net sales, came to 0.99. Orders from overseas led by the Chinese market remained strong but were affected by delays in large-scale projects in Japan and a decline

in appetite for capital investment due to surging asphalt price. Net sales also increased 27.1% overseas led by the strong Chinese market, while those in Japan declined 13.5% owing to delays in procurement of various parts. We had order backlog of 7,725 million yen (about 5.0 months worth of annual business). Operating income decreased 54.6% year on year to 562 million yen, and operating margin decreased 3.3 pp to 3.1%. The large profit decline was unavoidable both in Japan and abroad given the soaring prices of various steel materials and parts and the difficulties in obtaining them as well as the rising personnel expenses in China among other reasons.

The BP-related business recorded new orders of 12,086 million yen, up 21.3% year on year, and net sales of 10,839 million yen, up 17.7% year on year. Its BB ratio came to 1.12 times, largely exceeding 1. While the volume of ready-mixed concrete shipment is on a declining trend, the market is showing signs of recovery and users' appetite for replacement investment continues to be high. Operating income of the segment increased 27.8% year on year to 1,123 million yen, and operating margin improved 0.9 pp to 10.4%. Sales increase and cost reduction through planned production made contributions.

In the environment- and conveyor-related business, new orders increased 4.8% year on year to 3,014 million yen, net sales rose 26.3% year on year to 3,018 million yen, and order backlog at the end of the fiscal year totaled 631 million yen. Conveyors, which account for about 73% of net sales, recorded sales increase of 5.0%, and sales of large-scale projects such as circulating conveyors for bullet train ballast for the West Japan Railway Company and turbine mixer for glass manufacturing also contributed. Operating income of the segment increased 21.7% year on year to 588 million yen. Operating margin declined 0.7 pp to 19.5%, maintaining a high level.

In the other business, new orders declined 4.7% year on year to 6,572 million yen and net sales fell 1.9% to 6,660 million yen. Order backlog totaled 2,377 million yen partly due to consolidation of Ube Kohki (1,450 million yen). Sales of temporary construction materials decreased 26% as the appetite of customers such as temporary construction material rental services declined due to surging steel prices. Nevertheless, sales

of waterproof boards and floodgates continued to be strong, posting a 0.3% decline, and those of the mobile plant business, where demand remains strong, grew significantly by 35.3%. Operating income of the other business decreased 8.3% year on year to 1,073 million yen, and operating margin fell 1.1 pp to 16.1%. The main factors behind the decline in profit include the worsened profitability of the mobile plant business caused by the continued depreciation in yen's value.

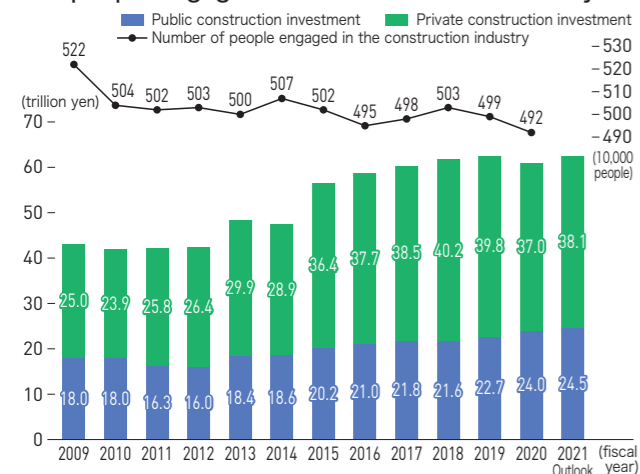
Net sales of the maintenance service business

Net sales of maintenance service of the AP- and BP-related businesses in Japan, which is one of Nikko's features, declined 2.7% year on year to 13,036 million yen. Amidst soaring asphalt prices, sales of the AP-related business declined 6.0% partly due to the postponement of capital investment, while those of the BP-related business increased 4.8%. As a result, the ratio of maintenance service to net sales of AP- and BP-businesses in Japan declined 0.4 pp to 53.8%. For FY 2022, the Group expects net sales of the maintenance service business to increase 1.6% to 13,250 million yen, boosted by new measures including flat-rate maintenance service. Its ratio to net sales is also expected to post an increase of 54.9%.

ROE and ROIC

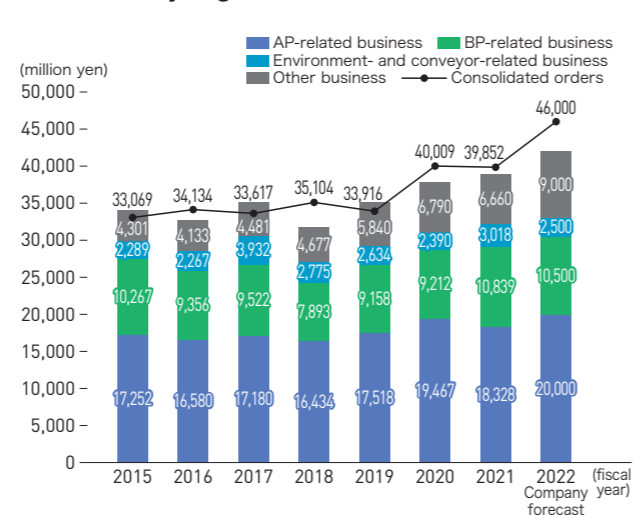
In FY 2021, ROE declined 1.6 pp to 5.2% from a year ago. The Group had aimed for 6.5% in ROE (net income attributable to owners of parent of 2,100 million yen and net asset of 32,334 million yen) in FY 2021. It succeeded in compressing net assets to 32,050 million yen through purchase of treasury shares and other means, but net income attributable to owners of parent was limited to 1,649 million yen, and ROE fell short of the target. Return on invested capital (ROIC) declined 2.3 pp to 3.6% from a year earlier. NOPAT declined 35.0% to 1,227 million yen from a year ago due to a fall in operating income and absence of the temporary dividends recorded in the previous fiscal year, while invested capital increased 5.4% to 33,900 million yen.

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

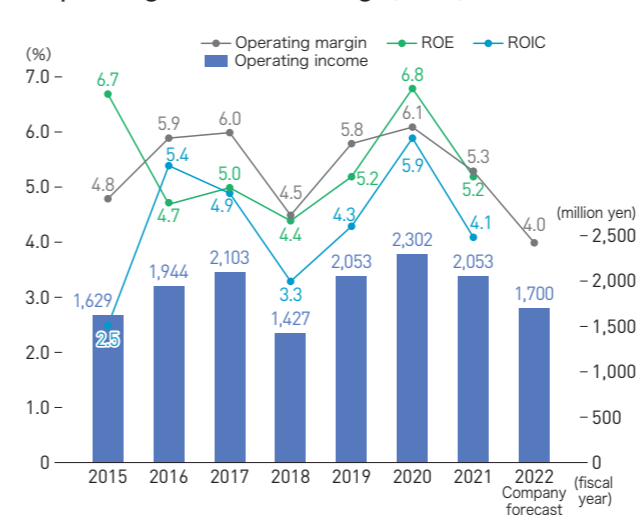


Note: The number of people engaged in the industry is on a calendar year basis and its source is the Construction Handbook.

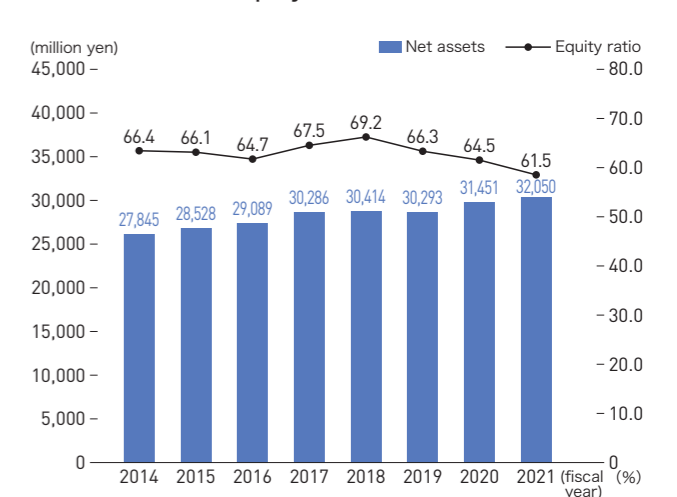
● Net sales by segment and consolidated orders



● Operating income and margin, ROE, and ROIC



● Net assets and equity ratio



Financial position

Net assets as of the end of FY 2021 increased 3,382 million yen year on year to 52,079 million yen. Net assets as of the end of FY 2021 was 32,050 million yen, and equity excluding non-controlling interests of 46 million yen was 32,003 million yen, which resulted in equity ratio of 61.5%, derived by dividing equity with total assets, down 3.0 pp from a year earlier. Equity ratio, which declined for three consecutive years after peaking at 69.2% in FY 2018, has been maintaining a high level over the past five years. Current assets came to 34,127 million yen, and non-current assets totaled 17,951 million yen. Main items that increased include inventories, which rose 3,276 million yen to 9,667 million, property, plant and equipment, which increased 1,486 million yen to 10,669 million yen, and intangible assets, which rose 376 million yen to 1,036 million yen (including 266 million yen in goodwill). Main items that decreased include notes and accounts receivable-trade (including electronically recorded monetary claims), which fell 975 million yen to 11,032 million yen, and investment securities, which declined 192 million yen to 4,336 million yen. Current liabilities were 15,774 million yen, and non-current liabilities were 20,029 million yen. Main items that increased include newly added contract liabilities of 4,405 million yen and 1,583 million yen in long-term loans payable, which increased 1,279 million yen. Main items that recorded a decline include down payments of 17 million yen, down 2,932 million yen. Cash and cash equivalents as of the end of FY 2021 declined slightly to 12,436 million yen and net cash derived by subtracting interest-bearing debts of 3,812 million yen (1,229 million yen in short-term loans payable and 1,583 million yen in long-term loans payable) from cash and cash equivalents came to 8,624 million yen (9,999 million yen as of the end of FY 2020).

Cash flows

Cash provided by operating activities in FY 2021 decreased 560 million yen from FY 2020 to 2,224 million yen. While net income before income taxes came to 2,599 million yen, depreciation and amortization totaled 745 million yen, and trade receivables declined 1,653 million

yen, contract liabilities in 1,172 million yen, inventories increased 1,583 million yen and gain on sale and valuation of investment securities came to 325 million yen.

Cash used in investing activities totaled 2,165 million yen, up 298 million yen. Main items in cash flow from investing activities include 1,697 million yen in payment for acquisition of tangible and intangible non-current assets, expenditure of 733 million yen for purchase of shares in Ube Kohki, and proceeds from sale and redemption of investment securities of 754 million yen. As a result, free cash flow derived by subtracting investing cash flow from operating cash flow came to 59 million yen, compared with 917 million yen in FY 2020.

Cash used in financing activities totaled 282 million yen. Main items included 1,099 million yen in proceeds from long-term loans payable and 1,260 million yen in cash dividends paid. The balance of cash and cash equivalents at the end of FY 2021 was 12,389 million yen, slightly less than a year ago.

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

In FY 2021, the Group made capital investment of 1,907 million yen, down 841 million yen from a year earlier, and the ratio of capital investment to net sales was 4.9%. Main investments in the AP- and BP-related businesses included 798 million yen for construction of a new building of a subsidiary, expansion and renovation of factories, and acquisition and update of production facilities. Those of the other business came to 281 million yen, while purchase of computer equipment and software came to 107 million yen and acquisition of land cost 205 million yen. Depreciation and amortization totaled 759 million yen, up 82 million yen from a year earlier, and its ratio to sales was 2.0%.

R&D expenses came to 449 million yen, up 57 million yen from a year earlier, and its ratio to net sales was 1.2%. The AP-related business spent 216 million yen and the BP-related business used 157 million yen. In the AP-related business, Nikko focused on the development of combustion burner using ammonia and hydrogen as fuel for heating and drying aggregates and improvement and

commercialization of foamed asphalt generation equipment, which contributes to low-carbonization of pavement work. In the BP-related business, the Company proceeded with development of high-precision mixers in an industry-academia collaboration. In FY 2022, the Group plans 2,000 million yen in capital investment, 800 million yen in depreciation and amortization, and 750 million yen in R&D expenses.

FY 2022 performance outlook

FY 2022 is the first fiscal year of the new Medium-Term Management Plan (FY 2022–FY 2024) with FY 2024 (fiscal year ending March 2025) as the final fiscal year. In the final fiscal year of the plan, Nikko Group expects net sales of 50,000 million yen, operating income of 3,000 million yen, and operating margin of 6.0%. For FY 2022, it expects orders to increase 11.3% from a year earlier to 46,000 million yen and net sales to rise 8.1% to 42,000 million yen. It expects operating income to decline by 17% to 1,700 million yen, operating margin of 4.0%, down 1.3 pp, ROE of 3.7%, and dividend of 30 yen per share (payout ratio of 95.6%).

When broken down, it expects net sales of 20,000 million yen in the first half and 22,000 million yen in the second half; operating income of 400 million yen in the first half (operating margin of 2.0%) and 1,300 million yen in the second half (operating margin of 5.9%). While we expect increases in raw material prices and heavy burden from personnel and R&D expenses in the first half, we anticipate impacts from product price revisions and increased sales in the second half.

Outlook of business segments

By segment, we expect new orders for the AP-related business to increase 15.5% from a year earlier to 21,000 million yen, net sales of the segment to increase 9.1% to 20,000 yen (9,520 million yen in the first half and 10,480 million yen in the second half). Operating income is expected to increase 51% on year to 850 million yen (200 million yen in the first half and 650 million yen in the second half) with operating margin of 4.3%.

For the BP-related business, orders are expected to decline by 0.7% from a year earlier to 12,000 million yen and net sales are expected

to fall 3.1% to 10,500 million yen (5,000 million yen in the first half and 5,500 million yen in the second half). The segment expects operating income to decline 6.5% to 1,050 million yen (460 million yen in the first half and 590 million yen in the second half) with operating margin of 10.0%.

The environment- and conveyor-related business expects orders to decline 0.5% from a year earlier to 3,000 million yen and net income to fall 17.2% to 2,500 million yen (1,190 million yen in the first half and 1,310 million yen in the second half). Operating income of the segment is expected to decline 15.0% to 500 million yen (220 million yen in the first half and 280 million yen in the second half).

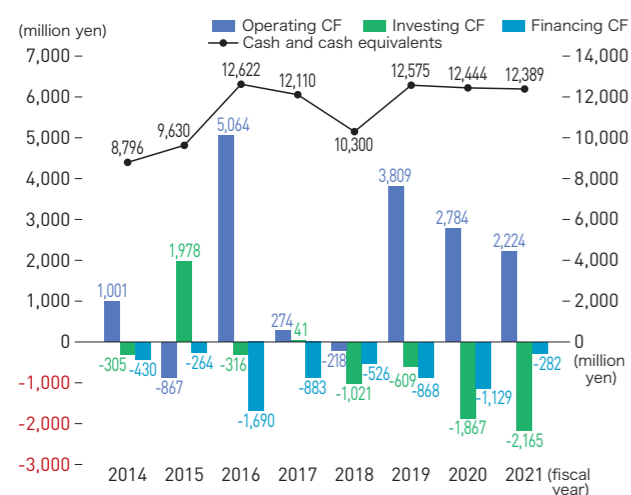
Operating income at the other business is expected to decline 25% from a year earlier to 800 million yen (180 million yen in the first half and 620 million yen in the second half) with operating margin of 8.9%. The Group expects consolidated operating income of 1,700 million yen by subtracting corporate expenses of 1,500 million yen from the above segment income of 3,200 million yen.

Analysis of factors contributing to changes in ordinary income

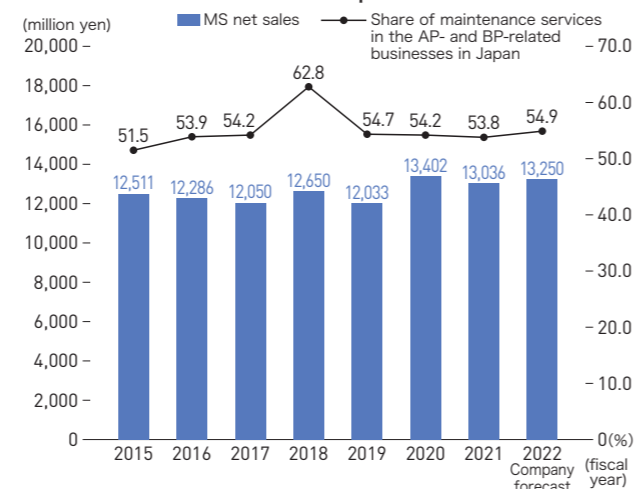
In FY 2021, ordinary income declined 699 million yen year on year to 2,274 million yen. Factors that boosted income include 264 million yen in the impact of sales increase, 381 million yen in the impact of reduced cost rate, and 20 million yen in foreign exchange gains. The decrease in income was mainly due to a rise of 336 million yen in raw material prices (including 251 million yen for steel and 57 million yen for copper wires), 558 million yen in sales and administrative expenses (including 143 million yen in personnel expenses and 76 million yen in M&A expenses), a 423 million yen decline in dividends income, and other non-operating balance worsening by 47 million yen.

For FY 2022, the Group expects operating income to decline 424 million yen to 1,850 million yen. While an 880 million yen increase in sales is expected to boost operating income, we are expecting cost rate to worsen by 525 million yen (including a 160 million yen increase in personnel expenses), a 301 million yen increase in R&D expenses, a 41 million yen rise in depreciation and amortization, and an absence of foreign exchange gains worth 77 million yen.

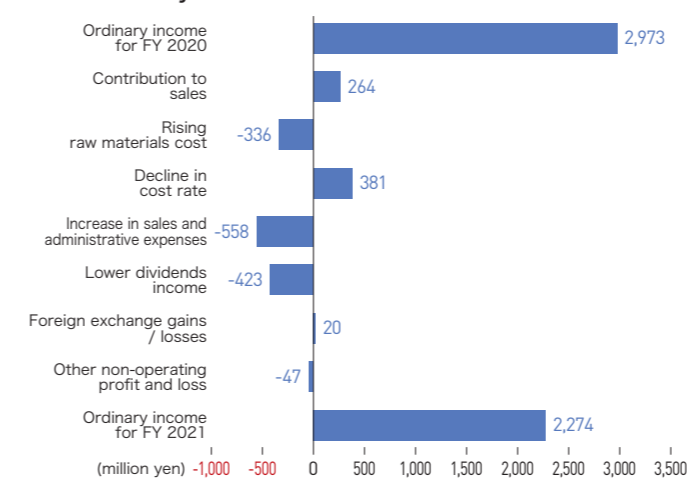
●Cash flow and cash and cash equivalents



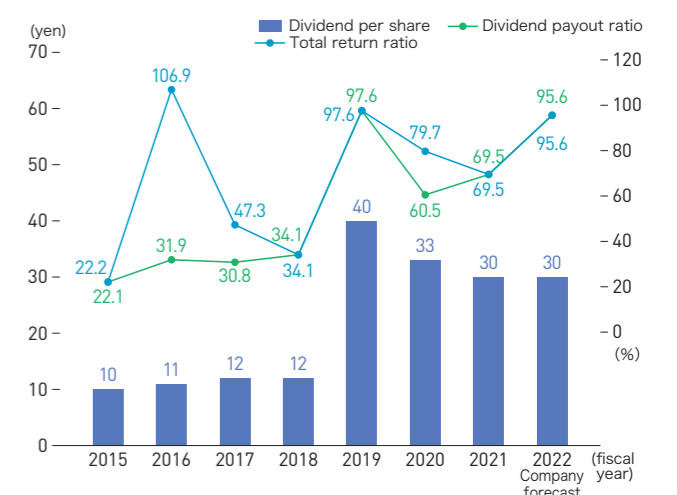
●Net sales and sales share of AP and BP maintenance services in Japan



●Analysis of factors contributing to changes in ordinary income



●Dividend per share, payout ratio, total return ratio



		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (fiscal year)
Key results	Net sales (million yen)	27,087	32,073	30,707	34,110	32,717	35,114	31,780	35,151	37,866	38,846
	Cost of sales (million yen)	20,175	23,736	22,683	25,825	24,131	26,301	23,485	25,512	27,675	28,346
	Gross profit (million yen)	6,911	8,337	8,024	8,285	8,586	8,812	8,295	9,639	10,191	10,500
	Selling, general and administrative expenses (million yen)	5,725	6,087	6,192	6,655	6,641	6,708	6,868	7,585	7,889	8,447
	Operating income (million yen)	1,186	2,249	1,832	1,629	1,944	2,103	1,427	2,053	2,302	2,053
	Ordinary income (million yen)	1,108	1,982	1,582	1,648	1,993	2,239	1,576	2,142	2,973	2,274
	Net income before income taxes (million yen)	1,228	1,987	1,800	2,940	1,878	2,299	1,933	2,440	3,045	2,599
	Net income attributable to owners of parent (million yen)	881	888	1,348	1,896	1,340	1,490	1,345	1,588	2,082	1,649
	Net income per share (yen)	21.0	21.1	32.1	45.2	34.3	38.7	35.1	41.2	54.3	43.1
	Number of consolidated subsidiaries (number)	8	8	8	8	8	8	8	9	10	10
Number of affiliates accounted for using equity method (number)	2	2	1	—	—	—	—	—	—	—	
Profitability	Operating margin (%)	4.4	7.0	6.0	4.8	5.9	6.0	4.5	5.8	6.1	5.3
	ROA (%)	2.4	2.2	3.2	4.4	3.0	3.3	3.1	3.5	4.3	3.2
	ROE (%)	3.6	3.4	4.8	6.6	4.6	4.9	4.4	5.2	6.8	5.2
Segment results	Japan (million yen)	24,823	29,403	27,881	31,130	29,761	31,148	27,941	30,761	34,130	34,099
	Overseas (million yen)	2,263	2,669	2,825	2,980	2,956	3,965	3,838	4,390	3,735	4,746
	China (million yen)	1,752	1,684	2,072	2,220	2,026	3,389	3,357	3,637	3,509	3,670
	Other business (million yen)	510	984	753	760	930	576	481	1,083	226	1,076
	Ratio of net sales outside Japan (%)	8.4	8.3	9.2	8.7	9.0	11.3	12.1	12.5	10.9	13.9
Net sales by business	Asphalt Plant-Related Business (million yen)	15,054	17,258	15,071	17,252	16,580	17,179	16,434	17,518	19,467	18,328
	Concrete Plant-Related Business (million yen)	5,889	8,577	8,287	10,267	9,356	9,521	7,893	9,158	9,212	10,839
	Environment- and Conveyor-Related Business (million yen)	2,085	1,944	2,853	2,289	2,647	3,931	2,775	2,634	2,390	3,018
	Other Business (million yen)	4,058	4,292	4,495	4,301	4,133	4,480	4,677	5,840	6,796	6,660
Operating income (loss)	Asphalt Plant-Related Business (million yen)	1,492	2,125	1,214	1,234	1,253	1,348	963	1,118	1,239	562
	Concrete Plant-Related Business (million yen)	317	678	712	878	1,006	1,015	666	761	879	1,123
	Environment- and Conveyor-Related Business (million yen)	250	166	527	337	369	308	417	562	482	588
	Other Business (million yen)	59	388	451	277	417	462	502	1,020	1,170	1,073
	Amount after elimination of transactions between segments (million yen)	—	—	—	—	—	—	—	—	—	—
Corporate expenses (million yen)	(933)	(1,109)	(1,074)	(1,097)	(1,102)	(1,031)	(1,122)	(1,409)	(1,469)	(1,293)	
Orders	Total new orders received (million yen)	26,564	33,915	34,500	33,284	34,134	33,616	35,103	33,915	40,009	39,852
	Total order backlog (million yen)	5,410	7,246	11,039	10,212	11,629	10,132	13,454	12,219	14,361	16,490
Financial position	Total assets (million yen)	37,278	40,348	41,964	43,189	44,976	44,876	43,969	45,677	48,697	52,079
	Net assets (million yen)	24,353	26,167	27,845	28,528	29,089	30,286	30,414	30,293	31,451	32,050
	Interest-bearing debts (million yen)	2,849	2,212	2,206	2,362	1,987	1,799	1,718	1,787	2,492	3,812
	Equity ratio (%)	65.3	64.9	66.4	66.1	64.7	67.5	69.2	66.3	64.5	61.5
	Net assets per share (yen)	580.8	624.2	664.3	680.7	749.2	791.1	793.7	780.6	823.0	837.2
Dividends	Dividend per share (yen)	7.0	7.0	9.0	10.0	11.0	12.0	12.0	40.0	33.0	30.0
	Total dividend (million yen)	293	293	376	418	426	458	459	1,550	1,260	1,146
	Dividend payout ratio (%)	33.3	33.1	27.9	22.0	31.9	30.8	34.2	97.6	60.5	69.5
	Dividend on equity (%)	1.2	1.1	1.4	1.5	1.5	1.5	1.5	5.1	4.0	3.6
Capital investment, etc.	Capital investment (million yen)	335	844	815	877	1,261	550	1,889	1,483	2,748	1,907
	Depreciation and amortization (million yen)	389	392	419	483	478	468	508	611	677	745
	R&D expenses (million yen)	256	295	276	227	271	291	211	379	392	449
	R&D expenses to net sales (%)	0.95	0.92	0.90	0.67	0.83	0.83	0.66	1.08	1.04	1.16
Cash flows	Cash flow from operating activities (million yen)	2,457	2,641	1,001	(1,040)	5,064	274	(218)	3,839	2,784	2,224
	Cash flow from investing activities (million yen)	(954)	(936)	(305)	2,142	(316)	41	(1,021)	(639)	(1,867)	(2,165)
	Free cash flow (million yen)	1,503	1,705	696	1,102	4,748	315	(1,239)	3,200	917	59
	Term-end balance of cash and cash equivalents (million yen)	7,839	8,506	8,796	9,630	12,622	12,110	10,300	12,575	12,444	12,389

Consolidated Balance Sheet

Assets	2020	2021 (FY)
Current assets		
Cash and cash equivalents	12,491	12,436
Notes and accounts receivable-trade	10,530	9,438
Electronically recorded monetary claims	1,477	1,594
Merchandise and finished goods	1,494	990
Work in process and partly-finished construction	4,236	6,970
Raw materials and supplies	1,470	1,695
Other business	685	1,002
Allowance for doubtful accounts	(5)	(0)
Total current assets	32,381	34,127
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	3,839	5,227
Machinery, equipment and vehicles (net)	1,078	1,256
Tools, furniture and fixtures (net)	365	399
Land	3,205	3,577
Lease assets (net)	2	1
Right-of-use assets (net)	71	72
Construction in progress	619	134
Total property, plant and equipment	9,183	10,669
Intangible assets		
Goodwill	—	266
Other	660	769
Total intangible assets	660	1,036
Investments and other assets		
Investment securities	4,528	4,336
Investments in capital	11	15
Long-term loans receivable	11	8
Deferred tax assets	792	864
Other	1,259	1,152
Allowance for doubtful accounts	(131)	(131)
Total investments and other assets	6,472	6,246
Total non-current assets	16,315	17,951
Total assets	48,697	52,079

Liabilities	2020	2021 (FY)
Current liabilities		
Notes and accounts payable-trade	2,591	3,132
Electronically recorded obligations	1,015	868
Accounts payable-factoring	2,806	2,783
Short-term loans payable	2,188	2,229
Income taxes payable	586	518
Accounts payable-other	765	664
Down payments	2,949	17
Contract liabilities	—	4,405
Provision for bonuses	531	483
Provision for directors' bonuses	76	76
Provision for loss on order received	126	35
Other	782	559
Total current liabilities	14,418	15,774
Non-current liabilities		
Long-term loans payable	304	1,583
Deferred tax liabilities	5	7
Provision for directors' retirement benefits	170	182
Retirement benefit-related liabilities	1,995	2,126
Other	351	354
Total non-current liabilities	2,827	4,254
Total liabilities	17,246	20,029

Net assets	2020	2021 (FY)
Shareholders' equity		
Capital stock	9,197	9,197
Capital surplus	7,926	7,925
Retained earnings	13,366	13,755
Treasury stock	(805)	(784)
Total shareholders' equity	29,685	30,093
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,592	1,453
Foreign currency translation adjustment	264	560
Accumulated retirement benefit-related adjustment	(114)	(104)
Total accumulated other comprehensive income	1,742	1,910
Non-controlling interests	24	46
Total net assets	31,451	32,050
Total liabilities and net assets	48,697	52,079

Consolidated Statement of Income

Assets	2020	2021 (fiscal year)
Net sales	37,866	38,846
Cost of sales	27,675	28,346
Gross profit	10,191	10,500
Selling, general and administrative expenses	7,889	8,447
Operating income	2,302	2,053
Non-operating income		
Interest income	2	2
Dividends income	546	123
Insurance income	30	—
Foreign exchange gains	56	77
Outsourcing service income	49	49
Other	114	82
Total non-operating income	800	335
Non-operating expenses		
Interest expenses	37	50
Loss on disposal of non-current assets	12	0
Compensation for damage	64	14
Dismantlement and removal costs	—	24
Other	15	25
Total non-operating expenses	129	114
Ordinary income	2,973	2,274
Extraordinary income		
Gain on sales of investment securities	152	326
Total extraordinary income	152	326
Extraordinary loss		
Loss on sales of investment securities	69	0
Loss on valuation of investment securities	10	—
Total extraordinary loss	79	0
Net income before income taxes	3,045	2,599
Income taxes-current	1,057	944
Income taxes-deferred	(94)	40
Total income taxes	963	985
Net income	2,082	1,614
Loss attributable to non-controlling interests	—	(34)
Net income attributable to owners of parent	2,082	1,649

Consolidated Statement of Comprehensive Income

	2020	2021 (fiscal year)
Net income	2,082	1,614
Other comprehensive income		
Valuation difference on available-for-sale securities	473	(139)
Foreign currency translation adjustment	209	290
Retirement benefit-related adjustment	120	10
Total other comprehensive income	802	161
Comprehensive income	2,885	1,775
(Breakdown)		
Comprehensive income attributable to owners of the parent	2,884	1,804
Comprehensive income attributable to non-controlling interests	1	(28)

Consolidated Statement of Cash Flows

	2020	2021 (fiscal year)
(million yen)		
Cash flow from operating activities		
Net income before income taxes	3,045	2,599
Depreciation and amortization	677	745
Amortization of goodwill	—	14
Increase (decrease) in allowance for doubtful accounts	(27)	(5)
Increase (decrease) in retirement benefit-related adjustment	80	71
Increase (decrease) in provision for directors' retirement benefits	24	(9)
Interest and dividends income	(548)	(126)
Interest expenses	37	50
Foreign exchange losses (gains)	(19)	(72)
Loss (gain) on sales and valuation of investment securities	(72)	(325)
Decrease (increase) in notes and accounts receivable-trade	(300)	1,653
Decrease (increase) in inventories	(359)	(1,583)
Increase (decrease) in notes and accounts payable-trade	(627)	(28)
Increase (decrease) in down payments	1,281	—
Increase (decrease) in contract liabilities	—	1,172
Other	187	(1,006)
Subtotal	3,377	3,150
Interest and dividends income received	548	126
Interest expenses paid	(37)	(50)
Income taxes paid	(1,105)	(1,002)
Cash flow from operating activities	2,784	2,224
Cash flow from investing activities		
Payments into time deposits	(47)	(47)
Proceeds from withdrawal of time deposits	47	47
Purchase of investment securities	(14)	(423)
Proceeds from sales and redemption of investment securities	579	754
Purchase of property, plant and equipment and intangible assets	(2,414)	(1,697)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(733)
Payments for acquisition of businesses	—	(127)
Payments of loans receivable	(2)	(4)
Collection of loans receivable	2	7
Other	(18)	60
Cash flow from investing activities	(1,867)	(2,165)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	550	(125)
Proceeds from long-term loans payable	140	1,099
Repayment of long-term loans payable	(70)	(46)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	—	51
Purchase of treasury stock	(402)	—
Repayments of finance lease obligations	(0)	—
Cash dividends paid	(1,345)	(1,260)
Cash flows from financing activities	(1,129)	(282)
Effect of exchange rate changes on cash and cash equivalents	80	168
Net increase (decrease) in cash and cash equivalents	(131)	(54)
Cash and cash equivalents at beginning of year	12,575	12,444
Cash and cash equivalents at end of year	12,444	12,389

Stock overview (as of March 31, 2022)

Stock listing Prime Market, Tokyo Stock Exchange
Securities code 6306

State of issuance
 Total number of shares authorized for issuance: 150,000,000 shares
 Total number of outstanding shares: 40,000,000 shares (including 1,774,135 treasury shares)

Number of shares per unit 100 shares
Number of shareholders 12,504

Transfer agent
 Mitsubishi UFJ Trust and Banking Corporation
 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212

Fiscal year From April 1 to March 31

Ordinary General Shareholders' Meeting
 June (record date: March 31)

Registration deadline for year-end dividend payment:
 March 31

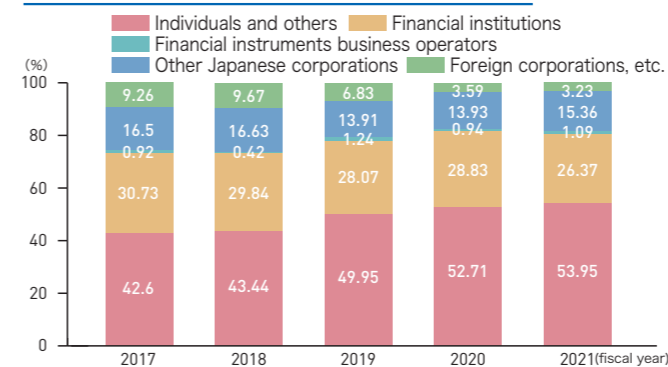
Registration deadline for interim dividend payment:
 September 30

Major shareholders (top 10)

Name	Number of shares held (in 1,000)	Shareholding ratio (%)
Nikko Trading-Partner Shareholding Association	5,681	14.86
The Master Trust Bank of Japan, Ltd. (trust account)	3,799	9.94
Nikko Employees' Shareholding Association	1,753	4.59
Sumitomo Mitsui Banking Corporation	1,203	3.15
Custody Bank of Japan, Ltd. (trust account)	968	2.53
Nippon Life Insurance Company	854	2.24
Sumitomo Life Insurance Company	745	1.95
The Hyakujushi Bank, Ltd.	683	1.79
Meiji Yasuda Life Insurance Company	648	1.70
Nakanishi Electric Co., Ltd.	620	1.62
Total	16,956	44.4

Nikko holds treasury shares totaling 1,774,135, which are excluded from the above major shareholders. Shareholding ratios are the number of shares held divided by the total number of outstanding shares less the number of treasury shares, rounded off to first decimal place.

Composition of shareholder types (%)

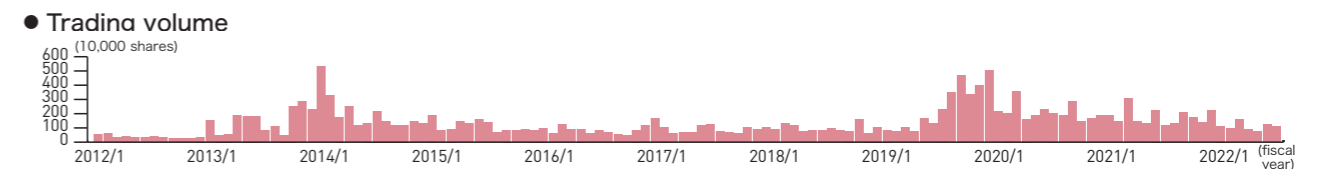
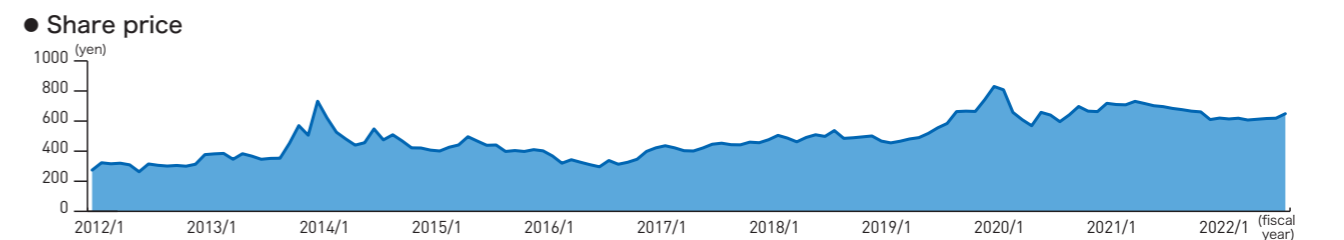


Stock performance comparison

Investment period	(TSR: total shareholder return, %)			
	1 year	3 years	5 years	10 years
Nikko shares	(End of Mar. 2021 to end of Mar. 2022) -12.9	(End of Mar. 2019 to end of Mar. 2022) 47.5	(End of Mar. 2017 to end of Mar. 2022) 82.1	(End of Mar. 2012 to end of Mar. 2022) 134.0
TOPIX	2.0	31.2	44.3	183.3
Machinery index	-3.8	36.7	40.8	183.7

The above table shows total return on investment including dividends as of the end of March 2022 in the cases of investment made a year ago, three years ago, five years ago, and 10 years ago.

Trend of share price and trading volume over the past 10 years (July 2012 – July 2022)



● Stock-related data

	2018/3	2019/3	2020/3	2021/3	2022/3
Year-end share price (yen)	426	481	609	731	607
PER (times)	11.9	13.7	14.8	13.5	14.1
PBR (times)	0.6	0.6	0.8	0.9	0.7
Dividend yield (%)	2.6	2.5	6.6	4.5	4.9
Year-end market cap (mil. yen)	18,480	19,240	24,360	29,240	24,280

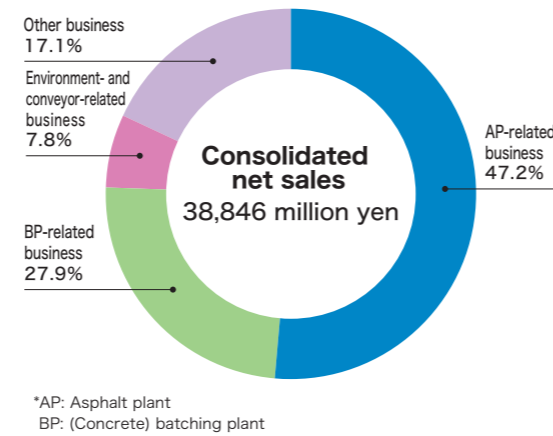
Company Overview and Offices and Sites

Company Overview (as of March 31, 2022)

Japanese name 日工株式会社
English name Nikko Co.,Ltd
Head office address 1013-1, Eigashima, Okubo-cho, Akashi, Hyogo Prefecture 674-8585
Tel. +81-78-947-3131
Corporate website <https://www.nikko-net.com/en/>
Representative Masaru Tsuji, President and Representative Director
Established August 13, 1919
Capital 9,197.6 million yen (as of March 31, 2022)
Number of employees 1,038 (consolidated), 570 (non-consolidated)
Business segments Asphalt plant related, concrete plant related, various environment related, various conveyor related, other



Net sales breakdown by business segment (FY 2021)



- 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
 - Wangan sales office
 - 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
 - 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.
 - Ube Kohki 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 Nilkhol Sol 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

CORPORATE DATA

	FY 2018	FY 2019	FY 2020	FY 2021
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) 1,669	Net sales (mil. yen) 1,727	Net sales (mil. yen) 1,661	Net sales (mil. yen) 1,642
Number of Directors	Number of individuals concurrently holding position at parent 7	Number of individuals concurrently holding position at parent 1	Number of employees 93	Percentage of sales to Nikko in FY 2021 80.1%
Nikko Machinery Co., Ltd. Manufacture and sale of construction equipment and flooding preventive equipment, including floodgates and waterproof boards	Net sales (mil. yen) 1,765	Net sales (mil. yen) 2,124	Net sales (mil. yen) 2,391	Net sales (mil. yen) 2,416
Number of Directors	Number of individuals concurrently holding position at parent 5	Number of individuals concurrently holding position at parent 0	Number of employees 43	Percentage of sales to Nikko in FY 2021 32.9%
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) 1,519	Net sales (mil. yen) 1,692	Net sales (mil. yen) 1,738	Net sales (mil. yen) 1,531
Number of Directors	Number of individuals concurrently holding position at parent 5	Number of individuals concurrently holding position at parent 0	Number of employees 30	Percentage of sales to Nikko in FY 2021 2.2%
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) 688	Net sales (mil. yen) 660	Net sales (mil. yen) 690	Net sales (mil. yen) 743
Number of Directors	Number of individuals concurrently holding position at parent 5	Number of individuals concurrently holding position at parent 0	Number of employees 12	Percentage of sales to Nikko in FY 2021 1.1%
Maekawa Kogyosho Co., Ltd. Manufacture and sale of crushing plant/equipment, etc.	Net sales (mil. yen) 439	Net sales (mil. yen) 466	Net sales (mil. yen) 361	Net sales (mil. yen) 353
Number of Directors	Number of individuals concurrently holding position at parent 4	Number of individuals concurrently holding position at parent 0	Number of employees 17	Percentage of sales to Nikko in FY 2021 3.1%
Nikko Kosan Co., Ltd. Services related to housing renovation, property insurance agency, life insurance agent and real estate	Net sales (mil. yen) 471	Net sales (mil. yen) 471	Net sales (mil. yen) 420	Net sales (mil. yen) 476
Number of Directors	Number of individuals concurrently holding position at parent 3	Number of individuals concurrently holding position at parent 1	Number of employees 9	Percentage of sales to Nikko in FY 2021 33.9%
Ube Kohki Co., Ltd. Manufacture and installation of various plant facilities, design, manufacture and sale of gas holders, and development, manufacture and sale of solar LED lightings, etc.	Number of Directors 5	Number of individuals concurrently holding position at parent 0	Number of employees 67	
Nikko (Shanghai) Construction Machinery Co., Ltd. Manufacture and sale of asphalt / recycling plants and anti-pollution devices	Net sales (mil. yen) 3,468	Net sales (mil. yen) 3,756	Net sales (mil. yen) 3,632	Net sales (mil. yen) 3,956
Number of Directors	Number of individuals concurrently holding position at parent 4	Number of individuals concurrently holding position at parent 2	Number of employees 106	Percentage of sales to Nikko in FY 2021 3.4%
Nikko Asia (Thailand) Co.,Ltd.	Net sales in FY 2021 (mil. yen) 162	Number of Directors 4	Number of individuals concurrently holding position at parent 2	Number of employees 14
Nikko Nilkhol Sol Co.,Ltd.	Net sales in FY 2021 (mil. yen) 28	Number of Directors 4	Number of individuals concurrently holding position at parent 0	Number of employees 77

Making the world a resilient and gentle place.



For inquiries about this report, please contact:

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