

Nikko Corporate Report 2024

Updating social
infrastructure with
state-of-the-art
engineering



Values of Nikko Group and What It Aspires to Be

Based on the company creed, which is its basic principles, the Nikko Corporate Identity stipulates Our Vision on the future axis, The Values We Provide on the customer axis, and Our Spirit on the employee axis, with Our Mission describing Nikko must fulfill in daily operations, at the core.



Company Motto

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

Corporate slogan

“Create the future with *n*”

Our Mission (The Mission We Strive To Fulfill)

Updating social infrastructure with state-of-the-art engineering.

Our Vision (The Future We Aspire To Realize)

Creating robust, people-friendly cities around the world.

The Values We Provide (The Values and Strength We Provide)

1. We pursue safety and security with all of our products and services.
2. We comprehend substantial issues and make proposals from a customer’s perspective.
3. We look ahead to refine technologies for society and the times.
4. We connect with our customers and provide support into the future.
5. We combine our engineering strengths to exceed expectations.

Our Spirit (The Spirit We Value)

- | | |
|---|---|
| 1. Make work fun. | 8. Cooperate with, and inspire each other. |
| 2. Be conscious about goals. | 9. Learn extensively from within and without. |
| 3. Create ideas. | 10. Be honest and sincere. |
| 4. Fearlessly take on new challenges. | 11. Have emotional and physical leeway. |
| 5. Push through to the end. | 12. Always put safety first. |
| 6. Cherish time. | |
| 7. Be considerate when talking to others. | |

Editorial Policy (On Issuing the Corporate Report)

Nikko Group has been publishing a corporate report since FY 2019 to deepen understanding of our efforts to enhance our medium- to long-term corporate value and resolve social issues. Nikko Group Corporate Report 2024 provides a comprehensive and integrated explanation of the Nikko Group's efforts to create value over the medium to long term, focusing on its strengths, business opportunities, changes in the external environment, sustainability activities to resolve materiality, governance structure, and other issues, incorporated in interviews, roundtable discussions, and other content. The objective of the Report is to disclose both financial and non-financial information to all stakeholders, including shareholders and investors, customers, business partners, employees, and local communities. We hope that the Report will help you gain a better understanding of the Nikko Group. We will continue to strengthen our sustainability system and enhance information disclosure to engage with our stakeholders. The Report is edited referring to The International Integrated Reporting Framework established by the IFRS Foundation, the Guidance on Integrated Disclosure and Dialogues for Joint Value Creation by the Ministry of Economy, Trade and Industry of Japan, etc.

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- **Target readers** This Report is targeted for all stakeholders involved with the Nikko Group.
- **Reporting period** The Report mainly covers FY 2023 (April 1, 2023 to March 31, 2024), but also includes information before and after this period.
- **Reporting scope** The Report covers the Nikko Group comprising Nikko Co., Ltd. and 13 subsidiaries (all of which are consolidated subsidiaries).

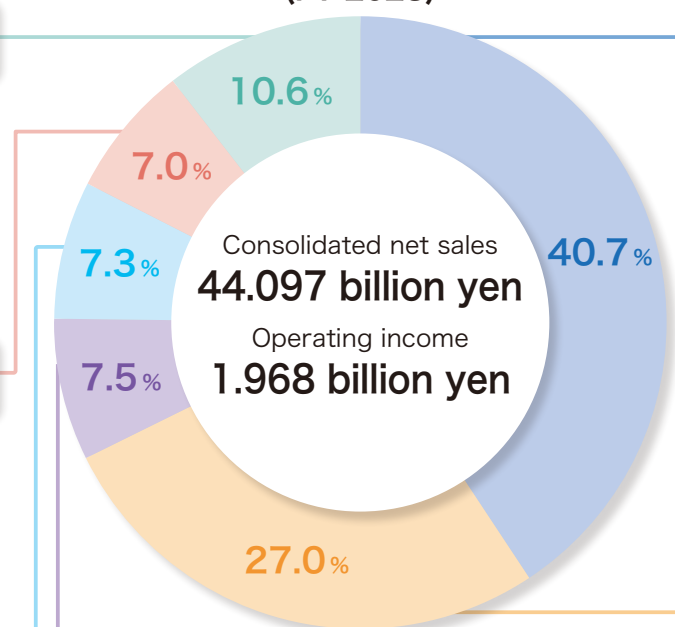
- **Company name** "Nikko" and the "Company" refer to Nikko Co., Ltd. The "Nikko Group" and the "Group" refer to the Nikko Group, including consolidated subsidiaries.
- **Note on forward-looking information** This Report includes statements on future outlook. We appreciate your understanding that actual performance may differ from the Company's projections.

Introduction of Nikko Group

Six Business Segments supporting the Nikko Group

Previously, our business was classified into four business segments: AP (asphalt plant)-related business, BP (concrete plant)-related business, environment- and conveyors-related business, and other business. However, starting from FY 2023 (fiscal year ended March 31, 2024), the Company has classified its Other Business into three: Crusher-related business, Contract-based manufacturing business, and Other business, and has changed the number of its business segments to six: AP-related business, BP-related business, Environment- and conveyor-related business, Crusher-related business, Contract-based manufacturing business, and Other business.

Sales breakdown by business segment (FY 2023)



Other business:

Introduction of the business P.52

Mainly manufactures and sells pipe scaffoldings, temporary aluminum staircases, floodgates, waterproof boards, etc., and engages in real estate leasing.

Net sales	4.670 billion yen
Operating income	0.769 billion yen
Operating margin	16.5%



AP (Asphalt Plant)-Related Business:

Introduction of the business P.45

Manufactures and sells mainly asphalt plants, with domestic static share of 77.5%. Strengthens overseas expansion, focusing on Asian markets.

Net sales	17.938 billion yen
Operating income	0.331 billion yen
Operating margin	1.8%



Contract-Based Manufacturing Business:

Introduction of the business P.52

With Ube Kohki and Matsuda Kiko as its core group companies, engages in design and manufacturing of various plants and industrial machinery, and other processes such as plate working, assembly, and installation.

Net sales	3.072 billion yen
Operating income	0.270 billion yen
Operating margin	8.8%



BP (Concrete Plant)-Related Business:

Introduction of the business P.47

Manufactures and sells mainly concrete plants for domestic market, with domestic static market share of 33.3%.

Net sales	11.907 billion yen
Operating income	1.341 billion yen
Operating margin	11.3%



Crusher-Related Business:

Introduction of the business P.50

Engages in import and sales of mobile plants, etc., and produces self-developed soil improvers. Domestic market share of mobile crushers and screens: 27.3%

Net sales	3.198 billion yen
Operating income	0.274 billion yen
Operating margin	8.6%



Environment- and Conveyor-Related business:

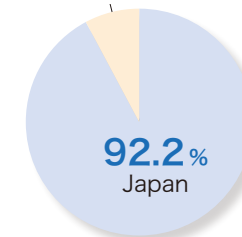
Introduction of the business P.49

Manufactures and sells various types of recycling plants and belt conveyors. Domestic market share of portable conveyors: 64.0%

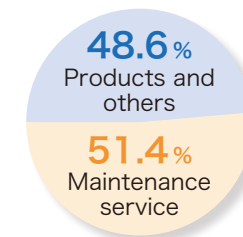
Net sales	3.309 billion yen
Operating income	0.793 billion yen
Operating margin	24.0%



Ratio of net sales outside Japan (%)
7.8% Overseas



Net sales ratio of maintenance service for AP- and BP-related businesses (%)



Note: Operating income and operating margin for each business segment represent operating income before deduction of corporate expenses.

Where the Nikko Group products are used



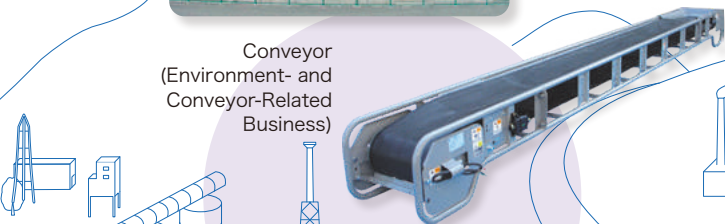
Soil remediation plant
(Environment- and
Conveyor-Related Business)



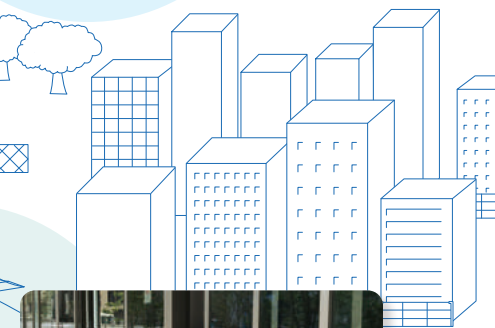
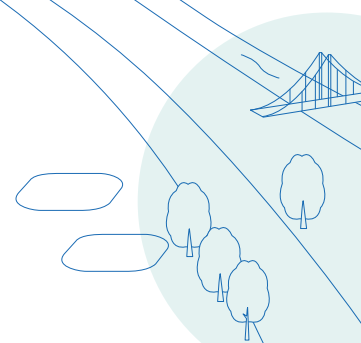
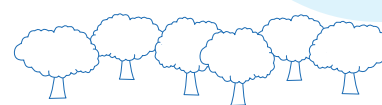
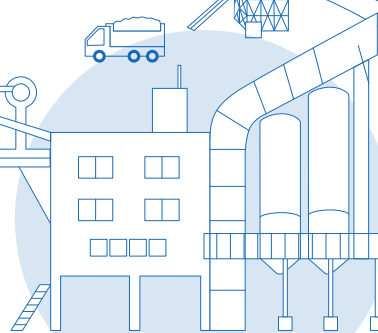
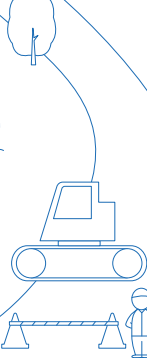
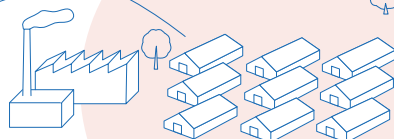
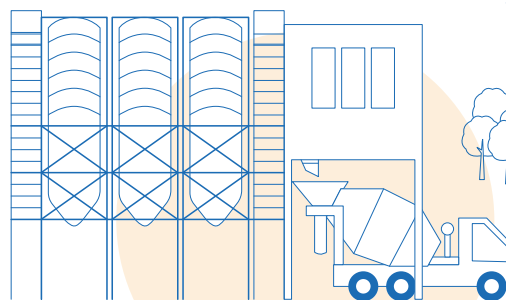
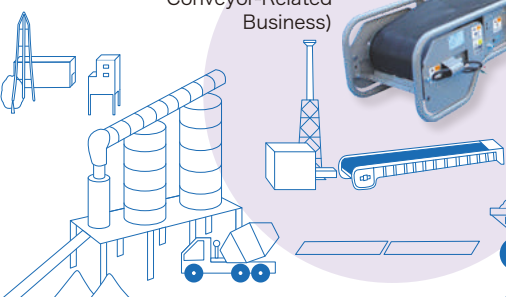
Plate working for plant equipment
(Contract-Based Manufacturing Business)



Mobile crusher
(Crusher-Related
Business)



Conveyor
(Environment- and
Conveyor-Related
Business)



Waterproof board (Other Business)



Concrete plant
(BP-Related Business)



Asphalt plant (AP-Related Business)



Temporary construction equipment
(Other Business)



Floodgate (Other Business)

Nikko Group in 2023

Jan. 2023 Starts sales of asphalt plant “VPIV-Clover”

Developed a new model in the Value Pack series, “VPIV-Clover,” the first asphalt plant in Japan, to employ the “unit construction method” and “exterior materials with sound-absorbing and heat-insulating effects” for an asphalt plant.



Feb. Monthly wage raise implemented.

For the second consecutive year, decided to raise the monthly salaries of all employees, including those at subsidiaries, by an average of 5%. Following the flat-rate monthly wage raise of 30,000 yen in 2022, a significant wage raise for the second consecutive year will be implemented to stabilize employees' lives and improve engagement.

Mar. Winner of KLEEMANN Dealer Award

Received the “KLEEMANN DEALER AWARD” from KLEEMANN, a German global crusher manufacturer with whom the Company has an exclusive agency contract in Japan.

Agency contract signed with Vitrac, Vietnam.

Signed an agency contract for asphalt plants with VINH PHU GENERAL JOINT STOCK CORPORATION, a construction machinery dealer in Vietnam.



Develops the world's first hydrogen-fired burner for asphalt plants

Collaborated with TOKYO GAS Co., Ltd., to develop the world's first hydrogen burner for asphalt plants that enables hydrogen-fired operation. Sales are scheduled to begin in March 2025.



Mar. Manufacturing and test construction work of asphalt mixture with hydrogen fuel

Collaborated with Maeda Road Construction Co., Ltd., to produce asphalt mixtures and conduct trial construction using a hydrogen-fired burner.

May Develops the electric/hydraulic hybrid mobile soil improver “Mobix Eco”

Leveraged the mixer technology that we cultivated over 70 years of mixing and kneading construction and civil engineering materials to develop our own mobile soil improver.



Jul. Makes Matsuda Kiko K.K. a subsidiary

Acquired all shares of Matsuda Kiko K.K., which engaged in plate fabrication and assembly for plants, and made it a subsidiary.

Bishokuan Akitsu opens



49th Excellent Environmental Equipment Award Received the Japan Society of Industrial Machinery Manufacturers Chairman's Award

Won the Japan Industrial Machinery Manufacturers' Association Chairman's Award for the “Exhaust Gas Treatment Device Using Waste Treated Tar Fuel,” jointly developed with SANKI ENGINEERING CO., LTD.

Aug. Opens a store in “Gokko Land,” a social experience application for children.

Sept. Releases “SiILO,” a remote shipping system for mixture silos.

Developed as the first DX solution, “SiILO,” a remote shipping system for asphalt mixture silos, and delivered the first unit to SHOKEN CO., LTD.



Provides products for the Ukraine Project for Emergency Recovery and Reconstruction

Provided mobile crushers and screens manufactured by KLEEMANN of Germany to Ukraine through the Ukraine Project for Emergency Recovery and Reconstruction.

Oct. Releases the application “NM LINK”

Provided “NM-LINK,” Japan's first maintenance and technical support application for mobile crusher products, to support stable and efficient machine operation.



Feb. 2024 Social experience game for children “Let's Protect the Road!” won the Excellence Award in the Education and Teaching Materials category of the DOBOKU Communications and Public Relations Award 2023

Developed a prototype of hydrogen-fired jet heater and successfully completed demonstration test

Conducted demonstration experiments of “Hydro H2eat,” Japan's first hydrogen-fired jet heater, at two construction sites in the Tokachi area of Hokkaido.

Mar. Implements an average 5% monthly wage raise and revised starting salaries

Implemented an average 5% monthly wage raise, including base salary increases for all employees. This marks the third consecutive year of wage hikes, enhancing employees' stability and engagement.

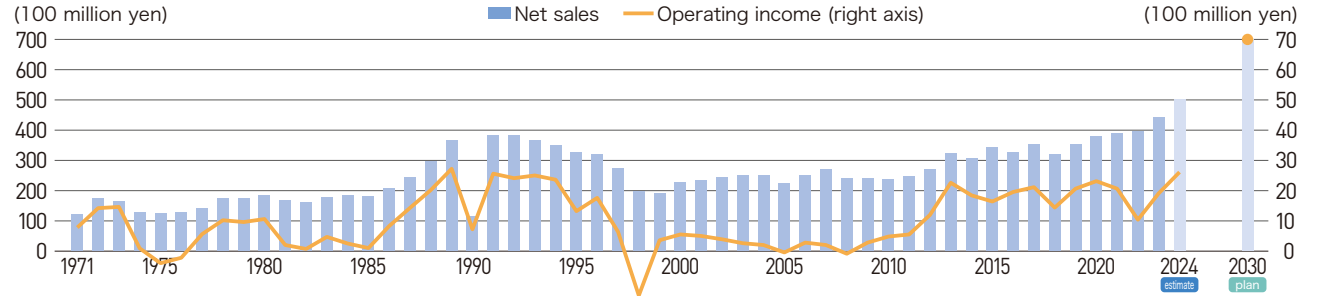
We have categorized the concerns received from shareholders and investors into financial and non-financial items, and have summarized the explanations we provided and the pages in this report.






Item		Questions and comments frequently received from shareholders and investors	Explanation from the Company	Reference
Financial	AP-Related Business	How is the performance of your customers, road pavement companies?	The road pavement companies' performance in FY 2024 is expected to turn an increase in net sales and operating income for the first time in three fiscal years.	▶P45
		What is the sustainable profitability?	We consider an operating margin of about 6 to 7% before COVID-19 to be sustainable profitability.	
		What is your forecast for the profitability of your overseas business?	From fiscal 2024 onwards, we expect the operating loss to shrink due to a recovery in order intake and other factors.	
	BP-Related Business	What is your outlook for future demand?	With ready-mixed concrete prices continuing to rise, we expect a strong business environment for the next two to three years.	▶P47
		What factors have contributed to this continued strong performance?	This is due to the recovery of customers' business performance through higher ready-mixed concrete prices and their increased willingness to capital investment.	
	Environment- and Conveyor-Related Business	Is it possible to maintain a high operating margin in the future?	We expect high production efficiency and the effect of increasing product prices to contribute to operating margin.	▶P49
	Crusher-Related Business	What will your product lineup look like in the future?	We will strengthen our product lineup with a focus on self-developed products.	▶P50
		How do you see future performance trends?	We aim to achieve a sales scale of approximately 6 billion yen from increased personnel, improved skills, and increased maintenance.	
	Contract-Based Manufacturing Business	Why is it possible to ensure high profitability?	This is due to our high Q (quality), C (cost), and D (delivery) response capabilities, as well as plate working and welding technologies.	▶P52
		What kind of synergies do you expect?	We aim to improve sales and production synergies with our environment- and conveyor-related businesses and our in-house production rate.	
Other Business	How is the performance of the waterproof board business progressing?	Although the number of companies entering the market is increasing, a stable performance trend is expected based on differentiated technology.	▶P52	
Medium-Term Management Plan	When will you announce the next medium-term management plan?	We plan to announce the next medium-term management plan at the time of the announcement of the final financial results in May 2025.	▶P41	
Shareholder returns	What are your future plans for shareholder returns?	We are considering flexible share buybacks based on a pledged dividend payout ratio of 60% or more.	▶P29	
Stock price trends	What can you tell us about management conscious of stock prices and capital costs?	We are not satisfied with the current stock price level and are aiming for a market cap of 50 billion yen.	▶P29	
Non-financial	Sustainability	What activities ensure sustainability?	We hold Sustainability Committee meetings, which include younger employees, to ensure sustainability in the workplaces.	▶P37,P75
	Operating capital	What capital is missing, what are the challenges and how to address them?	We are aggressively strengthening our human capital and acquiring new core technologies.	▶P39,P72
	Human capital	How do you recruit and train human resources?	We are strengthening human resources through gap analysis and eight human resources measures.	▶P25,P72
		What is your approach to employee motivation?	We are working to improve motivation by aggressively raising wages and encouraging employees to own company stock.	
	Environment	What is the sales volume of de-carbonized and low-carbon products?	Net sales for FY 2023 amounted to 1.2 billion yen, and the sales breakdown was 3%.	▶P60
	TCFD	What is the current status of Scope 3 response?	We disclose Scope 1&2&3 figures and mechanisms including timelines for reduction.	▶P62
	S (Local Communities)	What is your response to the Noto earthquake?	In the event of a quake-disaster, we work closely with our customers to ensure a speedy recovery.	▶P68
	Governance	How is the effectiveness of the Board of Directors ensured?	Since FY 2017, the Company has introduced measures to strengthen the Board of Directors, including the implementation of an evaluation of its effectiveness.	▶P81

History

History of Value Creation in the Nikko Group

Nikko Group, which began manufacturing and selling shovels, spades, pickaxes, and construction hardware in 1919, celebrated its 100th anniversary in August 2019. Through the resolution of our customers' issues and our materiality, we aim to achieve the target net sales of 70 billion yen, target operating margin of 10.0%, and market cap of 50 billion yen set forth in our 2030 Vision, and 100 years beyond.



Since the establishment	Since 1970	Since 1990	Since 2010	Since 2022
Start-Up and Postwar Reconstruction	Business expansion and rapid economic growth	Promotion of diversification and strengthening of group management	Switch to aggressive management approach	Towards achieving the current Medium-Term Management Plan and What the Group aspires to be in 2030
<p>1919 Nihon Kogyo Product Co., Ltd. established</p> <p>1921 Head Office relocated to Akashi</p> <p>1934 Second Plant opens, starts production of wooden handles</p> <p>1938 Third Plant completed, starts production</p> <p>1948 Completes construction of Fourth Plant, starts production of cast metal</p> <p>1950 Starts production and sales of Ryusen handles</p> <p>1961 Forms a business partnership with Mitsubishi Heavy Industries, Ltd. and starts manufacturing pile hammer frames, etc.</p> <p>1962 Lists shares on the first section of the Tokyo Stock Exchange</p> <p>1968 Company renamed to Nikko Co., Ltd.</p> <p>External environment: Post-War robust reconstruction demand</p> <p>1923 Great Kanto earthquake occurs</p> <p>1939 The Second World War begins (until 1945)</p> <p>1956 Japan Highway Public Corporation established</p> <p>1964 Olympic Games Tokyo held</p> <p>1965 Entire length of Meishin Expressway opens</p>  <p>Head office factory at the time of founding</p>	<p>1970 New asphalt plant begins operation</p> <p>1973 Yano Memorial Hall completed</p> <p>1974 Signs technology tie-up with Benninghoven of West Germany</p> <p>1974 Signs technology tie-up with Royal Philips of the Netherlands</p> <p>1979 Signs technology tie-up on drum mixing plants with Boeing Construction Equipment Company of the US</p> <p>1986 Opens Tokyo service center</p> <p>1989 Forms contractors' organization Akitsu-kai</p> <p>1989 Opens US office</p> <p>External environment: Bubble economy and growing environmental awareness</p> <p>1970 The Japan World Exposition, Osaka, held</p> <p>1972 Tohoku Expressway (Iwaki-Utsunomiya) opens</p> <p>1978 Narita Airport opens</p> <p>1983 Entire length of Chugoku Expressway opens</p> <p>1988 Seto Ohashi Bridge opens</p>  <p>Eigashima factory opens</p>	<p>1991 Establishes Development Technology Center</p> <p>1994 Satte factory completed</p> <p>2001 Establishes Nikko (Shanghai) Construction Machinery Co., Ltd.</p> <p>2002 Acquires the asphalt plant division of Niigata Engineering Co., Ltd.</p> <p>2004 Completes the construction of Jiading factory of Nikko (Shanghai) Construction Machinery Co., Ltd., the Group's first production base overseas</p> <p>2006 Establishes Nikko (Thailand) Co., Ltd. (sale and after-sales service of asphalt and concrete plants)</p> <p>2006 Acquires the concrete pump business of Shimonoseki Shipyard & Machinery Works of Mitsubishi Heavy Industries, Ltd.</p> <p>2008 Makes Maekawa Kogyosho Co., Ltd. into a group company</p> <p>External environment: Growing need for environmentally friendly products</p> <p>1994 Kansai International Airport opens</p> <p>1995 The Great Hanshin-Awaji Earthquake</p> <p>1997 Kyoto Protocol adopted</p> <p>2006 Kobe Airport and Kitakyushu Airport open</p> <p>2008 The collapse of Lehman Brothers</p>  <p>Nikko Shanghai</p>	<p>2011 New Wuhan factory of Shantui Nikko Construction Machinery Co., Ltd. completed</p> <p>2012 Takahisa Nishikawa appointed Representative Director and President</p> <p>2012 Dissolves Nikko (Thailand) Co., Ltd.</p> <p>2015 Starts activities as the sole Japanese agent for Kleemann of Germany</p> <p>2015 Closes Shantui Nikko Construction Machinery Co., Ltd.</p> <p>2018 Newly constructs Techno Center (Akashi)</p> <p>2018 Starts Mobile Plant Business Department (currently Crushers-Related Business)</p> <p>2019 Masaru Tsuji appointed Representative Director and President</p> <p>2019 100th Anniversary</p> <p>External environment: Exacerbation of various disasters</p> <p>2010 Expo 2010 Shanghai China held</p> <p>2011 The Great East Japan Earthquake</p> <p>2012 Tokyo Skytree opens</p> <p>2015 Hokuriku Shinkansen (Tokyo-Kanazawa) starts operation</p> <p>2015 UN rules on SDGs</p>  <p>CSC (Customer Support Center)</p>	<p>2020 Establishes Nikko Asia (Thailand) Co., Ltd.</p> <p>2020 NIKKO NILKHOSOL CO.,LTD. established (currently Nikko Global Manufacturing (Thailand) Co.,Ltd. (abbreviation: GMT))</p> <p>2022 Announces the Medium-Term Management Plan (2022-2024)</p> <p>2022 Makes Ube Kohki Co., Ltd. into a group company</p> <p>2023 Makes Matsuda Kiko K.K. into a group company</p> <p>2024 Final year of current medium-term management plan</p> <p>2025 Next medium-term management plan to be announced</p> <p>2030 2030 Vision (targets: 70.0 billion yen in sales and 10% in operating margin)</p> <p>External environment: Post-COVID era</p> <p>2020 COVID-19 pandemic</p> <p>2021 Olympic Games Tokyo held</p> <p>2022 Russia's invasion of Ukraine</p> <p>2023 COVID-19 moves to Category 5</p> <p>2025 Takanawa Gateway City to open</p> <p>2025 Expo 2025 Osaka, Kansai</p>  <p>GMT</p>

2022 to current

Strengthen development of burners for new fuels

In addition to developing technologies to realize a decarbonized society, we are strengthening product development to solve customer issues such as automation and manpower saving through using AI and remote technologies.



Developed new asphalt plant VPIV-Clover (2022)



Successful remote shipment of asphalt mixtures for the first time in Japan (2023)



Manufacture and test construction of asphalt mixture with hydrogen-fired (2023)



Developed a separating system using AI image recognition (2022)

Since 2010

Environment-related fields using core technologies strengthened in addition to developing overseas markets

In 2011, the factory of Shantui Nikko Construction Machinery Co., Ltd. in China started operation, and the Company made progress in developing overseas markets. Against the backdrop of growing needs for decarbonization and other factors, we strengthened our lineup of environmentally friendly products and concluded an exclusive domestic sales contract for KLEEMANN's mobile crushers.



Developed new asphalt plant Value Pack series (2016)



Started handling KLEEMANN mobile crusher (2015)



Developed BP operation panel Cyber Advance (2018)



Started handling the mobile conveyor Trackstack (2018)



Developed plants especially for quake-disaster recovery (2013)



Developed the MBD series, mainly made of recycled mixtures (2014)

Since 1990

Rise of earthquake response needs and entry into the environmental field

Following the Great Hanshin-Awaji Earthquake in 1995, the need for earthquake response and high-quality concrete products arose. We entered the environmental field on the back of growing interest in environmental issues.



Beverage container separator crusher "Recycle 4" (1998)



WELL-turbo burner developed (2005)



DASH-200N mixer developed (2007)



Double hot pin plant developed (2009)



Development of space-saving Euro-type asphalt plant (2009)

Since 1970

Larger machines and rising need for pollution prevention

As the economy grew, plants became larger and more sophisticated, and at the same time, the need to address increasingly serious pollution arose. By promoting the introduction of technology from overseas, we have been providing products that address anti-pollution measures, automation, etc.



Developed a 240t/h asphalt plant (1972, still one of the largest in Japan)



Development of recycling plants (1977)



Development of u-type concrete plants (1977)



Development of compact concrete plants (1979)

Development of Nikko Group's technologies and products

With long-standing values since its establishment, we set forth in our mission of "Updating social infrastructure with state-of-the-art engineering." We pursue technological development and commercialization that contributes to solving problems for our customers and society.

Since the establishment

Postwar reconstruction and entry into the construction machinery field

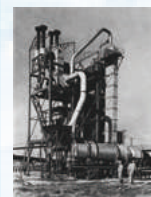
When the Company was founded, it was engaged in the manufacturing and selling of shovels, shovels, etc. In 1951, it entered the construction machinery field, including transverse conveyors, winches, and concrete mixers. Later, in preparation for postwar reconstruction, the company began production of batcher plant in 1956 and asphalt plant in 1958.



Produced the first shovel(1920)



Entered the construction machinery field, including transverse conveyors (1951)

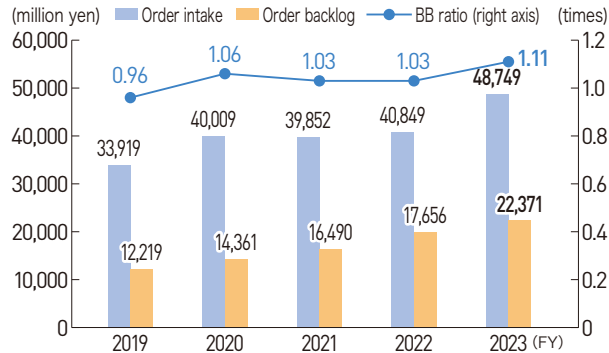


Nikko's first asphalt plant produced (1958)

Financial and Sustainability Highlights

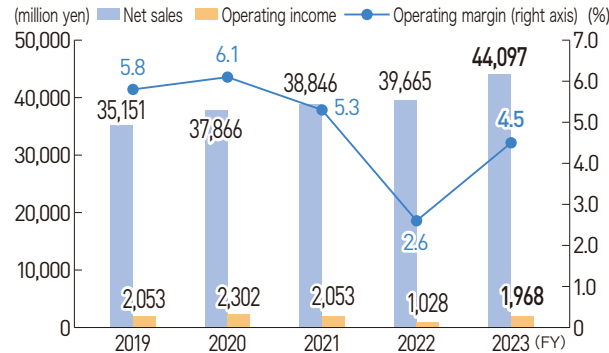
Financial Highlights

◆ Order intake, Order backlog and BB ratio



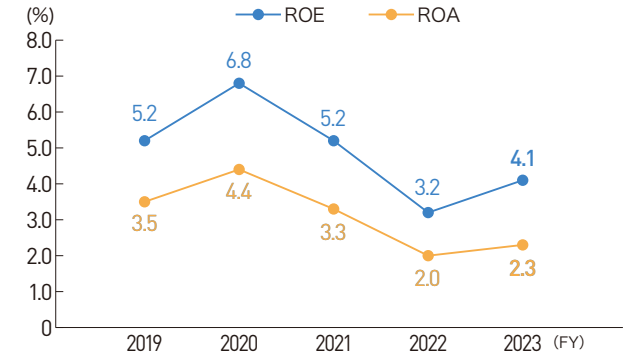
Order intake in FY 2023 continue strong to increase 19.3% year on year to 48,749 billion yen, and the order backlog at the end of the fiscal year remains at a high level of 22,371 billion yen (monthly sales of 6.1 months). BB ratio, calculated by dividing orders received by net sales, improved by 0.08 pp to 1.11.

◆ Net sales, Operating income and Operating margin



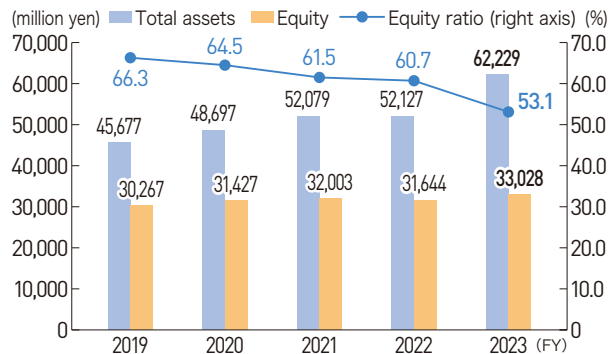
Net sales for FY 2023 increased 11.2% year on year to 44,097 billion yen. Operating income increased 91.4% year on year to 1,968 billion yen, as the increase in various expenses was absorbed by the effect of increased net sales and product price revisions. As a result, the operating margin improved by 1.9 pp to 4.5%.

◆ ROE and ROA



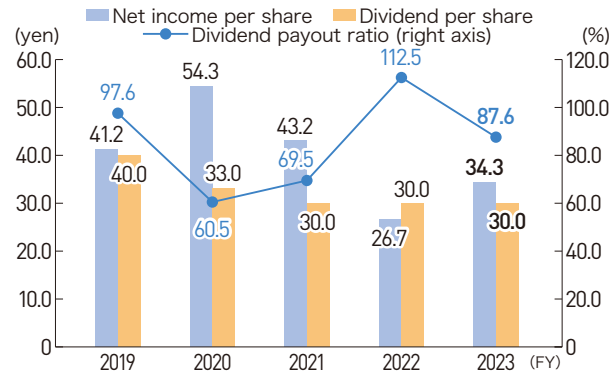
ROE (Return on Equity) for FY 2023 improved by 0.9 pp year on year to 4.1%, mainly due to a recovery in business performance. On the other hand, ROA (Return on Assets) improved by 0.3 pp year on year to 2.3%, mainly due to an increase in total assets against the backdrop of higher interest-bearing debts.

◆ Total assets, Equity and Equity ratio



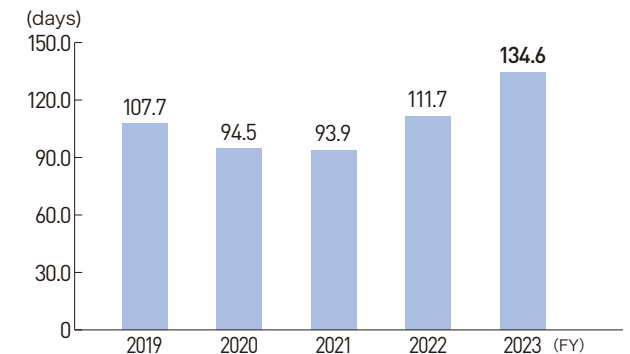
Equity ratio for FY 2023 decreased by 7.6 pp year on year to 53.1%. Equity increased by 1,384 billion yen year on year to 33,028 billion yen, mainly due to an increase in total assets of 10,102 billion yen year on year to 62,229 billion yen.

◆ Net income per share, Dividend per share and Dividend payout ratio



The Company has pledged to a dividend payout ratio of 60% or more. The dividend per share for FY 2023 was 30 yen, the same amount as for the previous fiscal year, but the dividend payout ratio was 87.6%, exceeding the pledged dividend payout ratio. We will continue to strengthen shareholder returns, including share buybacks.

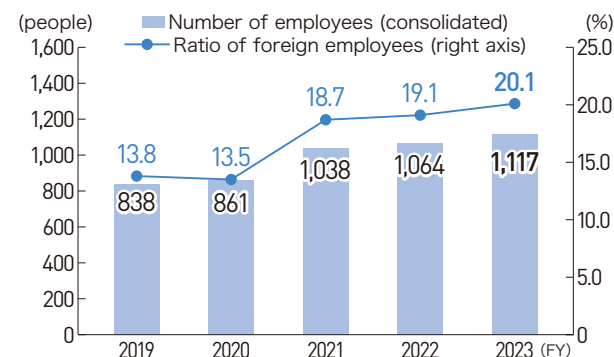
◆ Cash conversion cycle



CCC (inventory turnover days + accounts receivable turnover days - accounts payable turnover days) for FY 2023 was 134.6 days, an increase of 22.9 days from the end of the previous fiscal year. Although there was an increase in advances received, inventories remain high and inventory turnover days are lengthened.

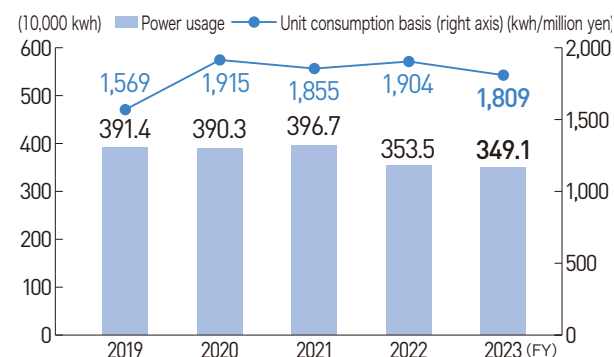
Sustainability Information Highlights

◆ Number of consolidated employees, ratio of foreign employees



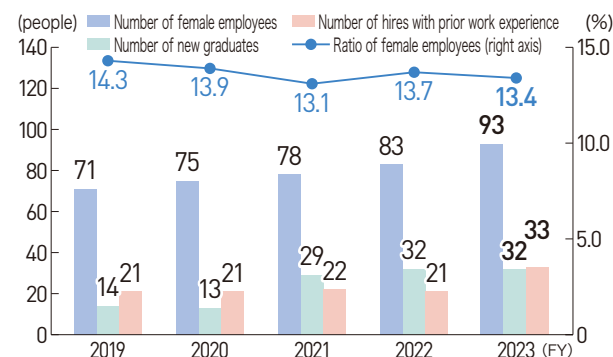
The number of employees (consolidated) in FY 2023 was 1,117, an increase of 53 over the previous fiscal year. Of these, the number of foreign employees increased by 20 over the previous fiscal year to 225, and the ratio of foreign employees has risen to 20.1%. We are currently strengthening our organization in preparation for future expansion into the ASEAN market.

◆ Power usage, output (non-consolidated)



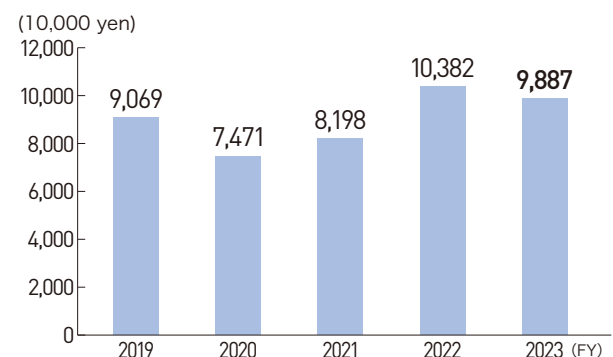
Power usage in FY 2023 was 349.1 kwh, down 1.2% year on year. Power usage on unit consumption basis divided by production output decreased by 5.0% year on year to 1,809 kWh/million yen. We will continue to strengthen our efforts towards achieving carbon neutrality.

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



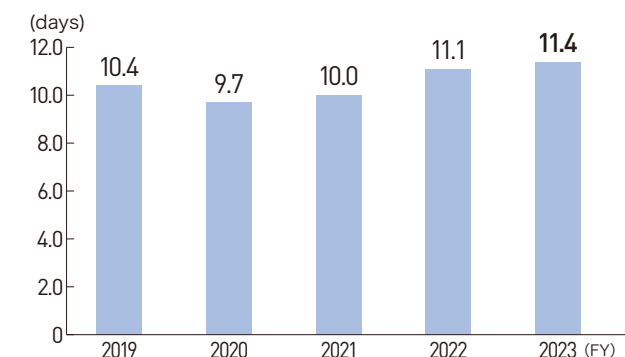
The number of female employees on a non-consolidated basis at the end of FY 2023 was 93, an increase of 10 from the end of the previous fiscal year. The ratio of female employees to the total number of non-consolidated employees remains generally unchanged at 13.4%. The number of new graduates hired was 32, the same as the previous fiscal year, and the number of hires with prior work experience increased by 12 year on year to 33.

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



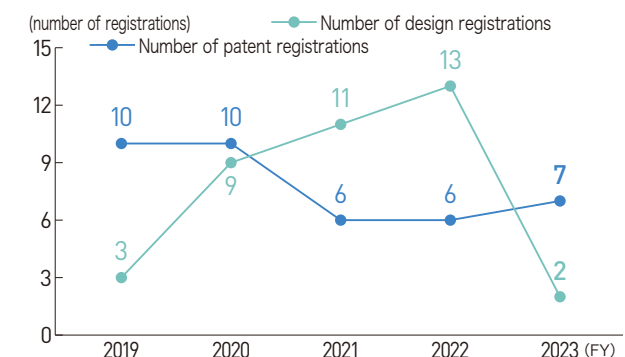
Total expenses of ISO activity items (electricity, water, waste, and paper) in FY 2023 came to 98.87 million yen, down 4.8% year on year. As net sales increase, the effects of strengthening ISO activities such as efficient resource utilization are becoming apparent.

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



The average number of annual paid leave days taken on a non-consolidated basis in FY 2023 was 11.4 days, a slight increase from 11.1 days in the previous fiscal year. Taking paid leave is important from the perspective of improving employee satisfaction and work-life balance, and we will continue to make efforts to improve it.

◆ Number of patent and design registrations



The number of patents in FY 2023 increased by one year on year to seven, while the number of design registrations decreased by 11 to two. Meanwhile, the number of patent applications was 16 and the number of design applications was 15.



The growth of Nikko Group equals the growth of its employees.

We will accelerate our efforts to strengthen human capital for realizing the 2030 Vision.

Representative
Director and President

辻 勝

Masaru Tsuji

Nikko Group aims for “Creating robust, people-friendly cities around the world,” which is the future it wants to realize (Vision) based on its mission and raison d’être of “Updating social infrastructure with state-of-the-art engineering.” Nikko President Tsuji discussed what he has focused on in management since his appointment as president, initiatives pertaining to 2030 Vision, evaluation of the current medium-term plan and the direction of the next medium-term plan, and sustainability-related issues.

Five years have passed since you were appointed president of the Nikko Group on April 1, 2019. What are the points on which you focused in management?

Question.

1

Nikko celebrated the 100th anniversary of its foundation in August 2019. We formulated the 2030 Vision, the Group’s first long-term vision, at that important juncture. Through this vision, we demonstrated our strong will for growth to all employees and devoted ourselves to the development of a structure for growth. In the meantime, there came increasing demands for the realization of carbon neutral society, and this has also come to affect our business significantly. We have also been steadily preparing for the shift to the Prime Market of Tokyo Stock Exchange.

The two initiatives pursued under 2030 Vision

In the 2030 Vision, the Nikko Group aims to become the top manufacturer of plant facilities and environmental products backed by our high technological capability, in addition to becoming customers’ management partner through operation and maintenance service. Realizing the vision calls

for transformation of business and scale expansion leveraging technology.

First of all, transformation of business means unearthing customers’ unrealized needs in our existing businesses and swiftly responding to changes in the industry. Specifically, we aim to grow each of our mainstay businesses such as asphalt plant-related (AP), concrete plant-related (BP), and maintenance service (MS) businesses into the top manufacturer that is one step ahead of others in those segments.

Scale expansion leveraging technology denotes taking on challenges by effectively utilizing the technologies we have developed so far not only in the mainstay businesses but also in new fields. In particular, we are expanding the AP-related business to the entire ASEAN region in addition to the Chinese market. In the conveyor-related business, in addition to selling standalone conveyors, we are also working on engineering-oriented sales offering peripheral devices connected to conveyors. We also have the other business, which includes the rapidly growing mobile plants, contract-based manufacturing, and waterproof boards. We strongly believe that we can grow these businesses into pillars that are even stronger than now in cross-divisional, group-wide operations, leading to growth of the

We aim to grow the Nikko Group by strengthening the businesses beyond the boundaries of divisions and companies.

Group as a whole.

To this end, we decided to raise the numerical targets of the Nikko Group’s 2030 Vision. When we formulated the vision in 2020, the target was 50.0 billion yen in net sales, but we raised it to 60.0 billion yen last year and to 70.0 billion yen recently. This is because our business results have expanded at a pace exceeding our assumptions. We may be able to achieve the net sales target of 50.0 billion yen announced in 2020 in the fiscal year ending March 2025. On the other hand, we have not changed the operating margin target of 10% and market cap target of 50.0 billion yen set forth at the beginning. A major factor for continuing with the same targets is that we have been actively increasing management resources such as human capital, manufactured capital, and intellectual assets that were lacking at the Nikko Group for realization of 2030 Vision, while being affected by the changes in external environment including COVID-19 pandemic, Russia-Ukraine issue, and soaring material prices.

Expecting profit growth through the strengthening of human capital

I believe that the growth of the Nikko Group companies is





We will continue with self-transformation with the mission to become a solution partner that is widely trusted by society and grow together with customers.

closely linked to the growth of our employees. The number of employees at the Nikko Group reached 1,117 as of the end of March 2024, which is a growth of more than 40% since I took office as president. Foreign employees also account for about 20%, and we have been proactively driving forward strengthening of human capital with focus on the future.

We also formulated the corporate identity so that all employees will work toward the goal with a sense of unity. In addition, we reviewed the personnel evaluation system to develop a mechanism to properly assess employees' efforts and offer ample education system to develop an environment that facilitates employees' growth. There are still some issues, but we are expecting not only net sales but also profit margin to rise as the technical servicing skills of all employees grow along with their motivation.

We aim to win the trust of the society and become a solution partner that grows with our customers by adhering to our values of **"We comprehend substantial issues and make proposals from a customer's perspective"** and **"We look ahead to refine technologies for society and the times"** and offering products and services that truly satisfy our customers. To realize our

vision "Creating robust, people-friendly cities around the world," we will continue to be a company where all employees continue to grow as one and aim to achieve 2030 Vision.

What are the initiatives being implemented by the Group for transformation of business? Please explain it by taking into account your business model, core competence, and business environment.

Question.

2

The strength of Nikko's business model lies in the integrated handling of everything from development and design to manufacturing, construction, and maintenance based on four

core technologies of heating, mixing and kneading, material handling, and control.

This integrated structure is our core competence that sets ourselves apart from other companies. Further, it is also our feature that the MS business, which is stock business, accounts for around 60% of net sales of the AP-related and BP-related businesses in Japan. The Company has the top share in both AP and BP markets in Japan, with about 80% for APs and more than 40% for BPs.

The AP and BP markets in Japan are in a mature state and are likely to grow in the medium to long term, but we are seeing changes in the market environment in the past several years. Road pavement companies, which are our main customers in the AP market, have large transactions with government and municipal offices and they were slow in passing on soaring materials costs to selling prices, resulting in sluggish growth in demand for facility replacement. On the other hand, facility replacement demand in the BP market has been growing. This is because ready-mixed concrete manufacturers have more transactions with private businesses and they have been actively passing cost increases on to selling prices. In the AP-related business in Japan, where capital investment demand is on a recovery track, we will leverage our high technical prowess as the top manufacturer and strive to establish technologies for decarbonization, remote operation, and automation to further support customers' plant operations. In the BP-related business, we will promote offering of comprehensive management of ready-mixed concrete plants and development of high-quality products required for precast concrete, through which we aim to become an environmentally friendly top manufacturer contributing to energy saving at customers.

We will pursue further growth through these initiatives and reinforce our role as the industry leader.

We will pursue enhancement of human resources and business model transformation for the maintenance service business.

In transformation of business, strengthening of the operation and maintenance services has the utmost priority.

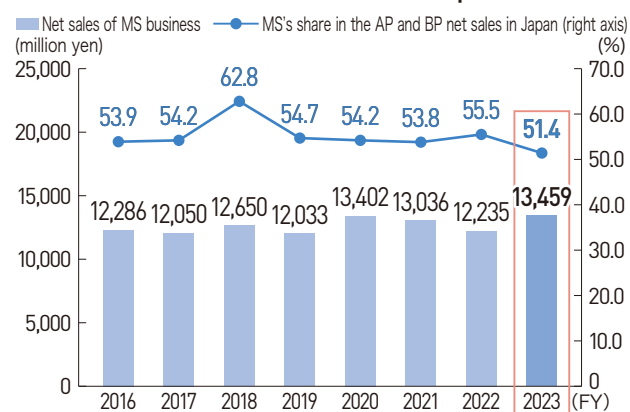
Especially, profitability improvement of the MS business and

transformation of its business model is an urgent task. Net sales of the MS business were 13.4 billion yen in FY 2023, a modest growth compared with 12.6 billion yen for FY 2018. The profitability of the MS business is relatively high, and we need to grow its net sales to more than 15.0 billion yen during the next medium-term plan and improve profitability further. While the MS business in Japan under the AP- and BP-related businesses, which are our strengths, has a foundation as a stock business, the fact is that it has not been able to fulfill its growth potential due to shortage of employees engaged in maintenance service.

To address this issue, we are reviewing the business structure to subdivide the maintenance operations and tap external human resources for carrying them out. Till now, on-site servicing staff were in charge of all operations from maintenance to collection of payment, but now we have employees in charge of front office at each branch who perform operations such as arrangement of parts and preparation of various documents as well as collection of receivables prior to the servicing staff's visit.

This improved the efficiency of operations, making it the first step toward resolving labor shortage. For improvement of profitability, we plan to strengthen the stock business of the MS business by reflecting price increases in selling prices.

◆ Net sales of MS business and their share in net sales of AP and BP net sales in Japan



However, we need to further improve efficiency of services so that customers would not be saddled with high maintenance charges. I believe developing a mechanism that satisfies customers leads to sustainable growth of business.

Now is no longer an era where the business ends once you sell a plant to a customer. The reality is that customers' requests for maintenance and support have been increasing by the year, and we are responding to them by working hard on labor management. From the sustainability perspective also, we need to shift to a method that is efficient and sustainable instead of a method dependent on the labor force. For this reason, we have been exploring maintenance and sales methods that would improve the mechanism of maintenance service and reduce the workload in a few years. We aim to increase the capacity of the MS business in addition to improving its profitability through this initiative.

Going forward, labor shortage will make it difficult for customers to carry out maintenance on their own, and in response, we are offering asset management service for customers' assets (plants). This requires evolution of remote maintenance. This demand increased during the COVID-19 pandemic, with the Customer Support Center (CSC) seeing a rapid increase in remote maintenance. We can provide systematic maintenance by predicting failures based on the plant operation data accumulated till now as customers switch to annual maintenance contracts. We can also minimize the risk of suspension of plant operation by changing parts in advance as necessary. A control system, which is the key for remote maintenance, is being manufactured at a group company. This would enable us to respond swiftly and ensure safety.

We are considering the introduction of a team-based system as a sales method. In the case of road pavement companies, the head office decides facility replacement. Nevertheless, major road pavement companies, for example, have employees in charge of facility replacement in each region. Till now, there were cases where we could not provide detailed care because employees in charge of regional sales and sales staff at the head office were handling customers. We believe that the introduction of the team system, where multiple employees will be in charge of a customer, will lead to improvement in

customer satisfaction. It is important to develop a system that enables proactive sales activities by assigning experienced employees at each phase of highly difficult projects in particular. While this transformation of the system cannot be implemented overnight, it is an important task we need to work on.

Question. 3

What are the outcome and issues of lateral development of products and markets related to scale expansion leveraging technology?

In the AP-related business overseas, we have expanded from China to Thailand. Currently, we have factories in Shanghai and Thailand, and the Thai factory is about double the size of the Shanghai factory. Nevertheless, the cooperation between the factories is far from sufficient. There are times when both Nikko and Thai plant have periods of low capacity utilization. We can expect improvement in production capacity by developing a mechanism that would complement each other well. Strengthening the cooperation structure in manufacturing within and outside Japan could boost its contribution to profits. Standardization of plants and various devices is a must for this and is an important task going forward. While there is demand for large-size APs in the Chinese market, in recent years, we are also seeing rising environmental awareness such as promotion of recycled asphalt mixture. Thailand also requires environmental standards similar to those of Japan, and it recently has started a project to promote use of recycled asphalt mixture. We have strength over our rivals in recycling plants, which are used for manufacturing recycled asphalt mixture.

While our focus will be on China and Thailand for the time being, the markets in Vietnam and Indonesia are also expanding. We will continue to expand overseas business to ASEAN by paying attention to the market environment. Enhancement of overseas business bases is expected to bring about further growth opportunities, but currently, it is limited to the AP-related business. Going forward, we will consider local production of the Group companies' products in the ASEAN region and aim to realize diversified business expansion.

Expand the environment and recycling business in group-wide effort

In addition to the AP- and BP-related businesses, we will be focusing on the environment and recycling business as a new pillar of growth. What is promising in particular is the field related to construction materials. For example, demand for recycling rubbles and residual soil from demolishing buildings is increasing.

In many cases, they are discarded as industrial waste, but we can recycle them by introducing appropriate recycling technology. As an example, we delivered a waste water treatment facility to a customer in Shikoku. This facility adopts a method to evaporate water using waste heat without using coagulants, making it a very effective equipment that does not generate wastewater. There is potential also in the fields of concrete sludge and material recycling. For example, the technology to capture CO₂ in concrete sludge is being put into practical use now. We are driving forward this initiative jointly with Nippon Concrete Industries Co., Ltd., and it has been gaining attention as a technology that enables decarbonization of concrete manufacturing. People did not pay much attention to this technology initially, but new business opportunities are being created each time a new partner joins us.

We are also pursuing an initiative to dry and crush concrete sludge, which has captured CO₂, and use it as crushed stone (stone dust). We have also introduced a test plant for this purpose. As you can see, we are increasing new business opportunities by working on

environmental recycling in the concrete field.

In addition, unused concrete at worksites (returned concrete), recycling of which has not made much progress, has many issues compared with asphalt and concrete masses, most of which are recycled. Manufacturing of concrete requires sand, and sand supply shortage also has been a problem. So, recycling of sand is also an important theme. We consider all of them as business opportunities.

The Akashi head office factory is at the core of Nikko's manufacturing, and its forte includes not only AP- and BP-related but also the environmental recycling field. The same can be said for Ube Kohki and Matsuda Kiko, which joined as Group companies in the contract-based manufacturing business, and we can expect collaboration with them. The environmental recycling field not only contributes to the establishment of recycling-oriented society, which is one of our material matters, but also has great potential as a sustainability transformation (SX) field that will boost the corporate value of the Nikko Group.

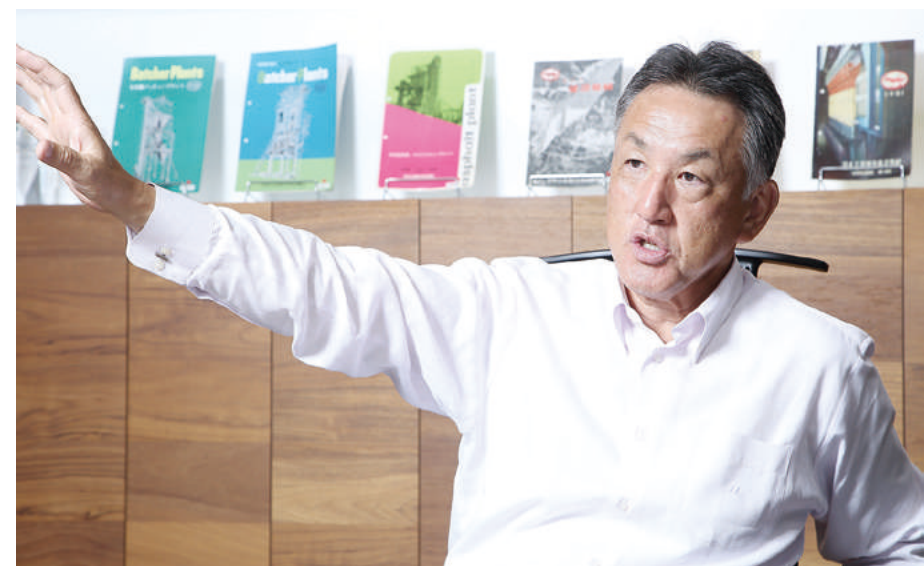
Going forward, we will consider local production of the Group companies' products in Vietnam and other countries in the ASEAN region and aim to realize diversified business expansion.

Question.

4

The current Medium-Term Management Plan will conclude in FY 2024. What is the progress made by each business and what are the tasks for the next medium-term plan?

I would like to particularly focus on achieving the numerical targets for FY 2024 of 50.0 billion yen in net sales and 3.0 billion yen in operating income. While there are differences in the speed of growth of the businesses, the foundation for growth is being built also taking into account the outcome of various measures. The next medium-term plan period will be the time to collect the returns on these upfront investments, and we would like to generate profits and cash flow during the period.



By business, the BP-related business achieved the medium-term plan numerical targets in advance, and it has the potential for growth in fields such as decarbonization in addition to the growth in the existing market. The situation of the environment- and conveyor-related business is similar to that of the BP-related business, but there appears to be limited leeway for growth in the medium to long term. Going forward, we will need to change the business methods such as transitioning from just selling standalone conveyors to engineering-oriented sales that include offering of peripheral devices and expanding the target fields. We changed the contents of the segment of the other business, and it has achieved the medium-term plan targets ahead of schedule.

The crusher-related business has been expanding its share as a result of enhancing the lineup of mobile products and reinforcing sales structure, and the contract-based manufacturing business is also expected to post stable growth in earnings as Ube Kohki and Matsuda Kiko creates synergies with the Nikko Group. In contrast, the AP-business is likely to fall significantly short of the numerical targets. Nevertheless, the business performance of road pavement companies, which are its customers, is on a recovery trend, and we are increasingly expecting recovery in its income together with the Thai business during the next medium-term plan period.

Plan to expand production capacity along with standardization of parts

To be sure, production capacity may not catch up with the increased order intake during the next Medium-Term Management Plan period. To solve this issue, we need to change the mechanism of production method in addition to expanding the production capacity. In the AP-related business, we will drive forward standardization of parts, and sales, engineering, and manufacturing divisions will work together to carry out structure reform. APs have a large number of parts and are often customized for different customers because of which design takes time and the delivery time tends to become long. This sometimes results in complaints from customers. To

From a company-wide perspective, it is necessary that each division levels the workload and make adjustments so that it would not exceed the capacity limit.



address this, we will improve production efficiency by making key parts into standard units to expand production capacity. A product based on a subscription model also may emerge. It, therefore, is necessary for engineering and sales to work together and drive forward standardization. On the other hand, parts of the BP-related business have already been standardized, and it has in place a system where they can produce key parts during a low demand period and can deliver inventory parts right away from stock. We believe we can further expand the market share through this. From a company-wide perspective, it is necessary that each division levels the workload and make adjustments so that it would not exceed the capacity limit. We plan to improve company-wide efficiency by having in stock products that have been made into units, turning the maintenance services into asset management, and standardizing production operations.

Question.

5

What are the issues and opportunities related to sustainability? What are the sustainability-related initiatives Nikko Group is implementing?

I think there is a possibility of an industry reorganization depending on how seriously companies work on carbon neutral (CN)-related initiatives. CN-related initiatives are stagnating in some parts in Europe, but major changes are in progress across the industry. Nonetheless, a new growth pillar has not yet sufficiently grown in response to this. We will implement

product development as planned based on the road map, and we believe we can solve it by changing the existing mechanism. First of all, asphalt plants currently use heat energy to dry sand, which is a raw material. The sand used for this has about 10% water content, and the quality of asphalt mixture will be affected if this water is not dried out. The use of dry sand is supposed to significantly reduce transportation costs of water and cost for drying the sand, but not much progress has been made in terms of its introduction.

In our opinion, we can solve this problem by developing a facility for storing the dry sand and a mechanism to protect it from water.

We also have issues regarding improving the efficiency of transportation. Asphalt mixture and ready-mixed concrete generally need to be transported within 1.5 hours, otherwise it will negatively affect the quality and workability. Currently, dump trucks carry roughly 170°C asphalt mixture covered by thermal sheets so that the mixture will not become cold. To address this issue, we developed a new mixture transportation system using thermal boxes. This system enables long hours of transportation and does not restrict the type of vehicles to dump trucks. We believe it will greatly contribute to the improvement of transportation efficiency.

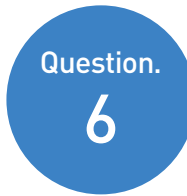
A lack of successors at our supplier companies is one of the sustainability issues we face. As the number of people engaged in the manufacturing industry is declining, a couple of companies among our suppliers located nearby shut down because they could not find successors. It is an urgent task to support such companies and develop a sustainable structure.

On the other hand, Nikko has a high ratio of in-house manufacturing at our factories, and we have a manufacturing infrastructure that gives us advantage over the competition. We are called upon to fulfill our mission as a manufacturer that passes down technology and skills and upholds manufacturing (craftsmanship) despite the impact of declining birthrate. We will leverage M&As in the future to purchase these manufacturing companies and expand factories. We plan to secure sustainability for growth by strengthening our production capacity as a manufacturer through expansion of factories.

These social issues are risks and at the same time business opportunities for us. We will keep our eyes open to these social

situations so that we can make proposals that are one step ahead to our customers.

In conclusion, what is your idea regarding management that is conscious of cost of capital and stock price? What is your role in improving Nikko's corporate value?



In the fiscal year ended March 2019, before I took office

We are keeping our eyes open for business opportunities and working on making detailed proposals to customers.

as president, Nikko's consolidated net sales were 31.8 billion yen; operating income, 1.4 billion yen (operating margin 4.5%); and ROE, 4.4%. For the fiscal year ending March 2025, we are expecting 48.0 billion yen in net sales, 2.6 billion yen in operating income (5.4% in operating margin), and 5.1% in ROE.

First, I will give utmost priority to achieving the goals under the current Medium-Term Management Plan. Then, I would like to improve profitability and generate cash flow during the next Medium-Term Management Plan period to realize 2030 Vision and go on to achieve 50.0 billion yen in market cap. Investment for growth and strengthening of human capital are imperative for achieving goals.

I will demonstrate leadership based on strong convictions as the top executive of the company.

I look forward to continued support and understanding of our shareholders and other stakeholders for the growth of Nikko Group.



Nikko

Integrated Report

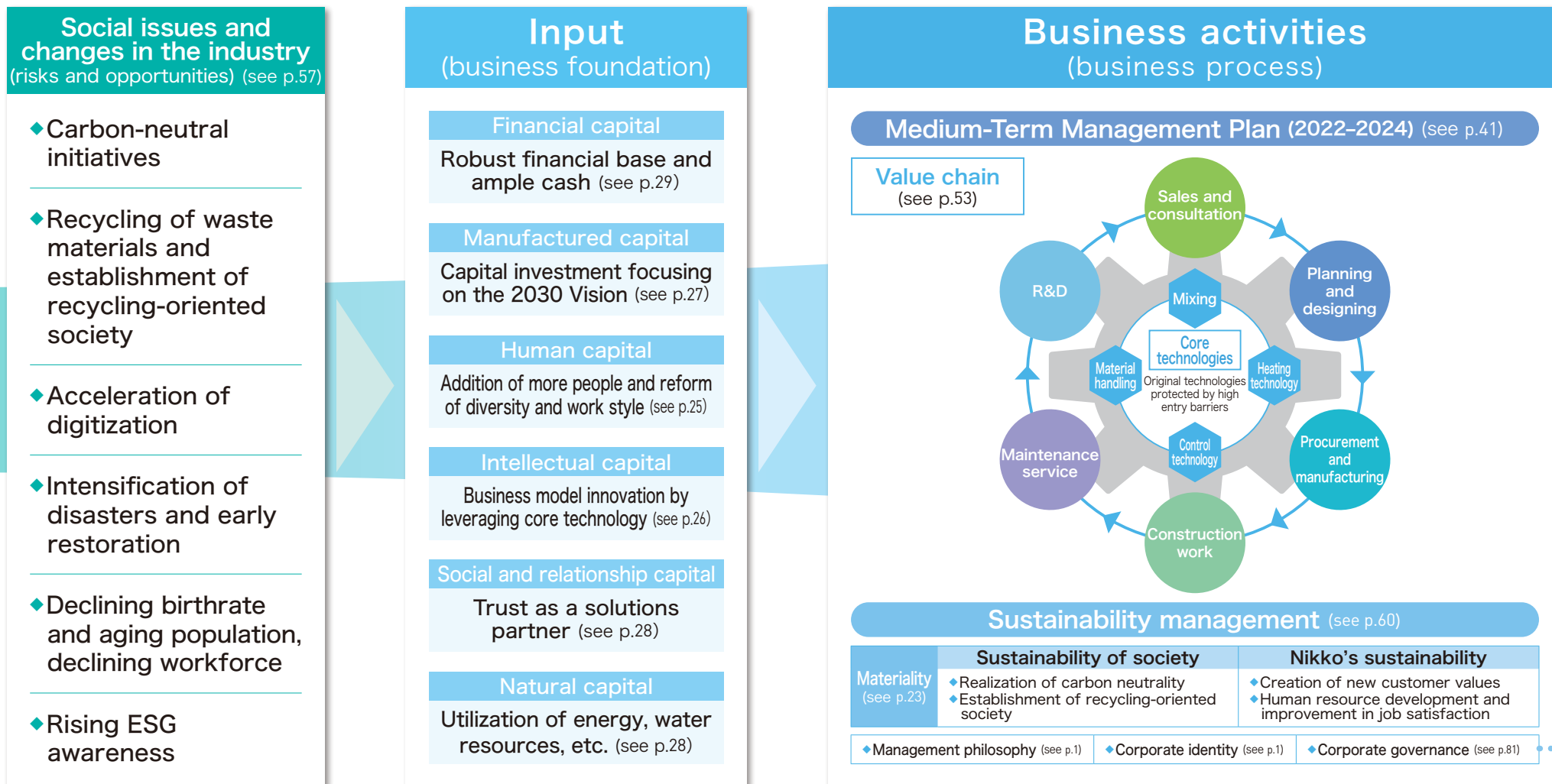
01

Foundation for Value Creation

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Process of Value Creation

Nikko Group aims for sustainable growth through business activities conscious of materiality across the value chain by leveraging the assets it owns. We will achieve the vision and improve our corporate value through realization of the values (outcomes) created in this process.



Nikko Group's mission (raison d'être)

Updating social infrastructure with state-of-the-art engineering.

Future the Group wants to realize
(see p.1)

Creating
robust,
people-
friendly
cities
around
the
world.

Output (business value)

Business transformation

- ◆ AP-related business in Japan (see p.45)
- ◆ BP-related business (see p.47)
- ◆ Maintenance service business (see p.70)

Strengthening of operation and maintenance services



Scale expansion leveraging technology

- ◆ Overseas AP-related business (see p.45)
- ◆ Environment- and conveyor-related business (see p.49)
- ◆ Other business (see p.52)

Lateral expansion of products and markets

Outcome (creation of social values)

Social and environmental values to be contributed

- ◆ Establishment of recycling-oriented, environmentally friendly society (see p.60)
- ◆ Contribution to realization of decarbonized society (see p.60)
- ◆ Contribution to disaster prevention and mitigation (see p.68)
- ◆ Growth and success of human resources who support realization of 2030 Vision (see p.72)

- ◆ Support for early restoration from natural disasters (see p.68)
- ◆ Co-existence with local communities (see p.69)

Economic values to be created

Financial targets for FY 2024

- ◆ Net sales ¥50.0 billion
- ◆ Operating income ¥3.0 billion (6% in operating margin)
- ◆ ROE 6.0%
- ◆ Dividend payout ratio Maintain 60% or higher

Financial targets for FY 2030

- ◆ Net sales ¥70.0 billion
- ◆ Operating margin 10.0%
- ◆ ROE 10.0%
- ◆ Market cap ¥50.0 billion

Achievement of 2030 Vision (see p.41)

Key Points of Value Creation Process

Realization of the value creation story is necessary for the Nikko Group to fulfill its long-term vision of “Creating robust, people-friendly cities around the world” based on the Group’s raison d’être and mission of “Updating social infrastructure with state-of-the-art engineering.” To this end, we need to realize social and environmental values, which are the outcomes, based on the output of our business activities centered on the Medium-Term Management Plan by accurately grasping the social issues and changes in the industry and making inputs, where our strengths lie.

Medium-Term Management Plan (2022-2024)

Business

- ✓ Standardization of AP and BP plants
- ✓ Introduction of e-commerce for small and light modular-type belt conveyors, handling of channel conveyors
- ✓ Foray into Indonesia and Vietnam by overseas AP-related business

Internal functions

- ✓ Global marketing function, DX promotion function
- ✓ Building cooperative sales structure for new businesses
- ✓ Rebuilding of human resource management foundation and system

FY 2021
 Net sales:
¥38.8 billion
 Operating margin:
5.3%

Internal investment phase
 Staff reinforcement:
 addition of 145 employees
 R&D:
 ¥2.53 billion
 Capital investment:
 ¥6.0 billion

2024
 Net sales:
¥50.0 billion
 Operating margin:
6.0%

Towards powerful business expansion from FY 2025 onwards
 In Japan, release new services and systems
 For overseas, establish new revenue base
 Introduce technology, rebuild production structure

2030
 Net sales:
¥70.0 billion
 Operating margin:
10.0%

Business

- ✓ Support for remote operations and automation, total management system
- ✓ Roll-out of environmentally friendly products
- ✓ Expansion to the ASEAN region

Internal functions

- ✓ Opening and full-scale operation of the operation support center
- ✓ Automation and remote operations leveraging technology
- ✓ Review of production process, consolidation of assembly at the head office factory

Build structure, process, and system that form the foundation of the 10-year vision in the three years of the medium-term plan

Promote testing of new services and system development with an eye on the following 10 years

Key points of business activities and value chain

Most of Nikko Group’s business is B-to-B and our customers are road pavement companies and businesses related to infrastructure and construction. Our business consists of asphalt plant (AP)-related business, concrete plant (BP)-related business, environment- and conveyor-related business, crusher, contract-based manufacturing and other business. Overseas net sales account for 8% of overall sales, with China having a large share.

Each business department has production, sales, and engineering functions and we receive orders either directly from customers or through sales agents. For built-to-order products, which account for most of them, we submit an estimate following meetings with the customer. Once a contract is signed, the business value chain starts with design and includes production, procurement, installation, delivery, collection of bills, and maintenance services. Nikko’s value chain has safety and security, quality, and compliance included as standards and we combine them with our unique business activities to offer values to customers.

Core technologies

- Mixing**

Technology for mixing and kneading various raw materials from liquids to solids
- Heating**


Technology for burning and drying materials with high heat
- Control**

Technology for design and production of the brains that control the plants and machinery by leveraging IoT and AI
- Material handling**

Technology to carry and sort any kind of material, diagonally or straight up.

➔ We will diversify from the mainstay businesses to new fields by leveraging the 4 plus α core technologies.

Management Capital Related to Value Creation

	What we aspire to be in 2030 Vision	Input items (FY 2023)	Closely related material matters	Outcome (FY 2023)	Reference
 Financial capital	<ul style="list-style-type: none"> Net sales of ¥70.0 billion, operating margin of 10%, ROE of 10% Market cap of ¥50.0 billion 	<ul style="list-style-type: none"> Total assets of ¥62.2 billion, equity ratio of 53.1%, interest-bearing debts of ¥10.7 billion 	<ul style="list-style-type: none"> Realization of carbon neutrality, human resource development and improvement in job satisfaction 	<ul style="list-style-type: none"> ROE of 4.1% (equity spread of 0.5 pp), dividend payout ratio of 87.6% 	▶ P29
 Manufactured capital	<ul style="list-style-type: none"> Continue with high-level capital investment, boost capacity through leveling of operations and collaboration with group companies 	<ul style="list-style-type: none"> Capital investment worth ¥2.3 billion, the ratio of property, plant and equipment to total assets of 21.3% 	<ul style="list-style-type: none"> Creation of new customer values, development of human resources and improvement in job satisfaction 	<ul style="list-style-type: none"> Property, plant and equipment of ¥13.2 billion, up ¥1.4 billion 	▶ P27
 Human capital	<ul style="list-style-type: none"> Reform of organizational culture and contribution to profits through promotion of DE&I Ratio of female managers: 7.0% 	<ul style="list-style-type: none"> Number of employees: 1,117 (including 225 foreign nationals) 	<ul style="list-style-type: none"> Creation of new customer values, development of human resources and improvement in job satisfaction 	<ul style="list-style-type: none"> Female manager ratio of 1.0%, attrition rate (within 3 years) of 10.3% 	▶ P25
 Intellectual capital	<ul style="list-style-type: none"> Concrete proposals for decarbonization and establishment of recycle-based society from the perspective of the top manufacturer 	<ul style="list-style-type: none"> R&D expenses of ¥0.6 billion, 214 patents obtained 	<ul style="list-style-type: none"> Creation of new customer values, realization of carbon neutrality 	<ul style="list-style-type: none"> Number of patents acquired: 7 (up 1); design registrations: 2 (down 11) 	▶ P26
 Social and relationship capital	<ul style="list-style-type: none"> Passing down of techniques and skills in collaboration with suppliers, co-existence and co-creation with local community 	<ul style="list-style-type: none"> Tombo-kai (sales agents) has 122 companies; Akitsu-kai (contractors) has 210 companies 	<ul style="list-style-type: none"> Creation of new customer values 	<ul style="list-style-type: none"> Strong relationship of trust with business partners, contribution to local community 	▶ P28
 Natural capital	<ul style="list-style-type: none"> Reduction of Scope 1, 2, and 3 CO₂ emissions in FY 2030 by about 50% vs. FY 2021 Net sales of decarbonization- and low-carbon-related products: ¥3.2 billion 	<ul style="list-style-type: none"> Power usage (non-consolidated): 3.49 million MWh 	<ul style="list-style-type: none"> Realization of carbon neutrality, establishment of recycling-oriented society 	<ul style="list-style-type: none"> Scope 1, 2, and 3 CO₂ emission reduction by 41% vs. FY 2013 Net sales of decarbonization- and low-carbon-related products: ¥1.2 billion 	▶ P28













Materiality 2024

Nikko Group recognizes that recent changes in external environment bring about various risks and opportunities for the Group. Specifically, the initiatives addressing the following have become indispensable for sustainability management: increasing geopolitical risks, supply chain instability, etc. in the political and economic fields; carbon neutrality, material recycling, biodiversity, etc. in the environmental and energy fields; and diversity, equity, and inclusion (DE&I), diverse workstyles, employee engagement, human rights and demands on corporate ethics, etc. in the social field.

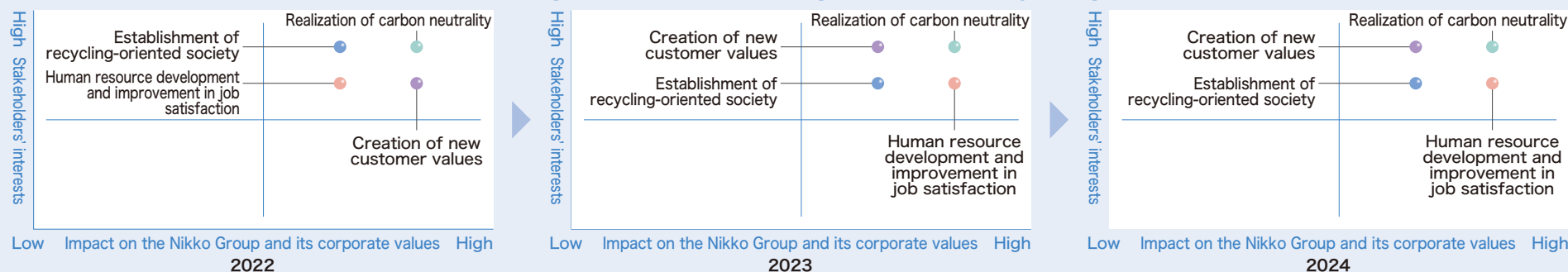
In order for Nikko Group to achieve the 2030 Vision, we need to maximize our corporate value by appropriately grasping changes in these external and industrial environments and solving various issues (material matters) identified from these changes with the impact on stakeholders and sustainability in mind.

Nikko Group has set forth the following four items as material matters: (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. Of these, (1) and (2) are related to sustainability of society while (3) and (4) are related to Nikko's sustainability, and we believe it is important to ensure sustainability transformation that synchronizes them in our management for improving corporate value. The Sustainability Committee at its meeting in FY 2023 examined the appropriateness of material matters and their positioning based on corporate value and decided to continue with the materiality map of FY 2023 in FY 2024.

◆ Relationship between materiality and sustainability; KPI and SDGs to which they contribute

		Materiality	SDGs to which it contributes	What the Group aspires to be and how it is related
Sustainability of society		Realization of carbon neutrality	 	About 70% of CO ₂ emissions from mixture plants in Japan (approx. 1.15 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 including low carbon mixture manufacturing equipment and fuel transition, as it is also an important social issue.
		Establishment of recycling-oriented society		The four core technologies Nikko owns are indispensable for the establishment of the recycling-oriented society to come. We will further expand recycling of civil engineering materials through recycling facilities for asphalt paving materials and concrete waste, which have already been contributing considerably to material recycling, and offer machinery that enables the higher quality recycling required in the future.
Nikko's sustainability		Creation of new customer values	  	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 maintenance service.
		Human resource development and improvement in job satisfaction	 	The importance of leveraging human capital increases further upon solving material matters. 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.

Changes in Nikko Group's materiality map



KPI	FY 2023 results	Future action plan	Reference
<ul style="list-style-type: none"> CO₂ emissions (Scope 1, 2, and 3) FY 2030: 50% reduction (compared to FY 2013) FY 2050: Net-zero Net sales of decarbonization- and low-carbon-related products FY 2030: ¥2.7 billion 	<ul style="list-style-type: none"> CO₂ emissions: 763,885t-CO₂ (Scope 1, 2, and 3; down 42% from FY 2013) Increased installation of warm mixture manufacturing equipment Succeeded in mixture manufacturing test using hydrogen as fuel Net sales of decarbonization- and low-carbon-related products: ¥1.2 billion 	<ul style="list-style-type: none"> Promote switch to green electricity throughout the group Strengthen promotion of development and proposal of combustion technology for decarbonized fuels Develop mechanism for using decarbonized fuels in collaboration with business partners to whom we supply fuels 	<ul style="list-style-type: none"> p.60 p.65
<ul style="list-style-type: none"> Recycling of asphalt waste Recycling of plasterboards Recycling of concrete sludge 	<ul style="list-style-type: none"> Practical use of concrete sludge recycling plant 	<ul style="list-style-type: none"> Promote installation of material recycling plants (enhance proposals to repeating customers) Take part in initiatives (CUCO, etc.) for recycling concrete waste (turning it into decarbonized material) 	<ul style="list-style-type: none"> p.66
<ul style="list-style-type: none"> Creation of new values through DX Flat-rate service outsourcing count 	<ul style="list-style-type: none"> Flat-rate service outsourcing contracts (cumulative): 39 	<ul style="list-style-type: none"> In its 2030 Vision, Nikko Group aims to become a “customers’ management partner through operation and maintenance service.” We are promoting development of products and services leveraging DX and AI to solve customers’ issues and also promoting flat-rate maintenance service (subscription) contracts aimed at contributing to improving customers’ productivity and cost performance. 	<ul style="list-style-type: none"> p.70
<p>FY 2030</p> <ul style="list-style-type: none"> Ratio of female managers: 7% Training duration and expenses per person: 10 hours, 50,000 yen Ratio of employees taking childcare leave: 100% for female and 50% for male (FY 2025) Attrition rate: 7% for three years from joining the company 	<ul style="list-style-type: none"> Ratio of female managers: 1.0% Training duration and expenses per person: 15.4 hours, 75,000 yen Ratio of employees taking childcare leave: 100% for female and 42.9% for male Attrition rate: 10.3% for three years from joining the company 	<ul style="list-style-type: none"> We will gather employee feedback and aim to improve employee engagement and employee friendliness to create a more comfortable workplace. We will introduce e-learning programs so that individual employees can proactively choose what they want to study to improve their knowledge and develop an environment where they can work on reskilling. We will continue to actively hire foreign employees. We aim to build a system that allows employees to work in a flexible manner that suits the individual employee’s situation. 	<ul style="list-style-type: none"> p.72 p.74



Human Capital

We aim to become a professional group that will contribute to a sustainable society through active investment in human resources

[Basic policies]

All employees are the most valuable management capital for Nikko Group. We are engaged in building an organization capable of making sustainable contribution to society and nurturing our human resources while quickly responding to all changes surrounding our business. We have defined our ideal human resource as human resource that reinvents for the future, human resource that takes on challenges without fear of failure, and human resource that respects and collaborates with diverse coworkers, and along with developing a rewarding work environment and investing actively in human resources. We are also raising effectiveness by setting metrics and targets.

We aim to become a professional group that will contribute to a sustainable society towards realizing our future vision of "Creating robust, people-friendly cities around the world."

[Nikko's human capital]

As of the end of FY 2023, the number of consolidated employees working at Nikko Group was 1,117 (up 53 from the end of FY 2022). On a non-consolidated basis, the average age of the employees is 39.7 with an average length of service of 14.0 years. The average annual salary is 6.85 million yen. The proactive hiring of human resources is not only lowering the average age and shortening average length of service but also diversifying and energizing the organization.

[Source of strength]

We introduced a new personnel system (Nikko's version of job-based employment) in FY 2023 and also started position-based training for employees towards achieving

the 2030 Vision. In September 2019, we granted treasury stock with restriction on transfer to all employees of Nikko Group partly for developing shareholders' perspective. In August 2021, we allotted 100 shares in treasury stock to long-time employees, new hires, and hires with prior work experience. We also uniformly raised monthly wages of employees by 30,000 yen from April 2022, and implemented a 5% wage raise respectively in April 2023 and April 2024.

We also made progress in the strengthening of support for nurturing the next generation and advancing female participation, and we are seeing further vitalization of the organization as well as improvement in motivation. We will aim to raise the ratio of female employees to 22.5% in FY 2030 and that of female managers to 7% in FY 2030.

[Strategy for realizing the long-term vision]

We are rebuilding the human resources management platform and system and carrying out active investments in human resources 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 aims to significantly raise labor productivity. In the current Medium-Term Management Plan, we are planning to increase the number of employees by 145 during the three-year period. In FY 2022, we hired a total of 53 people (of which, eight are women) comprised of 32 new graduates and 21 with prior work experience. In FY 2023, we hired a total of 65 people, 32 new graduates and 33 with prior work experience. We are adding staff especially to the maintenance business and technology development divisions and we expect to see the impact

Output

- Net sales per person: **39** million yen
- Average employee age (non-consolidated): **39.7** years old

Outcome

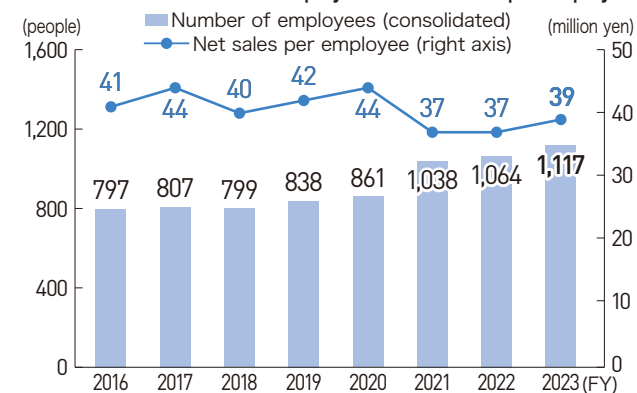
- Fostering job satisfaction
- High motivation
- Employee-friendly work environment

of this in the realization of the long-term vision. We will aim to realize the vision through vitalization of the organization and improvement of job satisfaction while continuing to raise wages.

◆ Staff reinforcement

Investment (total for three years)	Three-year plan for FY 2022-2024	Results for FY 2022-2023	
Nikko (non-consolidated) up 145 (added 69 employees in the previous medium-term plan)	• AP-related business field	59	• AP-related business field
	• BP-related business field	20	• BP-related business field
	• Environment- and conveyor-related field	12	• Environment- and conveyor-related field
	• Overseas	6	• Overseas
	• Development	12	• Development
	• Mobile plants	11	• Mobile plants
	• Other	25	• Other
	Total	145	Total 86

◆ Number of consolidated employees and net sales per employee





Intellectual Capital

Based on Nikko's four differentiated core technologies, we will accelerate the development of products that can solve social issues

Output

- Products for low carbonization, remote operation, automation, and efficiency improvement
- Customized products that satisfy diverse customer needs

Outcome

- Highly differentiating technology (including control panels made in-house)
- Solution products that surpass other companies' products
- Creation of new markets

[Basic policies]

Adding measurement technology to the four core technologies (mixing and kneading, heating, control, and material handling) of Nikko Group, we will accelerate the development of differentiated technology and the commercialization of resulting products ahead of other companies. Our basic policy is to contribute towards solving the decarbonization, labor shortage, environmental, and other issues faced by our customers by strengthening our maintenance service business such as remote monitoring and operation of plants leveraging data analysis, IoT, AI, and other technologies. Pursuing, now more than ever, R&D based on the approach to offer what customers want, we will aim for operational management focused on profitability. Nikko Group is planning to make R&D investment worth 2.53 billion yen in the three years of the current medium-term plan.

[Nikko's intellectual capital]

We have 28 engineers, who account for 2.6% of consolidated employees, working in the R&D department. Nikko holds 214 patents and 86 design registrations. In addition to our own development based on the 4 + α differentiated technologies made up of the four core technologies plus the newly added measurement technology, we also carry out industry-academia collaborative development with our customers, external research institutes, and companies.

[Source of strength]

Nikko boasts the top share domestically in both AP- and BP-related businesses, 70% and 40%, respectively, and its conveyors, handled by the environment- and conveyor-related business, also has the No.1 share of about 60% in

the domestic market. In addition to the four differentiated core technologies of mixing and kneading (mixing all kinds of materials), heating (able to control temperature to suit diverse materials and fuels), material handling (cumulative conveyor shipment of about 300,000 units), and control (in-house development and production of the brains behind the plants), our strong track record of supplying to more than 4,000 companies worldwide has led to high customer confidence and expectations on next-generation technologies and products. The maintenance service business accounts for around 60% of the AP- and BP-related businesses and this has resulted in high trust from customers.

[Strategy for realizing the long-term vision]

Currently, we are speeding up the initiatives aimed at commercialization of environmentally friendly products and their social implementation focused on decarbonized society in the short- to medium-term in accordance with the technological and product development roadmap through 2050. Nikko Group is leveraging DX and AI to respond to the serious manpower shortage in the construction industry, while strengthening development of technology for improving efficiency and labor saving such as remote operation of plants that ensures safety and preventive maintenance.

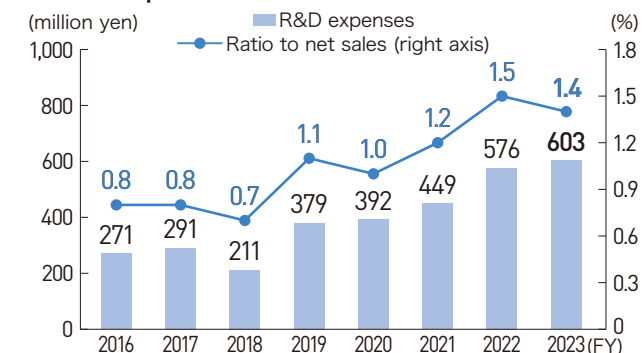
We also have good prospects for the development of a global standard model asphalt plant for capturing the ASEAN market and we plan to produce it in the future. Under the current Medium-Term Management Plan, we plan to invest 2.53 billion yen in R&D in the three years. The amount of R&D investment is expected to rise in the next medium-term plan following an increase in basic

research related to carbon neutrality. We will solve decarbonization and other social issues by being part of the industry ecosystem that also includes other companies and realize 2030 Vision.

◆ R&D

Investment (total for three years)	Three-year plan for FY 2022-2024	Results for FY 2022-2023
2.53 billion yen (total of 1.19 billion yen during the three years of the previous medium-term plan)	<ul style="list-style-type: none"> • AP-related business field <ul style="list-style-type: none"> ◆ New environmentally friendly products ◆ Remote operations and automation support • BP-related business field <ul style="list-style-type: none"> ◆ Operation support center ◆ Product improvement ◆ System development • Environment- and conveyor-related field <ul style="list-style-type: none"> ◆ Product development ◆ E-commerce and other IT investment • Overseas <ul style="list-style-type: none"> ◆ Development of standard model 	<ul style="list-style-type: none"> • AP-related business field (incl. overseas) 0.49 billion yen • BP-related business field 0.38 billion yen • Environment- and conveyor-related field 0.1 billion yen • Other business, etc. 0.21 billion yen Total: 1.18 billion yen

◆ R&D expenses and their ratio to net sales





Manufactured Capital

We will support infrastructure around the world with our high-quality products backed by our integrated production and high technological capability

[Basic policies]

We have an integrated production structure where we manufacture everything in-house from the plant to the control panels, and our basic policy is to manufacture high quality products efficiently and deliver them to customers through collaboration with our business partners. Also, we take all possible measures to ensure safety and quality while meeting delivery deadlines. These include measures such as carrying out appropriate construction of plants and machinery depending on the environment and location in addition to checking the operation of the plants using digital twins.

We strengthened our Customer Support Center (CSC) in 2018 and are focusing on maintenance services for customers' facility assets, including preventive maintenance and other support. We will bolster our on-site capabilities by making capital investment to the tune of 6.0 billion yen (initial plan) in the three years of the current medium-term plan.

[Nikko's manufactured capital]

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). Ube Kohki and Matsuda Kiko, which newly joined the Nikko Group, have their own plants and carry out contract-based manufacturing of various plants and industrial machinery. In terms of material procurement, Nikko has a fair and equitable collaborative relationship with about 20 external suppliers of materials based on Nikko's design and some 100 suppliers of general materials. We have a highly efficient integrated production structure in the manufacturing division that combines high-precision machine tools, including a five-face machining center, with automated lines. Further, Nikko's contractor network Akitsu-kai has

some 200 companies as its members.

[Source of strength]

Our strength lies in our comprehensive support system based on integrated production where our factories not only manufacture the plant internally, but also the control panels. In addition to the high share primarily in the AP- and BP-related markets, Nikko boasts an ample track record of supplying to more than 4,000 companies around the world. Stable replacement demand as well as introduction of environmentally friendly products are contributing to the stable operation of plants. As for the maintenance business, we aim to contribute to the stable operation, labor saving, and automation of customer plants by leveraging various data and other means.

[Strategy for realizing the long-term vision]

Nikko Group plans to make a cumulative capital investment of 6.0 billion yen during the three-year period of the current medium-term plan (cumulative 6.3 billion yen in the previous three-year medium-term plan period), which includes construction of a new plant in Hyogo Prefecture (0.5 billion yen) and development test center (1.0 billion yen). We carried out capital investment worth 2.2 billion yen in FY 2022, up 0.3 billion yen compared to the previous fiscal year, and 2.3 billion yen in FY 2023, up 0.1 billion yen. For FY 2024, we are planning the fifth factory for plants and a development center in the head office premise.

We are considering using the head office factory for AP, BP, and recycling plants and relocating the belt conveyor factory to another location in the future. We are planning to invite customers so that they can observe how the plant operates

Output

- Nikko products in the four businesses
- Thorough maintenance services
- High market share

Outcome

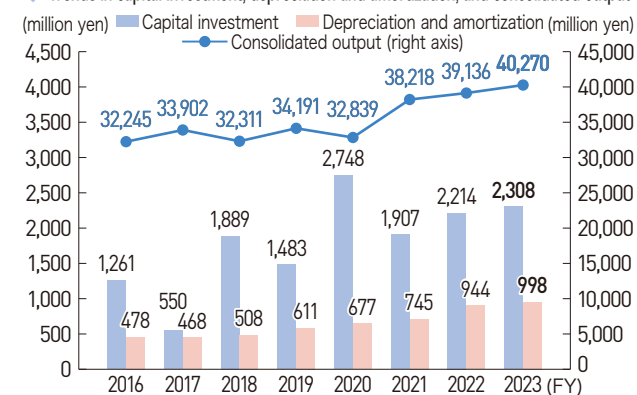
- Safe and employee-friendly production environment
- High rating from customers
- Development of safe and secure roads and infrastructures

at the development center to showcase our technologies as well as to use the center as a forum for business negotiations.

◆ Capital investment

Investment (total for three years)	Three-year plan for FY 2022–2024	Results for FY 2022–2023
6.0 billion yen (6.3 billion yen cumulative for the three-year period of the previous medium-term plan)	<ul style="list-style-type: none"> • Construction of new plant in Hyogo Prefecture (0.5 billion yen) • Construction of development test center, etc. (1.0 billion yen) 	<ul style="list-style-type: none"> • Machinery and installation expenses in AP-related business including Shanghai and Thailand in FY 2022. • Construction of warehouses for AP- and BP-related businesses in FY 2022 • Construction of a new plant, machinery, and installations in FY 2023 • Software, etc. (FY 2022–2023) • Other business Total: 4.52 billion yen

◆ Trends in capital investment, depreciation and amortization, and consolidated output





Social and Relationship Capital

We will become part of the ecosystem to improve trust as a solution partner

[Basic policies]

As a solution partner, Nikko Group aims to strengthen the maintenance service business in order to enable labor saving and automation of plants, which are issues faced by our customers. We are transforming the model of the maintenance service business into an asset management service, in which Nikko manages plants owned by customers, by using Nikko's unique contractor network Akitsu-kai, which currently has 210 member companies, as the base.

Toward solution of decarbonization and other social issues, we will develop an ecosystem with other companies including our customers, a process where collaboration and cooperation are indispensable.

[Strategy for realizing the long-term vision]

For the construction industry, which is our customer, there is no time to lose for implementing labor saving and energy saving measures in maintenance services partly due to the 2024 problem. Nikko aims to solve

Output

- Further reinforcement of the maintenance service business
- Expansion of our extensive networks including Akitsu-kai.

Outcome

- Strong relationship of trust with business partners
- Contribution to environment-friendly recycling-oriented society

these social issues by strengthening the maintenance service business (human capital, etc.), where we have a competitive edge, and by transforming our business model.

Also, we are considering addressing decarbonization including carbon neutrality from a broad perspective by building an ecosystem involving customers and business partners without just relying on our technology alone.



Natural Capital

We will utilize energy and water resources and thereby create our own business opportunities

[Basic policies]

Climate change caused by greenhouse gas (GHG) emission has an enormous impact on society and economy, and Nikko Group recognizes that it is one of the pressing social issues the Group should work on. In this context, we not only need to reduce GHG emissions from our own business activities but also reduce CO₂ emissions from Nikko-made plants owned by our customers. Nikko Group will develop related technologies for reducing CO₂ emissions and offer

products and services for enabling carbon neutrality so as to contribute to the realization of a sustainable society.

[Strategy for realizing the long-term vision]

About 70% of CO₂ emissions from APs in Japan (approx. 1.15 million tons a year) is estimated to be emitted by Nikko plants and we will swiftly address this issue. Specifically, we will prepare a product roadmap for 2050 and will implement it in four steps

Output

- Scope 1, 2, and 3 CO₂ emission reduction: down **50%** in FY 2030
- Decarbonization- and low-carbon-related net sales: **1.2** billion yen in FY 2023

Outcome

- Contribution to realization of decarbonized society
- Establishment of recycling-oriented society

and through seven approaches. For fuel transition, which comes first, we are promoting utilization of city gas and LNG in place of heavy oil as well as research and development of ammonia and hydrogen burners. We aim for net sales of 2.75 billion yen from decarbonization and low-carbon products in FY 2030.



Financial Capital

For realization of management conscious of cost of capital and stock price

Output

- Net sales of 4.4 billion yen, operating income of 2.0 billion yen, dividend of 30 yen per share
- Operating CF of 4.332 billion yen (up 6.0 billion yen vs. FY 2022)

Outcome

- Attractive dividend yield (about 3.9%)
- High financial stability (equity ratio of 53.1%)

Towards achieving the numerical targets (consolidated net sales of 70.0 billion yen and operating margin of 10.0%) set forth in the 2030 Vision, we will position the current Medium-Term Management Plan period as the internal investment phase, in which we will make active investments to boost earning power while promoting sale of strategically-held shares and improvement of cash conversion cycle (CCC). Setting dividend payout ratio at 60% or more as a target, we will curb the increase in net assets and improve capital productivity to improve ROE. We also aim to achieve 50.0 billion yen in market cap in 2030 by enhancing sustainability activities, turning the maintenance service business into asset management to stabilize earnings, and strengthening IR and SR activities.

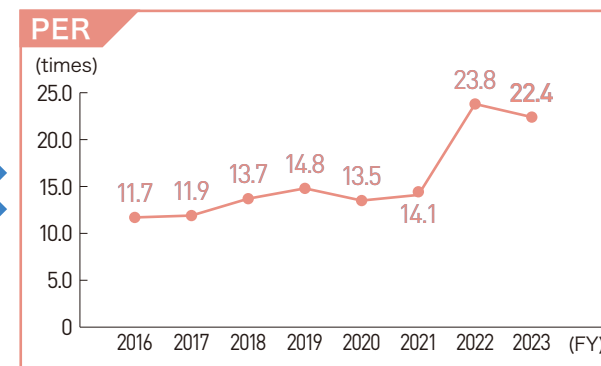
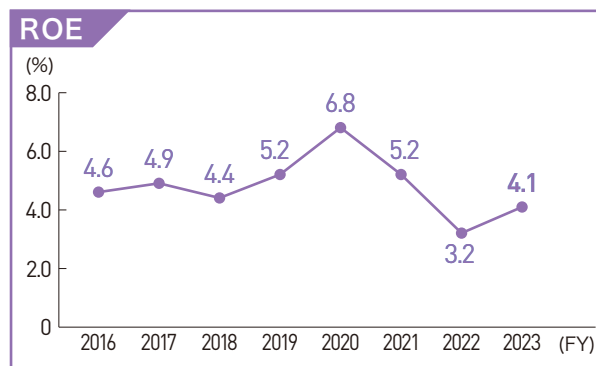
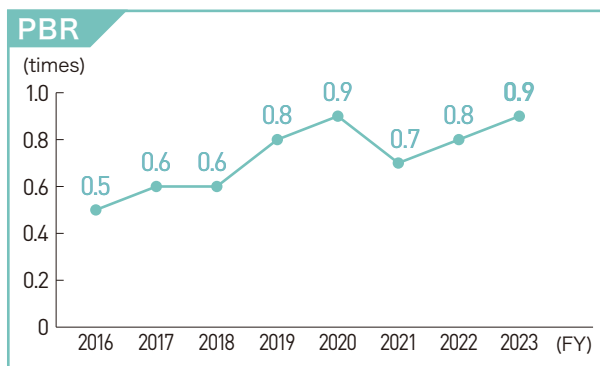
Analysis of current status and outlook

Our price to book value ratio (PBR) has been showing a gradual improving trend in the long term, but it continues to be below 1. As for return on equity (ROE), while we have been curbing the increase in net assets, operating margin for the past two years has been below 5% and we have been unable to achieve an equity spread that exceeds the cost of shareholders' equity (4.6% in fiscal year ended March 2024).

Specifically, PBR has been in the range of 0.7 to 0.9 for the past five years and ROE has been in between 3.2% to 6.8% (including temporary factors). When we analyze PBR using the formula $PBR = ROE \times PER$, PER is around 17 times on average for the past five years. Compared with construction machinery manufacturers, who are in the same category, we are rated relatively high by the capital market. For

this reason, we believe it is necessary to raise ROE to improve PBR in a medium term. In particular, when PER is 17, we need ROE of 6% or higher to achieve PBR of 1, and we will aim to achieve this level in the next Medium-Term Management Plan. We will improve capital productivity to aim for 10% in ROE in 2030.

◆ Trends in PBR, ROE, and PER



Targets and future initiatives

We aim for 8% in ROE in the next medium-term plan (FY 2025–2027) as a target indicator for improving PBR. This will give us an equity spread that exceeds the current cost of shareholders' equity by around 3%, which would enable us to continuously maintain PBR exceeding 1. In the past five years, the cost of shareholders' equity has been in the 4% level due to the impact of the beta value and low interest rates. However, we are expecting 5% or more from now on based on the assumption

(1) Expansion of operating income

We plan to expand operating income through profit improvement of existing businesses such as AP- and BP-related businesses and growth of new businesses such as crushers, contract-based manufacturing, and other business. Maintenance services account for about 60% of net sales of the AP- and BP-related businesses and we plan to improve profitability here. To be precise, we will raise maintenance service charges and parts prices to reflect the inflation trend over the past several years and aim to transform the business model by expanding the asset management business. In recent years, we have been adding employees in the maintenance service business by mainly hiring people with prior work experience, and we are

(2) Financial and capital policies

As for our financial and capital policies, we expect to raise dividends to shareholders by continuing the dividend payout ratio of 60% or more set forth by the current medium-term plan into the next medium-term plan. At the same time, we are considering flexibly carrying out share buyback under the next medium-term plan. At the end of FY 2027, which is the final fiscal year of the next medium-term plan, we expect 35.5 billion yen in net assets (33.1 billion yen as of the end of FY 2023) and we will continue curbing the increase in net assets, as in the past several years, along with pursuing financial stability of 50% or more in equity ratio. As for reduction of strategically held shares, while the sale of such shares has declined over the past several years, we are considering reducing them to 10% or less of net assets in the medium term after close examination for capital

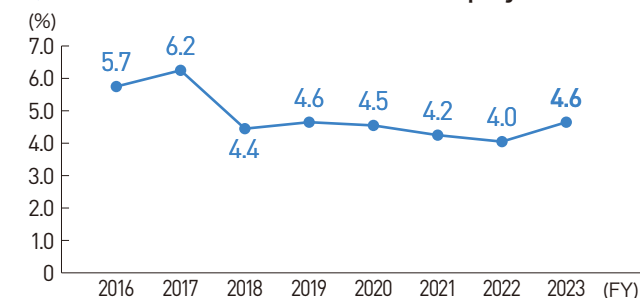
that the recent gradual interest rate increase will continue. We aim to gain equity spread by, in addition to maximizing profits from the main business through expansion of operating income, continuing with investment conscious of cost of capital, curbing the increase in net assets through active shareholder return measures, and enhancing communications and engagement with shareholders and investors through information disclosure and strengthening of IR and SR activities.

expecting to see this impact on the business results. In the AP-related business, we are expecting the business in Thailand, which posted large losses through FY 2023, to improve. Among new businesses, we are increasing production capacity at Ube Kohki and Matsuda Kiko, which we acquired through M&A, in the contract-based manufacturing business, and we will pursue synergies in management resources between them and the Nikko Group through expansion into the environment and recycling business. We will also enhance new crusher models in the mobile plant business. We will continue to expand business through active M&As of companies that are expected to create synergies with the Nikko Group.

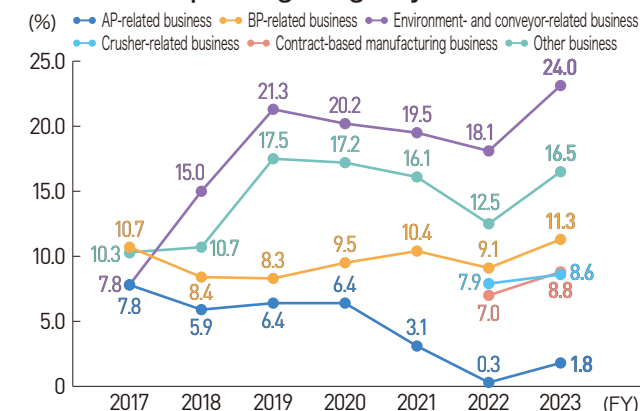
efficiency improvement.

We will respond to shareholders and investors as well as enhance communications and engagement with them through various methods including enhancement of the web pages for individual investors, whose number has been greatly increasing, while continuing to improve our information disclosure through business result briefings held four times a year and publication of integrated report. As for the opportunity for proactive IR activities, we are planning to invite shareholders and investors to the Nikko Messe, a large-scale trade show to be held at the head office in fall of 2025, so that they can deepen their understanding of products and businesses of Nikko Group. We will continue to have active dialogue with shareholders through means including responding individually to shareholders in Tokyo.

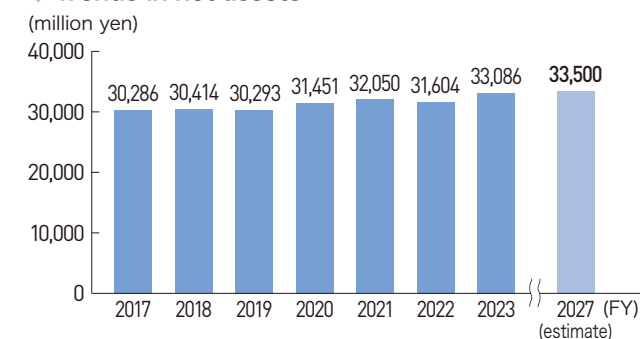
Trends in cost of shareholders' equity



Trends in operating margin by business



Trends in net assets

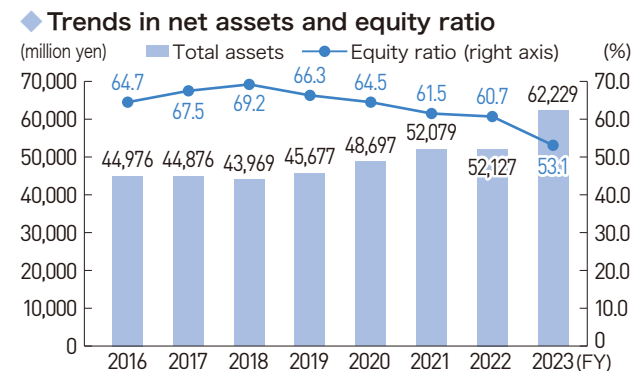


In the next medium-term plan, we will focus on revenues and cash flow creation to ensure we are on the growth track to achieve operating margin of 10%, ROE of 10%, and market cap of 50 billion yen in the long-term vision.

Director and Vice President
Hiroshi Fujii

Q What are the basic financial and capital policies of Nikko Group and your mission as the person in charge of financial affairs?

Earlier, Nikko Group had held back on investments as we emphasized financial safety, but now we are actively going ahead with investments while maintaining safety. This policy has become particularly conspicuous in the last few years. Equity ratio was 53.1% at the end of FY 2023, down from the level exceeding 60% previously, but this is due to the large increase in total assets with



net assets remaining unchanged. The Company is not in an industry that requires large-scale investments every year. Going forward, we will closely examine investments with 50% as the lower limit for equity ratio. We are aiming for return on investments that exceeds cost of shareholders' equity (a little less than 5%).

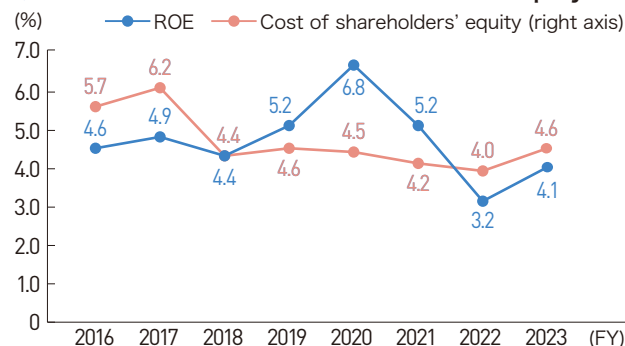
As the person in charge of finance, my mission is to not curb investments on the grounds of financial governance. I do not want to obstruct the path being taken by Nikko Group (long-term vision, medium-term plan, etc.) citing financial constraint-based negative factors. However, financial discipline is important. So, while focusing on it, we will make that known to everyone in the Company.

Q What is your assessment of the FY 2023 performance? ROE stayed at 4.1%. What had the biggest impact? Also, what is your view of FY 2024?

Regarding the performance for FY 2023, ROE staying at 4.1% and cost of shareholders' equity going below 4.6% were points that I regretted as the person in charge of finance. We have positioned this medium-term plan as the period to pursue investments, but ROE dipping below 5% was unexpected.

One of the reasons for that was the impact of the increased losses at an AP-related subsidiary in Thailand. The operating loss at the Thai subsidiary came to 0.55 billion yen. The subsidiary is 70% owned by Nikko, with a local partner holding the remaining 30%, and started the AP-related business in 2020, but we made it into a wholly owned subsidiary in FY 2023 due to differences of opinion with the local partner. In particular, our views differed regarding inventory risk. Our policy was to continue production while maintaining stock even without orders, whereas the partner strongly wished to avoid risk, which led us to dissolve the joint venture. We wasted three years, and I think this was the most unfortunate aspect. However, new order intake at the Thai subsidiary was strong and at a record high, so we expect profitability to improve in FY 2024.

◆ Trend in ROE and cost of shareholder equity



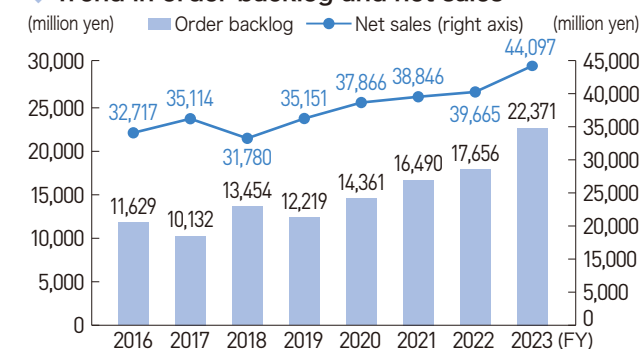
Also, though it is outside the Company's main business, in extraordinary income, profit from sales of strategically held shares came to 68 million yen, declining by about 500 million yen from FY 2022. We had been actively selling strategically held shares, but we expected sales of remaining such shares to be difficult given the relationship with the business partners. At the same time, total assets rose by about 10 billion yen in one year to 62.2 billion yen. The main factors behind this increase are that we were able to procure early on both 5.2 billion in cash and deposits and 5.0 billion in loans payable. After entering the new fiscal year, these funds are being replaced into inventory.

We are expecting net sales of 48.0 billion yen (up 9% year on year), operating income of 2.6 billion yen (up 32%), net income attributable to owners of parent of 1.7 billion yen (up 30%), and ROE of 5.1% for FY 2024. Order backlog as of the end of FY 2023 was up 27% year on year, with the order backlog increasing further as of the end of the first quarter of the current fiscal year. Given these factors also, I would like to close in on the targets for the final fiscal year of the medium-term plan of 50.0 billion yen in net sales and 3.0 billion yen in operating income.

As for the AP-related business in Japan, we are expecting an increase in demand from the rebound of road pavement companies, which had curbed their capital investment temporarily due to rising asphalt cost. In the BP-related business, the price of ready-mixed concrete

rose, and the investment level in the industry is high. The Company has secured a 40% share of the market, and we are also expecting increase in maintenance sales. Especially, demand is expanding in the maintenance service business whose profitability is high in both AP- and BP-related businesses, and this is a factor behind increased profits. The Thai business is expected to post operating loss again in FY 2024, but with order backlog, the loss is expected to narrow. Further, AP-related order intake is recovering in China led by recycling demand.

◆ Trend in order backlog and net sales



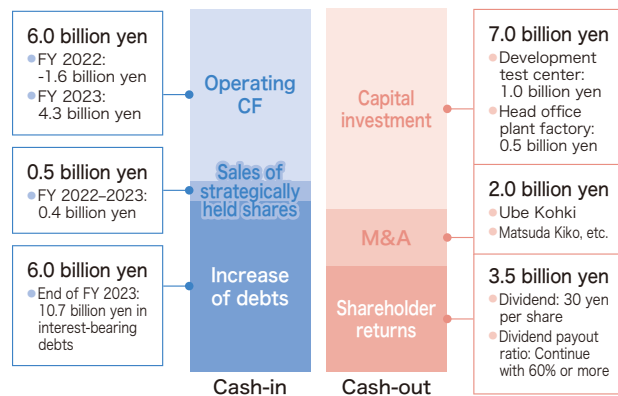
Q FY 2024 is the final fiscal year of the Medium-Term Management Plan. Taking its progress into account, what are the numerical targets and financial and capital strategy you are considering for the next medium-term plan?

Currently, we are in the process of drafting the details of the next medium-term plan (FY 2025 to 2027) taking the current medium-term plan into consideration. As for numerical targets, we are thinking of achieving 60.0 billion yen in net sales and 8% in ROE. We are also planning to maintain dividend payout ratio at 60% or higher and allocate the remaining 40% to internal reserves. In this case, we anticipate net assets to reach about 35.5 billion yen at the end of FY 2027 from the 33.1 billion yen at the end of FY 2023. Here we would require net income

attributable to owners of parent to be 2.84 billion yen to achieve ROE of 8%, so our target for operating income is 4.0 billion yen (operating margin of 6.7%). This is the minimum level we should be achieving for the 10% operating margin stated in our long-term vision for 2030. We have positioned the next medium-term plan as the period for recovering the upfront investments we made in the current medium-term plan, and we are focusing on profitability and cash flow creation.

In the next medium-term plan, improvement in profitability in China and Thailand in the AP-related business, expansion of the maintenance service business, and increase in unit price of the contract-based manufacturing business are expected to contribute to profit expansion. Net sales in the Chinese market in FY 2023 halved compared to FY 2022, but the demand is steadily recovering for recycling and environment-related equipment, and we are estimating net sales to increase by 2 to 3 billion yen. We plan to make the Thai business profitable in FY 2025 and secure stable profits. Net sales in the maintenance service business are currently 13.0 billion yen. Our plan is to grow it into 15.0 billion yen three years from now. In the new field of mobile plant business also, we are anticipating an increase in maintenance service sales from expanded share in the domestic market in addition to the Ukrainian project

◆ Cash allocation for the FY 2022-2024 medium-term plan



of FY 2023. We plan to improve profitability of the maintenance service business by raising maintenance service charges and prices of parts. We are constructing a new factory as the production capacity of the two companies we acquired in the contract-based manufacturing business is insufficient.

In order to achieve the FY 2030 long-term vision, we are expecting a 5% increase every year in personnel expenses in the next medium-term plan also from the human capital aspect. We plan to continue to increase hiring of new graduates and mid-career personnel to compensate for the shortage of staff in the maintenance service business. The plan is to hire about 30 new graduates annually and about 10 mid-career workers for a net increase of 45 employees in the three-year period. R&D has been somewhat sluggish till now, but we expect to see an increase in basic research related to carbon neutrality in the future.

Q | What are the key points in the current medium-term plan for cash allocation?

For the ongoing medium-term plan (FY 2022 to 2024), we are expecting a cash inflow of about 6.0 billion yen in operating cash flow, about 0.7 billion in sale of strategically held shares, and close to 6.0 billion yen increase in loans for a total of about 12.5 billion yen. Also, operating cash flow was a little more than 8.8 billion yen in the previous medium-term plan, so it is expected to decline this time. This is also because of the increases in cash payment of accounts payable and inventory, and the need to make payment within 60 days in accordance with the Subcontract Act based on the partnership declaration. Further, order backlog is at record high, and we will be requiring loans as working capital, and inventories increase in response to that. The pace of increase of contract liabilities (down payments) is also slowing down. The Company's CCC grew to more than 134 days in FY 2023. However, since we have been unable to collect down payments from about 30% of our AP-related customers, we are continuing with negotiations. Strategically held

shares stood at about 5.2 billion yen at the end of FY 2023, and the sales amount is on a declining trend. Nevertheless, we believe it is necessary to continue taking measures to reduce strategically held shares in order to improve capital efficiency.

Regarding cash-out, we are planning on about 7.0 billion yen in capital investment, about 2.0 billion yen for M&As, and about 3.5 billion yen in shareholder returns. We will implement capital investment of about 4.5 billion yen in FY 2022-2023, and we expect it to ultimately exceed the medium-term plan target of 6.0 billion yen. In M&A, we acquired Ube Kohki and Matsuda Kiko in FY 2022 and FY 2023, and recently we acquired another small company. As for shareholder returns, with dividend payout ratio of 60% as a standard, we have continued with a dividend payment of 30 yen per share.

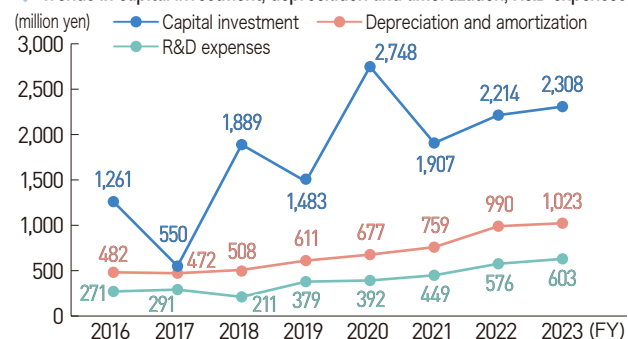
The key point in cash allocation in the current medium-term plan is that we are allotting about 70% of capital investment and M&A and other such growth investments on a cash-out basis. We expect this to bear fruit and give returns in the next medium-term plan. On the other hand, we expect the amount of shareholder returns to decline, though we will continue to maintain dividend payout ratio at a high level.

Q | What are the key points regarding the contents of capital investment and M&A, and what is the future policy? Also, what are your thoughts on shareholder returns?

Regarding capital investment, we are constructing a development test center at the head office in FY 2024, which is scheduled to be completed in the next term. A new factory is also being constructed, our fifth one (Factory E), which will be completed within the current fiscal year. Currently, we have four factories for building plants and two for belt conveyors within the head office site. We will construct another block. In the future, we will relocate the two belt conveyor production facilities and use the head office factory exclusively for AP and BP. We expect improvement

in production efficiency with this. The development test center will have a demo facility where customers can visit and observe tests and will also be used for business negotiations. This facility targets the AP-, BP-, and recycling-related plant fields. The current Techno Center is dedicated to design and development, but we plan to enhance demonstration function at the development center. Taking the above into account, it is likely that the investment will fall to around 4.0 billion yen in the next medium term. Regarding M&A, we have so far acquired two contract-based manufacturing companies. While capital investment will most probably come down in the next medium-term plan, we will put more efforts into M&A up to a maximum of 5.0 billion yen, primarily with focus on suppliers. This is expected to expand the business domain. We have set the scope of investment for M&A between 1.0 and 5.0 billion yen and EBIT (profit before tax) between 0.3 and 0.5 billion yen. There are already several M&A candidates, and these are companies that can add technological edge to our products. Also, we are not thinking of acquiring any foreign companies at this point of time. Depending on the M&A, we may also consider taking out more loans, if necessary. For shareholder returns, we aim to maintain dividend payout ratio of 60% or higher also in the next medium-term plan. We would also like to consider share buyback with an eye on capital productivity.

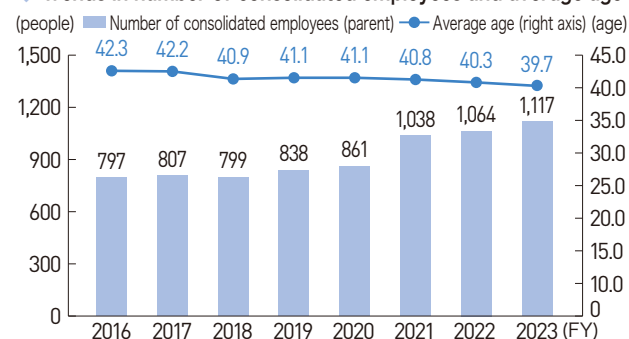
◆ Trends in capital investment, depreciation and amortization, R&D expenses



Q Nikko has also been strengthening human capital in the past few years for achieving the long-term vision. What are the objectives behind that and its impact on profits? Also, what is the outlook?

We hired 32 new graduates and 33 mid-career employees for a total of 65 people in FY 2023. This is a further increase from the number of people we hired in the year before that (32 new graduates and 21 mid-career hires for a total of 53). Taking those who retired into account, we had net increases of 40 people in FY 2024 and 35 in FY 2023. We have already decided on accepting 44 new graduates in FY 2024, and personnel expenses have increased significantly as upfront investment for achieving the long-term vision. Personnel expenses for the first quarter of FY 2024 was 1.6 billion yen due to the impact of wage increases and new hires, which is an increase of 0.15 billion yen year on year. In particular, we are increasing human resources in maintenance and engineering-related divisions. There is overwhelming shortage of hands in the maintenance division. If we can secure sufficient human resources, we will be able to acquire new projects, but the current situation is that we have been unable to do so in some cases. As it takes about seven years to become a full-fledged service personnel, we are aiming to increase staff by 10% every year and expect to produce results in five years in terms of revenue. We are also considering raising fees and price of parts in the maintenance service business. Our

◆ Trends in number of consolidated employees and average age



service fees are lower compared to other companies, so we are thinking of raising the unit fees also to attract more contractors. We aim to increase the number of contractors taking these into account so as to secure work volume and avoid missing out on opportunities. We have not yet decided on the specific timing for unit fee revision but plan to implement it as soon as possible.

In the next medium-term plan, while the policy is to rather keep in check the overall number of hires, securing human resources in specific fields remains a high priority. Currently, we are proceeding with the development of a contamination removal device called "AI'll be sorter," AI-based aggregate diagnosis for BP, and asphalt mixture remote shipping system for addressing the AP plant operator shortage, but we are facing a shortage of outstanding technicians to promote these projects. As it is difficult to hire such staff from within Japan, we are considering hiring graduates from the Indian Institutes of Technology (IIT). There are 23 IITs in India, with the one in Hyderabad having especially good facilities. We are planning to hire engineers from this institute in the future, and we already have hired a female employee in the personnel division who is proceeding with the hiring activities.



Our response to carbon neutrality is important in our sales strategy toward 2030.

Senior Managing Director
and General Manager of
Sales Division
Tomomi Nakayama

Q What are the successes you have had in your FY 2023 sales strategy and the initiatives that you are focusing on in FY 2024?

The KPIs based on the current medium-term plan fully got on track only from FY 2024. Among these KPIs, we were able to achieve a major target of 3.0 billion in mobile plant sales in FY 2023. This is an achievement of the sales strategy that is worthy of special mention. In FY 2024, we are planning to further strengthen the sales of mobile plants. Specifically, in addition to mobile crushers, we plan to introduce our proprietary machine (mobile soil improvement machine). We have strengths in mixing and kneading technology using mixers, and we believe we can differentiate ourselves from

the competition with this. Our estimate is that there is demand for about 100 mobile soil improvement machines in Japan, and to begin with, we are aiming to sell 10 units for about 0.5 billion yen in net sales.

Q What are the key points of the Nikko Group's sales strategy in terms of its relationship with management plans (medium-term plan and long-term vision)?

FY 2024 is the final fiscal year of the current medium-term plan. Under the original plan, the premise was that the existing businesses (AP, BP, and maintenance service) will shrink, and we will achieve growth under this situation. However, the biggest challenge is restoring profitability, and the structural reforms

for that is important. In the first and second years of the medium-term plan, there were some areas where we did not achieve the targets, but we are going according to plan currently in our third year. In particular, the progress in structural reforms and profitability improvement are the major successes that would lead to the next medium-term plan.

For example, gross profit margin was about 20% in the maintenance service business for 2018–2019, but now we are in a position to aim for around 30%. This has been the result of raising maintenance charges as needed and visualizing unseen costs such as the working hours of sales personnel. The progress made in sharing of information has led to effective use of resources.

In connection with sales strategy, the technological response to carbon neutrality (CN) is a major point. Our CN technology has been rated highly, and the benefits of trading with Nikko became clear to our customers. Especially, showcasing our CN-related initiatives to customers at the Nikko Messe exhibition held in 2022 was successful. For Nikko Messe 2025, we are thinking of promoting a machine based on the concept of CN plus labor saving to the customers.

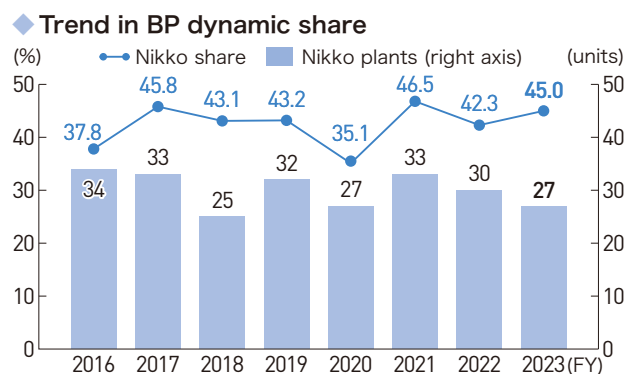
Q What are the features of overseas sales strategy, and also what are Nikko's advantages here and future plans?

Ratio of net sales outside Japan is expected to be about 12.5% in FY 2024. We are focusing on the ASEAN region and have cited the business expansion in Thailand as an important task in our medium-term plan. As a result, we were able to achieve the No. 1 share (Nikko study) based on orders in 2023. Further, demand for recycling plants (RP) also emerged at an early stage, which has been gathering pace since the end of 2023. In Thailand, companies that do not have RP cannot participate in bidding for recycled materials, and therefore we are expecting rapid growth in demand. Currently, RP is at the formative stage in Thailand, and its penetration rate is below 5%, and further growth is expected.



As part of our Thai market strategy, we started looking for a local agent in 2018. Initially, we narrowed down our focus to construction machinery agencies, but it was difficult to explore such agencies in part because the AP business was small in size. So, ultimately, we concluded an agency agreement with a major asphalt company in Thailand. Going forward, we intend to nurture local staff in order to further strengthen the expansion in the Thai market. We are also looking at expansion into the Vietnamese market from our Thailand subsidiary. There will be competition with Chinese and South Korean companies in the Vietnamese market, so we will allot marketing resources upon expanding. While there are high expectations on Japanese products, Nikko's products are not that well-known. It is difficult to corner all AP markets, so it is necessary to proceed by narrowing down the target. Regarding conveyor-related business, establishing a foothold in the ASEAN region is one of the goals of the medium-term plan. We believe there is large room for growth, and we will initially expand to Thailand and Indonesia. For human resources, we will initially have to dispatch staff (with language skills) from Japan and subsequently secure local staff.

Q What kind of challenges do you see in sales? Also, in the domestic AP business, from the maintenance service perspective, there were some low profitability projects of plants alone



so far. What is the current situation regarding such projects and what is the future outlook?

The biggest challenge in sales is labor management. Many of our sales personnel are quite friendly with the customers, but on the other hand, we are in need of workstyle reforms. Customers' requests for urgent responses go directly to the sales personnel with an increasing number of requests coming in outside of work hours. So, customers will also need to change their awareness in the future.

As for the margins on plants alone, the price adjustments have started showing results, especially in BP. In recent years, dynamic share of BP also has risen to around 45%. There was only one project in AP with a significant loss in this medium-term plan, which was an order carried forward from the previous medium-term plan.

AP's gross profit margin used to hover in the 5 to 10% range continuously, but recently, it has begun exceeding 10% on average. In particular, control equipment and burner replacement sometimes have very high margins. Recently, there have been times when we do not give approval for AP order intake with low gross profit margins. Differentiating products is indispensable for increasing gross profit margins. Toward that end, we have to prepare materials so that sales personnel can properly explain to the customers the difference such as safety standards and presence of cover attached to plant. The situation continues to be tough in terms of gross profit margin in our overseas AP business. We have, however, introduced a new model for overseas (only one model at present). We plan to add another model within FY 2024. We also plan to roll out an RP model built with overseas specifications in the future.

Q What will be the important "input" items (management capital) in sales strategy with respect to what Nikko aspires to be in 2030? What contributions do you expect from sales? Also, what will be your own role and contribution?

Response to CN is quite a major element in the sales

strategy toward 2030. Therefore, allotting management capital to that will be an important point also in the next medium-term plan. We are aiming for net sales of 70.0 billion yen in 2030 and that calls for not only growing the individual businesses going forward but also the Nikko Group as a whole to grow its business while streamlining management capital. For example, Ube Kohki in the contract-based manufacturing business currently has low management capital in sales, but this can be supplemented with Nikko's resources. Creating such growth opportunities has a higher priority in sales strategy.

My role is to effectively distribute the resources under the sales division and allot them appropriately to areas where there is room for growth. This is not limited to human resources but calls for a comprehensive approach including overseas marketing strategy and information capability. In existing fields, it is necessary to further bolster the relationships with customers. In particular, customers have a keen interest in CN-related information, and we hope to work together with them to solve social issues. For example, our collaboration with Nippon Concrete Industries in CO₂ capturing system has borne fruit, and it has succeeded as a business. Increasing the number of such successful cases is also one of my crucial responsibilities.



Sustainability strategy will very much determine Nikko's existence in the future. We will pursue revenues and create cash flows so that we can hand over the company to the next generation in a good shape in the future.

Director and Manager of
Corporate Planning Department
Koichi Kawakami

Q | What were the outcomes of Nikko Group's sustainability activities in FY 2023, and what are the priority initiatives for FY 2024?

We established the Sustainability Committee and started its activities in FY 2023. This committee is composed of about 10 members. They include, in addition to the five respective officers (directors) in charge of development, sales, finance, manufacturing, and corporate planning, about five young employees in the 20–30 age-group from each of those divisions. If only directors are involved, thinking could become rigid, so we believe that it is necessary to incorporate young people's flexible thinking, and this has been embraced as a good thing in discussions. The major activities in FY 2023 included drafting of the sustainability basic policy, division of

members' roles, and confirmation of material matters. In FY 2024, we reported the activities carried out till then in June, and in September, we discussed the policy on human rights and summarized the basic policy proposal for that. The plan is to hold Sustainability Committee meetings about four times a year. Going forward, we will discuss the initiatives related to human rights due diligence and work on giving concrete shape to it.

Q | What are the sustainability issues faced by the customers and by Nikko, and what are the actions the Company is taking in response to them?

We are supporting infrastructure through manufacturing and sales of asphalt mixture and ready-mixed concrete. When a natural disaster such as large-scale typhoon,

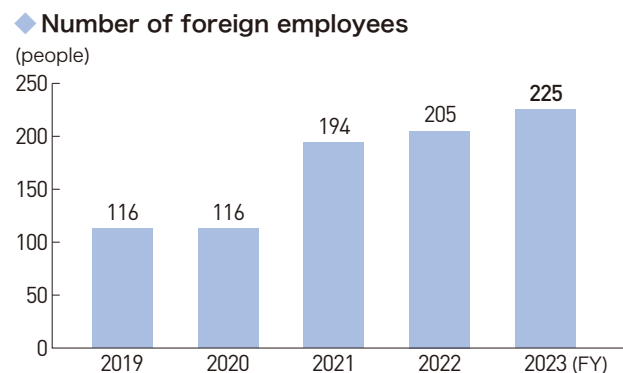
torrential rain, and earthquake occurs, we confirm the status of the plants we have supplied and support swift recovery when they have a problem operating. To enable this, it is necessary and important to have human resources such as field service staff and engineering employees. The construction and transportation industries are also sought to take actions regarding labor shortage (so-called 2024 problem), and the issue is the same for the industry in which we are involved. The road pavement companies and ready-mixed concrete industry often suspend operation of plants over weekends and during long holidays, and demand for facility replacement and maintenance services concentrates on these times. How Nikko and Akitsukai, which consists of contractors, respond to this is the challenge. Having employees work over weekends and during long holidays affect our company's sustainability in a major way. For this reason, we need to carry out plant diagnosis in advance, support operations to prevent troubles, and automate central control using remote plant operation. To this end, we are working on technology development of automated plant operation utilizing AI and IoT and at the same time promoting an initiative to offer preventative maintenance service in a subscription package, and the number of such contracts has been gradually increasing. If we can offer maintenance service that is efficient both for us and our customers, it will boost our revenues and greatly contribute to our corporate value.

Q | What is the Nikko Group's future policy regarding the sustainability activities in Japan including group companies and overseas?

Like Nikko, our group companies are also engaged in infrastructure-related businesses and they have the same themes and issues regarding sustainability. Ube Kohki also manufactures and sells solar power generation equipment. The entire group needs to work on supply chains to address the human rights policy regarding sustainability. We will promote sustainability activities overseas as well

from now on. In the Asian region, recycling of asphalt mixture has been expanding in China and Thailand. Nikko has plenty of experience and track record in recycling equipment for asphalt mixture, and we have high expectations on expansion of the overseas business leveraging our strengths in the recycling field. Slightly different from the topic of sustainability activities, the operation of plants is the responsibility of operators. The role of operators, who operate plants safely and efficiently, is very important, and in order to nurture them, we need a place where they can gain the correct knowledge and put it into practice. Ever since opening the operator training center in 1969, Nikko has welcomed a total of 5,200 customers from about 250 locations around the country and given them training. I proudly consider this as a sustainable activity that supports plant operations. Overseas also, our subsidiary in China opened an operator training center, and we are planning on a similar initiative in Thailand. Along with being a sustainable activity supporting plant operations, it is also expected to boost the recognition of the Nikko brand.

Q As part of the responsibility to society described in the Sustainability Basic Policies, we have been promoting enhancement of human capital over the past several years. The Company changed the remuneration system in April 2023. What have been the outcome so far and the outstanding issues?



In the past few years, we have worked on enhancement of human capital through hiring of not only new graduates but also those with prior work experience and overseas human resources. We are pursuing the human resource strategy from a long-term perspective with focus on 2030. We proactively hired foreign human resources from FY 2022 to 2024, though we still have issues with acquisition of tech talents. We hope the increased number of foreign human resources will bring in not only language skills but also global perspectives and stimulate other employees. In the newly introduced personnel system, managers provide support to subordinates and carry out goal management through four one-on-one meetings a year. This puts more emphasis on target setting, implementation, and confirmation of re-planning process than on personnel evaluation. We are still in a trial and error phase as this is a new initiative, but we have received a certain level of appreciation for these meetings from young employees. Going forward, we are considering preparing guidelines for the one-on-one meetings to reduce the workload of managers.

Q What are the future initiatives and expected effects regarding the responsibility to global environment in the Sustainability Basic Policies?


We are working on utilization of alternative fuels such as ammonia and biomass in addition to hydrogen-fueled burners toward realization of decarbonized economy. We are implementing them across a broad range and in all directions including collaborations with universities and other industrial sectors. Tokyo Metropolitan Government approved the use of medium-temperature asphalt mixture, which is expected to reduce CO₂ emissions, and this has spread to other prefectures, and our foamed asphalt manufacturing equipment achieved significant success. In addition, we have much expectations also on the thermal mixture boxes, which extends the distance that you can transport mixture by preventing temperature decline. We participated in a test installment in Hokkaido,



a cold region, and we were able to demonstrate the heat retention properties of the boxes and maintenance of mixture quality. We believe that carbon neutrality and material recycling are fields that we should be focusing on, and we plan to further strengthen them.

Q Finally, what do you aim to achieve with the sustainability strategy in the future?

We marked the 105th anniversary since our inception in 1919, and I feel Nikko itself is sustainable given its long history. I would like to express our gratitude to the efforts of our seniors who have supported the Company till now. At the same time, we need to hand it down in an even better shape to the next generation, and this is the sustainability we aim to achieve. In the current Medium-Term Management Plan, we have enhanced management resources primarily of capital investment and human capital, and in the next Medium-Term Management Plan, an important theme is to firmly secure revenues and generate cash. To this end, we need to work resolutely and act proactively to build and promote the ecosystem of the Nikko business without limiting ourselves to enhancing the potential of individual products. We intend to maintain this mindset at all time as we push forward.



We will work on development of products that contribute to solving social issues based on our core technologies and strengthen technology development with focus on short-term profitability.

Executive Officer and Manager
of Development Department,
Technology Division
Katsuhiko Kawamura

Q | What is the basic policy of technology development?

Before the decarbonization issue became a hot topic, we were content with our relatively high technological capability and market shares compared to peers in the industry. However, now that we are sought to solve the decarbonization issue, we are required to transition to hydrogen, ammonia, and other such fuels and develop new technologies. There are also concerns over the changing competitive environment given entries from other sectors. For this reason, we set forth the basic policy of firmly grasping the needs and issues of customers and enabling development and commercial application of products that contributes to our customers. For example, we are working on the development of combustion

burners that use hydrogen and ammonia as fuel in the AP-related business, but industrial burner manufacturers from other sectors and Chinese companies may come into the market. While it is an opportunity for us to increase our market share and enter into other sectors such as ceramic industry, we would like to further strengthen development of products that contribute to society with a sense of urgency. My mission as the General Manager of Development Division is to find the seeds of technologies and products for achieving numerical targets of the next medium-term plan and the 2030 long-term vision and nurturing them. Nikko has the four core technologies of mixing and kneading, heating, control, and material handling, and I am paying attention to measurement technology as a new core technology in addition to them. Examining the viscosity and condition

of asphalt mixture and ready-mixed concrete is mostly dependent on human senses. If we develop our own sensors and establish technologies to measure and analyze various data in the manufacturing processes, we can stabilize product quality and improve operation efficiency and further reduce operations that depend on personal knowledge or experience. We aim to develop new products that are not limited to existing business fields and contribute to revenues by combining these four + one core technologies.

Q | What are the technologies that differentiate Nikko from others?

We have developed burning, heating, and drying technologies over many years in the AP-related business. Especially, in combustion burners, we have extensive track record in large burners with 500 kw or higher capacity. Our strengths are anti-pollution measures against NOx, SOx, etc. and high fuel efficiency. This technology can also be used for the under-development hydrogen and ammonia burners, with the low pollution combustion technology being the differentiating factor for us. Our mixing and kneading technology is superior in efficiently mixing ingredients that have high viscosity and weight. This is a proprietary technology that we developed from the mixing and kneading of ready-mixed concrete. As demand for recycling waste rises, we are expecting demand for mixing and kneading technology to process various materials to also increase. As for control technology, our strength is in remote control operation in the civil engineering field leveraging AI and communication. For example, we have sufficient human resources for developing efficient digital technologies required for AI-assisted judgment of gravels as well as remote operation and unmanned operation of various plants. There is no specific differentiating factor regarding our material handling technologies, but we have a large competitive edge in offering efficient and safe material handling and high-quality, low-cost products. Finally, in measurement technology, we aim to quantify viscosity, temperature, and load resistance of primarily civil engineering materials and visualize product quality, which is difficult in the manufacturing process. We are enhancing our proprietary sensor technology and, at the same



A hot-blast, direct-fired jet heater using hydrogen fuel

time, promoting development in cooperation with companies outside the Group.

Q | What are the achievements in FY 2023 and initiatives for FY 2024?

In FY 2023, we succeeded in commercializing a hydrogen-fueled burner. We also commercialized a combustion burner using biomass fuel, and we already have a customer of the burner. Further, we developed a jet heater for heating in cold regions in addition to its application as a burner for asphalt plants. In product testing, we carried out a demonstration experiment in an environment below -20°C in Hokkaido during severe winter and successfully confirmed that it can be used in such an environment without any problems. The product can be used for a wide range of purposes in cold regions such as concrete curing and other civil engineering applications and heating tents at events.

To be sure, continuous support from the government is necessary in terms of development of hydrogen supply infrastructure, hydrogen price, etc. for full-scale introduction of the product.

We developed a new asphalt foamed equipment necessary for manufacturing medium-temperature mixture of asphalt that is easy

to maintain and has lower NOx emissions. In the crusher-related business, we developed our own mobile soil improver (Mobix-Eco). For FY 2024 initiatives, we will strengthen product development of an ammonia-fueled combustion burner. We have already completed development of products for hydrogen and biomass fuels, and we plan to establish the supply system for products that run on various fuels. In the BP-related business, we have been working on quality improvement for a new mixer model for high-strength concrete, and we aim to introduce it as a product in FY 2024. Nikko Group has been focusing also on utilization of AI technology for the past three years and has already developed and introduced proprietary products GraSanMan, an AI function to identify aggregates, and AI'll be sorter, an AI-based image identification device. There have been an increasing number of inquiries for these products, and we plan to further enhance the product lineup in the future.

Q | What are the initiatives in the next medium-term plan and for realization of the long-term vision?

We are currently working on more than 40 development themes, and all of them are linked to technology development for realization of the long-term vision. Among these themes, we aim to introduce products based on about 60% of the themes within the next two years, with a plan to commercialize the remaining 40% of the themes in the next three to five years. At the Development Department, which I am in charge of, about 70% of the overall development themes are related to environment, especially decarbonization. Nevertheless, the Nikko Group as a whole is also focusing on fields including automation, labor saving, safety measures, and remote control in response to the labor shortage in the construction industry, which is our customer. In terms of revenues, the foamed equipment developed by the AP-related business contributed significantly to improvement in business results while contributing to decarbonization. Currently, we are also developing a medium-temperature mixture manufacturing technology for recycled materials, and once complete, the product is expected to be widely installed in mixture plants. Foamed equipment is contributing to our business performance significantly as you can see, and Mobix and the group of AI-

related products developed by us are also expected to have high profitability in the future. The environmentally friendly products such as hydrogen- and ammonia-fueled burners are expected to make full-scale contributions to revenues from 2030. We will apply the technologies we gain in the development process and also work on creating products that lead to revenues in the short term. We established a new Development Section 4 with 15 employees for this purpose.

Q | What are the issues faced by the technology development?

First of all, we have shortage of information technology engineers. We are actively hiring outstanding human resources in Japan and abroad in accordance with the long-term vision and road map for technology and product development. We are also short of mid-level project leaders. We are strengthening development and appointment of human resources who can autonomously drive forward product development based on the themes with a sense of urgency. In terms of technology, we are simultaneously promoting short-term product development and long-term core technology development. Particularly, we are considering development of a mechanism for strengthening the core technologies from a long-term perspective and development of human resources who support the mechanism.



2030 Vision and Medium-Term Management Plan

2030 Vision

The Nikko Group aims to achieve a net sales of 70.0 billion yen, operating income of 7.0 billion yen (operating margin 10.0%), ROE of 10% or higher, and market cap of 50.0 billion yen in 2030, by expanding the highly profitable service business, growing and monetizing the overseas AP business centering on the ASEAN region, and solving the issues faced by the customers and society, while maintaining and strengthening the Nikko brand, which boasts high technological and product capabilities.

Nikko Group

A top manufacturer of plant facilities and environmental products, backed by high technological capability, and a business partner that supports customers through operation and maintenance services.

Creating robust, people-friendly cities around the world.

Vision

FY 2030 Numerical Targets

Net sales: 70.0 billion yen Operating margin: 10.0%
 ROE: 10.0% or higher Market cap: 50.0 billion yen

Business transformation

- ◆ AP-related business in Japan
- ◆ BP-related business in Japan
- ◆ Maintenance service business

Scale expansion leveraging technology

- ◆ Overseas AP-related business
- ◆ Environment- and conveyor-related business
- ◆ Mobile plant (MP) sales and other business

Strengthening of operation and maintenance services

Lateral expansion of products and markets

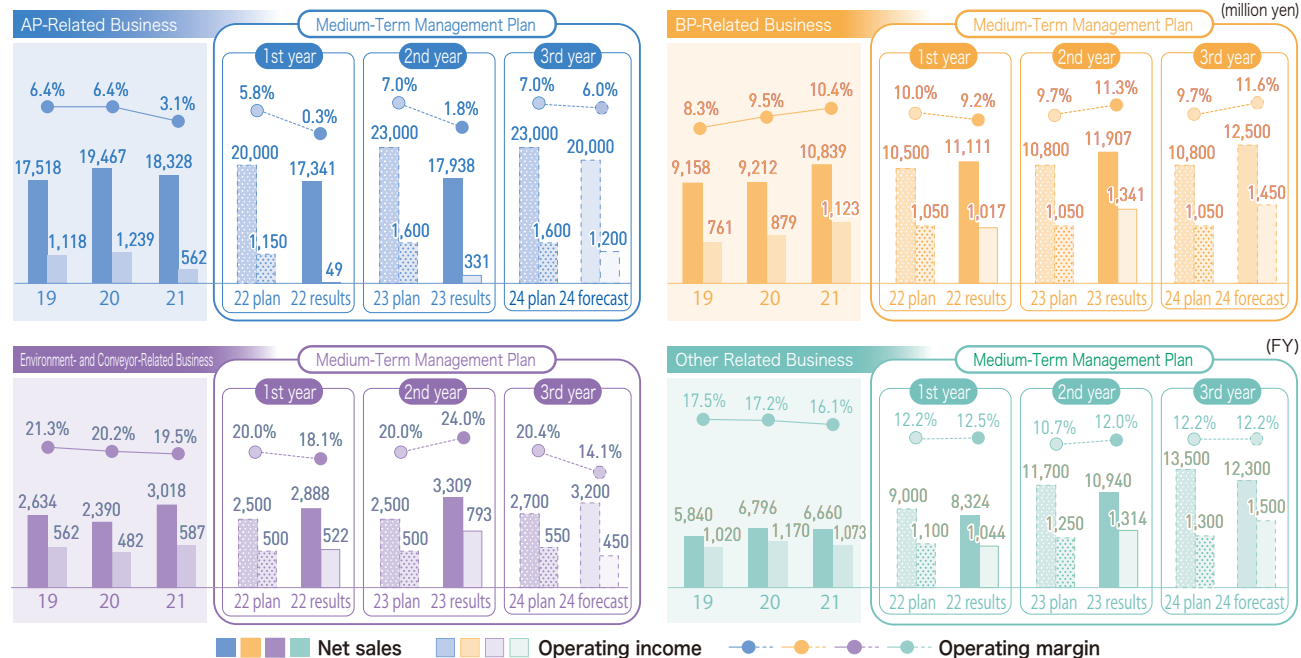
Progress in the numerical targets for the Medium-Term Management Plan

Although the Group steadily implemented various growth investments and revised the product prices, it was unable to meet the numerical targets for FY 2023, the second year of the Medium-Term Management Plan. This was due to factors such as the worsening business environment surrounding

customers in the AP-related business, China's economy stalls, and the delay in the start-up of the Thailand business. However, these business environments are in a recovery trend, and the Group achieved a significant increase in net sales and income compared to FY 2022.

	Previous Medium-Term Management Plan			Medium-Term Management Plan					
	FY 2019 results	FY 2020 results	FY 2021 results	FY 2022 plan	FY 2022 results	FY 2023 plan	FY 2023 results	FY 2024 plan	FY 2024 forecast
Sales	35,151	37,866	38,846	42,000	39,665	48,000	44,097	50,000	48,000
Operating income	2,053	2,302	2,053	2,300	1,028	2,800	1,968	3,000	2,600
Net income attributable to owners of parent	1,588	2,082	1,649	1,600	1,020	1,900	1,312	2,100	1,700
Dividend per share (yen)	40	33	30	30	30	30	30	35	30
Total dividend	1,550	1,260	1,146	1,144	1,147	1,144	1,149	1,334	1,149
Dividend payout ratio	97.6%	60.5%	69.5%	71.5%	112.5%	60.2%	87.6%	63.5%	67.6%
Net assets	30,293	31,451	32,050	32,506	31,604	33,262	33,086	34,028	33,637
ROE	5.2%	6.8%	5.2%	4.9%	3.2%	5.7%	4.1%	6.2%	5.1%

(million yen)






Medium-Term Management Plan (FY2022-FY2024)

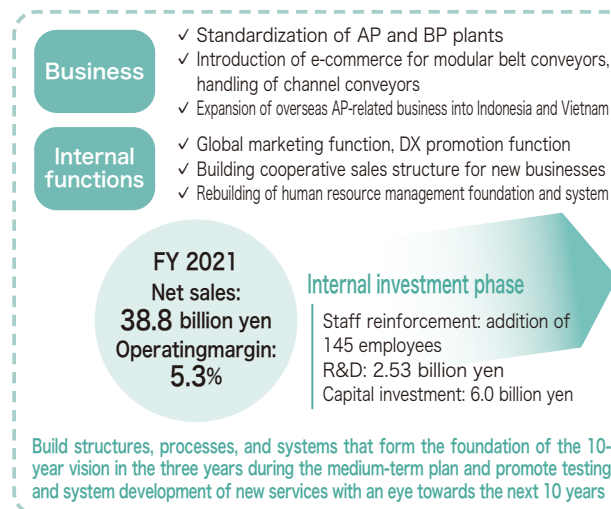
The Medium-Term Management Plan, which began in FY 2022, positions the years covered as the internal investment phase to realize the 2030 Vision, and the Group is building structures, processes, and systems to this end. We will enhance corporate value by strengthening human capital, developing environmentally friendly products, conducting M&A, acquiring new core technologies, and introducing new products leveraging AI and remote technologies.

Measures for the Medium-Term Management Plan and their progress

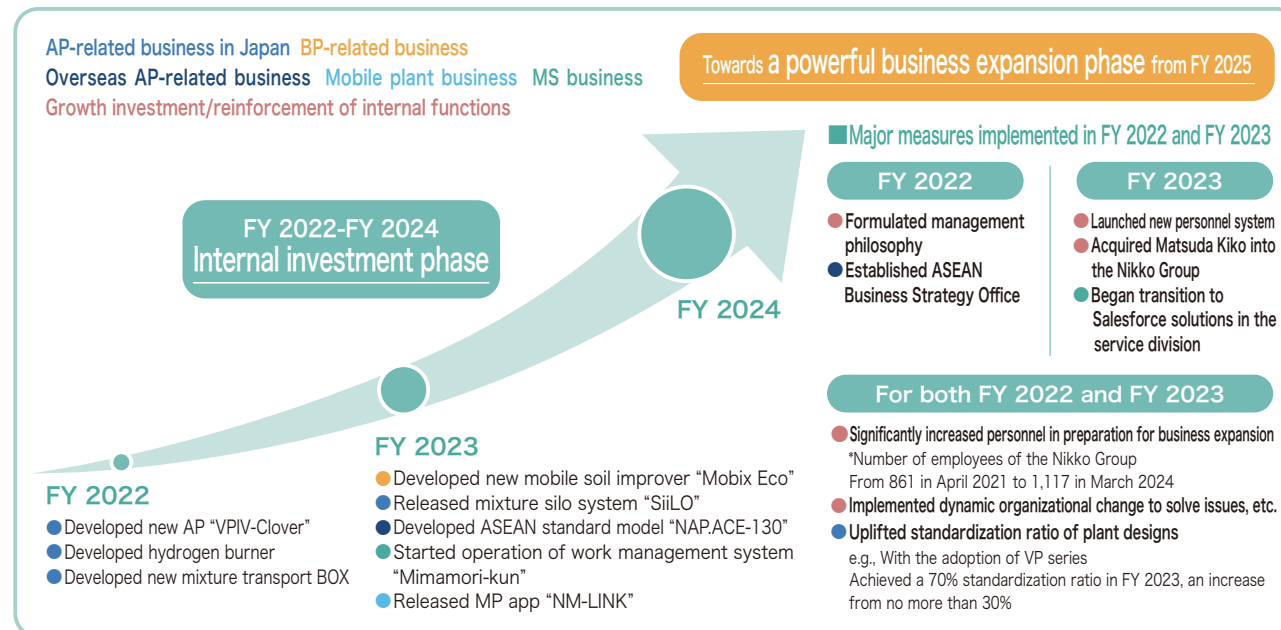
In FY 2023, we significantly increased the number of employees in preparation for business expansion, and also introduced a new personnel system and initiated organizational changes. In the AP-related business in Japan, our support for decarbonization progressed steadily. We also saw results in our measures to support remote operations and automation. In the overseas AP-related business, we succeeded in developing global standard plants. The measures in the BP-related business are also executed steadily.

Item	(Cumulative results for FY 2022-FY 2023)
Human resource reinforcement 	<ul style="list-style-type: none"> AP-related business field BP-related business field Environment- and conveyor-related field Overseas Development Mobile plants Other business <p>Increase of 86 employees</p>
R&D 	<ul style="list-style-type: none"> AP-related business field (incl. overseas) BP-related business field Environment- and conveyor-related field Other business <p>1.18 billion yen</p>
Capital investment 	<ul style="list-style-type: none"> AP-Related Business (FY 2022 Shanghai, Thailand, etc.) Machinery and installation expenses (FY 2022) Construction of warehouses for AP- and BP-related businesses (FY 2023) Construction of a new plant, machinery, and installations (FY 2022, 2023) Software, etc. Other business <p>4.52 billion yen</p>

Medium-Term Management Plan (2022-2024)



Measures for the Medium-Term Management Plan and their progress



Segment Highlights

AP-Related Business

Main products

- Asphalt plants
- Recycling plants
- Crushing plants
- Mixture silos
- Electronic control devices, plant management system
- Decarbonization-related products (foamed equipment, various burners, etc.)



ABD
Made-to-order AP models that can handle diverse needs



VP IV
Latest high-end model AP, primarily for recycling



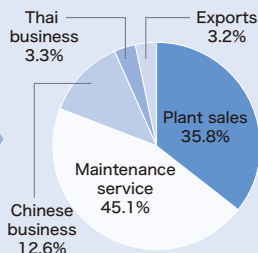
CBD
Global model AP for Thailand and Southeast Asia markets

Business description

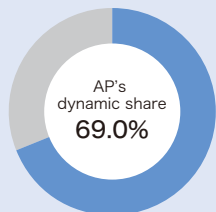
FY 2023 business description

Market share (based on Nikko's survey)

Sales composition of maintenance service maintained 45.1%, the same level as for the previous fiscal year, while plant sales increased to 35.8% from 19.9% in the previous fiscal year. Meanwhile, the composition of the Chinese business fell from 27.5% in the previous fiscal year to 12.6%.



The AP demand in Japan was 26 units in FY 2023, up 6 units from the previous fiscal year. Nikko's dynamic share rose 2 pp to 69.0%.



BP-Related Business

Main products

- Concrete plants
- Mobile concrete plants
- Concrete pumps
- Electronic control devices, plant management system
- Concrete product manufacturing plant facilities, etc.



ONZEMIX-T50
Mobile BP

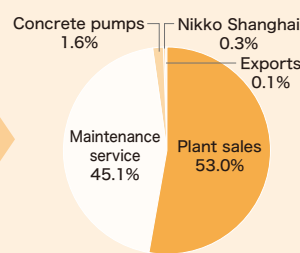


DASH-H275EvoV 220R-ADV
Ultra-strong concrete plants

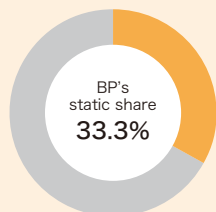


DASH-225Pro 065ITBF
Large-scale precast concrete plant

Sales composition of maintenance service rose from the previous year's 39.1% to 45.1%, while plant sales decreased from the previous year's 58.4% to 53.0%.



The BP demand in Japan for FY 2023 decreased by 11 units from the previous fiscal year to 60 units. Nikko's static share rose 0.3 pp to 33.3%.



Environment- and Conveyor-Related Business

Main products

- Various belt conveyors, conveyors for facilities, beverage container recycling plants
- Soil remediation plants, various recycling plants (e.g., plastic)



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

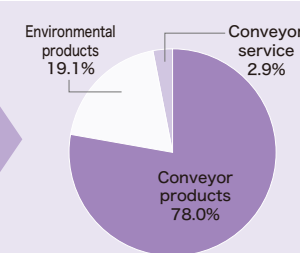


A plaster-based solidification material manufacturing facility
A plant facility which manufactures gypsum hemihydrate from dried gypsum powder, which is blended with cement and lime to manufacture solidification material.

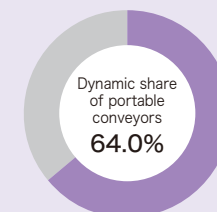


Stringer modular conveyor
High-quality conveyor with superior cost performance through modularized body and options

The sales breakdown of conveyor products, which continue to sell steadily, increased from 74.6% in the previous fiscal year to 78.0%. Meanwhile the composition of environmental products slightly decreased from 22.0% to 19.1%.



The market share of portable conveyors for FY 2023 was 64.0%, up 2.0 pp from the previous fiscal year and continues to maintain the top market share.



Crusher-Related Business

Main products

- Crushers and screens
- Mobile belt conveyors
- Mid-sized simple screens
- Small-sized crushers and screens



Mobile soil improver Mobix Eco (Nikko's in-house developed product)

Achieved mixing and kneading performance unique to mixer manufacturer and 30% lower fuel consumption compared to existing products



Mobile jaw crusher MC110i & impact crusher MR110i (by KLEEMANN)

Achieved world-class crushing performance and world's best fuel efficiency

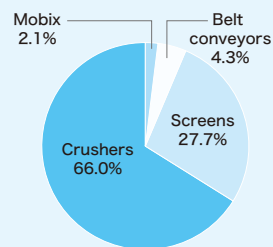
Photo: Delivery to a concrete waste intermediate processing facility



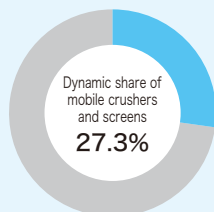
Combination of mobile crushers and screens
There is an increasing global demand for capital investment in changing existing stationary crusher plants to mobile crushers.

Photo: A demonstration, connecting actual machines, was held at a quarry in Ehime Prefecture.

Sales units by models in the crusher-related business for FY 2023 consists of 66.0% for crushers, 27.7% for screens, 4.3% for belt conveyors, and 2.1% for MOBIX.



In FY 2023, demand for mobile crushers and screens was 161 units, up 7 units from the previous fiscal year. Nikko Group's market share increased 6.5 pp from the previous fiscal year to 27.3%.



Contract-Based Manufacturing Business

Main products and main business

- March 2022: Made Ube Kohki Co., Ltd. into a group company
Business description: Design, manufacture, and construction work of gas holders
Manufacture and installation of plant equipment (e.g., water treatment) and industrial machinery
Development, manufacture, and sales of environment-related products (e.g., solar lighting)
Main customers: Major manufacturers, plant engineering companies, etc.
- July 2023: Made Matsuda Kiko K.K. into a group company
Business description: Manufacture and assembly of various plants and industrial machinery
Main customers: Leading steel mills, plant manufacturers, environment-related machinery manufacturers, etc.

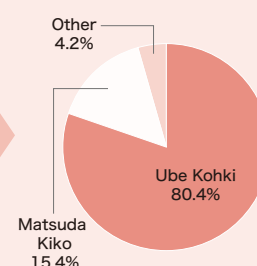


Tanks

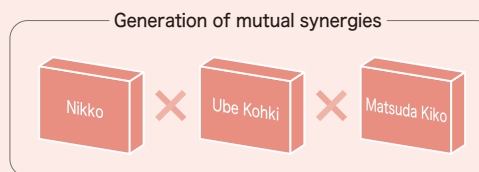


Environment-related facility

Net sales of contract-based manufacturing business for FY 2023 amounted to 3.072 billion yen, increasing 38.6% year on year. Ube Kohki constitutes 80.4%, Matsuda Kiko constitutes 15.4%, and the remaining 4.2% is attributed to other.



With the inclusion to the Nikko Group, we will aim to generate synergies and expand business.



Other business

Main products

- Pipe scaffoldings, steel gangplanks
- Adjustable aluminum inclined staircase
- Shovels, spades
- Small-sized concrete mixers, mortar mixers
- Floodgates, waterproof boards, crushers
- Real estate leasing, construction materials leasing
- Sales of housing renovation, etc.



Removable waterproof board (free style)



Raku Raku Ramp

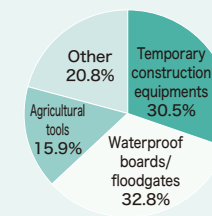


Floodgate (stainless steel roll up gate)

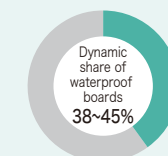
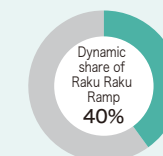


Light bridge

Sales composition by products in the Other Business for FY 2023 consists of 32.8% for waterproof boards/floodgates, 30.5% for temporary construction equipments, 15.9% for agricultural tools, and the remaining 20.8% for other products.



The market share of water proof boards for FY 2023 was 38-45%, and Raku Raku Ramp, which is included in temporary construction equipments, secured a dynamic share of 40% while light bridges secured 30%.



Business description

FY 2023 business description

Market share (based on Nikko's survey)

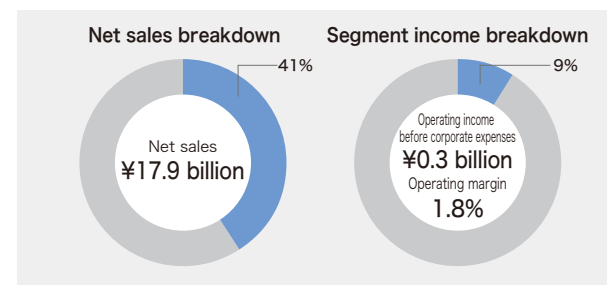
Market Environment Trends

AP-Related Business

With the market environment heading towards recovery, we will improve profitability and develop the ASEAN market while expanding sales of labor-saving plants utilizing DX and our distinctive decarbonization products, which will help solve the issues faced by customers.

Executive Officer, Manager of Asphalt Plant Sales Management Department, Business Division, Branch Manager of Taipei Branch, and Low Carbon Task Force Leader, CEO's Office

Toshimasa Miyake



Values to be created

- We will offer asphalt plants that will ensure a safe, comfortable, and sustainable road network 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 road infrastructure development in the ASEAN region.
- We will respond to customers' decarbonization requirements and manpower shortage issues through sales expansion of environmentally friendly products such as burners using decarbonized fuels and medium-temperature mixture (foamed) equipment as well as offering of predictive maintenance and remote and automation services.

Technology platform for value creation

- Our high-quality asphalt manufacturing technology has been highly rated and we hold a 100% share of the domestic market for APs used in building expressways.
- We have developed plants and control devices including software on our own and boast an integrated production structure.
- We offer products that contribute to decarbonization ahead of the competition in addition to maintenance services offered through subscription, etc. leveraging DX.

Status of the AP-related business (FY 2023)

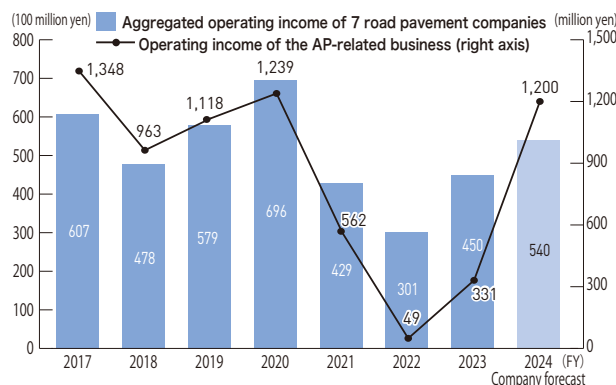
Business overview	Details
Products	Asphalt and recycling plants
Customers	Construction companies, road pavement companies, etc.
Market share	Static share in Japan: 77.5%
Sales composition and breakdown by region	41% of overall sales (Japan: 84%, Thailand: 3%, China: 13%)
Operating margin	1.8% (6.4% in FY 2019 before the COVID-19 pandemic)
Ratio of MS net sales	45.1%
Production bases	Akashi head office factory, Thailand, and Shanghai, China

MS: maintenance service

Business performance trend of road pavement companies

In FY 2023, both revenues and profits of the seven road pavement companies, who are our customers, increased for the first time in three fiscal years, with aggregated net sales of 951.8 billion yen, up 1.4% from the previous fiscal year, and operating income of 45.0 billion yen, up 49.5% on year. Even as the price of crude oil, a raw material of asphalt, continues to soar, the companies appeared to have absorbed the price rise with increased net sales and cost reduction. For FY 2024, the road pavement companies are expected to see a 5.3% increase in net sales and a 20.0% rise in operating income. At the same time, our AP-related business also posted increases in both net sales and operating income in FY 2023 for the first time in three years. For FY 2024, the performance of the AP-related business is expected to continue on the recovery track led by the Japanese business on the back of the recovery in the business results of the road pavement companies as well as the approx. 160 billion yen boost from the funds for projects to promote investments in energy saving and to support structural transformation of demand spearheaded by the Ministry of Economy, Trade and Industry (METI).

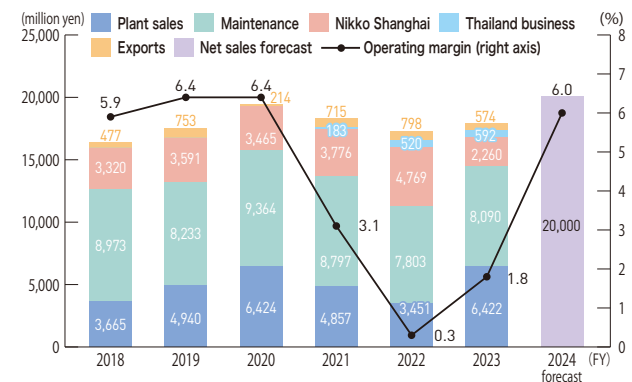
Trends in operating income of 7 road pavement companies and the AP-related business



Trend in AP-related business performance

In FY 2023, order intake for the AP-related business increased 7.6% from the previous fiscal year to 18,948 billion yen, net sales rose 3.4% to 17,938 billion yen, and operating income increased 6.3 times to 0.331 billion yen (1.8% in operating margin). This can be attributed to the stronger moves by road pavement companies toward resumption of capital investment. Operating income increased owing primarily to the effects of increased net sales and sales expansion of products contributing to decarbonization including foamed equipment, which absorbed the periodic losses recorded by the businesses in Thailand and China due to economic slowdown. For FY 2024, we are expecting net sales to increase 11.5% from FY 2023 to 20.0 billion yen and operating income to rise about 3.6 times to 1.2 billion yen (6.0% in operating margin), as the business is likely to show steady performance driven by the Japanese business while the losses in the Thai and Chinese businesses are also expected to narrow.

Net sales by product, operating margin, and net sales forecast



Business strategies

In the Japanese market, as a top manufacturer, we will leverage our high technological prowess to provide more support than ever for customers' plant operations while establishing technologies for decarbonization and remote and automated operations. In the overseas markets, we aim to gain opportunities for growth and revenues in the medium to long term as we expand sales of strategic standard plants and build sales structures in Indonesia and Vietnam along with early takeoff of the Thai production base.

Initiatives and achievements in FY 2023

AP-related business in Japan	Medium-term plan (FY 2022-FY 2024)	Achievements in FY 2022-FY 2023	Progress vs. plan
Support for decarbonization	Development of low-carbon mixture manufacturing system	Foamed equipment (FY 2022: 40 units ordered, 19 units sold) (FY 2023: 44 units ordered, 55 units sold)	◎
		Developed new AP model VPIV-Clover (FY 2022)	◎
	Development of combustion technology for decarbonized fuels	Hydrogen burners (FY 2022: Completed trial run of mixture manufacturing) (Both 100% hydrogen firing and mixed-combustion with city gas are possible)	◎
		Ammonia burners (FY 2022-2023: Carried out in-house combustion test of LNG and ammonia. Considered actions for solving issues)	○
Offering of biomass and gas combustion technology	Sold recycled oil burner (FY 2023) Plan to deliver pulverized coal burner (FY 2025) Development of burners for other fuels underway	◎	
Other	VP series was selected for advanced equipment subsidies of METI (FY 2023) (Two thirds of costs for design, installation, and construction work can be covered by the subsidy when introducing VP series. The upper limit of the subsidy is 4.0 billion yen.)	—	

AP-related business in Japan	Medium-term plan (FY 2022-FY 2024)	Achievements in FY 2022-FY 2023	Progress vs. plan
Remote operations and automation support	Offering of partially remote shipping system	FY 2023 Released SiILO, a remote shipping system for mixture silos (Refined the product based on user requests for improvement and considered incorporating additional functions)	◎
		FY 2022-2023 Identified issues and risks and completed listing about 95% of facilities and devices necessary for automated operation.	○
	Remote operations and automation support of plants	FY 2022-2023 Considered implementation including installation of an operation center in the next medium-term plan period as it required subscription contracts for scrap and build and employees experienced in plant operations.	△
	Accumulation of plant operation data through expansion of the number of maintenance subscription contracts	-FY 2023 Concluded a total of nine contracts. Proposals in progress for additional projects.	△

AP-related business in overseas markets	Medium-term plan (FY 2022-FY 2024)	Achievements in FY 2022-FY 2023	Progress vs. plan
Expansion to the ASEAN region	Entry into the Indonesian and Vietnamese markets	FY 2023 Signed an agent agreement with a construction machinery dealer (Vitrac) in Vietnam	○
		FY 2023 Sold an AP made in China in Vietnam Business negotiations underway in Vietnam for sale of an AP made in Thailand	△
		We plan to decide on whether to have a dealer in Indonesia by observing the trends in the ASEAN market.	—
Global standard products	Building collaboration structures with local sales agents	FY 2023 Carried out sales promotion with the Thai dealer (4 units ordered in FY 2022 and 10 units in FY 2023) FY 2024 outlook (Anticipated net sales: 1,771 million yen) (Anticipated orders: 17 units) (Anticipated sales: 21 units) (Anticipated order backlog at end of fiscal year: 4 units)	◎
		FY 2023 Designing and development of a competitively priced standard plant, including introduction of locally purchased supplies, to meet the needs of the overseas markets	◎
		Developed ASEAN standard model NAP.ACE-130 and succeeded in winning orders (delivery planned in FY 2024)	◎

Business environment trends

Business opportunities

- Expanding demand for differentiated products that contribute to customers' decarbonization efforts
- Increasing demand for remote and automated plant operation for addressing manpower shortage and workstyle reform
- Emergence of replacement demand on the back of energy-saving needs utilizing subsidies
- Increasing demand from rising needs for road development and recycling in the ASEAN market
- Rise of new customer needs such as subscription

Risks

- Shrinking Japanese market
- Labor shortage e.g. in supply chains
- Entry of foreign rival companies
- Introduction of similar products by rival companies

Business strategy in the medium-term plan

Business strategies

- (1) Support for decarbonization
- (2) Remote operations and automation support
- (3) Development of standard overseas models with competitive edge
- (4) Building of organizational structure for business expansion in the ASEAN market

Numerical targets of medium-term plan

	FY 2022	FY 2023	FY 2024 forecast	FY 2024 medium-term plan
Net sales	¥17.3 billion	¥17.9 billion	¥20.0 billion	¥23.0 billion
Operating income	¥0.04 billion	¥0.33 billion	¥1.20 billion	¥1.60 billion
Operating margin	0.3%	1.8%	6.0%	7.0%

BP-Related Business

With continued strong demand, we aim to expand market share and improve profitability as we accelerate development of products that help customers save energy in addition to expanding sales of equipment for absorbing CO₂ with concrete.

Executive Officer and Manager
of Industrial Machinery Sales
Management Department,
Business Division

Katsumasa Takenami



Values to be created

- We will support Japan's construction industry by ensuring the stable supply of high-quality products that meet the standards of JIS standard concrete and special concrete for precast concrete.
- We support realization of decarbonized society through supply of equipment for manufacturing calcium carbonate used for absorbing CO₂ with concrete.
- We offer products and services that contribute to predictive maintenance, automated operation, and energy saving in response to the workstyle reforms and labor shortage in the construction industry.

Technology platform for value creation

- We internally develop and manufacture control technology and control panels, which form the brain of plant facilities.
- We have technologies and knowhow for remote monitoring and various data analyses and offer preventative maintenance and optimum operation of plants.
- We are the only manufacturer who can perform the entire process from manufacturing to maintenance.

Status of the BP-related business (FY 2023)

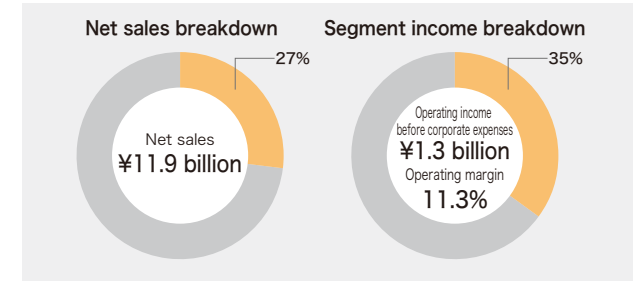
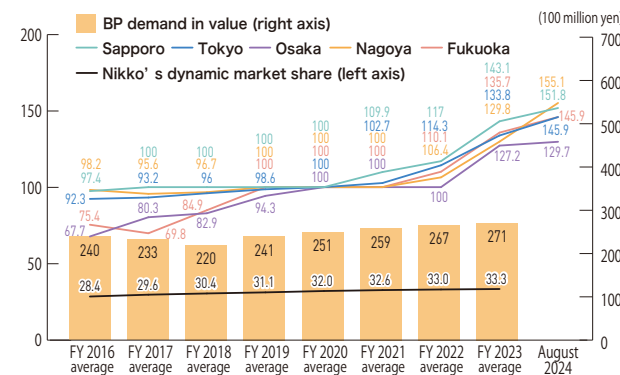
Business overview	Details
Products	Concrete plants, etc.
Customers	Ready-mixed concrete manufacturers, construction companies, etc.
Market share	Static share in Japan: 33.3%
Sales composition and breakdown by region	27% of overall sales (Japan: 99%, China: 0.3%, exports: 0.1%)
Operating margin	11.3% (8.3% in FY 2019 before the COVID-19 pandemic)
Ratio of MS net sales	45.1%
Production bases	Akashi head office factory and Shanghai, China

MS: maintenance service

Trend in leading performance indicator (ready-mixed concrete price)

Ready-mixed concrete manufacturers, who are the customers of the BP-related business, are raising ready-mixed concrete price given the soaring prices of raw materials such as cement and gravel. The indexed price of ready-mixed concrete, with the FY 2020 level as 100, was 133.8 for Tokyo, 127.2 for Osaka, and 129.8 for Nagoya in FY 2023. More recently, as of August 2024, it was 145.9 for Tokyo, 129.7 for Osaka, and 155.1 for Nagoya, showing further increases in prices. Demand value of batcher plants (BP), which appears to be closely linked with the ready-mixed concrete price, is maintaining a gradual increasing trend thanks in part to demand for maintenance services. Operating margin of our BP-related business has also improved to 11.3% in FY 2023 from 8.3% in FY 2019.

Ready-mixed concrete price index of major cities (FY 2020 = 100)

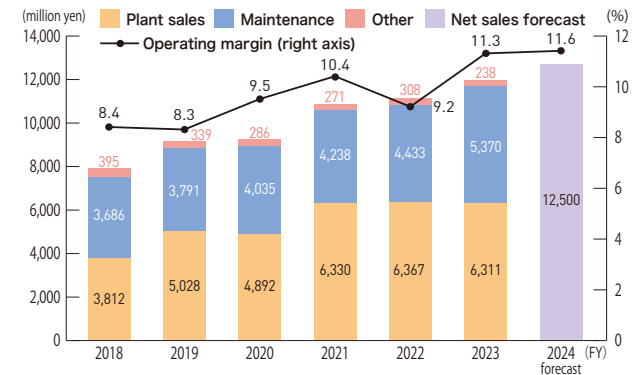


Trend in BP-related business performance

In FY2023, order intake in the BP-related business increased 25.0% from the previous fiscal year to 14.323 billion yen, net sales increased 7.2% year on year to 11.907 billion yen, and operating income rose 31.9% year on year to 1.341 billion yen (11.3% in operating margin). This can be attributed to customers' improved business performance and their continued high appetite for capital investment on the back of the rising price of ready-mixed concrete. The effect of increased revenue as well as the impact of product price increases have contributed to improvement in profitability of operating income.

In FY 2024, we are expecting maintenance service demand to remain strong in addition to continued replacement demand for plants. We are also seeing signs of improvement in precast concrete-related investment. Under such circumstances, we are expecting net sales of the business to increase 5.0% from the previous fiscal year to 12.5 billion yen and operating income to rise 7.5% year on year to 1.45 billion yen (11.6% in operating margin).

Net sales by product, operating margin, and net sales forecast



Business strategies

We aim to become an environment-friendly manufacturer head and shoulders above the competition by offering total management of customers' plant facilities for ready-mixed concrete, developing products that meet expectations for high-quality precast concrete, and supplying products that contribute to the realization of a decarbonized society.

Initiatives and achievements in FY 2023

BP-related business	Medium-term plan (FY 2022-FY 2024)	Achievements in FY 2022-FY 2023		Progress vs. plan
Total concrete management system	Promotion of plant standardization through deployment of in-house developed control panels and accumulation of operational information on customer plants	FY 2023	Formulated Nikko Open Platform Concept, an open platform for total management of all data related to concrete manufacturing ・ Built digital plant management system ・ Completed a prototype waste water treatment package (to be sold in 2024) Completed a prototype waste water treatment package (to be sold in 2024) Planned to make minor changes to control panel Started concrete initiatives for standardizing plants	○
		-FY 2023	Concluded a total of 28 subscription contracts	○
	Introduction of customer plant operation support service	FY 2024	Work on functional expansion of digital factory management (material management and monitoring of entire factory), develop digital facility ledger function	○
BP-related business	Medium-term plan (FY 2022-FY 2024)	Achievements in FY 2022-FY 2023		Progress vs. plan
Mobile plants	Deployment of mobile plants in areas where delivery is not available due to the consolidation of plants	FY 2022	Delivered a plant to a precast concrete user for a project Received inquiries related to disaster recovery and special concrete demand (One unit was budgeted for FY 2024. Work on design, mixer shape, auxiliary equipment, etc. was started according to applications for further sales expansion.)	△
		FY 2022-2023	Started research on methods to reduce electricity consumption in concrete manufacturing by participating in a GI Fund project to develop manufacturing technology for concrete, etc. using CO ₂ and building a demonstration plant	○
Environmentally friendly products	Development and deployment of products in response to customers' environmental needs such as CO ₂ emissions reduction	FY 2022-2023	Proposed manufacturing equipment including Eco Tankaru to precast concrete users (delivered products in two projects and received inquiries for 12 projects)	◎
		FY 2022-2023	Established a cooperative framework with Mitsubishi Corporation for introduction of technology from CarbonCure Technologies of Canada (Contracts for a ready-mixed concrete plant and a precast concrete plant) (Received multiple inquiries)	△

Business environment trends

Business opportunities

- Advancement in use of precast concrete for building components (increasing demand for facilities installed in factories)
- Reinforcement of initiatives for decarbonization through absorption of CO₂ using concrete
- Expansion of market share (relatively small compared with Nikko's AP market share)
- New customer needs such as subscription maintenance and jet heater
- Increasing demand for mobile plants due to shrinking market and for disaster responses

Risks

- Shrinking Japanese market
- Price war with rival companies
- In-house manufacturing ratio is high and fixed costs are large

Business strategy in the medium-term plan

Business strategies

- (1)Data management and analysis using Nikko-developed control panels
- (2)Customer plant operation support service
- (3)Expansion of mobile plants to address consolidation of ready-mixed concrete plants
- (4)Product development addressing customers' environmental needs

Numerical targets of medium-term plan

	FY 2022	FY 2023	FY 2024 forecast	FY 2024 medium-term plan
Net sales	¥11.1 billion	¥11.9 billion	¥12.5 billion	¥10.8 billion
Operating income	¥1.01 billion	¥1.34 billion	¥1.45 billion	¥1.05 billion
Operating margin	9.2%	11.3%	11.6%	9.7%

Environment- and Conveyor-Related Business

Significantly exceeded the numerical targets of the medium-term plan. We aim to improve our market share while attaching importance to profitability amid anticipated growth in new demand such as applications for plastic waste.

Manager, Industrial Machinery Sales Department, and Manager, Sales Section 2, Industrial Machinery Sales Management Department

Yosuke Kojima



Values to be created

- Conveyors offered by the conveyor business 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 by offering various recycling equipment, soil improving plants, biomass-related facilities, can and bottle separators, etc.

Technology platform for value creation

- The length of conveyors can be adjusted in increments of 10 cm by using common and standard modules. Customers can readily customize it.
- We have been securing high profitability through shorter delivery times and lower costs compared to competitors, and have shipped more than 300,000 units till now.
- In the environmental business, we have built an integrated system starting from development to maintenance services corresponding to customer requirements by leveraging Nikko's four unique core technologies (mixing and kneading, heating, material handling, and control).

Status of the environment- and conveyor-related business (FY 2023)

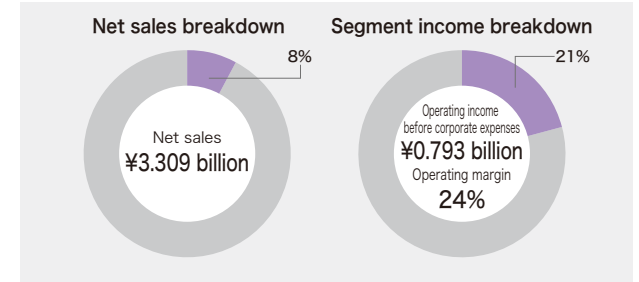
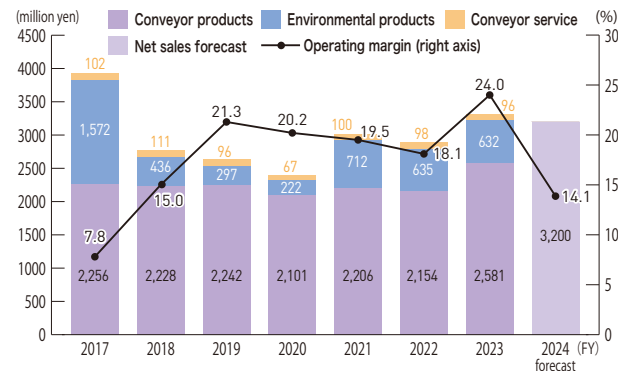
Business overview	Details
Products	Various types of conveyors and environmental recycling equipment
Customers	Waste treatment, civil engineering, various manufacturing, etc.
Market share	Share of the portable conveyor market: 64%
Sales composition and breakdown by region	8% of overall sales (conveyors: 78%, environmental equipment: 19%, service: 3%)
Operating margin	24.0% (21.3% in FY 2019 before the COVID-19 pandemic)
Ratio of MS net sales	2.9%
Production bases	Akashi head office factory

MS: maintenance service

Market and business performance trends

Recycling laws regarding waste plastic such as containers and packaging have been tightened, and strong demand for conveyors has been continuing mainly in Osaka and Tokai regions. In FY 2023, order intake increased 49.2% from the previous fiscal year to 3.812 billion yen, net income rose 14.6% year on year to 3.309 billion yen, and operating income increased 51.9% year on year to 0.793 billion yen (24.0% in operating margin, significantly exceeding the numerical targets in the medium-term plan. The business results were boosted by the sales of large-scale projects related to World Expo and Fukushima soil remediation as well as price increases of products in addition to the strong showing by the conveyor business. For FY 2024, we expect net sales to decline 3.3% from FY 2023 to 3.2 billion yen and operating income to fall 43.3% to 0.45 billion yen (14.1% in operating margin). This is mainly attributable to the completion of large-scale environmental projects for World Expo.

Net sales by product, operating margin, and net sales forecast



Market Environment Trends

Business opportunities

- Strengthening of various recycling laws for waste plastic, solar panels, lithium-ion batteries, etc. (an increase in demand for recycling equipment)
- Entry into the highly rigid stringer conveyor market, which is large
- Increase in market share
- Sales synergies with the crusher-based business and contract-based manufacturing business

Risks and issues

- Human resource shortages
- Calcination technology in the environment-related business
- Intensifying competition
- Soaring transportation costs (which can be passed on)

Business strategy in the medium-term plan

- (1) Modularization and customization of portable conveyors
- (2) Strengthening of relationship with customers utilizing online services
- (3) Offering and sales expansion of stringer conveyors with short delivery times at low price, which we are focusing on
- (4) Engineering proposals for conveyor lines

Numerical targets of medium-term plan

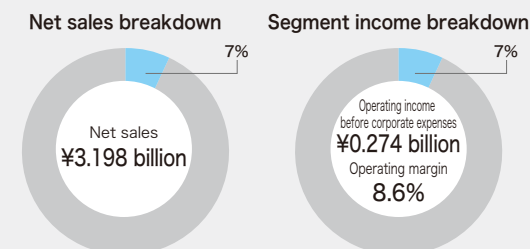
	FY 2022	FY 2023	FY 2024 forecast	FY 2024 medium-term plan
Net sales	¥2.8 billion	¥3.3 billion	¥3.2 billion	¥2.7 billion
Operating income	¥0.52 billion	¥0.79 billion	¥0.45 billion	¥0.55 billion
Operating margin	18.1%	24.0%	14.1%	20.4%

Crusher-Related Business

In addition to expanding the sales channels within and outside Japan, we will strengthen maintenance service sales by improving sales skills while bolstering the lineup of products developed by us. We will continue with our efforts to achieve further leap under the theme of rebooting of business.

Director, Manager, Service Planning Department, and Manager, Mobile Plant Business Department, Business Division

Takeshi Sone



Market Environment Trends

Business opportunities

- Switch from stationary to mobile crushers
- Increasingly being adopted in steel mills, which is a large market
- Development of overseas market taking advantage of the exports to Ukraine
- Improved price competitiveness with appreciation of yen
- Companies in the rental industry led by Aktio are expanding the use of mobile crushers
- Increased sales to AP and BP customers (synergy effects)
- Capturing the maintenance service demand created by the increase in cumulative units sold
- Revenue growth from enhanced Nikko-developed product lineup
- Increase in market share

Risks and issues

- As KLEEMANN products are imported from Germany, depreciation of yen will be a negative factor
- Secured production slots till FY 2025 of KLEEMANN's production capacity
- Intensified competition following market expansion
- Nurturing maintenance service personnel

Business strategy in the medium-term plan

- (1) Sales expansion of mobile plants and strengthening of profitability
- (2) Enhancement of product lineup
- (3) Strengthening of sales structure and promotion of maintenance service business

Numerical targets of medium-term plan

	FY 2022	FY 2023	FY 2024 forecast
Net sales	¥2.2 billion	¥3.1 billion	¥2.5 billion
Operating income	¥0.17 billion	¥0.27 billion	¥0.10 billion
Operating margin	7.9%	8.6%	4.0%

Values to be created

- Our products enable reuse of soil and slug generated at construction sites and in steel mills, and therefore are efficient and highly economical.
- Being mobile, they can be transported easily to the desired location (facilitating replacement of stationary machines).
- Similar to hydraulic excavators, it is easy to resell our products as second-hand machinery at high prices, enabling early recovery of investment.
- Our products have high fuel efficiency and support customers' decarbonization efforts.

Technology platform for value creation

- KLEEMANN products boast the highest fuel efficiency in the world.
- No need for charging equipment or power source, and short installation period of one or two days.
- Nikko-developed soil improving apparatus is an electric-hydraulic hybrid (low fuel consumption) and is highly environment friendly.
- Distinctive product development leveraging Nikko's proprietary core technology (high level mixing and kneading technology).

Status of the crusher-related business (FY 2023)

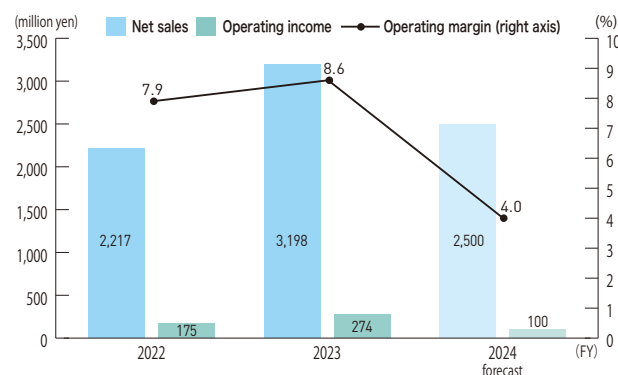
Business overview	Details
Products	Mobile crushers, automated separator screens, soil improving apparatus, and belt conveyors
Customers	Stone crushing, mining, civil engineering and construction companies, steel industry, rental companies, dismantling and recycling, disaster recovery, etc.
Market share	27% domestic share in mobile crushers and 29% in screens
Sales composition and breakdown by region	7% of overall sales (6% in FY 2022)
Operating margin	8.6% (7.9% in FY 2022)
Ratio of MS net sales	4%
Production bases	Tokyo Sales Department, Tokyo mobile center, Hokkaido branch, Osaka branch, Kyushu branch

MS: maintenance service

Market and business performance trends

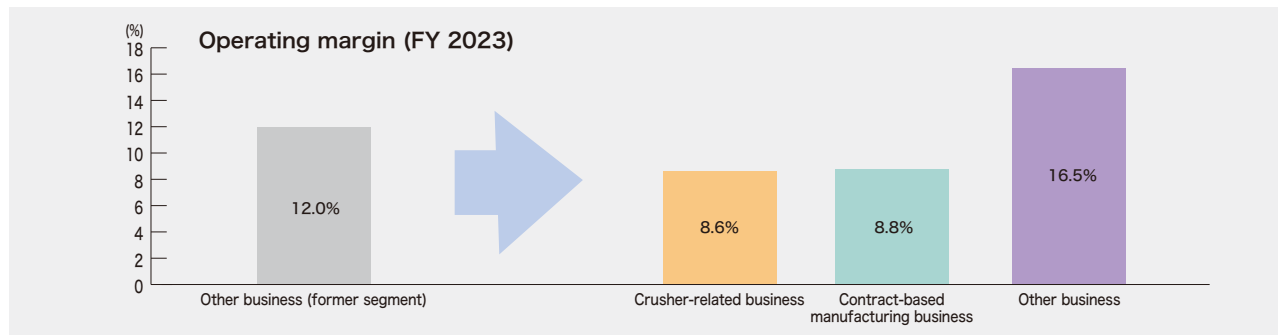
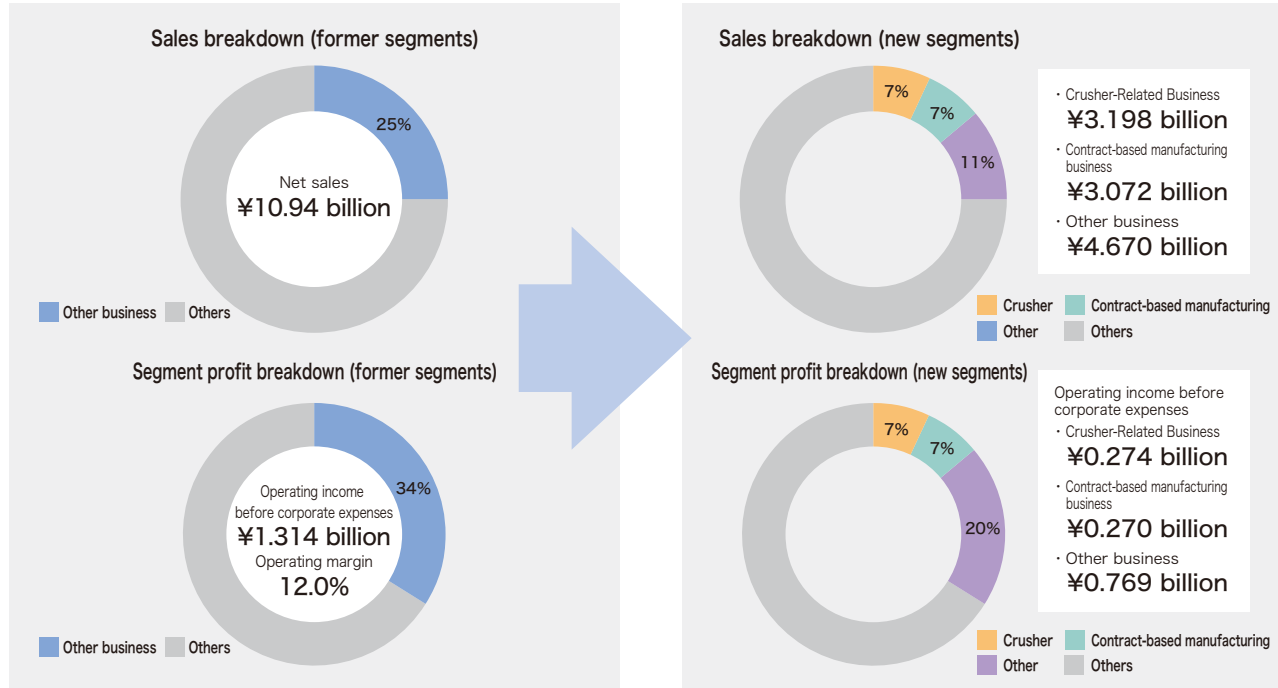
In addition to the continuing upgrade and switch to mobile crushers from stationary ones, we are also seeing new emerging demand in rental field, steel mills, cement industry, and other areas. Given the increase in cumulative number of machines in operation, there is rising expectation for growth in demand for maintenance services. In FY 2023, order intake received rose 45.3% from the previous fiscal year to 3.403 billion yen, while net sales increased 44.2% to 3.198 billion yen. Operating income rose by 56.6% year on year to 0.274 billion yen (8.6% in operating margin). In addition to the special demand for Ukraine restoration projects, we also saw expansion in customer layer accompanied by rise in market share. We are expecting the favorable demand environment in Japan to continue in FY 2024, but we anticipate net sales to fall by 21.8% from FY 2023 to 2.5 billion yen and operating income to decline 63.5% year on year to 0.1 billion (4% in operating margin) following the dissipation of the special demand projects for Ukraine.

Trend in crusher-related business performance



We reorganized the existing four segments into six segments.

Nikko Group divided the other business, one of the existing four segments, into three segments of crusher-related business, contract-based manufacturing business, and other business. We will aim to maximize synergy effects and acquire conglomerate premium by raising the feasibility of achieving management conscious of capital cost and numerical targets through visualization of the business and lateral expansion of the four core technologies of Nikko.



Market Environment Trends

Business strategy in the medium-term plan

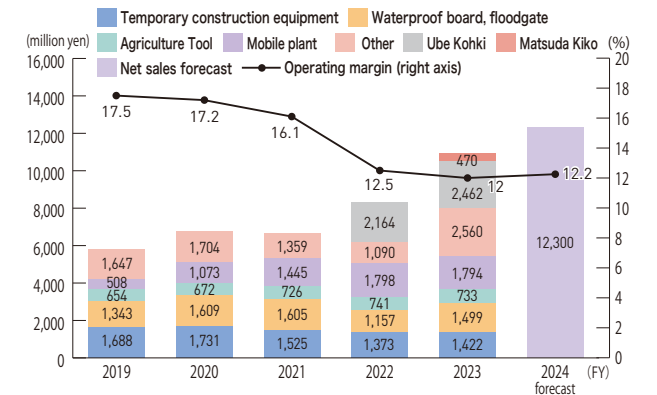
- (1) Sales expansion of mobile plants and strengthening of profitability
- (2) Enhancement of product lineup
- (3) Strengthening of sales structure and promotion of maintenance service business
- (4) Realization of synergies with Ube Kohki

With the addition of Matsuda Kiko to the Nikko Group, we aim to achieve synergy effects also including Ube Kohki.

Numerical targets of medium-term plan

	FY 2022	FY 2023	FY 2024 forecast	FY 2024 medium-term plan
Net sales	¥8.3 billion	¥10.9 billion	¥12.3 billion	¥13.5 billion
Operating income	¥1.04 billion	¥1.31 billion	¥1.50 billion	¥1.30 billion
Operating margin	12.5%	12.0%	12.2%	20.4%

Net sales by product, operating margin, and net sales forecast



Contract-based manufacturing business

Taking the opportunity of joining the Nikko Group, we will break away from being just a subcontractor and pursue high growth and profitability by creating synergies.

Senior Executive Officer, Deputy General Manager of Manufacturing Division, Manager of Head Office Factory, and General Manager of Manufacturing Technology Office, Nihon Kogyu Products
Representative Director and President, Ube Kohki Co., Ltd.
President and Representative Director, Matsuda Kiko K.K.

Kazuhiro Yamada



Business description

● **UBE KOHKI** (made into a group company in March 2022; location: Ube, Yamaguchi Prefecture)
Engaged in the process starting from fabrication to assembly of wide-ranging social infrastructure including hydraulic pipe works and water treatment plants as well as facilities, equipment, and plant works for chemical, cement, food product, pharmaceutical, and other industries, in addition to floodgates, bridges, water supply and sewage systems. It also develops and manufactures solar-powered LED lamps, generation and storage tanks for biogas, hydrogen, and other gases (gas holder, sales share of 10 to 20%).

● **株式会社松田機工 Matsuda Kiko K.K.** (made into a group company in July 2023; location: Kasaoka, Okayama Prefecture)

Engaged in plate working and welding for factory equipment and various industrial machinery for steel mills, plants, and general heavy machinery manufacturers in Setouchi as well as for transportation and environmental equipment including conveyors. It has expertise in plate working and welding for difficult shapes, and boasts high level of deadline management and quality. About half of its sales is for steel mill projects.

Business opportunities

- Increased business opportunities with a competitor going out of business.
- Acquiring new projects through product and development synergies within Nikko Group
- Increased demand for construction of receiving base for hydrogen and ammonia as well as for related capital investment

Strengths

- Both companies have comprehensive strengths including quality inspections led by QCD.
- Ube Kohki has the capability to internally produce niche products such as gas storage tanks and solar lamps.
- Ube Kohki's business is spread across Japan and it also has a partner plant in Dalian, China.
- Matsuda Kiko boasts high level plate working and welding technologies and has capability to handle short delivery deadlines.

Other business

We aim to secure stable growth and high profitability armed with our high share in niche markets, distinctive technologies, and proprietary products.

- Nikko Machinery Co., Ltd.
- Nikko Sec Co., Ltd.
- Tombo Industry Co., Ltd.
- Nikko Kosan Co., Ltd.
- Nikko Electronics Co., Ltd.

Business description

President and Representative Director, Nikko Machinery Co., Ltd.

Akio Kataoka



● **Nikko Machinery** (Products: Manufacture and sale of waterproof boards, floodgates, electric equipment for melting white lining material used in road repairs, etc.): Mainstay waterproof boards are designed and manufactured in-house leveraging the high technological prowess in floodgates business and are sold to major shutter manufacturers, general contractors, and local construction material stores.

Business opportunities

- Increasing demand for waterproof boards for preventing inland flooding caused by cloudburst and typhoons (with potential to be an 8 billion yen market including foundation work)
- Demand for replacing gas-based kettles with electric ones for melting white lining material used in road repair
- Increasing demand for repair and upgrade of floodgates following the policy on strengthening of national resilience
- Increasing demand for maintenance of waterproof boards

Strengths

- High product development prowess and market share, with average operating margin of 13.5% over the past five years
- The company's proprietary and distinctive electric asphalt kettle

Business description

President and Representative Director, Nikko Sec Co., Ltd.

Koichi Kamada



● **Nikko Sec** (Products: Manufacture, sale, lease, and rental of temporary equipment and machinery for construction work): Lease and rental of temporary equipment and machinery account for half of net sales, with the remaining accounted for by temporary equipment and machinery and various maintenance equipment.

Business opportunities















- Increasing need for automated facilities (sorting devices, etc.) for maintenance of temporary construction equipment given labor shortage
- Growing demand for highly workable temporary construction equipment against the backdrop of labor shortage at construction sites
- Demand for evacuation staircases and paths to respond to increasing natural disasters

Strengths

- Our proprietary temporary construction equipment, which has high workability, has been rated highly, and has secured an average operating margin of 13.3% for the past five years.
- We internally design and manufacture acceptance inspection systems, stacking systems (palletizers), and cleaning facilities.

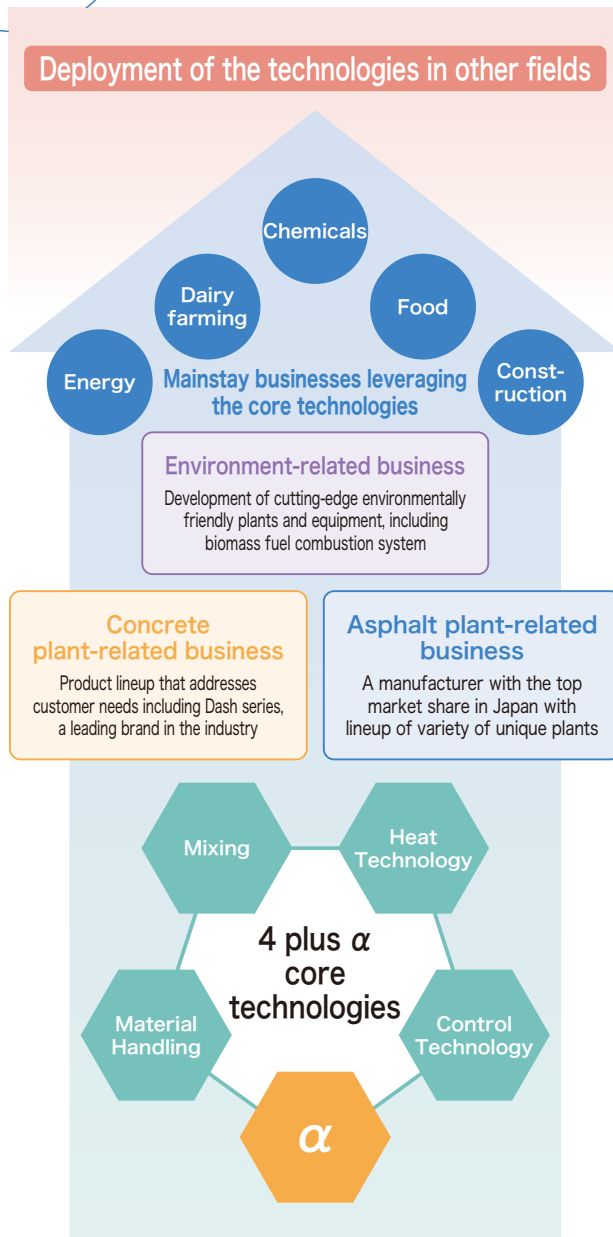
Measures to Reinforce Platform for Delivering Value

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)	
Platform for delivering value	 R&D	 Kawamura, Manager	<ul style="list-style-type: none"> R&D expenses: 0.75 billion yen Development division engineers: 28 Joint development with customers and external organizations 4+ α core technologies (drying, mixing and kneading, material handling, and control) + measurement 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 Improvement of development speed for increasing the amount of social implementation
	 Sales and consultation	 Nakayama, General Manager	<ul style="list-style-type: none"> Establishment of a marketing division Adaptation of the organization for globalization Utilization of past and future data Support of comprehensive operation of plants 	<ul style="list-style-type: none"> Offering of environmentally friendly products for low carbonization Offering of products+operation through remote operation and automation No.1 manufacturer in Asia 	<ul style="list-style-type: none"> Development of environmental products Acquisition of plant operation knowhow Acquisition of overseas partners (agents) Expansion of the ASEAN market Nurturing of human resources who will play the main role in developing fields
	 Planning and designing	 Uehara, Manager	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Systematic human resource hiring, strengthening the knowledge of the workers through nurturing Enhancement of core standard products that respond to customer needs Improvement of customer satisfaction in quality, safety, and environment friendliness Proposal of 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
	 Procurement	 Umezawa, Manager	<ul style="list-style-type: none"> Introduction of a new core system Construction of new materials warehouse Human resources to build procurement base 	<ul style="list-style-type: none"> 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 Contribution to the mitigation of environmental burden 	<ul style="list-style-type: none"> Soaring prices and shortage of raw materials, etc. and sudden foreign exchange fluctuations Closure or scaling back of suppliers as well as discontinued production or prolonged delivery Aging of core system and increasing burden of daily operations
	 Manufacturing	 Yamada, Factory Manager	<ul style="list-style-type: none"> Introduction of 2 new rebar NC processing machines (BW) In-house development and revamp of rebar supply system Integrated technology and skills for integrated in-house products from primary processing of materials to canning welding, machine processing, final assembly, and trial run as well as production and shipment control 	<ul style="list-style-type: none"> Improving production efficiency by 10% and production capacity by 10% Promotion of flexible delivery of a wide variety of products in short delivery time Achievement in both quality improvement and reduction of manufacturing cost Improving productivity of Thai subsidiary Manufacturing collaboration within the Nikko Group and generation of synergies 	<ul style="list-style-type: none"> Normalization of excessive overtime Promoting engineers to acquire multiple skills and building flexible backup system Enhancement of high-mix low-volume production corresponding to destinations Achievement in both quality improvement and reduction of manufacturing cost Instruction of manufacturing technologies for Thai subsidiary
	 Construction work	 Noguchi, Section Manager	<ul style="list-style-type: none"> Operation engineers: 25 (up 5 engineers) including 9 field management engineers and 18 chief engineers Contractors around the country End-to-end structure from assembly to operation adjustment 	<ul style="list-style-type: none"> Operation engineers (plan): 60 (up 10 from existing level) Reinforcement of field management engineers and chief engineers and take on all sorts of plant installation work Digitization of work plan, safety documents, etc. to enable a structure where anyone can handle them Increase in areas to eastern and western bases from the head office (From 2025 onwards) 	<ul style="list-style-type: none"> Actions for safe work and safety instruction Identifying new contractors and collaboration with other departments Easy-to-implement structure in the design and construction work stages Reinforcement of personnel (operation engineers)
	 Maintenance	 Sone, Manager	<ul style="list-style-type: none"> Service staff: 120 employees Transfer of front office operation, strengthening of organization Development of workplace safety and machinery management system 	<ul style="list-style-type: none"> Plant management through asset management Start of operation service Global operation of customer support 	<ul style="list-style-type: none"> Switch from after-incident maintenance to preemptive maintenance Acquisition of on-site human resources [(i) to a workforce of 150 area service employees], [(ii) reinforcement of contractors] Remote management of plant operation and utilization of operation data for prevention and prediction

Measures (short, medium, and long term)	Progress, outlook	FY2023 evaluation
<ul style="list-style-type: none"> • R&D expenses from FY 2022 to FY 2024: 2.5 billion yen (2.1 times) • 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 	<ul style="list-style-type: none"> • From FY 2022 to FY 2024 (forecast): 6 new graduates, 5 mid-career hires (including 2 foreign engineers) • Continuation of human resource rotation • Joint R&D: 8 projects being implemented • Turning measurement technology to core technologies 	<ul style="list-style-type: none"> • Start of AI-related device installation • Start of installation of hydrogen-fueled burners (prospected) <p style="text-align: center;">○</p>
<ul style="list-style-type: none"> • Trade shows for new products • Collaboration with customers (development, education) • Establishment of overseas planning division and support for acquisition of products and partners • Establishment of ASEAN Business Strategy Office at Nikko to pursue synergies with the Thai subsidiaries (NAT and GMT) • Enhancement of the hiring of new graduates • Arranging more environmentally friendly products by joining an industry association 	<ul style="list-style-type: none"> • A trade show for new products in November 2022 • Collaboration with customers: To be implemented for mutual education • Conclusion of agent agreements with one company each in Thailand and Vietnam • Review of supply chain and capturing the recycling AP market • Launch of new AP for overseas market 	<ul style="list-style-type: none"> • Start of introduction of heated recycling system to the Thai recycling market (Delivery of 6 units) • Thailand: Start of market test for new recycling system • 1 GM and 2 overseas (1 for sales and 1 for Customer Support Center) • Joined Japan Road Contractors Association (JRCA) as a support member <p style="text-align: center;">○</p>
<ul style="list-style-type: none"> • Number of engineers to be hired from FY 2022 to FY 2024: 35 • Promotion of standardization and development of products with high added values • Building of 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 	<ul style="list-style-type: none"> • Active investment in resources, placing engineers at the eastern and western bases • Maintenance of ratio of standardization at 70% Further sales promotion and deployment accompanying the registration of the new block-type plant as an advanced energy efficient system • Building an organization in charge of design quality control and development of engineering method 	<ul style="list-style-type: none"> • Launch of a division dedicated to overseas and new businesses, and building of technological structure to accommodate business expansion including overseas • Development and sales of a new control panel model that adapts to DX <p style="text-align: center;">○</p>
<ul style="list-style-type: none"> • Cost reduction through centralized and distributed purchasing and averting risks • Working with designing section and promote functional purchase • Reconsidering a sustainable supply chain • Shift to paperless and PDM using new system, etc. 	<ul style="list-style-type: none"> • Cost reduction => Rate of achievement in FY 2022: approx. 70% Rate of achievement in FY 2023: approx. 82% • Reconsideration of supply chain => Being implemented • New system => Completed. Currently in the process of shifting to EDI, etc. for achieving paperless processes • Shift to EDI FY 2022: approx. 50%; FY 2023: approx. 70% 	<p style="text-align: center;">○</p>
<ul style="list-style-type: none"> • Expansion of production space through construction of factory buildings • Replacement of aged equipment • Reconstruction of factory layout • Promoting engineers to acquire multiple skills • Utilization of foreign technical interns and advanced skills training 	<ul style="list-style-type: none"> • Continuation of human resource rotation • Continuation of vitalization through appointment of young employees as group leaders • Currently building an environmentally friendly plant (scheduled for completion in fall 2024) • Currently implementing manufacturing cooperation and collaboration and exchange of manufacturing technologies with Ube Kohki and Matsuda Kiko 	<p style="text-align: center;">○</p>
<ul style="list-style-type: none"> • Digitization of work plans and safety documents (conversion to online, and online work) • Easy-to-construct unit structure (design and cooperation), increasing the percentage of parts built in-house • Promotion of structure designs that facilitates safe work • Proactive negotiations with contractors throughout Japan (discovery of new contractors) 	<ul style="list-style-type: none"> • Improvement of product finish, development of a mechanism for ensuring safe construction work • Initiatives for reviewing construction work processes that ensures safe construction work • Two new contractors. Continued efforts for discovering more contractors • Increase in 5 operation engineers (6 planned in 2024) 	<p style="text-align: center;">○</p>
<ul style="list-style-type: none"> • 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 the operations 	<ul style="list-style-type: none"> • Concluded agreements with 9 AP users and 30 BP users. Expecting 20 contracts per year in the future • Plan to appoint employees who are in charge of area-based front office operations • Start of data monitor operation 	<p style="text-align: center;">△</p>

Feedback from customers



To establish a stronger platform for value co-creation, the Nikko Group asks customers to provide feedback and requests to see how satisfied they are with the plants and machines it has delivered and what improvements it can make, so it will enhance the quality of its products and services and develop new offerings based on the input. For this report, we had the privilege of talking to three customers—Ishibashi Kensetsu Kogyo, DT Precon, and Tokyo Sekiyu Kogyo—to learn about their views.

Customer's voice 1

[Asphalt plant]

Ishibashi Kensetsu Kogyo

Ishibashi Kensetsu Kogyo is based in Hekinan, Aichi Prefecture. Hekinan is well known for its traditional industries, including ceramics, casting, and brewing. The company recently upgraded the NAP U-1000 it had used since 1981 to NAP VP111-4513ABAr. We interviewed Factory Manager Imamura about how the company reached the decision on the upgrade.

Q Why did you decide to upgrade your asphalt plant (AP)?

A It had been about 40 years since the NAP U-1000 we used were installed. As it aged, the maintenance costs rose. Abrupt failure also became frequent, which is why we decided to upgrade the AP.

Q Would you tell us why you decided to use Nikko's AP?

A Nikko is a reliable manufacturer with a long track record of delivering APs. It also does maintenance for numerous other plants and is quick in supplying parts. These were the decisive factors.

Q What differences has the new plant made since it came into operation?

A As a new model, I find VP111 environmentally responsible as well as safe. In regard to safety, VP111 does not have a piece of equipment like a conveyor belt to transfer recycled materials into a mixer, reducing the risk of accident. This allows us to operate the plant with a sense of reassurance. The drive-through style layout also helps prevent minor collisions between dump trucks in the plant. Furthermore, VP111 is designed in such a way that it has a lower impact on the environment than any other plants that came before it. With reduced CO₂ emissions, it is more in harmony with the local environment. I think the plant contributes significantly to environmental protection.

Q Please tell us what Nikko can do more for your plant.

A I would like Nikko's service staff to provide maintenance that is as quick as it always has been.

Customer's voice 2

[Batcher Plant (BP)]
DT Precon, K.K.

DT Precon was established in May 2022 as a joint venture by Takenaka Corporation and Daikyo Kensetsu. The company manufactures and sells mostly precast concrete for construction ("PC products"). For this report, we interviewed President Mogi, Production Manager Asaba, and administration Manager Kawashima.

Q Why did you decide to introduce this batcher plant?

A We used to buy ready-mixed concrete from a nearby plant to produce our products. When we reached a point where we expected greater demand for PC products going forward, we started planning expansion to build a new plant of our own, along with a new structure that would house a factory, in order to meet various needs.

Q Where was your focus when planning the construction of the plant?

A We needed to have a balancing reservoir because of restrictions applied to our development application. To make the most of the premises we had, we made the area for the plant and equipment as compact as possible and adopted a simple layout.

The factory is surrounded with farmland, and so controlling an environmental impact was also our priority. We introduced the right facilities and placed them in the right place accordingly.

Q Would you tell us what you think of DASH Progress, a new plant model, after a period of use?

A Our priorities were material management using corrugated structures, a high-intensity mixer, and maintainability. The plant provides them all and operates without a hitch. DASH-Hyper is designed to mix and knead concrete that is up to 200N/mm². We hope that this mixer will help us a lot in new product development.

Q Finally, please tell us your view on Nikko and what we can do more for your plant.

A This is the first plant facilities we have owned and used. It would be great if you could continue to provide urgent troubleshooting and regularly visit the plant to support us in preventing failures.

Customer's voice 3

[Mobile plant]
Tokyo Sekiyu Kogyo KK

Tokyo Sekiyu Kogyo was established in 1962 as a subsidiary of Arabian Oil Company, Ltd., the first

Japanese company that successfully developed an oil field. Today, as part of the Fuji Oil Company Group, Tokyo Sekiyu Kogyo continues to achieve growth, contributing to local communities through the road infrastructure it has built over more than 60 years. For this report, we interviewed Representative Director Sakamoto.

Q Would you tell us why you bought the self-propelled impact crusher and stationary screen, and what you think of them as a user?

A The stationary crusher we had used was almost 50 years old, and it crushed asphalt and concrete alternately. The new self-propelled crusher is designed solely for crushing asphalt. It is compact and has only a few parts that require maintenance. We are also satisfied with its performance. However, since it is powered by an engine, it makes a lot of noise. I also think we should have chosen a type with a little greater capability of screen processing. Asphalt is sticky, so I believe the intake part could use improvement. But all in all, we are satisfied.

Q In October 2023, your company additionally bought a self-propelled jaw crusher and an impact crusher. Why did you make these two purchases, and how do you rate these machines?

A We additionally bought these two crushers to use them exclusively to crush concrete. We used to use one machine to crush asphalt and concrete alternately, and so these materials got mixed in the crusher, which caused problems in product quality. This is why we decided to use two crushers to crush asphalt and concrete separately. We noted that the new crusher is really powerful. So we are considering using it to crush natural rocks. Another thing we like about the new crusher is that it requires less time for maintenance than a stationary crusher, which means it can operate longer hours. There is nothing that bothers us when it comes to these concrete crushers.

Risks and Opportunities

Nikko identifies risks that could significantly impact the business activities in the future and pursues the development of a corporate culture resilient to 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, account together 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 as well as provision of support for remote operation and automation 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 per 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 1.15 million tons of CO₂ are estimated to be emitted annually 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. In the future, environmental restrictions and promotion of recycling will be strengthened also in China, which would lead to expansion of the high-end model market, and the Company expects to expand its share by leveraging the technologies it has developed in Japan.</p>
		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>

Related risks and opportunities		Details of risks and opportunities	
4	Risk of reduction in public investment budget	Risk	In the past, when the Democratic Party of Japan replaced the Liberal Democratic Party, "from concrete to people" became a slogan and many of our customers shifted to limit capital investment. As a result, our sales declined significantly. In the future, if a party that holds up a policy to reduce public investment forms the government, our customers may shift to curb investment like they did during the previous Democratic Party of Japan regime.
		Opportunity	The Fundamental Plan for National Resilience received a budget of 15 trillion yen for five years and there is little possibility of customers rushing to curb investment and we can rather expect expansion of investment.
5	Risk regarding securing of human resources to engage in on-site operations	Risk	With our business model, we carry out the entire process from plant manufacture to installation on site and offering of maintenance service all in-house. In recent years, manpower shortages have 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.
		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.
6	Risk of spread of COVID-19	Risk	COVID-19 infections have come down and its impact on daily lives has declined, and therefore the Company expects its impact in the future to be small. Nevertheless, risk of resurgence in infections caused by variants still remains, and large-scale infections and their spread may affect the Group's business. In overseas operations similarly, if the spread of COVID-19 in countries where we have operations restricts social activities, it may become difficult to carry out production and 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.
		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.
7	Risks related to increases in material prices	Risk	Prices continue to rise around the world due to factors such as Russia's invasion of Ukraine and demand growth towards the end of the COVID-19 pandemic. Central governments in the U.S., Europe, and other regions are implementing inflation control measures through monetary tightening, such as interest rate hikes, and some signs of a slowdown in price rises are beginning to appear. However, inflationary pressures and concerns over rising prices remain high. If this trend continues, there is a possibility that the prices of materials we purchase will also increase, potentially impacting the profitability of the Company. Further, the impact of rising prices on our customers may cause them to postpone or suspend their capital investment plans, which may result in a decline in the Company's net sales.
		Opportunity	Nikko reflects the price increases of materials and others in the quotations for AP and BP customers and this is expected to lessen the impact on profits in the future.
8	Risks related to the Russia-Ukraine situation	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 the past. 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.
		Opportunity	The prolonged war destroyed buildings and infrastructure in Ukraine and the first thing for restoration in the future is the disposal of the enormous amount of rubble. Nikko's mobile crushers can be taken to the sites and can satisfy the restoration demand in Ukraine.
9	Risks related to exchange rate fluctuations	Risk	The Company's mobile plant business imports its mainstay products from Europe and sells them. If foreign exchange hedge is not implemented, the Company may be affected by risks of exchange rate fluctuations.
		Opportunity	We have been hedging risks related to foreign exchange fluctuations by purchasing foreign currencies or arranging exchange contracts in advance, and therefore such impacts are expected to be negligible.

Nikko

Integrated Report

02

Sustainability Management

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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, Nikko Group is aiming to achieve a 50% reduction in CO₂ emissions (compared with FY 2013) from its business activities as well as operation of Nikko-made plants at customers as an interim target for FY 2030. In addition, the Group is promoting the development of technologies for reducing CO₂ emissions and provision of related products and solutions towards achieving carbon neutrality in 2050.

Four steps towards the realization of carbon neutrality

To grasp CO₂ emissions in Scope 1, 2, and 3 as accurately as possible, we have been verifying major categories by setting certain conditions since FY 2021. The results of the verification show that CO₂ emissions from the use of products such as Nikko-made plants sold were 680,000

tons (verified in FY 2023), accounting for 89.3% of overall emissions in Scope 3. The Group offers products and solutions by identifying the most cost-effective methods for reducing CO₂ emissions, while sharing with customers the verification data for Category 11 of Scope 3.

Four steps

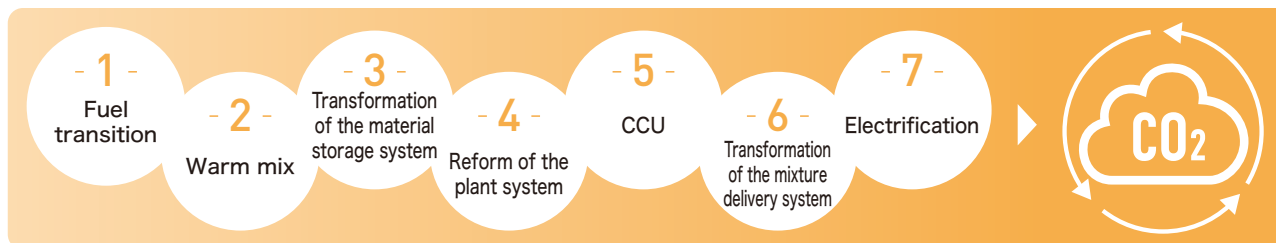


Seven approaches towards the realization of carbon neutrality

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



1) Fuel transition

To replace heavy oil, which has high CO₂ emissions, the Group has been developing 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. We are at the stage where we are ready to implement some of the products.

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. Use of warm mix equipment developed with Nikko's original technologies reduces the energy consumption in heating, thus helping reduce 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 lowering the amount of newly used consumption energy by recycling exhaust gas and heat from plant operation for heating and processing aggregate. We aim to save even more energy by combining existing equipment and reconstructing it as a new system.

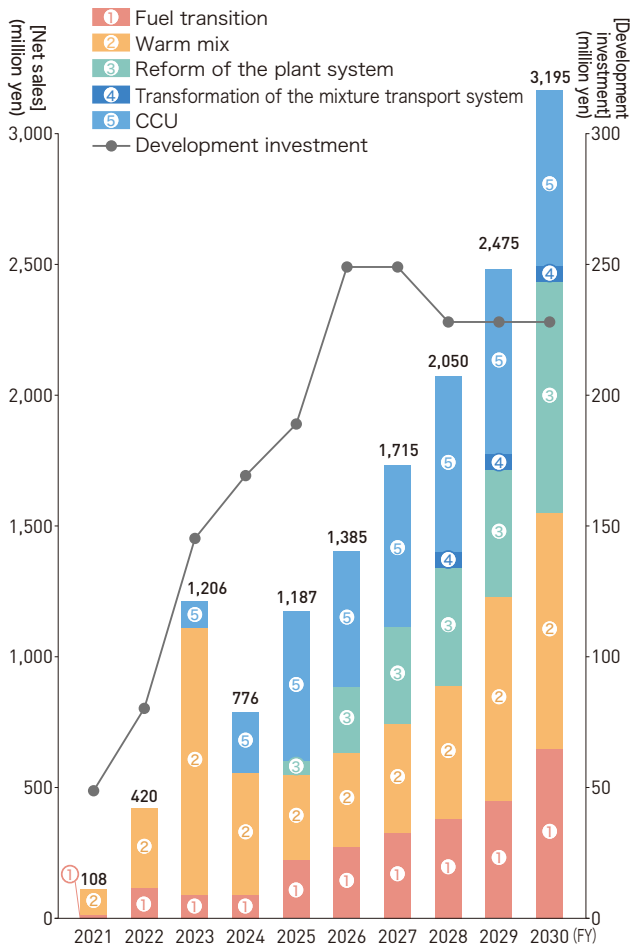
5) CCU

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 promoting research and development for absorbing the CO₂ emitted from asphalt plants at concrete plants.

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.

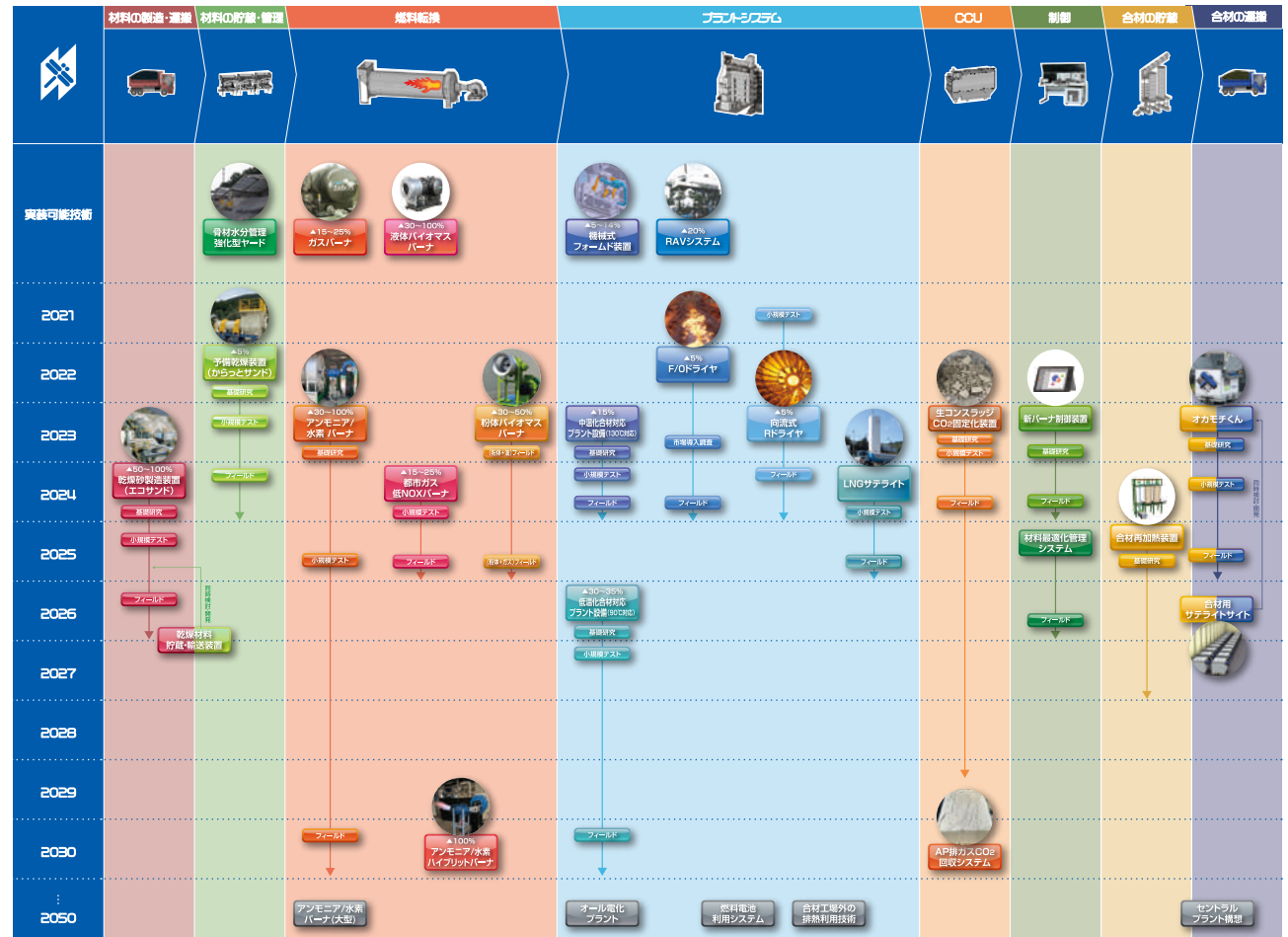
Net sales target of decarbonization and low-carbon products and investment plan (the figures from FY 2021 to 2023 are results)



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 AP products



For details of the road map for the development of AP products, visit our website (<https://www.nikko-net.co.jp/sustainability/carbon-neutral.html>)

Information disclosed based on TCFD framework



The Group is promoting the development of technologies that can reduce CO₂ emissions and provision of related products and solutions 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.

Governance

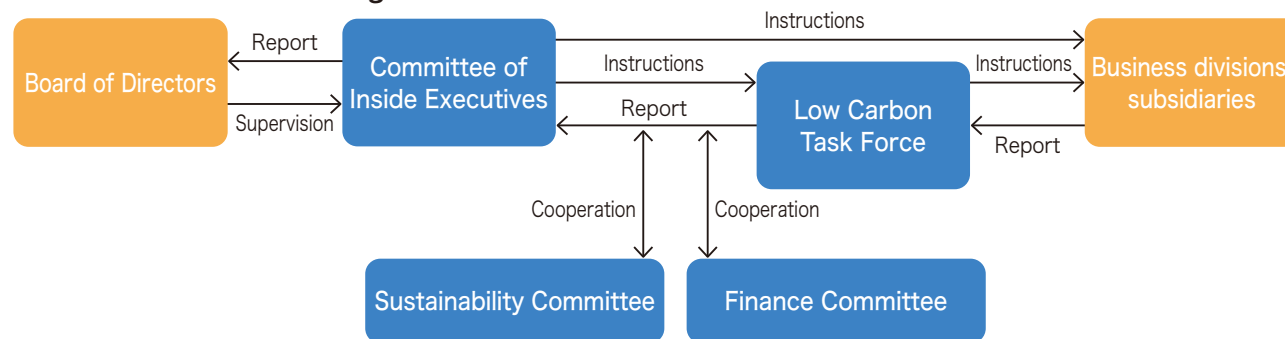
Carbon neutrality promotion structure

Nikko established the Low Carbon Task Force (LCTF) led by the managers of the Business and Technology Development Divisions to promote the realization of carbon neutrality. Through its monthly LCTF meetings, it examines and discusses 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. It also works together with the Sustainability Committee chaired by the Director as well as the Finance Committee as necessary. The Board of Directors, at its meetings, deliberates the investment plan, product development plan, and risk countermeasures formulated by the Committee of Inside Executives and supervises their adequacy and progress.

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 (as necessary). The Sustainability Committee and the Finance Committee work together to identify risks and opportunities and discuss countermeasures (as necessary). 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 (twice a year or more).
Strategy	<ul style="list-style-type: none"> Identify risks and opportunities in scenario analysis considering the 2°C and 4°C scenarios, decide on medium- to long-term measures, and manage their progress Analyze the impact of risks and opportunities on business and finance Formulate development plan for low-carbon and decarbonization-related products and their market introduction plans
Risk management	<ul style="list-style-type: none"> The Risk Management Committee chaired by Director and Vice President 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. Switch to renewable energy-based electricity and establishment of RE100 target (FY 2030) Verification of Scope 3 (in the entire supply chain) CO₂ emissions Setting of the FY 2030 interim target and the FY 2050 target based on scenario analysis <FY 2023 results> <ul style="list-style-type: none"> CO₂ emissions (Scope 1 and 2): 407t-CO₂ (down 16.6% vs. FY 2022) CO₂ emissions (Scope 3): 762,789t-CO₂ (up 2.7% vs. FY 2022) <FY 2030 target> <ul style="list-style-type: none"> CO₂ emissions (Scope 1, 2, and 3): 650,000t-CO₂ (50% reduction vs. FY 2013 results) <FY 2050 target> <ul style="list-style-type: none"> Aim for net-zero CO₂ emissions (Scope 1, 2, and 3)

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 carrying out the scenario analyses for 2030 and 2050.

Reference scenarios ■ IEA “World Energy Outlook 2020” ■ IPCC AR5

- STEPS (current policy scenario)
- SDS (sustainable development scenario)
- RCP2.6 (2°C scenario)
- RCP8.5 (4°C scenario)

Business and financial impact of climate-related risks and opportunities based on scenario analysis; medium- to long-term measures addressing risks and opportunities and results for FY 2023

2°C scenario (assuming progress in low-carbonization)	Risks	Impact on finance	Likelihood of occurrence	Countermeasures	FY 2023 results
	Rapid shift to decarbonized burners (plants)	High	Medium	Speed up product development.	<ul style="list-style-type: none"> ● Completed demonstration tests of burners fired by decarbonized fuels such as hydrogen, ammonia, and powder biomass. ● Increased R&D expenses (700 million yen) ● Prepared a decarbonization technology roadmap. ● Revised the price table due to increase in procurement costs. ● The head office factory switched to green electricity. ● Sales of decarbonization-related products increased.
	Request from users to share the carbon tax burden (discount)	High	Medium	Tirelessly explain to and negotiate with customers	
	Market introduction of highly carbon-efficient roadbed materials alternative to asphalt	High	Low		
	Increase in R&D expenses and capital investment	Medium	High	Improve efficiency of development. Clarify priorities.	
	Decarbonized burners, CO ₂ capture and storage technology, etc.	Medium	High	Speed up product development.	
	New entry by boiler, burner, and electric furnace manufacturers	Medium	Medium	Strengthen analysis of expected new entrants. Acquire related intellectual properties at an early stage.	
	Decrease in the number of operating plants due to centralization to large plants	Medium	Medium	Identify users who will survive and recommend systematic maintenance to such users	
	Increase in the cost of procurement of raw materials (steel materials, etc.)	Medium	High	Strengthen function-focused purchasing, passing on costs to product prices, etc.	
	Increase in the cost of electricity derived from renewable energy	Low	High	Streamline plant operations and pass on costs to product prices	
Increase in the cost of procurement of alternative fuels	Low	High	Promote a wide range of fuel procurement methods		
Decrease in the number of plants of pavement operators due to stricter CO ₂ emissions regulations	High	Medium	Expand into new markets (new markets in Japan + overseas pavement business)		
Opportunity	Impact on finance	Likelihood of occurrence	Countermeasures	FY 2023 results	
Demand for updating to low-carbon or decarbonized burners (plants)	High	High	Diversify fuels and enhance product lineup	<ul style="list-style-type: none"> ● Increased number of business negotiations for CO₂-absorbing plants ● Promoted proposals for recycling plants targeting ASEAN ● Increased the number of employees engaged in technology development ● The number of patent applications increased. 	
Growth in market share due to superiority in the R&D competition	High	Medium	Further strengthen technology development investment		
Increase in demand for concrete products (roadbed materials alternative to asphalt)	Medium	Low	Transform plants to pavement concrete production		
Growth in demand for recycling and low-carbon plants due to stricter environmental restrictions in China and Southeast Asian countries	Medium	Low	Reinforce overseas production bases		
Provocation of demand for new plants due to spread of CO ₂ fixation concrete	Medium	High	Enhance lineup of plants for CO ₂ absorbing concrete		
Increase in demand for lithium battery recycling equipment due to expansion of the EV market	Low	Medium	Enhance lineup of environmentally friendly and recycling products		

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.

4°C scenario (assuming low-carbonization scenario is not promoted)	Risks	Impact on finance	Likelihood of occurrence	Countermeasures	Results
	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	Low	Launch products developed using core technologies in the new construction material market	<ul style="list-style-type: none"> Established a dedicated department for lateral deployment of the core technologies. Unearthed new suppliers mainly in the ASEAN region. Revised the price list as needed.
	Increase in the cost of procurement of materials due to suspension of supply chains	Low	Medium	Diversify supply chains including those overseas	
	Increase in BCP expenses	Low	High	Appropriately pass on costs to product prices	
	Opportunity	Impact on finance	Likelihood of occurrence	Countermeasures	Results
	Increase in demand for preemptive maintenance for stable operation	High	Low	Improve the efficiency of the maintenance business using IoT	<ul style="list-style-type: none"> Promoted use of subscription service for maintenance. Established a production base in ASEAN. Acquired land for factories in Japan as needed. Increased the number of employees engaged in technology development The number of patent applications increased.
	Increase in demand for disaster prevention or mitigation models	Medium	Medium		
	Increase in demand for disaster prevention products (waterproof boards, temporary scaffolding, etc.)	Medium	High	Strengthen manufacturing capacity and reorganize manufacturing sites	
	Increase in demand for counter-disaster mobile plants	Low	Medium	Develop and enhance lineup of temporary and mobile products	
	Increase in needs for transferring plants to areas with low disaster risk	Low	Low		
Increase in demand for concrete products (roadbed materials alternative to asphalt)	Medium	Low	Transform plants to pavement concrete production		
Growth in demand for disaster prevention or mitigation in China and Southeast Asian countries	Low	Medium	Reinforce overseas production bases		
Expansion of the budget for National Resilience	High	High	Prepare for an increase in demand		

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

Metrics and targets

Nikko Group aims to realize virtually zero CO₂ emissions from its business activities and Nikko products it sells in 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. Including these responses, the Group has reduced the verified Scope 1, 2, and 3 CO₂ emissions to 58.8 in FY 2023 when the emissions in FY 2013 are set at 100.

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

FY 2023 CO₂ emission results

407t-CO₂ (Scope 1 and 2); 762,789t-CO₂ (Scope 3)

FY 2030 CO₂ emissions

650,000t-CO₂ (Scope 1, 2, and 3)(50% reduction vs. FY 2013 results)

<Nikko Co., Ltd.>

■ Utilization of renewable energy-based electricity

Nikko Co., Ltd. switched all electricity used at its head office factory to electricity generated from renewable energy sources in March 2022. The move significantly reduced the Scope 2 CO₂ emissions from 2,454t-CO₂ in FY 2021 to 139t-CO₂ in FY 2023. Going forward, we will pursue this initiative also at sales offices and group companies throughout Japan, aiming to achieve RE100 (100% introduction of renewable energy-based electricity) in the Nikko Group (Japan) by 2030.

● Ratio of introduction of renewable energy-based electricity at Nikko (non-consolidated)

FY 2021 **7.9%**

FY 2022 **91.8%**

FY 2023 **90.8%**

RE100 achievement target: FY 2030 at the Nikko Group in Japan

Verified Scope 1, 2, and 3 CO₂ emissions (t-CO₂)

		Target activities	FY 2013	FY 2020	FY 2021	FY 2022	FY 2023	
Scope 1	Combustion of fuels	Emissions from manufacturing, processing, and experimenting	430	305	286	297	268	
Scope 2	Use of electricity	Electricity use at all companies including dorms	2,639	2,454	2,354	191	139	
Scope 3	Category							
	1	Purchased products and services	Emissions in upstream of the products purchased (including raw materials and office supply)	39,073	48,002	54,341	44,645	47,023
	2	Capital goods	Emissions in upstream of capital investment that has been recently introduced	2,137	3,946	2,279	2,345	2,106
	3	Fuel- and energy-related activities not included in Scope 1 and 2	Emissions from mining, refining, etc. of the fuel used for burning and generating electricity in Scope 1 and 2	367	328	324	317	308
	4	Transport, delivery (upstream)	Procurement and transport of raw materials and parts, and shipment of products (costs borne by the company)	26,386	24,670	28,564	29,283	32,031
	5	Waste from the business	Waste disposal, recycling of goods other than valuables, emissions from transport	115	61	47	46	43
	6	Business trips	Emissions from business trips by employees (rail service and airplane)	84	83	85	91	96
	7	Commuting by employees	Emissions from employees' commute (rail service, bus, ship, automobile, motor bike)	310	304	279	295	290
	11	Use of products sold	Emissions from operating AP, BP, and conveyors sold	1,226,848	698,501	682,181	665,664	680,820
	12	Disposal of products sold	Emissions from disposal of AP, BP, and environmental plants sold	93	95	93	74	72
Total			1,298,482	778,749	770,833	743,248	763,196	
Vs. FY 2013			100.0%	60.0%	59.4%	57.2%	58.8%	

As a member of global citizens engaged in the business of construction machinery, industrial machinery, and environment-related equipment, Nikko Group recognizes that the preservation of the global environment is one of our most important issues. Based on our basic principle of “Prioritize the environment,” we act in harmony with the environment and strive to conserve the global environment. In addition, in order to contribute to the establishment of a recycling-oriented society, we offer a wide variety of products and solutions that support the recycling of industrial waste. For details of our environmental policies, visit our website. →<https://www.nikko-net.co.jp/sustainability/environment.html>

(1) Promote activities to reduce the environmental burden

Nikko Group promotes resource and energy conservation as well as waste reduction and recycling, to reduce the environmental burden as much as possible.

(2) Develop and spread products that contribute to the establishment of a recycling-oriented society

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. Furthermore, we have been proactively implementing various initiatives such as developing a system to extract metal resources from industrial waste to expand the potential of urban mining, and recycling of concrete sludge towards minimizing industrial waste.

1 Recycling of asphalt waste <more than 99% is recycled>

To advance the recycling of asphalt mixture and concrete waste materials, Nikko in the 1970s commercialized asphalt mixture recycling plants and crushing 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 (more than 99%). Currently, about 75% of the asphalt mixtures used for paving roads are mixtures that use the aggregate recycled from asphalt waste as raw material.

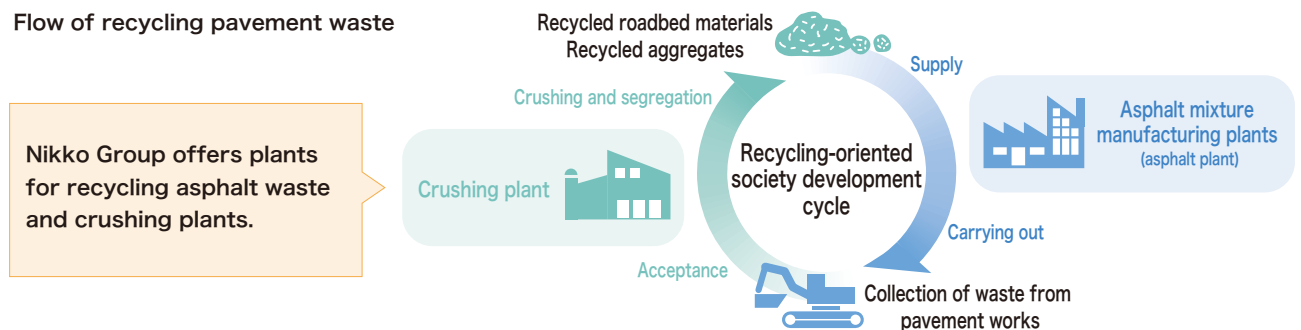
Trend in industrial waste volume and breakdown by type

Breakdown		Recycled or not	Unit	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Paper scraps	Paper		bag	1,897	1,897	2,049	2,580	10,000
	Scrap	○	kg	1,600,730	1,668,980	1,604,900	1,820,320	1,571,170
Metal scraps	Shavings	○	kg	141,330	120,960	139,840	150,580	126,550
	Gas cutting slag, scales	○	kg	18,960	61,200	43,420	38,650	41,250
	Tin can	○	kg	21,340	19,960	22,430	24,040	19,800
	SUS scraps, electrical wire scraps	○	kg	34,690	39,530	38,530	28,130	29,520
Industrial waste	Wood chips		m ³	323	332	368	370	336
	Plastic waste		kg	213	3,020	20,649	13,265	13,050
	Construction waste		m ³	58	75	72	77	92
	Floor sand		t	11	10	12	13	11
	Non-combustibles		m ³	1	0	2	3	1

Trend in water consumption

Breakdown	Unit	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Water supply	m ³	10,767	9,155	9,413	10,107	9,969

Flow of recycling pavement waste

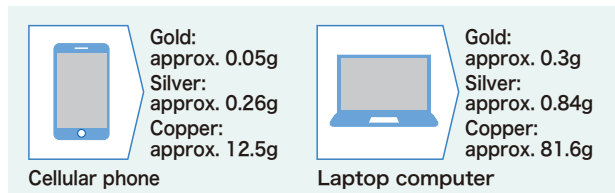


Nikko Group offers plants for recycling asphalt waste and crushing plants.

2 Recycling of metal resources in urban mining

Urban mining refers to a recycling concept that reuses valuable metal resources contained in home appliances, electronic devices, and other items discarded in urban areas. Generally, mineral resources are extracted from underground; however, already at the end of the 20th century, a number of metal resources had reached a state where the volume already extracted was greater than that confirmed to be reserved underground. Nikko intends to make effective use of this already extracted mined metal in the sphere of human activity as a resource.

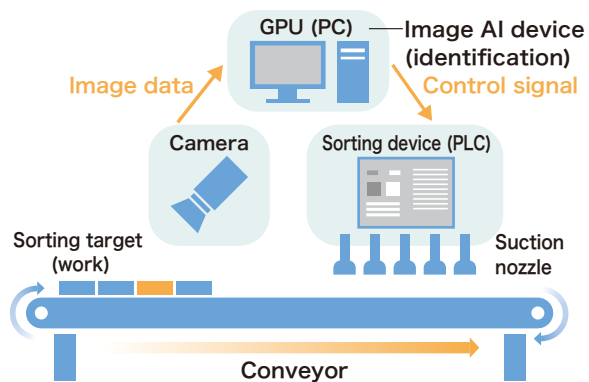
Gold, silver, and copper contained in small home appliances (per unit)



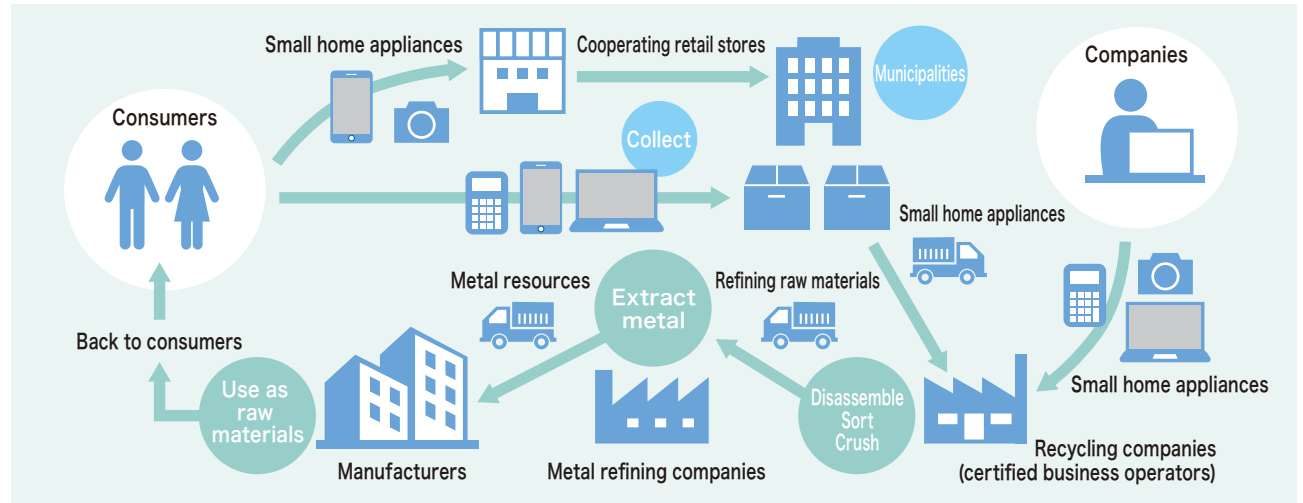
Source: Ministry of the Environment

Nikko has developed and commercialized a system that uses AI to sort metal resources from collected small home appliances. Analyzing images taken by cameras using AI to categorize object allows us to improve operational efficiency.

Processing flow of AI'll be sorter separation system based on AI image recognition developed by Nikko



Recycling process of metal resources contained in small home appliances



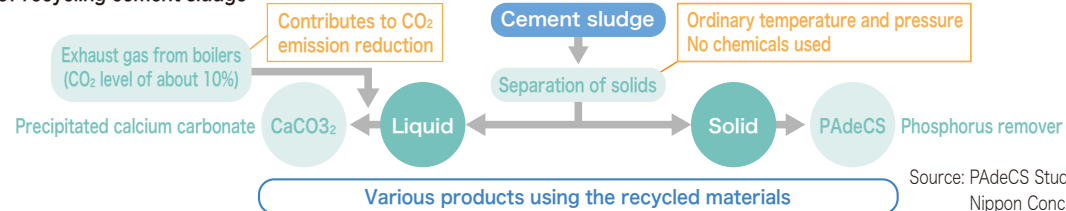
Source: Ministry of the Environment

3 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 (CaCO_3) 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 CO_2 in the refining process that could reduce CO_2 . 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 cement sludge



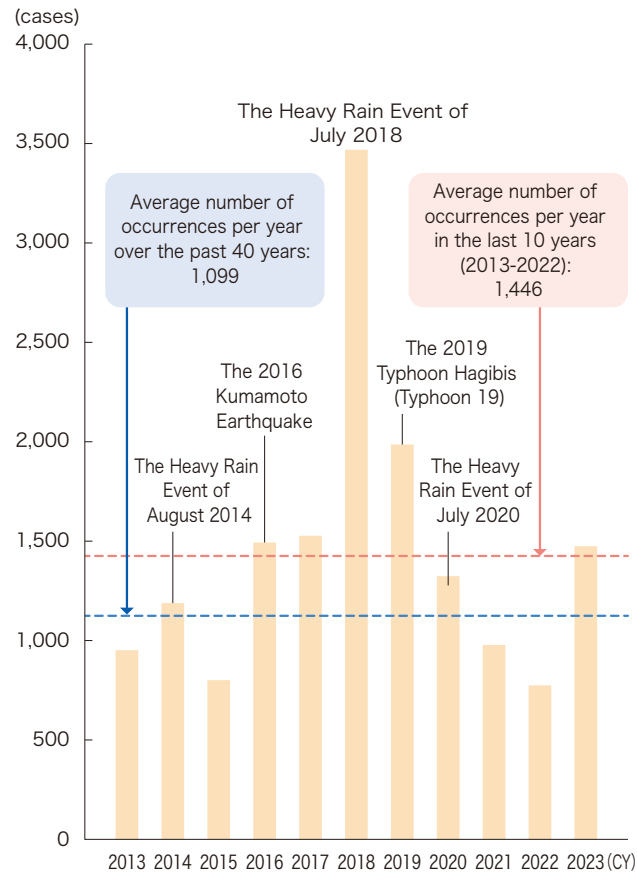
Source: PAdeCS Study Group, Nippon Concrete Industries Co., Ltd.

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 and frequent occurrence of linear precipitation zone, large earthquakes such as

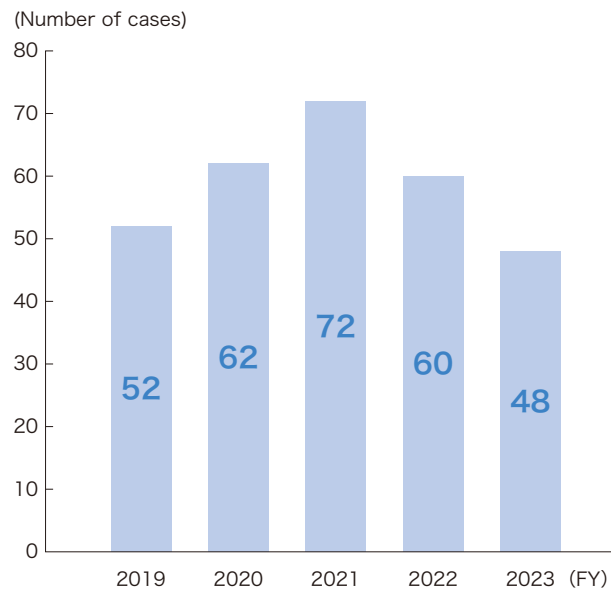
the Nankai Trough and Tokyo Metropolitan near-field earthquakes, and the resultant tsunamis and volcanic eruptions, are anticipated. The disaster risks facing Japan are moving into a new stage. As the top manufacturer of asphalt and concrete plants, Nikko Group focuses on ensuring early recovery from disasters by closely collaborating with customers so as to fulfill its supply responsibility.

Occurrences of landslides in the past 10 years (2014-2023)



Source: Ministry of Land, Infrastructure, Transport and Tourism

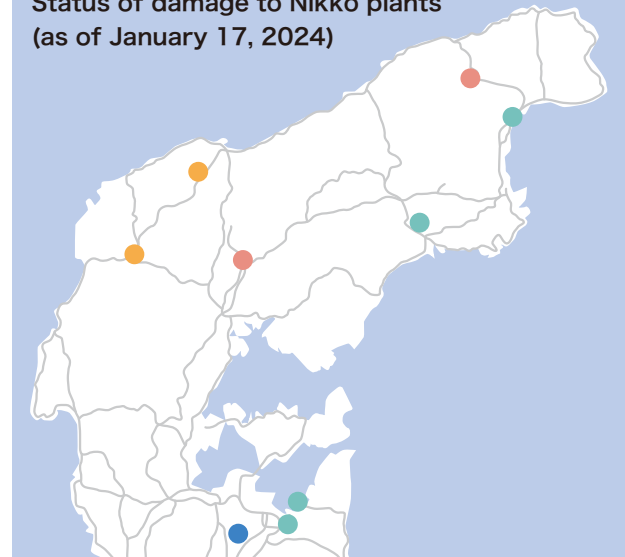
Trend in the number of natural disaster damage to Nikko plants



Status of recovery of Nikko plants damaged by the 2024 Noto Peninsula Earthquake

In the affected areas, it was hoped that the severed roads would be repaired as soon as possible for smooth transport of goods and the recovery of essential utilities. Nikko quickly ascertained the status of manufacturing facilities delivered to the asphalt mixture plants and concrete plants, which would be key to recovery efforts, and, together with

Status of damage to Nikko plants (as of January 17, 2024)



Status of plant to which Nikko's facilities are delivered

- Operable asphalt plants
- Difficult-to-operate asphalt plants
- Operable ready-mixed concrete plants
- Difficult-to-operate ready-mixed concrete plants

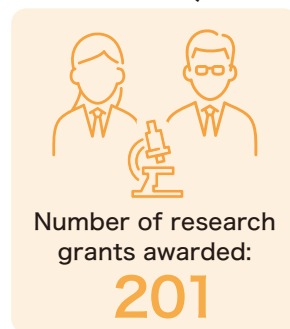
our customers, placed the highest priority on the recovery of the affected plants and increased the number of personnel at our Hokuriku service station (Kanazawa City). In this way, we did our utmost to support the early recovery of the affected areas. Of the eight plants that had been difficult-to-operate, we had completed restoration work on seven of them by February 16, 2024, with the exception of one that was to be dismantled and new construction started, and confirmed that they were back in operation.

Co-Existence with Local Communities and Contribution to Future Generation

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 the Kinki region.

It is also offering research grants to researchers who are engaged in academic research related to technology development at universities and technology/engineering institutes in the Kinki region. 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 2023)



New scholarships and research grants awarded in FY 2023

Number of scholarships awarded: Two (name of the educational institutions where the recipient is enrolled)

- Tokushima University
- Kobe City College of Technology

Number of research grants awarded: Four (name of the educational/research institutions where the researcher is enrolled)

- ① National Institute of Technology (KOSEN), Akashi College
Research theme: Utilization of woody biomass incineration ash as an environmentally friendly ground improvement material
- ② Kobe City College of Technology
Research theme: Research and development of technology for identifying deterioration and damage inside RC floor slabs of road bridges using vehicle-mounted electromagnetic radar
- ③ Kobe City College of Technology
Research theme: Research of self-healing of cracks in concrete
- ④ Kobe City College of Technology
Research theme: Study of concrete coating areas suffering from frost damages in surface impregnated materials

Response to human rights

As a guideline for promoting initiatives to respect human rights and fulfilling our responsibilities, Nikko Group has formulated the Nikko Group human rights policies in accordance with the United Nations International Bill of Human Rights, ILO Core Labour Standards, and other international human rights norms.

Nikko Group human rights policies

Nikko Group is committed to respecting human rights in order to fulfill our responsibilities to all stakeholders in accordance with NIKKO CORPORATE IDENTITY.

To this end, each and every officer and employee shall respect each other's diversity, personality, and individuality, and shall not discriminate on the basis of race, religion, nationality, age, gender, gender identity, sexual orientation, disability, or any other basis and shall not voluntarily engage in harassment that offends individual dignity.

1. Scope of application

These policies apply to all officers and employees of the Nikko Group.

Nikko Group will also work to encourage support for these policies with respect to its supply chain.

2. Applicable laws and regulations

Nikko Group respects the United Nations International Bill of Human Rights, ILO Core Labour Standards, and other international human rights norms.

We comply with laws and regulations of countries and regions in which we operate, and in cases where the laws and regulations of such countries and regions conflict with internationally recognized human rights and laws and regulations, we respect the international human rights principles to the fullest extent possible.

3. Responsibility to respect human rights

Nikko recognizes that in its business activities, the possibility of generating negative effects cannot be completely ruled out. Nikko Group will fulfill its responsibility to respect human rights by ensuring that it does not violate human rights of others in its business activities, and by taking appropriate measures to correct any negative impact on human rights that may occur in its business activities.

Where our supply chain partners are involved in the negative impacts on human rights, we will work to encourage them to respect human rights.

If, through human rights due diligence or other means, it becomes clear that we have had or contributed to a negative impact on human rights, we will strive to take appropriate remedial or corrective measures.

4. Information disclosure

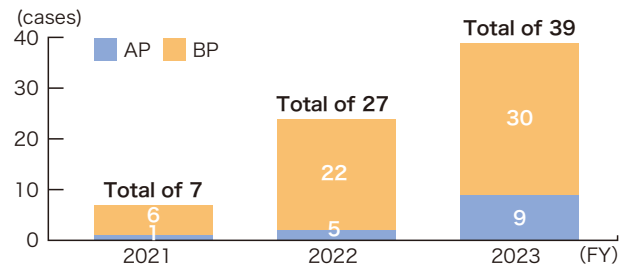
Nikko Group will regularly disclose information on its initiatives for respecting human rights on its corporate website and in other media.



Strengthening the foundation of flat-rate service and introduction of next-generation preventive and predictive maintenance service

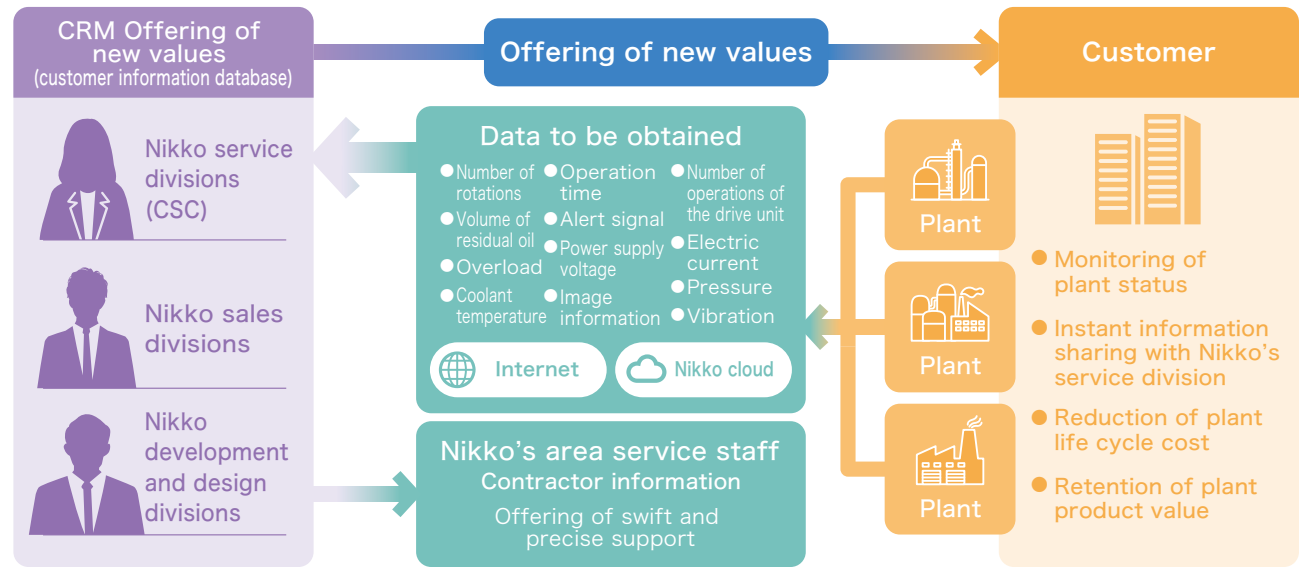
Aiming to create new customer values, Nikko Group is preparing for the introduction of a next-generation preventive and predictive maintenance service that utilizes IoT devices and communication networks. Specifically, we have a system in place for developing plants and units, increasing the number of personnel and improving their skills, developing contractors, and enhancing remote monitoring equipment. In advance of offering the next-generation preventive and predictive maintenance, we are transitioning our service to a flat-rate (subscription) service that replaces existing charge system based on each project. We will propose a maintenance plan in advance and provide periodic repairs and parts replacement for the facilities to reduce customers' maintenance costs, and contribute to the improvement of their productivity by reducing emergency post-incident repairs. In this way, we will aim to create customer values.

Status of flat-rate service outsourcing count (cumulative)



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 take required action before the operation status of the plant becomes unstable. Toward resolving 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. In addition, visualizing the plant operation status allows to collect failure

Next-generation preventive and predictive maintenance



information and identify the location of the fault without waiting for an engineer to arrive, which can greatly shorten the time taken for recovery. Next-generation preventive and predictive maintenance through DX not only greatly contributes to the productivity improvement of customers and the Group's employees, but also to work style reform. At the same time, it enhances the sustainability of our support system as it enables the support center at the Akashi head office to respond at a satellite office in the event of a disaster.

One Nikko Platform, a DX tool that connects customers and Nikko

Nikko Group is building a new CRM (customer information database) that will serve as an infrastructure for next-generation preventive and predictive maintenance, which connects customers and Nikko. We will utilize the big data accumulated through the next-generation

preventive and predictive maintenance to support customers' plant life cycle management through the Nikko Group value chain, and link this to the development of new products.

Process toward full-scale operation

Step 1	Centralized management and effective use of control panel data, inspection data, and customer data, etc. Work is underway to check and correct data consistency, and field testing is scheduled to be conducted by the end of FY 2024
Step 2	Utilize data by organizing and visualizing historical data
Step 3	Offer attractive content for customers (FAQs, chatbots, estimate preparation, parts purchasing, use of AI technology)

One Nikko Platform, which connects customers and Nikko

Next-generation preventive and predictive maintenance

Procurement and manufacturing divisions
Collaboration with suppliers

Information of replacement parts on EC websites

Service division

Information sharing with contractors

Marketing division

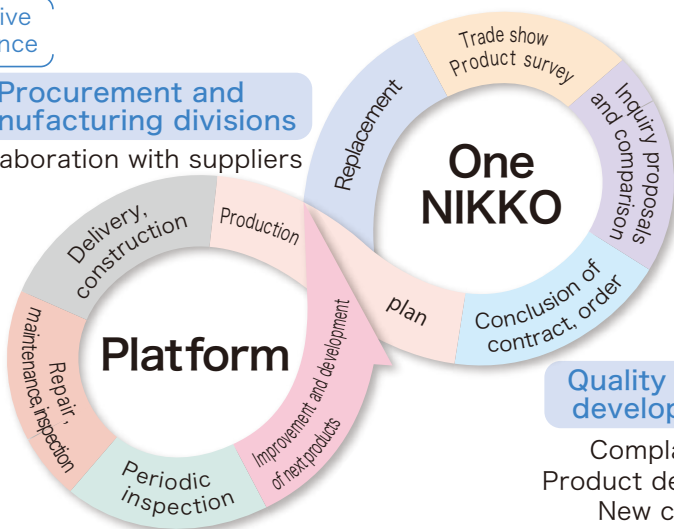
One NIKKO

Sales division

Sharing information with the design and manufacturing divisions from the early stages of business negotiations

Quality assurance and development divisions

Complaint information
Product development request
New customer needs



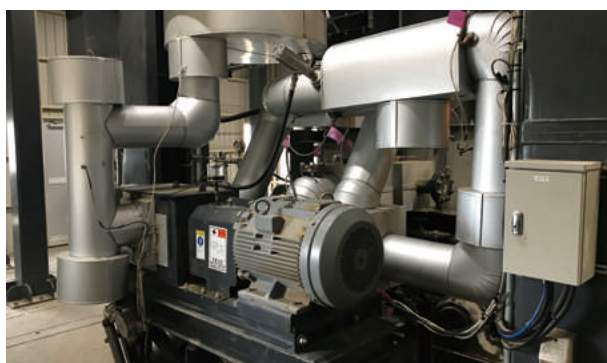
Nikko brand products contributing to realization of low-carbon and decarbonized society

Customers who operate asphalt and concrete plants have been driving forward various initiatives for realization of low-carbon and decarbonized society. As the leading brand in plant manufacturing, Nikko Group has been offering various products and solutions to jointly solve the issues faced by customers.

1 Asphalt warm mix equipment (mechanical foamed equipment)

Nikko has developed Blue Cyclone, mechanical foamed equipment required for manufacturing warm mixture, and has been offering it to the road pavement industry, which has been actively incorporating warm mix as part of efforts to reduce CO₂ emissions. The use of the product enables approximately 6% reduction* in CO₂ emissions compared with a conventional plant.

*Nikko's calculation for the CO₂ emitted at a mixture plant.



Mechanical foamed equipment Blue Cyclone

2 Fuel transition

Nikko has completed testing a small-sized model of asphalt mixture manufacturing plant using a test burner fired by the next-generation fuel hydrogen instead of heavy oil. Similarly, it has completed the

combustion test phase of an ammonia burner and has embarked on the development of a small-sized model. Nikko focuses on developing these products to address new fuels aimed at reducing CO₂ emissions by considering the development status of fuel supply infrastructure.



Hydrogen burner

Ammonia burner

3 Equipment for removing water from aggregate before the drying process

The factor that has the biggest impact on CO₂ emissions in manufacture of asphalt mixture is the amount of water contained in aggregate. Reducing the amount of water contained in aggregate allows us to reduce CO₂ emissions during the drying process. Nikko has been developing a device that reduces the amount of water in aggregate, and has installed a testing device at a user's plant to conduct performance verification tests for commercialization.



Device for removing water from aggregate

See page 60 for details of value creation toward the realization of carbon neutrality.



To realize its vision of “Creating robust, people-friendly cities around the world,” Nikko has defined the following three types of human resources who would develop new markets, products, and services by leveraging the Company’s high technological prowess.

Types of human resources Nikko Group is looking for

Human resource that reinvents for the future

Human resource that takes on challenges without fear of failure

Human resource that respects and collaborates with diverse coworkers

To realize its vision of “Creating robust, people-friendly cities around the world,” Nikko needs human resources who would develop new markets, products, and services by leveraging the Company’s high technological prowess. In particular, we believe it is an important factor for further growth of employees and realizing the Company’s vision that individual employees independently carry out reforms and take on challenges while respecting and collaborating with diverse coworkers and others outside the company. To this end, we will work to develop mechanisms to nurture independent human resources, create connections with people inside and outside the company, and support cooperation for new reform and challenges.

Human resources strategy linked to the long-term vision

For each measure, Nikko sets KGIs and KPIs after clarifying what it aspires to be and key issues, and promotes human resources strategy initiatives to realize the long-term vision.

Measures related to human capital	What Nikko aspires to be	Key issues	KGI	KPI (progress monitoring)
Strengthen hiring of human resources	Hiring of human resources has been strengthened in all divisions and the pool of human resources to realize the vision is sufficient	<ul style="list-style-type: none"> Formulate hiring plan by attribute (number of hiring by fiscal year: new graduates and hires with prior work experience) Implement measures to increase the number of applicants according to attributes such as science-related human resources and female 	<ul style="list-style-type: none"> Number of hires (overall and by attribute) by FY 2030 	<ul style="list-style-type: none"> Number of applicants Application rate Percentage of applicants reaching final interview Number of applicants for final interview Number of applicants offered jobs Number of applicants hired
Establish and spread the ideal approach to human resource development	Each employee has an idea about his/her career and a system has been in place to support him/her in achieving his/her career goal, and employees are receiving such support and working	<ul style="list-style-type: none"> Redevelop training system and career support system based on the human resource development policy 	<ul style="list-style-type: none"> Attendance rate of independent and selective training Training hours and costs per employee Employee satisfaction with human resource development system 	<ul style="list-style-type: none"> Training report submission rate Percentage of supervisor feedback provided
Develop global human resources	Development of global human resources who drive growth of overseas business has been strengthened, and human resources are deployed in each overseas base in a stable manner	<ul style="list-style-type: none"> Establish and implement hiring and development programs for global human resources Foster an organizational culture that considers career formation from a global perspective 	<ul style="list-style-type: none"> Number of global human resources 	<ul style="list-style-type: none"> Number of foreign nationals hired Percentage of employees who hope to develop their careers globally Number of overseas trainees dispatched, number of employees with overseas work experience Number of participants in the global human resource development program
Understanding and spreading the Vision	Each employee understands and empathizes with the CI, long-term vision, and Medium-Term Management Plan as his/her own matter, and his/her job and work style are in conformity with them	<ul style="list-style-type: none"> Foster an organizational culture in which all employees are interested in the CI, long-term vision, and Medium-Term Management Plan, and think on their own what they should do to realize them and take action 	<ul style="list-style-type: none"> Behavioral change with Vision in mind 	<ul style="list-style-type: none"> Fulfillment rate of opportunities for dialogue between the president and employees Fulfillment rate of opportunities for dialogue with management team and managers Level of understanding and acceptance of the Vision
Develop independent human resources	The number of human resources who think what they should do to contribute to the organization and act independently has increased and they have become the driving force in each division	<ul style="list-style-type: none"> Extract the elements that are particularly important in realizing the management vision in terms of “innovative action,” “external networking action,” and “career development action,” and study and implement measures to promote specific actions by employees 	<ul style="list-style-type: none"> Proactive human resources score 	<ul style="list-style-type: none"> Number of best practices shared Participation in external exchange (training) Number of actual job rotations
Ensure appropriate working hours	Each and every employee has a better understanding of time management, and working hours are leveled among employees	<ul style="list-style-type: none"> Each employee correctly understands time management from the viewpoint of work-life balance (WLB) and labor productivity, and thinks and implements specific improvement measures 	<ul style="list-style-type: none"> Percentage of employees whose working hours are within the 36 agreement limits Cumulative number of cases in which an employee’s monthly overtime hours exceed 40 hours 	<ul style="list-style-type: none"> Awareness rate of overtime reduction measures Implementation rate of overtime reduction measures
Improve sense of well-being and job satisfaction	Each and every employee is physically and mentally healthy, and feels socially and economically fulfilled	<ul style="list-style-type: none"> Maintain and improve retention rate after joining Increase recognition/utilization rate of childcare and nursing care support systems Implement measures to reduce anxiety related to childcare and nursing care 	<ul style="list-style-type: none"> Scores on well-being 	<ul style="list-style-type: none"> Retention rate of new graduates and people with prior work experience three years after joining Career satisfaction rate of young human resources Introduction and utilization rate of consecutive leave system Implementation of seminars to support balancing work and childcare/nursing care Ratio of employees taking childcare leave
Promote DE&I	The organization and its human resources are evolving through each and every employee’s acceptance of diversity, mutual recognition, and the exercise of diverse capabilities toward the realization of the Vision	<ul style="list-style-type: none"> Study and implement measures to promote hiring, develop, and retain female employees Reconstruct hiring routes for foreign nationals and strengthen a system for acceptance after hiring Build an organizational foundation that enables each and every person with disabilities to demonstrate his/her diverse abilities and play an active role in his/her field of expertise 	<ul style="list-style-type: none"> Ratio of female employees, ratio of female managers Number of foreign nationals in managerial positions Employment rate of persons with disabilities 	<ul style="list-style-type: none"> Attendance rate of female employee development training for managers Attendance rate of in-house seminars for the development of female managers Ratio of employees who would like to be a manager if given the opportunity Ratio of female hired, ratio of female candidates for management positions Creation of opportunities for communication among foreign employees Implementation rate of cross-cultural understanding-related themes in the new hire training Retention rate of foreign employees three years after joining Implementation rate of interviews with employees with disabilities Number of study sessions for supervisors implemented

In-house environment development

Nikko believes that it is important for employees to respect and feel respected by the diverse people in and outside the company, and to develop a in-house environment where employees feel secure and energetically cooperate with each other. We are promoting initiatives for human resource development and in-house environment development in line with our human resources strategy by setting the following target values.

In order to visualize employees' well-being, we conduct a well-being survey of all employees of Nikko Co., Ltd. In FY 2023, 95.2% valid responses were received for 640 employees. The overall rating showed a well-being level of 5.9 points on a scale of 10. The results of the analysis identified issues in items related to "expectation for future career," and we will work on measures which will lead to improvements.

Human resource development and improvement in job satisfaction: indicators and targets

Category	Indicators	Results (FY 2023)	Targets (FY 2030)
Human resource development	Ratio of female managers	1.0%	7.0%
	Time spent on training	15.4 hours per employee (9,697.5 hours in total)	20 hours per employee
	Cost of training	75,779 yen per employee (47.816 million yen in total)	100,000 yen per employee
In-house environment development	Ratio of employees taking childcare leave	Female: 100% Male: 42.9%	Female: 100% Male: 50% (FY 2025 target)
	Ratio of female employees	17.7% *including executives	22.5%
	Well-being questionnaire score	Average of all items: 5.9 pts	Average of all items: 8.0 pts
	Attrition rate	Attrition rate: 4.8% One year from joining the company: 6.3% Three years from joining the company: 10.3%	Attrition rate: 3.0% One year from joining the company: 3.0% Three years from joining the company: 7.0%
	Number of occupational accidents	Accidents with lost workdays: 1 Accidents without lost workdays: 4	Accidents with lost workdays: 0 Accidents without lost workdays: 3 or fewer
	Number of death from occupational accidents	0	Zero deaths
	Training on health and work safety	<ul style="list-style-type: none"> ● Central Safety Training ● Central Health Training ● Health classes 	Same as left (to be held continuously)

Development of environment ensuring occupational safety and health

Nikko Group is ensuring compliance with safety and health related laws and ordinances and improving its health and safety management level through company-wide training programs such as Central Safety Training and Central Health Training. 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. It is also cooperating with its contractors to strengthen safety at Nikko-related construction sites and is providing necessary support, as well as working with them to reduce and eliminate occupational accidents.

Annual targets

Accidents with lost workdays	0	Accidents without lost workdays	3 or fewer
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Trend of occupational accidents

		(number of registrations)				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Nikko Group	Severe accidents	1	1	0	0	0
	Accidents with lost workdays	1	1	2	1	1
	Accidents without lost workdays	4	3	10	6	4
	Total	6	5	12	7	5
Contractors (Nikko-related local projects)	Severe accidents	1	0	2	2	0
	Accidents with lost workdays	2	7	6	4	1
	Accidents without lost workdays	8	6	9	3	4
	Total	11	13	17	9	5

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 well-being and promoting 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 70.0 billion yen in net sales and operating margin of 10%, which are Nikko Group's 2030 goals.

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

	August 2021	August 2022	August 2023	August 2024
Target	<ul style="list-style-type: none"> Number of employees who received president's award (individuals, groups) Employees who have achieved 10, 20, and 30 years in service New hires (new graduates and mid-career hires) Hires with prior work experience other than those allotted treasury stock in 2019 	<ul style="list-style-type: none"> Number of employees who received president's award (individuals, groups) Employees who have achieved 10, 20, and 30 years in service New hires (new graduates and mid-career hires) Employees at affiliated companies other than those allotted treasury stock in 2019 	<ul style="list-style-type: none"> Number of employees who received president's award (individuals, groups) Employees who have achieved 10, 20, and 30 years in service New hires (new graduates and mid-career hires) Employees at affiliated companies other than those allotted treasury stock in 2019 	<ul style="list-style-type: none"> Employees of Nikko and employees and executives of subsidiaries, etc. of Nikko Number of employees who received president's award (individuals, groups) Employees who have achieved 10, 20, and 30 years in service New hires of Nikko Group (new graduates and hires with prior work experience)
Target	106 people	169 people	140 people	1,059 people
Number of shares awarded	100-1,000 shares	100-1,000 shares	100-1,000 shares	100-1,000 shares
Price at which shares are awarded	687 yen	649 yen	675 yen	701 yen
Period of restriction on transfer	3 years	15 months	15 months	15 months

Discussion with Managers on Human Resource Development and Improvement in Job Satisfaction

Nikko is working on human resources development and job satisfaction improvement, which are our human resource materiality, toward achieving the 2030 Vision. In FY 2022, we revamped our personnel system for the first time in approximately 30 years to enhance employee satisfaction and fairness and invigorate their motivation. Toward achieving the 2030 Vision, it is important to encourage employees to grow and play an active role. In this respect, managers play a crucial role. In this roundtable talk, six managers and the manager of the Human Resources Department had discussions on the theme of creating a rewarding workplace.



Encouragement of challenge and tolerance of mistakes

Hori : In FY 2022, we revamped our personnel system for the first time in decades and clarified the treatment of each employee according to his/her duties and roles so that he/she can independently choose his/her career. We propose the values of “encouragement of challenge and tolerance of mistakes,” I would like to know whether this concept has penetrated into each department.

Horiguchi : In the Development Division, we cannot develop new products unless we try new things, and we cannot grow unless we tolerate mistakes. In this regard, I feel that the values have been established. But motivation alone is not enough for us to take on challenges. I hope that we have more opportunities to acquire necessary knowledge

and skills, in addition to getting OJT. I find myself wanting to learn more about how to support people and teams that continue to fail.

Kitao : I feel that in the Administrative Division, we are becoming more aware of the need to take on challenges without fear of making mistakes. Since the division is particularly close to the management team, the message for change is easily conveyed. I think there is a growing perception that new proposals are accepted.

Mori : In the Manufacturing Division, we are always proactively implementing improvements (challenges) with quality and costs in mind. To address mistakes, we are preventing recurrence by strengthening check functions and other measures. I think that we tend to be cautious about new challenges as we place too much emphasis on ensuring quality.

Yoshikawa : In the Design Division too, we focus on making no design errors as we aim to reduce the number of complaints received throughout the Company. We are encouraged to make new suggestions to prevent errors from occurring, but I feel that we tend to become a little too defensive.

Kawamura : I am in charge of overseas marketing in Thailand and Vietnam, and every day is full of challenges to me. When I was involved in the domestic sales operations, I made many mistakes that inconvenienced the Company. I appreciate that my supervisors and colleagues at that time tolerated those mistakes and supported me. I am now utilizing those experiences in promoting our overseas businesses.

Konishi : I am currently working to build a sales team in Vietnam, after having experienced asphalt plant sales in Japan. I made many mistakes in domestic sales operations. In many cases, I was supported by my supervisor each time. I believe that in the Sales Division, an organizational culture that embraces mistakes and considers them as opportunities to grow has taken root. I am currently developing new markets with our foreign staff, and tackling new challenges continues.

Independent career formation and free and open-minded communication



Manager,
General Affairs Section,
Human Resources
Department
Kasumi Kitao
Joined Nikko in 2004/
Career



Manager, Mechanical Design
Section I, Mechanical Design
Department
Satoshi Yoshikawa
Joined Nikko in 2011/
new graduate

Hori : There seem to be differences among divisions in a culture that tolerates mistakes and encourages challenges. Reforming an organizational culture takes time, but I would like to motivate people to take on challenges while promoting the sharing of the Nikko spirit that represents the Company's values. We also offer opportunities for reskilling and learning for the independent career formation. Kawamura and Kitao have actually utilized such opportunities, has your thinking changed in any way?

Kawamura : I took a domestic MBA course to enhance my expertise as I was involved in overseas marketing. I acquired specialized knowledge and learned theories, which helped me gain confidence. My external network has also expanded, and I feel that I can see things from a new perspective. I hope that such opportunities will be offered to many employees.

Kitao : I obtained a certification as a labor and social security attorney after I joined the Company. And recently, I obtained a national certification as a career counselor with the Company's reskilling support. Both certifications are closely related to my current job, and I feel that what I learned has contributed to the outcome of my work.

Hori : We are also working to ensure diversity with the aim of creating a workplace that is easy to work and rewarding. Kitao is the first female manager of the Company, and the number of female section chiefs who are candidates for managers is increasing. The number

of foreign nationals is also increasing, and there are many managers who have non-Japanese subordinates. As a manager having foreign nationals under your supervision, what kind of support do you think is necessary to develop the environment in which they can demonstrate their abilities to the fullest?

Horiguchi : Foreign staffs in my team have high technical and language skills, and IT literacy. They also have strong motivation to learn. Their attitude inspires Japanese employees as well. But cultural differences require ingenuity in communication. I feel it necessary to increase the number of personnel who can teach foreign employees Nikko's values and specialized knowledge when they join the Company.

Kawamura : Foreign employees are very motivated and have different qualities from those of Japanese new graduates. They are indispensable human resources for the Company's expansion into ASEAN countries. The head office is also hiring more foreign employees in the Administrative and Engineering Divisions. In Thailand, there are many locally hired employees. In future, we hope to flexibly offer Nikko's foreign employees opportunities to be transferred to local sites.

Konishi : I am working with foreign employees in Vietnam on plant sales, and I highly value their language skills and ability to deal with customers. On the other hand, I feel that there is an issue regarding whether our treatment



Manager,
Development Section 4,
Development
Department
Ryo Horiguchi
Joined Nikko in 2011/
new graduate



system alone can adequately evaluate their abilities and performance. I wonder if the current evaluation system, which is based on long-term employment, will make it difficult to retain talented human resources, as the number of foreign employees increases.

Hori : I believe that creating rewarding workplace requires free and open-minded communication with high level of psychological safety. How are you working on this?

Kawamura : Whenever my subordinates talk to me, I always try to ask them back to deepen the conversation. But I am strict about telling them how to do their jobs and business etiquette since if I make the workplace atmosphere too relaxed, my subordinates will have a hard time later on. I would be happy if someday they think "I am glad she was my supervisor at that time."

Horiguchi : I conduct a survey on job satisfaction including free description every three months. I also confirm each employee's aspirations through one-on-one dialogue. When they can do what they want to do, they are more motivated to work, so I firstly try to understand what they want to do.

Yoshikawa : I am struggling in striking a balance between encouraging free communication within the team and giving strict guidance to develop my subordinates. You cannot give strict guidance without relationship of trust, so I believe that it is important to be trusted as a supervisor first. Within the team, we are also using social media to

communicate with each other.

Mori : In manufacturing, production errors affect local processes, which will ultimately inconvenience customers. So, at times, my guidance can be harsh. But I am trying to keep a relationship of trust, with "for the satisfaction of our customers" as our motto. In addition, I also utilize one-on-one meetings to listen to what each employee has to say.

Issues to be addressed to achieve the 2030 Vision

Hori : In order to achieve the 2030 Vision, all of us are required to change our mindset and behavior. In particular, leadership of managers is expected. Can you tell me about the challenges you are facing and the support you need to solve them?

Mori : In the Manufacturing Division, I believe that we are aware of what needs to be changed, but I feel that we lack the incentives to break long-standing practices. In order to change the status quo, we need messages and measures that support people with strong will.

Yoshikawa : In the Engineering Division, young employees work in a different section periodically to gain a wide range of experience. While the decrease in manpower makes things more difficult, I hope to enhance their skills from various perspectives and contribute to the achieve-



ment of the 2030 Vision. The challenge we face now is to streamline our operations. Many systems are used concurrently, and I want to consolidate them to reduce duplication of tasks.

Horiguchi : A major challenge is to pass on our unique technologies to the next generation. We have accumulated many technologies, from plants to conveyors, and it has become urgent to develop a technical database to share valuable ideas, skills, and knowledge possessed by veteran engineers. Currently, we have established a working group within the Development Department for technology transfer to address this issue.

Konishi : Product markets in ASEAN countries such as Thailand, Vietnam, and Indonesia are different from those in Japan, and there are many competing manufacturers from Europe, China, South Korea, and other countries. In order to maintain price competitiveness while keeping Nikko's quality, it is necessary not only to make local sales efforts but also to reduce costs in the design and manufacturing processes. I think this is an issue to be addressed across departments including our Thai subsidiary.

Hori : We face many challenges in achieving the 2030 Vision, and proactive suggestions from managers on sites are essential to overcome these challenges. The Human Resources Department will firmly support your efforts.

To Achieve 2030 Vision and Sustainable Growth



Masafumi Ishii

Outside Director

Rika Saeki

Outside Director Nomination and Remuneration Committee member

Shigeru Sadakari

Outside Director Nomination and Remuneration Committee member

Monitoring Progress in Medium-Term Management Plan 2024

Sadakari: There are four items on the checklist I use when I review progress in the Medium-Term Management Plan 2024. The first item is whether the profitability of AP, Nikko Group's core business, has improved; second, whether a pillar of a third business apart from AP and BP has been established; third, how much progress the Group's international operations have made; and finally, investments in new business areas including M&A and outcomes thereof. I particularly pay attention to

how the businesses that have become part of the Group through M&A are contributing to synergy between their businesses and the Group's main businesses. I also carefully watch post-integration risk management.

Saeki: I expect the financial targets set in the current Medium-Term Plan that ends this fiscal year to be met if the Thai subsidiary successfully cuts its deficit. Key financial data are presented to the Board of Directors, and I believe that the Group can further strengthen its supervisory function by allowing its outside directors to review the

post-M&A integration process and data on the status of key projects.

Ishii: The current Medium-Term Plan is defined as the process for establishing the foundation of 2030 Vision, and I believe that the goal of ASEAN markets' penetration has been achieved. Nikko's technologies, especially solutions the Group offers to the issue of climate change, will be in demand across Asia. I hope that discussions for the next Medium-Term Plan will lead to establish a foothold in the Vietnamese, Indonesian, and Indian markets, like it did

The Nikko Group relies on the objective perspective, as well as pieces of advice based on diverse experience, offered by its outside directors in order to ensure that its Board of Directors has meaningful discussions and to improve the transparency of management decision-making. The three outside directors discussed progress in the Medium-Term Management Plan 2024, which Nikko defines as the investment phase toward 2030 Vision, and expectations and challenges to meet to achieve sustainable growth after the Plan.

(Discussion held in August 2024)

in the Thai market. To this end, Nikko needs to meet the challenge of hiring and training suitable human resources.

Sadakari: The targets set in the current Medium-Term Plan include net sales of 50 billion yen, and it is coming into view. In regard to operating income, the AP business's earnings rate has been picking up, which will likely be a positive factor. The Group has overcome negative factors, including the load of up-front investments in Thailand and China's economic slowdown, to reach the point where the target profit is in view. I am impressed with this outcome. In the next Medium-Term Plan, I will continue to focus on improvement in the profitability of the AP business. This is because to continue investing in growing Asian markets will be difficult unless the core business, which boasts an overwhelming market share, steadily generates cash.

Saeki: Given rising personnel expenses, improving domestic business profit margins is crucial. We should think in a more strategic manner that entails having specific logic behind price revisions to increase margins to a certain level. This is different from improving the earnings rate as a direct consequence of lower cost rates. Since it is difficult to revise prices without convincing customers, we should work to clarify the reasons for revisions and improve transparency.



I hope that Nikko will establish a foothold in the Vietnamese, Indonesian, and Indian markets, like it did in the Thai market.

Ishii: As a company plays a part in strengthening national resilience, I think Nikko should raise its national profile. For this reason, we should consider focusing more on public relations. Having a higher profile will help in recruitment and lead to the Group's greater ability to negotiate prices, producing a far-reaching investment effect.

Business management geared to profitability and growth

Sadakari: When considering M&A, Nikko does a good job of setting a hurdle rate to discuss return on investment. However, I believe that the

Board of Directors could use more discussions about processes and logic needed to reach target return on equity (ROE). I think it is necessary to strengthen ROE management in order to achieve the goals set for 2030 Vision.

Saeki: The overall capital efficiency of the businesses and the profitability of projects are reported as outcomes to the Board of Directors. That said, I believe that there should be more discussions about processes. I think that detailed explanations about processes to achieve target ROE, coupled with how the processes can be rolled out to business divisions, will generate more in-depth discussions about capital investment to revisit, among other topics.

Ishii: I believe that the Board of Directors should have more in-depth discussions about process management. For example, the Board could deconstruct return on investment capital (ROIC) to discuss how to examine each factor. That said, I think the Board of Directors has done great jobs when it comes to making decisions on and carrying out M&A. Synergy between the main businesses



Now that more women are in managerial positions, I hope that the advancement of diversity and inclusion will pick up speed.

and acquired businesses has begun to emerge, contributing to revenues.

Saeki: When we assess a business to acquire, I intend to weigh whether the acquisition is in line with Nikko's long-term strategies. I believe that outside directors will be able to offer more input if each acquisition is presented to the Board of Directors a little earlier.

Sadakari: Nikko's investment in the business in Thailand adds up to 5 billion yen, including liabilities, which is an enormous amount. To keep expanding the scale of the company, Nikko has no choice but to advance into growing Asian markets. I highly value Nikko's commitment to making critical management decisions to actively invest in ASEAN markets and generating revenues.

Business management geared to sustainability

Sadakari: To achieve carbon neutrality, Nikko has been working on the development of new products, including burners that use hydrogen, ammonia, and other alternative fuels. Demand for these decarbonization products

depends on regulatory moves, such as carbon pricing. Yet Nikko as a responsible leading company cannot get away

with not preparing for those moves. In connection with human capital, Nikko has been making steady progress in updating the personnel system and enhancing training programs. I think that the challenge the Group must meet in the coming years is hiring and training human resources capable of managing international businesses. Whether they are Japanese or not does not matter.

Saeki: I am impressed with Nikko's initiative to visualize employees' well-being. Now that more women are in managerial positions, I hope that the advancement of diversity and inclusion will pick up speed. The practice of working long hours has been improving. That aside, I believe providing working environments that are congenial to anyone regardless of gender will lead to higher well-being scores.

Ishii: Asphalt for paving uses a mixture of recycled paving materials. Crushers and crushing plants offered by Nikko play a key role in the recycling process. These crushers are also used to clear away debris in disaster-stricken areas. Given that the need for resource recycling is no doubt expected to grow across Asia, I hope that Nikko will work to increase its corporate value while creating social value.

Saeki: Advancing into international markets has expanded value chains. So, in regard to actions to address human rights issues that also involve suppliers, I think Nikko should assess risks based on not only Japan's standards but also international standards.

Sadakari: Full-time Audit & Supervisory Board members share risk information with us in a timely manner. Employees' overtime hours and work-related accidents, along with information provided by whistleblowers, are also promptly reported. I also find the regular meetings for information exchange between auditors and outside directors meaningful.

Saeki: Since the start of regular meetings with executive officers, we have been able to gain a clear picture of risks involved in achieving targets and what actions have been taken to address issues at just the right time. I also think that the Board of Directors will be able to have more in-depth discussions about situations surrounding overseas subsidiaries if we understand risk information early on, in addition to hearing reports on outcomes at board meetings.

Ishii: I am not concerned much about the status of internal control at overseas subsidiaries. I admire their management's ability to manage risks, and their internal audit departments and auditors properly perform onsite audits.

Role and function of the Nomination and Remuneration Committee

Sadakari: The outside directors as members of the Committee participated in the process of selecting executive officers this time. Assessments by external professionals were also conducted. I believe that Nikko took a significant step by incorporating outsiders' perspective into the process for selecting human resources who will become part of its management. The Group is moving ahead in choosing human resources who will manage its business, and so it should present specifically how it plans to train the talent and give them duties. I personally believe that these human resources should be trained as deputy managers of business divisions so that their management skills will develop.

Saeki: I would like candidates for the management team for the next fiscal year to gain management experience at overseas subsidiaries. Problem-solving skills in an organization with diversity operating in a different culture will become an essential qualification for the management team of Nikko that will be rapidly globalizing. I also intend to ensure diversity by appointing women and foreign nationals as next-generation management team members. What is vital to this end is that women become aware of their ability to work among decision-makers. Nikko should provide more refined environments that allow women to choose flexible ways of working.

Ishii: I hope that working overseas will be established as a career path. Nikko's international businesses are an extension of the AP business and have a

lot in common with domestic businesses. Younger employees as well as middle-ranking employees should also take up the challenge of working in overseas locations.

Sadakari: To establish a well-developed remuneration system, the Committee openly discusses issues regarding the ratios of performance-linked compensation, validity of evaluation indicators including those for individual performance. I personally hope to create a remuneration system that sets more ambitious goals and incorporates incentives more according to achievements.

Saeki: As for performance evaluation indicators, I think that incentives designed to balance short- and long-term indicators are essential. Given the need for greater productivity, incorporating those indicators will probably work. Currently, as I see it, Nikko's key themes are operational efficiency and the advancement of digital transformation. Nikko should focus particularly on digital transformation because the outcome of the effort will have a direct impact on business model innovation and employees' ways of working.

I highly value Nikko's commitment to making critical management decisions to actively invest in ASEAN markets and generating revenues.



Functions and Roles of the Board of Directors and Audit & Supervisory Board

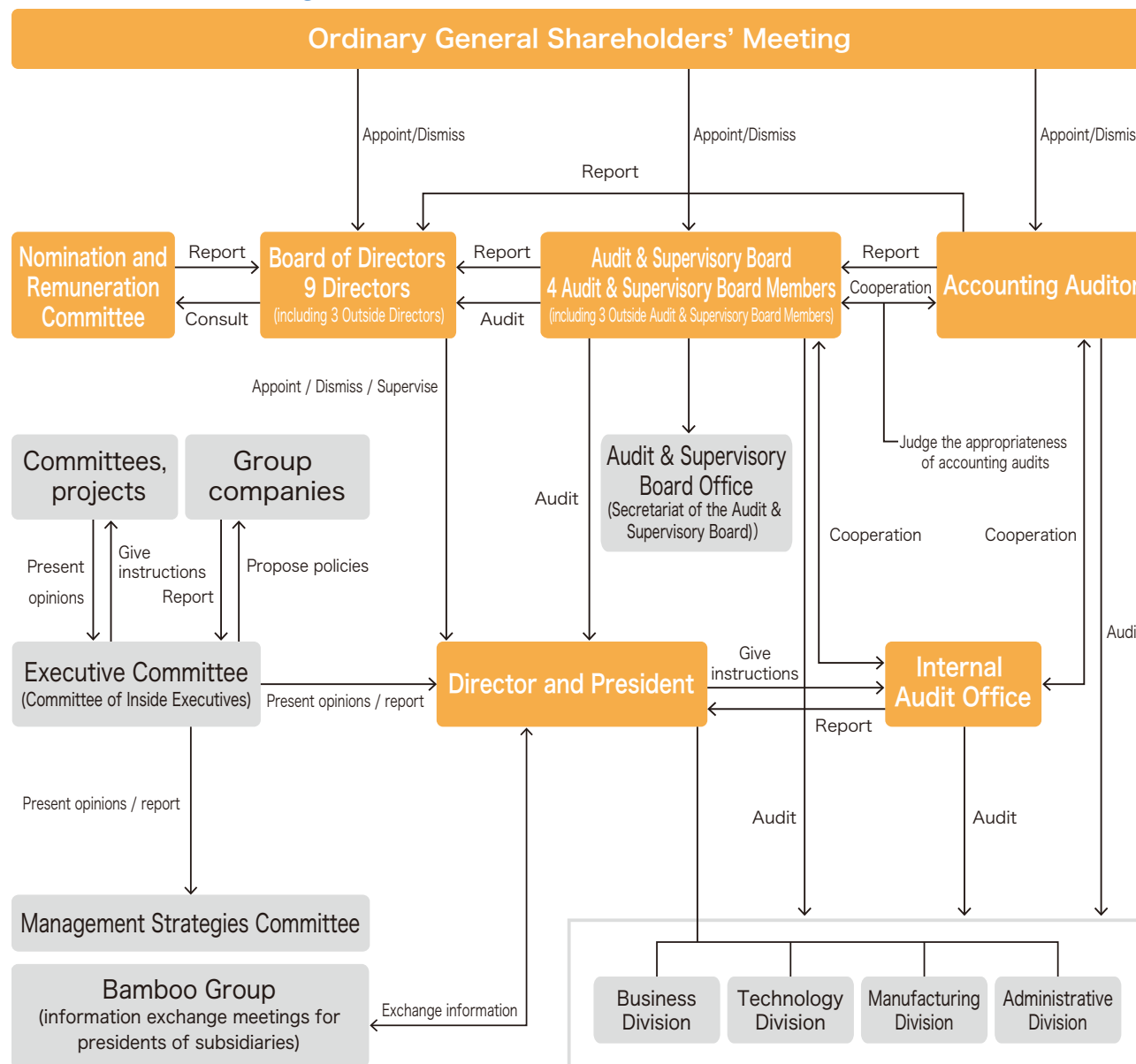
Basic approach

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.




Reason for adopting a corporate structure with the Audit & Supervisory Board structure

The 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. We have set the term of directors and executive officers as one year to clarify management responsibilities while striving to separate the execution and supervision of duties. Further, Nikko appoints three outside directors as independent officers to enhance corporate governance. The three Outside Audit & Supervisory Board members are respectively a person with management experience, a certified public accountant, and a lawyer and are well-versed in the contents of Nikko’s business. They closely cooperate with the outside directors, full-time Audit & Supervisory Board members, and Internal Audit Division to provide appropriate advices and supervision, and thus ensure the objectivity and neutrality of management and supervision functions.

Governance structure diagram



Roles and composition of each supervisory body

Organization	Board of Directors	Audit & Supervisory Board	Nomination and Remuneration Committee
Composition	 <p>Chair</p> <ul style="list-style-type: none"> 6 inside members + 3 outside members Representative Director and President is the chair 	 <p>Chair</p> <ul style="list-style-type: none"> 1 inside member + 3 outside members Internal, full-time Audit & Supervisory Board Member is the chair 	 <p>Head</p> <ul style="list-style-type: none"> 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"> Deliberation of agenda details regarding appointment and dismissal of Directors to be submitted to Ordinary General Shareholders' Meeting Formulation of successor nurturing plan Deliberation of policies regarding remuneration, etc. of Directors and Executive Officers Deliberation of policies regarding performance evaluation of Directors and Executive Officers Deliberation of policies regarding appointment and dismissal of Executive Officers to be submitted to the Board of Directors
Ratio of independent outside officers	33%	75%	67%
Number of meetings in FY 2023	13	15	3
Office	Corporate Planning Department	Audit & Supervisory Board Office	Corporate Planning Department

 Inside directors  Independent outside officers

Main decision-making bodies

Meeting bodies on the monitoring side

- ◆ **Board of Directors**
9 Directors (including 3 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: Morie Okaaki (Full-time Audit & Supervisory Board Member)
- ◆ **Nomination and Remuneration Committee**
3 Directors (including 2 Outside Directors) + 1 Full-time Audit & Supervisory Board Member (observer)
Head: Masaru Tsuji (Representative Director and President)
- ◆ **President and Outside Officers Meeting**
(1 Inside Director + 6 Outside Officers) + 1 Full-time Audit & Supervisory Board Member (observer)
Chair: Masaru Tsuji (Representative Director and President)

Meeting bodies on business executive side

- ◆ **Committee of Inside Executives**
6 Inside Directors + 1 Full-time Audit & Supervisory Board Member + 4 Executive Officers + General Manager of 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
- ◆ **Sustainability Committee**
Head: Koichi Kawakami
- ◆ **M&A Examination Committee**
Head: Hiroshi Fujii
- ◆ **Finance Committee**
Head: Hiroshi Fujii
- ◆ **Development Technology Committee**
Head: Katsuhiro Kawamura
- ◆ **Safety and Health Committee**
Head: Koichi Kawakami
- ◆ **Personnel Evaluation Committee**
Head: Hiroshi Fujii
- ◆ **Reward and Punishment Committee**
Head: Hiroshi Fujii
- ◆ **Personnel System Committee**
Head: Hiroshi Fujii
- ◆ **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

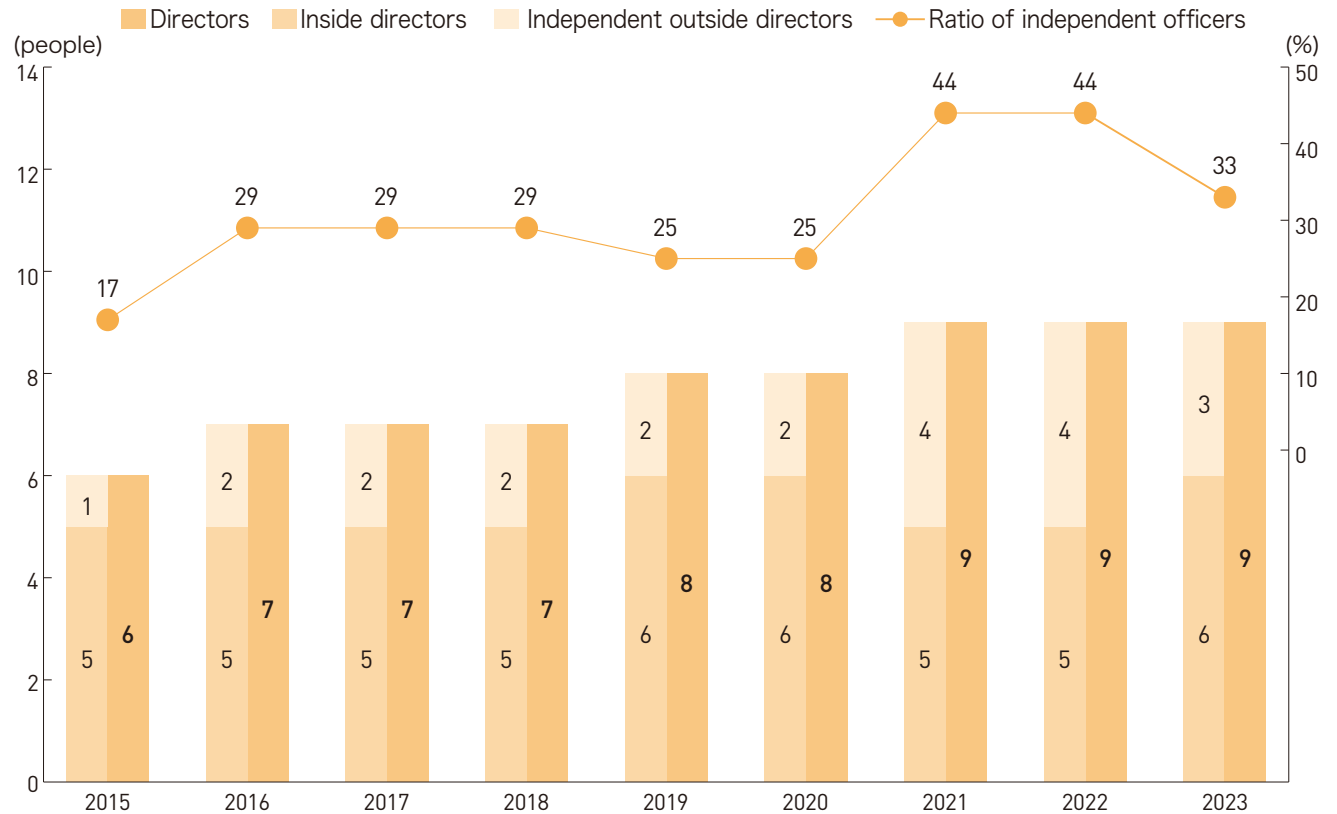
History of ensuring management transparency and strengthening governance

2000	Carried out reform of the Board of Directors, introduced the executive officer system
2004	Increased the number of outside Audit & Supervisory Board members from two to three
2006	Established the Internal Audit Office and developed internal control system Established the Compliance and Risk Management Committee
2007	Shortened the term of directors from two years to one year
2015	Appointed an outside director
2016	Increased the number of outside directors to two
2017	Carried out the effectiveness evaluation of the Board of Directors
2018	Introduced the performance-linked bonus and stock compensation (shares with restriction on transfer) system
2021	Increased the number of outside directors to four including a female director (three outside directors including female director in 2023) Established the Nomination and Remuneration Committee (optional)
2023	Established the Sustainability Committee

Main deliberation items at the Board of Directors Meeting in FY 2023

Based on the new three-year Medium-Term Management Plan to realize the 2030 Vision, the meeting repeatedly discussed, from various aspects, the expansion of the overseas (ASEAN) business, which is the first pillar of the Company's growth strategies. The Board also deliberated intensively and reported on the following matters.

Trend in ratio of independent outside directors at Board of Directors



- ◆ Deliberation of progress status regarding the Medium-Term Management Plan
- ◆ Formulating the Sustainability Basic Policies and establishing a Committee
- ◆ Establishment of policies on human resource development and in-house environment development, and goal guidelines
- ◆ Review of the construction of factories at subsidiaries
- ◆ Deliberation and review of M&As
- ◆ Review of underwriting the capital increase of a subsidiary
- ◆ Review of abolishing the retirement benefit system for executive officers and advisors
- ◆ Revision of internal rules regarding remuneration and bonuses for officers and executive officers
- ◆ Deliberation of the status of the Thai subsidiary
- ◆ Self-evaluation questionnaire survey regarding effectiveness of the Board of Directors
- ◆ Report on the progress of digitalization within the Company
- ◆ Status of reports based on the whistleblowing rules
- ◆ Status of response to the Noto Peninsula Earthquake
- ◆ Report on the progress of the safety measure project

Members of Board of Directors Meeting (as of June 30, 2024)

Director candidate number	Name	Title	Attendance (Board of Directors Meeting in FY 2023)	Appointed in	Number of Nikko shares held	Main expertise and experience										Delegation of authority of chair and head
						Independence (outside officers only)	Insight and experience ¹ expected								Administrative experience	
							Corporate management Business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT ²	Technical experience		
1	Takahisa Nishikawa	Director and Chairman	13/13	June 2008	123,300 shares		●	●			●		●			
2	Masaru Tsuji	Representative Director and President	13/13	June 2008	114,700 shares		●	●				●	●	●		Chair of Board of Directors Head of Nomination and Remuneration Committee
3	Hiroshi Fujii	Director and Vice President	13/13	June 2011	71,400 shares		●		●	●	●					
4	Tomomi Nakayama	Managing Director (General Manager of Business Division)	12/13	June 2019	46,700 shares		●	●				●		●		
5	Takeshi Sone	Director	9/10	June 2023	11,500 shares		●	●				●		●		
6	Koichi Kawakami	Director	10/10	June 2023	6,800 shares		●	●			●	●	●			
Outside/Independent	7	Masafumi Ishii	Director	13/13	June 2021	6,000 shares	●			●	●				●	
	8	Rika Saeki	Director	13/13	June 2021	None	●	●					●			Nomination and Remuneration Committee member
	9	Shigeru Sadakari	Director	13/13	June 2022	6,000 shares	●	●		●	●					Nomination and Remuneration Committee member

Members of Audit & Supervisory Board (as of June 30, 2024)

Audit & Supervisory Board Member candidate number	Name	Title	Attendance (Upper row: Audit & Supervisory Board Meeting in FY 2023) (Lower row: Board of Directors Meeting in FY 2023)	Appointed in	Number of Nikko shares held	Main expertise and experience											
						Independence (outside officers only)	Corporate management Business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT ^{*2}	Technical experience	Administrative experience	Delegation of authority of chair and head	
-	Morie Okaaki	Full-time Audit & Supervisory Board Member (newly appointed)	-	June 2024	40,400 shares		●	●					●				Chair of Audit & Supervisory Board
Outside/Independent	1	Naoki Ota	Audit & Supervisory Board Member	13/13 15/15	June 2019	900 shares	●	●				●					
	2	Tsuyoshi Fukui	Audit & Supervisory Board Member	13/13 15/15	June 2019	1,200 shares	●			●							
	3	Koji Yoneda	Audit & Supervisory Board Member	13/13 15/15	June 2022	900 shares	●				●						

Reasons for appointment and expected roles of Outside Officers

Outside officer	Name	Appointed in	Date of birth	Career background	Reasons for appointment and expected roles
Independent Outside Director	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 diverse and broad range of advice and contribute to realization of sustainable growth in corporate value of Nikko.
Independent Outside Director	Rika Saeki	June 2021	February 27, 1961	Corporate management	Saeki will reflect her abundant knowledge and experience, nurtured through founding of a business company and her ongoing engagement in corporate management as a business manager, in Nikko's management. The Company believes that Saeki's knowledge of ICT, which is her main field of business, as well as the opinions from diverse perspectives she brings in are necessary for the company's future development, and expects her to supervise and advise Nikko on its business execution. As a Nomination and Remuneration Committee member of Nikko, she is engaged in the selection of officer candidates and decision on the remunerations among other matters from an objective and neutral standpoint.
Independent Outside Director	Shigeru Sadakari	June 2022	September 22, 1957	Corporate management	Sadakari will 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. The Company also believes that incorporating diverse opinions regarding capital policies and financial accounting is important for its future development, and expects him to supervise and advise Nikko on its business execution. As a Nomination and Remuneration Committee member of Nikko, he is engaged in the selection of officer candidates and decision on the remunerations among other matters from an objective and neutral standpoint.
Independent Outside Audit & Supervisory Board Member	Naoki Ota	June 2019	March 1, 1955	Corporate management	Ota will audit and provide instructions regarding the soundness and transparency 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 Public Accountant of Japan	Fukui will audit and provide instructions regarding the soundness and transparency of management execution from an objective and neutral standpoint, leveraging his professional position as a Certified Public Accountant. Fukui has been demonstrating high performance from a specialist perspective as a Certified Public Accountant and also has deep insight in management, and he is expected to appropriately execute his duty as an Outside Audit & Supervisory Board Member.
Independent Outside Audit & Supervisory Board Member	Koji Yoneda	June 2022	February 17, 1957	Attorney	Yoneda will audit and provide instructions regarding the soundness and transparency of management execution from an objective and neutral standpoint, leveraging his professional position as an 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 appropriately execute his duty as an Outside Audit & Supervisory Board Member.

*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.

Activities of Nomination and Remuneration Committee

From the perspective of enhancing corporate governance by raising the fairness and objectivity of the functions of the directors, the Nomination and Remuneration Committee deliberates the nomination, remuneration, nurturing of candidates, and other matters regarding directors and executive officers, which is then decided through a resolution by the Board of Directors. The Committee was held four times in FY 2023. The Full-time Audit & Supervisory Board Member attends the Committee as an observer.

Basic policy regarding determination of director's remuneration

<Basic policies>

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 set by the Board of Directors. Specifically, remuneration of executive directors comprises basic compensation as fixed compensation, performance-linked compensation, and stock compensation. To outside directors whose main function is supervision, basic compensation, performance-linked compensation, etc. are paid. From April 2021, Nikko established the optional Nomination and Remuneration Committee, and remuneration is revised as necessary based on reports from the Committee.

Roles	Position	Name	Attendance and attendance ratio of the Nomination and Remuneration Committee Meeting (number of meetings attended)
Head	Director and President	Masaru Tsuji	100% (4/4)
Member	Outside Director	Rika Saeki	100% (3/3)
Member	Outside Director	Shigeru Sadakari	100% (4/4)
Observer	Full-time Audit & Supervisory Board Member	Nobutaka Yasuda (retired in June 2024)	100% (4/4)

- Main deliberation matters in FY 2023**
- ◆ Personnel affairs of directors, executive officers, and advisors
 - ◆ Remuneration for officers
 - ◆ Election and nurturing of candidates for officers for the next fiscal year, and successors
 - ◆ Nomination and Remuneration Committee member candidates
 - ◆ Abolishment of the retirement benefit system for executive officers and revision of remuneration
 - ◆ Bonuses for officers

Basic remuneration system for executive directors

Composition ratio of remuneration types for executive directors is set at 7 : 2 : 1 for basic compensation, performance-linked compensation, and non-monetary compensation. Performance-linked compensation is the bonus for officers, while shares with restriction on transfer form the non-monetary compensation.

The Nomination and Remuneration Committee will discuss the basic remuneration system and deliberate and review appropriate ratios.

Breakdown of director's remuneration (when the performance evaluation is average)

Breakdown	Basic compensation (70%)		Performance-linked compensation (30%)	
	Fixed monetary compensation	Variable monetary compensation	Stock compensation (shares with restriction on transfer)	
Type of remuneration				
Composition ratio of remuneration types	70%	20%	10%	
Evaluation indicators	—	Consolidated operating income/level of achievement of the management goals, etc.		

<Performance-linked compensation>

To raise awareness regarding growth and performance improvement of the overall group for each fiscal year, performance-linked compensation is determined based on the consolidated operating income, which is considered as the basic performance indicator, and taking into account the non-consolidated performance of Nikko, dividends to shareholders, and bonuses to employees. It is provided as bonuses for officers.

From April 2021, Nikko established the Nomination and Remuneration Committee, and remuneration is revised as necessary by the Board of Directors based on reports from the Committee.

Determination of remuneration, etc. for each director

The amount of remuneration for each director is deliberated and reported by the Committee, and the Director and President determines the amount within the range of the report. Please note that the report also covers the allocation of shares with restriction to each individual as currently determined. Independent Outside Directors constitute the majority of the Committee members and the Chair of the Audit & Supervisory Board (Full-time Audit & Supervisory Board Member) participates as an observer. The Committee deliberates on matters referred by the Board of Directors under the Nomination and Remuneration Committee Rules, such as basic compensation, performance-linked compensation, non-monetary compensation, and their proportions, and submits its reports. The meetings are held once every quarter.

Total remunerations by officer rank (results for FY 2023)

Officer ranks	Total amount of remuneration (million yen)	Total amount of all types of remuneration (million yen)				Number of officers
		Fixed compensation	Performance-linked compensation	Non-monetary compensation	Retirement benefit	
Directors (excluding outside directors)	177	128	34	14	-	7
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board members)	25	19	4	1	-	1
Outside officer	43	39	3	-	-	7

Note: Performance-linked compensation is the bonus for officers, while shares with restriction on transfer form the non-monetary compensation.

Initiatives for improving the effectiveness of Board of Directors

As initiatives for improving the effectiveness of Board of Directors, Nikko has been evaluating the effectiveness of the Board of Directors every year since FY 2017.

<Evaluation method>

Method for effectiveness evaluation

- Anonymous questionnaire survey of all directors and Audit & Supervisory Board members (13 in total)
- The survey consists of 52 questions over seven items and a free description section.
- Multiple choice questions are scored across four levels (anonymous)

1. Overall evaluation of the Board of Directors ··· (11 questions)
2. Composition of the Board of Directors ····· (5 questions)
3. Operation of the Board of Directors ······· (8 questions)
4. Agenda items of and discussions at the Board of Directors Meetings ··········· (15 questions)
5. Provision of information and training ······· (7 questions)
6. Matters for continued deliberation ······· (2 questions)
7. Self-evaluation of officers ··········· (4 questions)
8. Free description

Evaluation results

The evaluation following the above process found that there were no problems regarding the current corporate governance structure and operation of the Board of Directors of Nikko, that they were functioning appropriately, and the effectiveness of the Board of Directors is ensured. The newly recognized issues will be addressed for improvement at the Board of Directors in this fiscal year.

Issues identified in the survey of the effectiveness of Board of Directors in FY 2023 and initiatives for improvement

	Issues identified in Board of Directors in FY 2023	Initiatives in FY 2024
Issue 1	Enhancing the supervisory function of the Board of Directors	<ul style="list-style-type: none"> ● Strengthening information sharing on short-term management issues and the business environment ● Sharing deliberation content and proposed agenda items in the Committee of Inside Executives
Issue 2	Deepening deliberations on the Group's management strategy and capital policy	<ul style="list-style-type: none"> ● Assessment of the 2022-2024 Medium-Term Management Plan ● Review of time allocations for deliberations ● Visiting audit to Nikko Electronics Corp. (October 2024)
Issue 3	Enhancing opportunities to deliberate on sustainability initiatives	<ul style="list-style-type: none"> ● Enhancing the status report on the business execution and the activity reports at executive officer meetings (outside officers and executive officers) ● Activity reports of organizations including the Sustainability Committee
Issue 4	Enrichment of educational curriculum for executive officers and other personnel	<ul style="list-style-type: none"> ● Review of outside seminars for directors and executive officers ● Holding of seminars for officers of group companies and others

Functions and roles of the Audit & Supervisory Board

The Audit & Supervisory Board consists of one full-time Audit & Supervisory Board member and three part-time members, and three of them are outside members. The Audit & Supervisory Board Meeting is held monthly prior to the Board of Directors meeting, and also held as necessary. The meetings were held for a total of 15 times in FY 2023.

Audit & Supervisory Board members led by the full-time member implement systematic and exhaustive audit of overall operations of the Company and its consolidated subsidiaries based on the audit plan formulated by the Audit & Supervisory Board.

The full-time Audit & Supervisory Board member participates in important meetings including the Board of Directors Meeting, Audit & Supervisory Board Meeting, and Executive Committee Meeting, inspects important documents, visits branches and warehouses, holds interviews with employees of operating divisions, and conducts visiting audit of consolidated subsidiaries. Part-time Audit & Supervisory Board members mainly participate in important meeting such as the Board of Directors Meeting and Audit & Supervisory Board Meeting and actively express their opinions. Together, they form a structure that enables monitoring of execution of operations by the directors.

Effectiveness evaluation of the Audit & Supervisory Board

In the effectiveness evaluation of the Audit & Supervisory Board for FY 2023, it was evaluated that the new meetings with Outside Directors, held twice, facilitated information sharing between the two parties that have the supervisory function towards the Board of Directors and this contributed to enhancing the effectiveness of the Board of Directors. All Audit & Supervisory Board Members expressed their opinions that the Board has been generally functioning and operating appropriately.

1. Internal audit by the internal control division and mutual collaboration with Accounting Auditors

The Internal Audit Office is in place to conduct effectiveness evaluation, etc. on internal control. The Internal Audit Office promotes the proliferation and dissemination of internal controls, supports each persons responsible for control, and drafts audit plans based on the Rules on Internal Audit . After an approval is obtained from the President, the Internal Audit Office independently verifies the legality and rationality of the overall operations of various departments and group companies in light of the Company's strategy. Based on the results, the Internal Audit Office provides improvement proposals to the Director and President.

Regarding the status of the supervision by the Audit & Supervisory Board, the four

Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) carry out audits based on the audit plans and policies resolved by the Audit & Supervisory Board. These audits include attending important meetings such as the Board of Directors Meetings and investigating the status of the business executions. Through these activities, the Audit & Supervisory Board audits the decision-making status of the Board of Directors and the execution of duties by the Directors. In addition, the Accounting Auditor and the Internal Audit Division periodically attend the Audit & Supervisory Board and reports the audit details and improvement proposals, etc. in an effort to keep the mutual collaborations.

2. Status of supervision by the Audit & Supervisory Board Members

The Audit & Supervisory Board Meeting is held monthly prior to the Board of Directors meeting, and also held as necessary. It was held a total of 15 times in FY 2023, and the time spent per meeting was about 1.5 hours. The following resolutions, discussions, deliberations, and reports were made at the meetings through the course of the year.

Resolutions	Audit & Supervisory Board audit policy, audit plan, segregation of duties, budget; selection of full-time Audit & Supervisory Board member; audit report by Audit & Supervisory Board; re-appointment of accounting auditor; and consent for the audit fees of accounting auditor
Discussions	Remuneration for Audit & Supervisory Board members
Deliberation	Audit & Supervisory Board audit policy draft, audit plan draft, draft for segregation of duties, budget draft, and Audit & Supervisory Board audit report draft; decision on the contents of the agenda item regarding appointment, dismissal, and non-reappointment of accounting auditor; audit plan and audit report of accounting auditor
Report	Monthly activity report by Audit & Supervisory Board members, report on cooperation with accounting auditor and internal audit division, report on whistleblowing, etc.

Key audit items and activity results

Key audit items and activity results (FY 2023)

Development and operation structure of internal control system of the group companies in Japan and abroad	One Japanese company was newly added to the Nikko Group this fiscal year. In light of the reduced impact of the COVID-19 pandemic, the Audit & Supervisory Board members proactively held visiting audit of said company as well as the existing group companies and interviewed officers and other employees, strived to grasp the current situation and share information in cooperation with the internal audit division and accounting auditor, and expressed their opinions whenever necessary. The number of visiting audits, interviews, and meetings in which the members participated: 99 for Japanese business entities, 81 for Japanese subsidiaries, and 17 for overseas subsidiaries
Initiatives for elimination of occupational accidents	The members strived to grasp the situation by confirming the progress made in initiatives by participating in safety meetings, etc. (seven times), Board of Directors Meetings (13 times), and Executive Committee Meetings (24 times) and gathering information during visiting audits at business entities and subsidiaries, and expressed opinions whenever necessary.
Initiatives towards Medium-Term Management Plan	The members confirmed the progress by participating in the Board of Directors Meetings, Executive Committee Meetings, and Initiative Progress Meetings (five times) and holding interviews at visiting audit of business entities and subsidiaries and expressed their opinions whenever necessary.

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 26 issues (12 sold-off issues) at a total value of 2.3 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.

The ratio of market capitalization to shareholders' equity rose as a result of the rise in the stock price. However, we will continue to reduce the strategically-held shares such as through the sales of the shares of partner banks and others.

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.

Status of reducing strategically-held shares

(million yen)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Number of issues sold	6(2)	9(5)	7(4)	2(0)	2(1)
Amount sold	720	506	691	371	13
Book value	272	469	376	192	3
Gain on sales	448	38	314	178	10
Ratio of market capitalization to shareholders' equity (%)	11.6	11.8	12.7	9.6	13.9

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

Dialogues with shareholders and investors

Event types	FY 2020		FY 2021		FY 2022		FY 2023	
	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	90	4	134	4	111	4	124
Individual meetings	17	23	10	18	6	10	6	10
Ordinary General Shareholders' Meeting	1	19/4,709	1	23/5,062	1	40/6,795	1	34/7,714

(attendance in person/attendance in writing)

Compliance and risk management

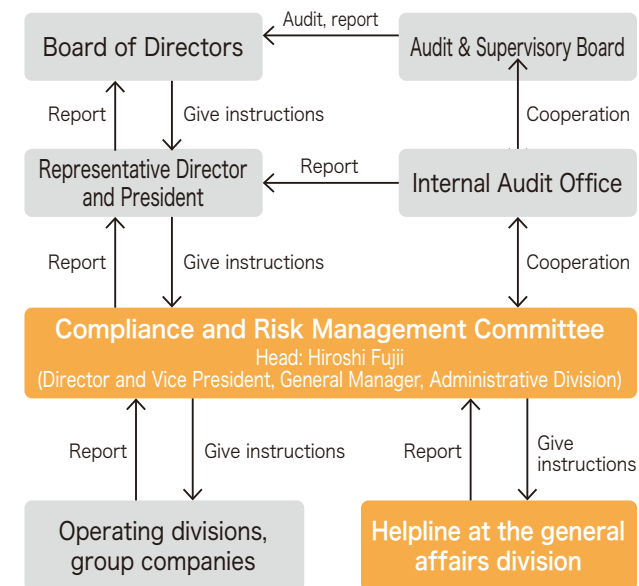
The Nikko Group believes that it is important to clarify management responsibility, accelerate the speed of execution of duties, increase the transparency of managerial decision-making, and strengthen compliance to secure soundness of management, and has been driving forward development of a system and measures for ensuring compliance in the Group.

The Code of Conduct of Nikko Group lists compliance as the top priority and all employees share it as their identity. In addition, the Group has been striving to practice fair, transparent, and sensible corporate activities conscious of social norms and company rules in addition to legal compliance.

Nikko Group's Code of Conduct

- 1 **Compliance**
We shall act according to our conscience, comply with laws, social norms, and internal rules, shall not commit any wrongdoings, and engage in fair and transparent corporate activities.
- 2 **Provision of better products and services**
We shall enhance research and technology development to offer safe and high-quality products and services to customers.
- 3 **Communication with society**
We shall strive to communicate with customers, shareholders, business partners, and local communities, ensure transparency of management, and fulfill accountability.
- 4 **In search of safety, comfort and affluence**
We shall strive to give priority to safety, improve workplace environment and labor conditions so that each and every employee can feel comfort and affluence.
- 5 **Environmental preservation**
We shall promote initiatives for environmental preservation and contribute to creation of a good environment.
- 6 **Elimination of anti-social forces**
We shall not have any relationship with anti-social forces and organizations that pose a threat to the safety and security of civil society.

Legal compliance promotion structure



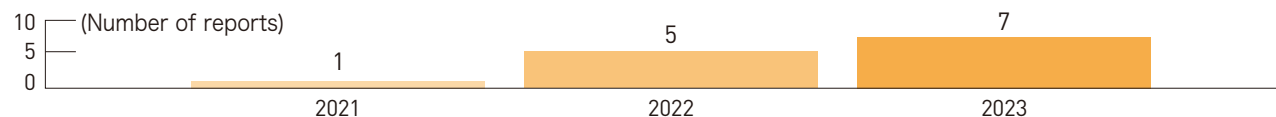
Operation of the corporate ethics helpline

The group companies in Japan have in place a whistleblower system that is compliant with the revised Whistleblower Protection Act and are disseminating the information to directors, executive officers, and other employees.

Main information disseminated regarding the operation of helpline

- 1 In many cases, we recognize that officers and employees commit misconducts, which affect a company's existence, for the benefit of the company and organization rather than to gain unfair profits for themselves without being aware of their illegality.
- 2 It is important that departments with specialized knowhow are available for consultation at any time so that officers and employees would not make wrong judgments.
- 3 A whistleblowing system would put psychological pressure on the employees and act as a deterrent to commit fraud.
- 4 It is necessary to develop a mechanism where a misconduct always comes to light → Thorough compliance awareness
- 5 Whistleblowers are protected by the Whistleblower Protection Act (Act No. 122 of 2004) enacted on April 1, 2006.
- 6 Issues related to employee treatment such as transfer and promotion or defamation are not included in the system.
- 7 The user can report the issue through a letter or via the portal or email using his or her own name or anonymously, and those involved in receiving the report have the duty of confidentiality.
- 8 Upon responding to whistleblowers, the investigation policy and schedule are disclosed first, and a promise is made to provide a reply within a certain period of time.

The number of reports to the helpline








Stakeholder Engagement

The business of Nikko Group is established on the relationship of trust with its stakeholders. The Group believes it is important to engage in active dialogue with all stakeholders to solve social issues through its business and raise its corporate value. Nikko Group aims to contribute to the sustainability of society and to achieve sustainable growth as a company, in line with the stakeholders' understanding regarding the direction it is pursuing and the path of its value creation.

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 customers' business expansion and productivity improvement 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 Early restoration from natural disasters Response to technological innovation 	<ul style="list-style-type: none"> Daily sales and service activities Various trade shows (holding the 2022 Nikko Messe, participation in N-EXPO 2023, and various other trade shows) Offering of plant operator training Journals (editing and publication of NAP NEWS and BP EYES) Nikko website (One Nikko Platform) 	
 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"> Direct dialogue between the president and groups of employees Intranet Target setting and progress confirmation, evaluation feedback English and special skill training, autonomous and elective development seminars Campaign to improve operating efficiency Allotting shares with restriction on transfer Company newsletter (Tombo) ● Whistleblowing system 	
 Business partners	Materials suppliers Nikko Group believes that it is essential to work on solving the social issues faced by its supply chain together with all business partners including material suppliers, sales agents, and contractors.	<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 Support for business succession, technology transfer Centralized purchasing 	<ul style="list-style-type: none"> Daily procurement activities Quality improvement support Factory, warehouse visits Quality audit
	Tombo-kai (sales agent network)	Members: 122 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: 210 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 in the Kinki region Offering of research grants to researchers from Hyogo Prefecture Support for disaster prevention education at primary and special needs schools (29 of them) within Akashi city (offering of disaster prevention tenugui towels) Responsible responses to climate risks Company and plant tours for high school students in Akashi City Nikko Marche (exhibition and sale of disaster prevention and BBQ goods) Let's Protect Roads!, a game offered in a social experience app for children 	
 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 6,835 people including online participants) Financial results briefing sessions (four times) Individual meetings with institutional investors (six meetings with 10 investors) 	

Director



Takahisa Nishikawa

Born on March 31, 1959

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



Masaru Tsuji

Born on June 4, 1960

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



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
 April 2021 General Manager of Management Division and Security Export Control in-charge
 May 2021 General Manager of Management Division and Security Export Control in-charge (current)
 June 2021 Senior Managing Director
 April 2023 Director and Vice President (current)
 <Important concurrent position>
 Representative Director and President, Nikko Kosan Co., Ltd.
 Representative Director and President, Nikko Baumaschinen GmbH



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, Tokyo Head Office
 April 2016 Manager of Business Planning Department, Business Division, Manager of Asphalt Plant Sales Management Department, and Director of AP Technology Center
 April 2018 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
 April 2019 General Manager of Business Division, Manager of Business Planning Department, and Manager of Asphalt Plant Sales Management Department
 June 2019 Director
 June 2022 Managing Director
 April 2023 General Manager of Business Division, Manager of Business Planning Department (current)
 June 2024 Senior Managing Director (current)



Takeshi Sone

Born on February 25, 1970

April 1990 Joined Nikko Co., Ltd
 June 2012 Director, Tokyo Service Center, Service Planning Department
 October 2013 Director of Tokyo Service Center and Director of Wangan Service Station, Service Planning Department
 April 2015 Deputy Manager of Service Planning Department and Director of TSC Center
 April 2016 Branch Manager of Chubu Branch
 April 2018 Branch Manager of Kanto Branch
 April 2019 Branch Manager of Kanto Branch and Manager of Mobile Plant Business Department, Business Division
 June 2019 Executive Officer
 June 2022 Senior Executive Officer
 April 2023 Manager, Service Planning Department, and Manager, Mobile Plant Business Department, Business Division (current)
 June 2023 Director (current)



Koichi Kawakami

Born on July 8, 1965

December 1988 Joined Nikko Co., Ltd
 March 2003 General Manager of Corporate Planning Office, Administrative Division
 April 2010 General Manager of International Planning Office, International Business Department
 October 2014 General Manager of General Affairs Office, General Affairs Department
 April 2018 Branch Manager of Chubu Branch
 April 2021 General Manager of President Office, and General Manager of Quality Assurance Office
 June 2021 Executive Officer (current)
 January 2022 Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO), and General Manager of Quality Assurance Office
 October 2022 Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO)
 April 2023 Deputy General Manager of Administrative Division, Manager of Corporate Planning Department, CEO's Office, DX Business Team Leader (CDO) (current)
 June 2023 Director (current)



Masafumi Ishii

Born on November 3, 1957
 (Outside/Independent)

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)



Rika Saeki

Born on February 27, 1961
 (Outside/Independent)

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)
 June 2022 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



Shigeru Sadakari

Born on September 22, 1957
 (Outside/Independent)

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 Outside Audit & Supervisory Board Member, Nikko Co., Ltd.
 June 2022 Outside Director, Nikko Co., Ltd. (current)

Audit & Supervisory Board Member

**Morie Okaaki**

Born on November 2, 1963
Full-time Audit & Supervisory Board Member

- April 1986** Joined Nikko Co., Ltd
- April 2004** Manager of Kitakanto Sales Office
- October 2007** Manager of BP Sales Department, BP Business Department
- July 2013** Manager of BP Sales Management Department, Tokyo Head Office
- 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
- June 2017** Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center
- June 2021** Senior Executive Officer
- April 2024** Internal Control in-charge
- June 2024** Audit & Supervisory Board Member (current)

**Naoki Ota**

Born on March 1, 1955
(Outside/Independent)

- 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
- June 2019** Audit & Supervisory Board Member, Nikko Co., Ltd. (current)

**Tsuyoshi Fukui**

Born on July 24, 1965
(Outside/Independent)

- 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 (current)
- June 2019** Outside Audit & Supervisory Board Member, Nikko Co., Ltd. (current)
- <Important concurrent position>
Partner, RSM Seiwa

**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** Outside Audit & Supervisory Board Member, Nikko Co., Ltd. (current)
- <Important concurrent position>
Representative Partner, Tamon Law Office

Executive Officer

Kazuhiro Yamada

Born on December 16, 1970
Senior Executive Officer

- April 1995** Joined Nikko Co., Ltd
- December 1995** Development Team, Development Research Center
- April 2006** Business Development Promotion Office
- April 2008** (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.
- March 2022** Representative Director and President, Ube Kohki Co., Ltd. (current)
- April 2023** Deputy General Manager of Manufacturing Division (current)
- June 2023** Senior Executive Officer (current)
- July 2023** Representative Director, Matsuda Kiko K.K. (current)

Toyokazu Uehara

Born on July 3, 1969
Senior 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)
- June 2024** Senior Executive Officer
Deputy General Manager of Technology Division (current)

Katsuhiro 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 (current)

Katsumasa Takenami

Born on January 11, 1969
Executive Officer / Manager, Industrial Machinery Sales Management Department, Business Division

- March 1992** Joined Nikko Co., Ltd
- May 1992** Sales Section, Special Sales Department
- April 2006** In charge of Sales (Section Chief), BP Business Department
- January 2007** Leader (Section Chief), BP Business Department and Yokohama Service Station
- April 2008** Manager of Yokohama Sales Office, BP Sales Department, BP Business Department
- April 2010** Branch Manager of Kitakanto Branch
- April 2015** Branch Manager of Kyushu Branch
- April 2019** Branch Manager and Chief of Sales Section I of Osaka Branch
- April 2024** Manager, Industrial Machinery Sales Management Department (current)
- June 2024** Executive Officer (current)

Toshimasa Miyake

Born on January 13, 1969
Executive Officer / Manager of Asphalt Plant Sales Management Department, Business Division and Low Carbon Task Force Leader, CEO's Office

- April 1994** Joined Nikko Co., Ltd
- June 1994** Tokyo Sales Office I, AP Sales Department, AP Business Department
- April 2010** Chief of Development Sales Section, Market Development Department
- June 2016** Manager, Industrial Machinery Sales Management Department, Business Division
- April 2019** Branch Manager and Chief of Sales Section of Hoku-shinetsu Branch, Business Division
- April 2021** Branch Manager of Chubu Branch, Business Division
- April 2022** Manager, AP Sales Management Department, Business Division
- October 2022** Branch Manager of Taipei Branch (current)
- April 2024** Manager of Asphalt Plant Sales Management Department, Business Division, Branch Manager of Taipei Branch, and Low Carbon Task Force Leader, CEO's Office (current)
- June 2024** Executive Officer (current)

Takashi Miki

Born on October 6, 1970
Executive Officer / Deputy Manager of Technology Management Department and Manager of Engineering Department, Technology Division

- April 1993** Joined Nikko Co., Ltd
- June 1993** Design Section I Team II, AP Technology Department, AP Business Department
- October 2008** Design Team I (Section Chief), AP Technology Design Group
- July 2014** Secondment: Deputy Manager of Engineering Department (section chief position), Nikko (Shanghai) Construction Machinery Co., Ltd.
- January 2015** Manager of Engineering Department (management position), Nikko (Shanghai) Construction Machinery Co., Ltd.
- January 2018** Release of Secondment: Chief of Design Section II, AP Technology Department, AP Technology Center, Technology Division
- April 2021** Manager of Engineering Department, Technology Management Department, Technology Division
- April 2022** Manager of Engineering Department, Technology Management Department, Technology Division and Chief of Standard Promotion Section
- April 2024** Deputy Manager of Technology Management Department and Manager of Engineering Department, Technology Division (current)
- June 2024** Executive Officer (current)

Nikko

Integrated Report

03

Corporate Data

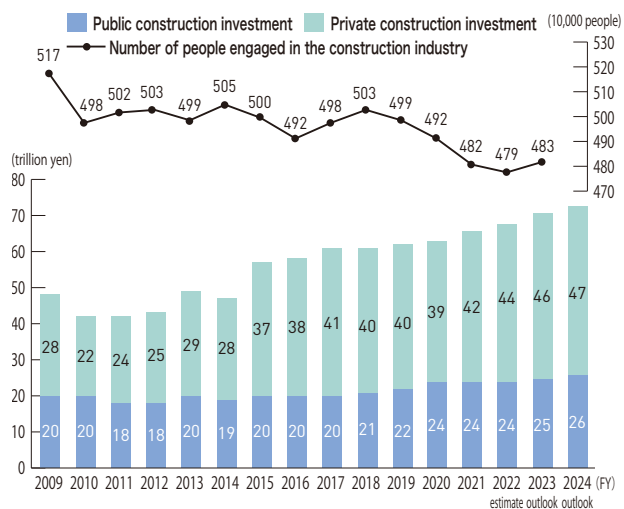
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FY 2023 Construction investment overview

Labor shortage grows as steady construction investment continues

Domestic construction investment (nominal value) in FY 2023 is expected to increase 3.7% year on year to 71.9 trillion yen, 14.1% higher than the construction investment amount of 62.328 trillion yen in FY 2019 before the COVID-19 pandemic. Breakdown of the investment shows that private construction investment, which accounts for 65% of the investment, is expected to increase 9.0% year on year to 45.82 trillion yen, while government investment, which accounts for the remaining 35%, is expected to decrease 3.2% to 25.27 trillion yen. Construction investment in FY 2024 is expected to increase 2.7% year on year to 73.02 trillion yen. While private construction investment is expected to remain steady at 2.2% increase year on year, government investment is expected to increase 3.7% year on year to 26.21 trillion yen. While such steady construction investment is expected, the number of people engaged in the construction industry is on the decline. The number of people engaged in 2023 is unchanged from the previous year at 4.83 million, but is 3.3% lower than in 2019. In addition, the percentage of people engaged aged 55 and over reached 36.6%, much higher than the 31.9% average for all industries. In the future, the need for automation and labor saving in the construction industry is expected to expand.

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



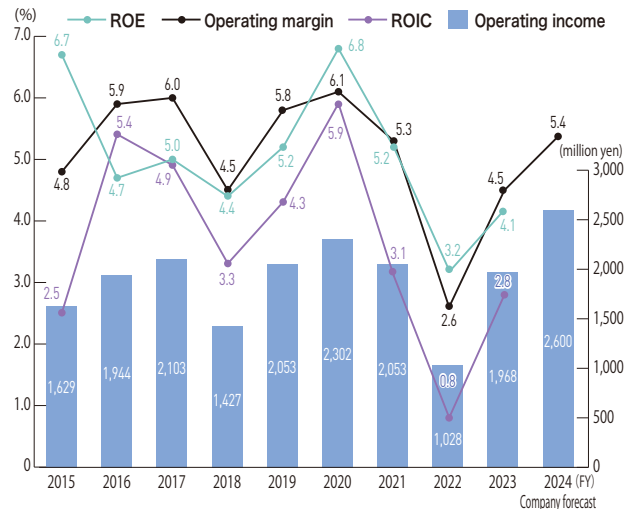
Note: The number of people engaged in the industry is on a calendar year basis and its source is the Construction Handbook.

Business performance in FY 2023

Significant income growth was achieved, but fell short of interim plan numerical targets.

For FY2023 performance, order intake increased 19.3% year on year to 48,749 million yen, and net sales increased 11.2% year on year to 44,097 million yen. The BB ratio, calculated by dividing order intake by sales, improved to 1.11 times (1.03 times in the previous fiscal year), and the order backlog at the end of FY2023 reached 22,371 million yen (monthly sales of 6.1 months), up 4,715 million yen year on year. Operating income increased 91.4% year on year to 1,968 million yen (operating margin 4.5%, up 1.9 points year on year) due to the effect of increased revenue as well as the effect of improved cost rates, including product price revisions, which absorbed increases in various expenses. Ordinary income increased 70.8% year on year to 2,144 million yen, and net income attributable to owners of parent increased 28.6% year on year to 1,312 million yen due to a decrease in gains on sales of investment securities, etc. ROE improved by 0.9 pt to 4.1%. In FY 2023, the second year of the medium-term management plan, we implemented growth investments including human resource investments, strengthening internal functions, and M&A. However, the deterioration of the external environment for the AP-related business had an impact, and we fell short of our medium-term plan targets of 48 billion yen in net sales and 2.6 billion yen in operating income.

● Operating income and margin, ROE, and ROIC

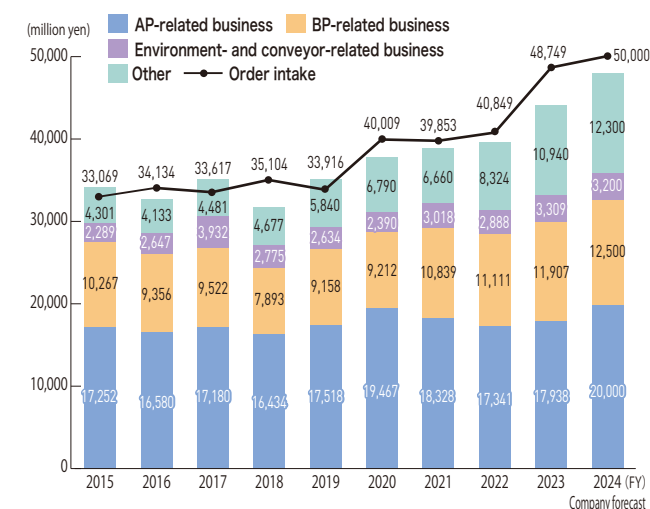


Business overview by segment

Pending AP-related business performance shows stronger recovery trend.

In FY2023, net sales in the AP-related business increased 3.4% year on year to 17,938 million yen, and operating income increased 575.5% year on year to 331 million yen (operating margin of 1.8%), as the effect of increased revenue etc. absorbed losses in overseas businesses. In the BP-related business, net sales increased 7.2% year on year to 11,907 million yen, and operating income increased 31.9% to 1,341 million yen (11.3% year on year), thanks to the effect of increased revenue and product price increases. In the environment and conveyance-related business, net sales increased 14.6% year on year to 3,309 million yen, and operating income increased 51.9% year on year to 793 million yen (24.0% increase) due to the effect of increased revenue. In the crusher-related business, net sales increased 44.2% year on year to 3,198 million yen and operating income increased 56.6% year on year to 274 million yen (8.6% increase). In the contract-based manufacturing related business, net sales increased 38.6% year on year to 3,072 million yen due to the incorporation of Matsuda Kiko into the group, and operating income increased 73.0% year on year to 270 million yen (8.8% increase). In other businesses, net sales increased 20.0% year on year to 4,670 million yen and operating income increased 8.2% year on year to 769 million yen.

● Net sales by segment and consolidated order intake



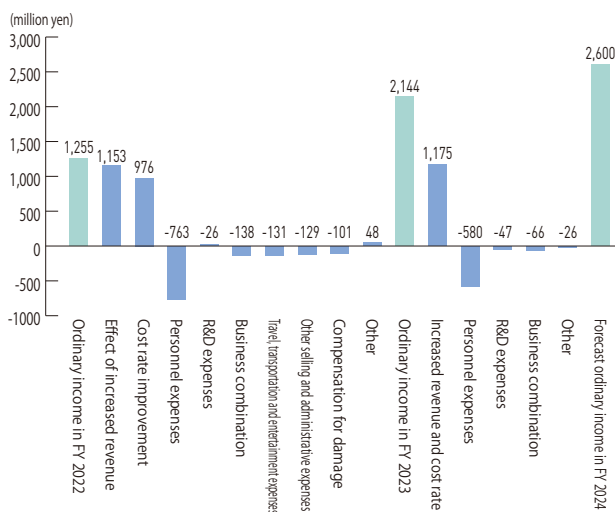
Analysis of Changes in Ordinary Income

Absorbed the burden of investment in human resources and ensured increased income.

Ordinary income for FY2023 increased 889 million yen year on year to 2,144 million yen. The items that contributed to the increase in income were the increase in net sales (+4,432 million yen) of 1,153 million yen, the improvement in cost rate excluding labor costs of 976 million yen, and other non-operating income of 48 million yen. On the other hand, items that reduced incomes were personnel expenses of 763 million yen due to active investment in human resources, business combination expenses of 138 million yen (selling and administrative expenses of Matsuda Kiko, expenses related to stock acquisition), travel, transportation and entertainment expenses of 131 million yen, other selling and administrative expenses of 129 million yen, damage compensation expenses of 101 million yen, and R&D expenses of 26 million yen.

Ordinary income for FY2024 is expected to increase 456 million yen year on year to 2.6 billion yen. While the increase in income item is the 1,175 million yen of the effect of increased net sales (+3,903 million yen), the decrease in income item is the intended increase in personnel expenses of 580 million yen, business combinations of 66 million yen (reflecting Nishi-nihon Fudohsan in the statement of income), R&D expenses of 47 million yen, and other selling and administrative expenses and non-operating expenses of 26 million yen.

Analysis of Changes in Management Income



Financial conditions

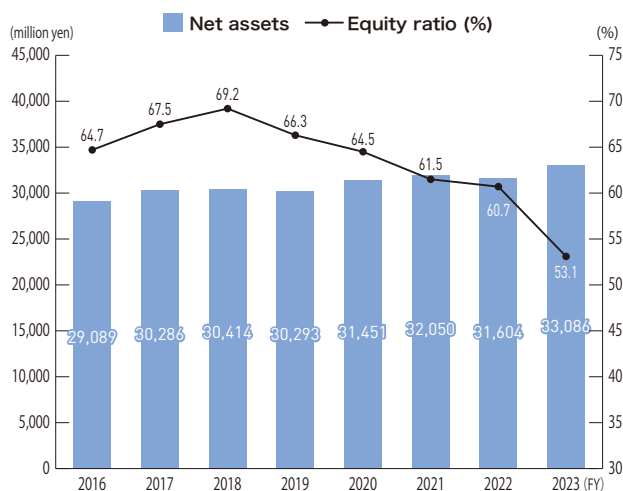
Equity ratio fell to 53.1%.

Total assets at the end of FY2023 increased 10,102 million yen year on year to 62,229 million yen.

Current assets increased 7.31 billion yen year on year to 41.033 billion yen, and non-current assets increased 2.792 billion yen to 21.196 billion yen. Main items that increased include cash and cash equivalents increased by 5.234 billion yen year on year to 15.551 billion yen, accounts receivable increased by 2.33 billion yen year on year to 8.975 billion yen, property, plant and equipment increased by 1.408 billion yen year on year to 13.247 billion yen, and investments and other assets increased by 1.2 billion yen year on year to 6.74 billion yen.

On the other hand, current liabilities increased 6.405 billion yen year on year to 21.743 billion yen, and non-current liabilities increased 2.215 billion yen year on year to 7.399 billion yen. Main items include short-term borrowings increased by 2.854 billion yen year on year to 6.166 billion yen, and long-term borrowings increased by 2.101 billion yen year on year to 4.55 billion yen. Net assets increased 1.482 billion yen year on year to 33.086 billion yen, and shareholders' equity, which is net assets minus non-controlling interests of 57 million yen, was 33.028 billion yen, the equity ratio fell 7.6 pt to 53.1%.

Net assets and equity ratio

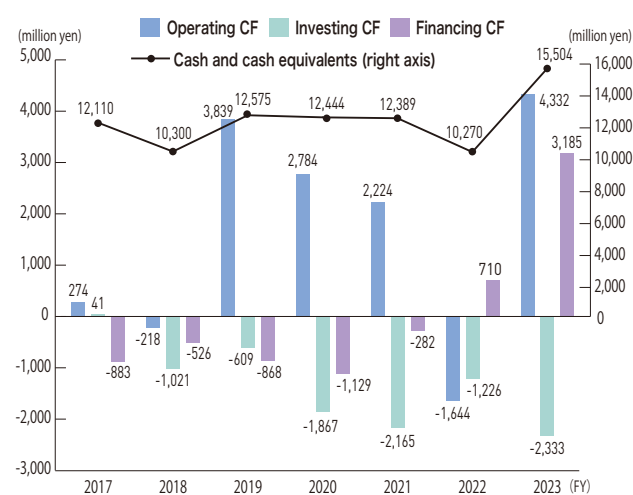


Cash flows

Free cash flow turned positive.

Cash flows from operating activities turned from an expenditure of 1.644 billion yen in the previous fiscal year to an inflow of 4.332 billion yen. Major inflows include 2.231 billion yen in net income before income taxes, 998 million yen in depreciation and amortization, and 844 million yen in increased contract liabilities. On the other hand, main expenditures include an increase of 1.77 billion yen in notes and accounts receivable-trade and an increase of 281 million yen in notes and accounts payable-trade. Cash flows from investing activities amounted to an expenditure of 2.333 billion yen, compared to an expenditure of 1.226 billion yen in the previous fiscal year. As a result, free cash flow (FCF) was 1.999 billion yen. Cash used in financing activities totaled 3.185 billion yen. An increase in short-term loans payable of 2.081 billion yen and proceeds from long-term loans payable of 3.74 billion yen were offset by repayment of long-term loans payable of 1.488 billion yen, cash dividends paid of 1.149 billion yen, etc. Cash and cash equivalents at the end of the fiscal year amounted to 15.504 billion yen.

Cash flow and cash and cash equivalents

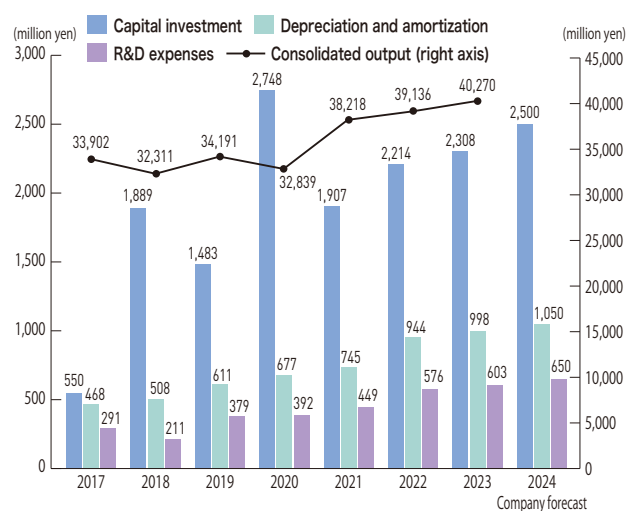


Trends in capital investment, depreciation and amortization, R&D expenses

High level of capital investment

Capital investment for FY2023 was 2.308 billion yen, depreciation and amortization was 998 million yen, and the capital investment ratio to net sales was 5.2%. R&D expenses amounted to 603 million yen, and the ratio of R&D expenses to net sales was 1.4%. Major capital investment projects include 891 million yen for construction of buildings for lease in other businesses, 284 million yen for a new factory construction in crusher-related business, and 239 million yen for a new factory and machinery in AP and BP-related businesses. Major R&D projects include the development of global strategic models for the overseas ASEAN market in the AP-related business, improved models of asphalt foamed equipment, combustion equipment for decarbonized fuels, and a self-propelled soil improvement machine (MOBIX-ECO) in the crusher-related business. For FY2024, capital investment is planned at 2.5 billion yen, depreciation and amortization at 1.05 billion yen, and R&D expenses at 650 million yen. In the current medium-term plan, we plan to make capital investments of 6 billion yen and R&D expenses of 2.53 billion yen over a three-year period. Over the past two years, we have made cumulative capital investments of 4.52 billion yen and R&D expenses of 1.18 billion yen.

Trends in capital investment, depreciation and amortization, and consolidated output

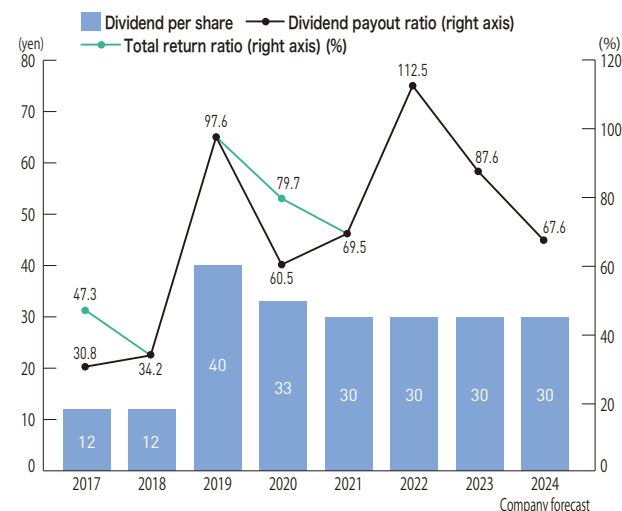


Shareholder returns

Shareholder returns in excess of pledged dividend payout ratio

The Company has committed to a dividend payout ratio of 60% or more. The dividend per share for FY2023 was 30 yen, the same amount as the previous year (year-end dividend yield of 3.9%), and the dividend payout ratio was 87.6%. Although we have not set a target dividend on equity ratio (DOE), the actual DOE for FY2023, calculated by multiplying ROE of 4.1% by the dividend payout ratio of 87.6%, was 3.6%, ensuring the same level as in FY2023. As a result, TSR (Total Shareholder Return) over the past year was +25.6%, and over the past two years +36.1%, achieving good stock performance over the past two years of weak performance. The forecast dividend per share for FY2024 is 30 yen, the same as the previous year. In FY2024, net income attributable to owners of parent is expected to increase 29.6% year on year to 1.7 billion yen, and the dividend payout ratio is expected to fall to 67.6% as business performance recovers, but it is still expected to exceed the pledged dividend payout ratio.

Dividend per share, dividend payout ratio, total return ratio



FY 2024 performance outlook

Significant income growth expected in FY2024

For FY 2024 (ending March 31, 2025), we expect order intake to increase 2.6% year on year to 50 billion yen, net sales to increase 8.9% year on year to a record high of 48 billion yen, operating income to increase 32.1% year on year to 2.6 billion yen (operating margin 5.4%, 0.9 points year on year), ordinary income to increase 21.3% year on year to 2.6 billion yen, and net income attributable to owners of parent to increase 29.6% year on year to 1.7 billion yen. The environment and transportation-related business is expected to decrease sales and operating income due to the completion of a large project for the Osaka Expo, but the AP-related business is expected to turn profitable, and the BP-related business and other businesses are also expected to ensure an increase in incomes, resulting in a significant turnaround in incomes. The full-year forecast operating income of 2.6 billion yen exceeds the operating income of 2.3 billion yen for FY2020 before the spread of COVID-19, and will be the second-highest income level ever recorded after the record operating income of 2.7 billion yen recorded in the fiscal year ended November 1990. For the first half of the year, net sales are expected to increase 35.4% year on year to 23 billion yen, and operating income is expected to increase 383.1% year-on-year to 1.3 billion yen (5.7%), and for the second half of the year, net sales are expected to decrease 7.8% year-on-year to 25 billion yen, and operating income is expected to decrease 23.5% year-on-year to 1.3 billion yen (5.2%).

Performance Forecast

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024 (forecast)
Order intake (million yen)	40,009	39,853	40,849	48,749	50,000
Net sales (million yen)	37,866	38,846	39,665	44,097	48,000
Operating income (million yen)	2,302	2,053	1,028	1,968	2,600
(Operating margin)	6.1%	5.3%	2.6%	4.5%	5.4%
Ordinary income (million yen)	2,973	2,274	1,255	2,144	2,600
Net income attributable to owners of parent (million yen)	2,082	1,649	1,020	1,312	1,700
Net income per share (yen)	54.31	43.16	26.67	34.25	44.37
ROE	6.8%	5.2%	3.2%	4.1%	—
Order backlog (million yen)	14,361	16,490	17,656	22,367	24,371

*Record net sales of 44 billion yen (FY2023), record operating income of 2.7 billion yen (FY1990)
*Record ROE of 6.8% (FY2020)

Financial Data of the Past 10 Years

			2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (FY)	
Key results	Net sales	(million yen)	30,707	34,110	32,717	35,114	31,780	35,151	37,866	38,846	39,665	44,097	
	Cost of sales	(million yen)	22,683	25,825	24,131	26,301	23,485	25,512	27,675	28,346	29,348	31,992	
	Gross profit	(million yen)	8,024	8,285	8,586	8,812	8,295	9,639	10,191	10,500	10,317	12,105	
	Selling, general and administrative expenses	(million yen)	6,192	6,655	6,641	6,708	6,868	7,585	7,889	8,447	9,288	10,136	
	Operating income	(million yen)	1,832	1,629	1,944	2,103	1,427	2,053	2,302	2,053	1,028	1,968	
	Ordinary income	(million yen)	1,582	1,648	1,993	2,239	1,576	2,142	2,973	2,274	1,255	2,144	
	Net income before income taxes	(million yen)	1,800	2,940	1,878	2,299	1,933	2,440	3,045	2,599	1,693	2,231	
	Net income attributable to owners of parent	(million yen)	1,348	1,896	1,340	1,490	1,345	1,588	2,082	1,649	1,020	1,312	
	Net income per share	(yen)	32.1	45.2	34.3	38.7	35.1	41.2	54.3	43.1	26.6	34.2	
	Number of consolidated subsidiaries	(companies)	8	8	8	8	8	9	10	11	11	11	
Number of affiliates accounted for using equity method	(companies)	1	—	—	—	—	—	—	—	—	—		
Profitability	Operating margin	(%)	6.0	4.8	5.9	6.0	4.5	5.8	6.1	5.3	2.6	4.5	
	ROA (Return On Assets)	(%)	3.3	4.5	3.0	3.3	3.0	3.5	4.4	3.3	2.0	2.3	
	ROE (Return On Equity)	(%)	4.8	6.6	4.6	4.9	4.4	5.2	6.8	5.2	3.2	4.1	
Segment results	Net sales by segment	Asphalt plant-related business	(million yen)	15,071	17,252	16,580	17,179	16,434	17,518	19,467	18,328	17,341	17,938
		Concrete plant-related business	(million yen)	8,287	10,267	9,356	9,521	7,893	9,158	9,212	10,839	11,111	11,907
		Environment- and Conveyor-Related Business	(million yen)	2,853	2,289	2,647	3,931	2,775	2,634	2,390	3,018	2,888	3,309
		Crusher-Related Business	(million yen)	—	—	—	—	—	—	—	—	2,217	3,198
		Contract-based Manufacturing-Related Business	(million yen)	—	—	—	—	—	—	—	—	2,216	3,072
		Other Business	(million yen)	4,495	4,301	4,133	4,480	4,677	5,840	6,796	6,660	3,891	4,670
	Operating income (loss)	Asphalt plant-related business	(million yen)	1,214	1,234	1,253	1,348	963	1,118	1,239	562	49	331
		Concrete plant-related business	(million yen)	712	878	1,006	1,015	666	761	879	1,123	1,017	1,341
		Environment- and Conveyor-Related Business	(million yen)	527	337	369	308	417	562	482	588	522	793
		Crusher-Related Business	(million yen)	—	—	—	—	—	—	—	—	175	274
		Contract-based Manufacturing-Related Business	(million yen)	—	—	—	—	—	—	—	—	156	270
		Other Business	(million yen)	451	277	417	462	502	1,020	1,170	1,073	711	769
		Corporate expenses	(million yen)	(1,074)	(1,097)	(1,102)	(1,031)	(1,122)	(1,409)	(1,469)	(1,293)	(1,605)	(1,811)

			2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (FY)
Segment results	Japan	(million yen)	27,881	31,130	29,761	31,148	27,941	30,761	34,130	34,099	34,061	40,657
	Overseas	(million yen)	2,825	2,980	2,956	3,965	3,838	4,390	3,735	4,746	5,604	3,440
	China	(million yen)	2,072	2,220	2,026	3,389	3,357	3,637	3,509	3,670	4,829	2,300
	Other	(million yen)	753	760	930	576	481	1,083	226	1,076	775	1,139
	Ratio of net sales outside Japan	(%)	9.2	8.7	9.0	11.3	12.1	12.5	9.9	12.2	14.1	7.8
Orders	Total order intake	(million yen)	34,500	33,284	34,134	33,616	35,103	33,915	40,009	39,852	40,849	48,749
	Total order backlog	(million yen)	11,039	10,212	11,629	10,132	13,454	12,219	14,361	16,490	17,656	22,371
Financial conditions	Total assets	(million yen)	41,964	43,189	44,976	44,876	43,969	45,677	48,697	52,079	52,127	62,229
	Net assets	(million yen)	27,845	28,528	29,089	30,286	30,414	30,293	31,451	32,050	31,604	33,086
	Interest-bearing debts	(million yen)	2,206	2,362	1,987	1,799	1,718	1,787	2,492	3,812	5,761	7,716
	Equity ratio	(%)	66.4	66.1	64.7	67.5	69.2	66.3	64.5	61.5	60.7	53.1
	Net assets per share	(yen)	664.3	680.7	749.2	791.1	793.7	780.6	823.0	837.2	826.7	861.7
Dividends	Dividend per share	(yen)	9.0	10.0	11.0	12.0	12.0	40.0	33.0	30.0	30.0	30.0
	Total dividend	(million yen)	376	418	426	458	459	1,550	1,260	1,146	1,147	1,149
	Dividend payout ratio	(%)	27.9	22.0	31.9	30.8	34.2	97.6	60.5	69.5	112.5	87.6
	Dividend on equity	(%)	1.4	1.5	1.5	1.5	1.5	5.1	4.0	3.6	3.6	3.6
Capital investment, etc.	Capital investment	(million yen)	815	877	1,261	550	1,889	1,483	2,748	1,907	2,214	2,308
	Depreciation and amortization*	(million yen)	422	487	482	468	508	611	677	745	944	988
	R&D expenses	(million yen)	276	227	271	291	211	379	392	449	576	603
	R&D expenses to net sales	(%)	0.90	0.67	0.83	0.83	0.66	1.08	1.04	1.15	1.45	1.36
Cash flows	Cash flow from operating activities	(million yen)	1,001	(1,040)	5,064	274	(218)	3,839	2,784	2,224	(1,644)	4,332
	Cash flow from investing activities	(million yen)	(305)	2,142	(316)	41	(1,021)	(609)	(1,867)	(2,165)	(1,226)	(2,333)
	Free cash flow	(million yen)	696	1,102	4,748	315	(1,239)	3,200	917	59	(2,870)	1,999
	Cash flows from financing activities	(million yen)	(430)	(264)	(1,690)	(883)	(526)	(868)	(1,129)	(282)	710	3,185
	Term-end balance of cash and cash equivalents	(million yen)	8,796	9,630	12,622	12,110	10,300	12,575	12,444	12,389	10,270	15,504

*Depreciation and amortization are based on cash flow.

Consolidated Financial Statements

Consolidated Balance Sheet

Assets	2022	2023 (FY)
Current assets		
Cash and cash equivalents	10,317	15,551
Notes receivable-trade	2,357	1,773
Accounts receivable-trade	6,645	8,975
Electronically recorded monetary claims	2,233	2,419
Merchandise and finished goods	1,794	1,631
Work in process and partly-finished construction	7,423	8,323
Raw materials and supplies	1,657	1,695
Forward exchange contracts	14	30
Other	1,279	633
Allowance for doubtful accounts	(1)	(1)
Total current assets	33,723	41,033
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	5,945	6,175
Machinery, equipment and vehicles (net)	1,292	1,199
Tools, furniture and fixtures (net)	405	514
Land	3,878	4,204
Lease assets (net)	0	0
Right-of-use assets (net)	81	75
Construction in progress	236	1,078
Total property, plant and equipment	11,839	13,247
Intangible assets		
Goodwill	130	196
Other	889	1,011
Total intangible assets	1,020	1,208
Investments and other assets		
Investment securities	3,488	5,248
Investments in capital	7	107
Long-term loans receivable	14	13
Deferred tax assets	981	549
Other	1,183	951
Allowance for doubtful accounts	(130)	(130)
Total investments and other assets	5,544	6,740
Total non-current assets	18,404	21,196
Total assets	52,127	62,229

Liabilities	2022	2023 (FY)
Current liabilities		
Notes and accounts payable-trade	3,012	3,256
Electronically recorded obligations	858	1,296
Accounts payable-factoring	2,355	2,868
Short-term loans payable	3,312	6,166
Income taxes payable	265	965
Accounts payable-other	644	700
Down payments	17	17
Contract liabilities	3,713	4,625
Provision for bonuses	417	610
Provision for directors' bonuses	76	98
Provision for loss on order intake	172	82
Other	492	1,054
Total current liabilities	15,338	21,743
Non-current liabilities		
Long-term loans payable	2,449	4,550
Deferred tax liabilities	0	170
Provision for directors' retirement benefits	235	206
Retirement benefit-related liabilities	2,166	2,140
Other	333	330
Total non-current liabilities	5,184	7,399
Total liabilities	20,523	29,143

(million yen)

Net assets	2022	2023 (FY)
Shareholders' equity		
Capital stock	9,197	9,197
Capital surplus	7,934	7,787
Retained earnings	13,628	13,791
Treasury stock	(760)	(738)
Total shareholders' equity	29,999	30,038
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,177	2,335
Foreign currency translation adjustment	582	696
Deferred gains or losses on hedges	–	21
Accumulated retirement benefit-related adjustment	(115)	(62)
Total accumulated other comprehensive income	1,644	2,990
Non-controlling interests	(40)	57
Total net assets	31,604	33,086
Total liabilities and net assets	52,127	62,229

Consolidated Statement of Income

(million yen)

	2022	2023 (FY)
Net sales	39,665	44,097
Cost of sales	29,348	31,992
Gross profit	10,317	12,105
Selling, general and administrative expenses	9,288	10,136
Operating income	1,028	1,968
Non-operating income		
Interest income	2	4
Dividends income	104	141
Foreign exchange gains	158	117
Surrender value of insurance policies	—	46
Other	64	106
Total non-operating income	330	416
Non-operating expenses		
Interest expenses	77	119
Compensation for damage	6	107
Other	18	12
Total non-operating expenses	102	240
Ordinary income	1,255	2,144
Extraordinary income		
Gain on sales of investment securities	564	68
Gain on sale of non-current assets	—	11
Gain on bargain purchase	—	7
Total extraordinary income	564	87
Extraordinary loss		
Loss due to COVID-19	23	—
Impairment losses	104	—
Loss on sale of non-current assets	—	0
Total extraordinary loss	127	0
Net income before income taxes	1,693	2,231
Income taxes-current	745	1,003
Income taxes-deferred	6	(16)
Total income taxes	751	987
Net income	941	1,244
Loss attributable to non-controlling interests	(78)	(68)
Net income attributable to owners of parent	1,020	1,312

Consolidated Statement of Comprehensive Income

(million yen)

	2022	2023 (FY)
Net income	941	1,244
Other comprehensive income		
Valuation difference on available-for-sale securities	(275)	1,157
Foreign currency translation adjustment	13	94
Deferred gains or losses on hedges	—	21
Retirement benefit-related adjustment	(11)	52
Total other comprehensive income	(273)	1,326
Comprehensive income	667	2,570
(Breakdown)		
Comprehensive income attributable to owners of the parent	755	2,657
Comprehensive income attributable to non-controlling interests	(87)	(87)

Consolidated Statement of Cash Flows

	2022	2023 (FY)
Cash flow from operating activities		
Net income before income taxes	1,693	2,231
Depreciation expenses	944	988
Amortization of goodwill	46	25
Increase (decrease) in allowance for doubtful accounts	(0)	(0)
Increase (decrease) in retirement benefit-related adjustment	22	7
Increase (decrease) in provision for directors' retirement benefits	52	(28)
Interest and dividends income	(107)	(145)
Interest expenses	77	119
Foreign exchange losses (gains)	(15)	(8)
Loss (gain) on sales and valuation of investment securities	(564)	(68)
Decrease (increase) in notes and accounts receivable-trade	(196)	(1,770)
Decrease (increase) in inventories	(1,156)	(281)
Increase (decrease) in notes and accounts payable-trade	(204)	527
Decrease (increase) in accounts receivable	(463)	493
Increase (decrease) in operating accounts payable	(457)	456
Increase (decrease) in accrued consumption taxes	(5)	432
Impairment losses	104	–
Increase (decrease) in contract liabilities	(708)	844
Other	229	783
Subtotal	(709)	4,616
Interest and dividends income received	139	145
Interest expenses paid	(77)	(119)
Income taxes paid	(997)	(309)
Cash flow from operating activities	(1,644)	4,332

(million yen)

	2022	2023 (FY)
Cash flow from investing activities		
Payments into time deposits	(47)	(47)
Proceeds from withdrawal of time deposits	47	47
Purchase of investment securities	(22)	(14)
Proceeds from sales and redemption of investment securities	1,002	111
Purchase of property, plant and equipment and intangible assets	(2,174)	(2,321)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(332)
Payments of loans receivable	(10)	(5)
Collection of loans receivable	5	8
Other	(26)	221
Cash flow from investing activities	(1,226)	(2,333)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	968	2,081
Proceeds from long-term loans payable	1,084	3,740
Repayment of long-term loans payable	(187)	(1,488)
Purchase of treasury stock	(0)	(0)
Repayments of finance lease obligations	(7)	1
Cash dividends paid	(1,147)	(1,149)
Cash flows from financing activities	710	3,185
Effect of exchange rate changes on cash and cash equivalents	41	48
Net increase (decrease) in cash and cash equivalents	(2,118)	5,233
Cash and cash equivalents at beginning of year	12,389	10,270
Cash and cash equivalents at end of year	10,270	15,504

Stock overview (as of March 31, 2024)

Financial instruments exchange where the stock is listed
Tokyo Stock Exchange Prime Market

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 1,671,600 treasury shares)

Number of shares per unit
100 shares

Number of shareholders
16,265

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

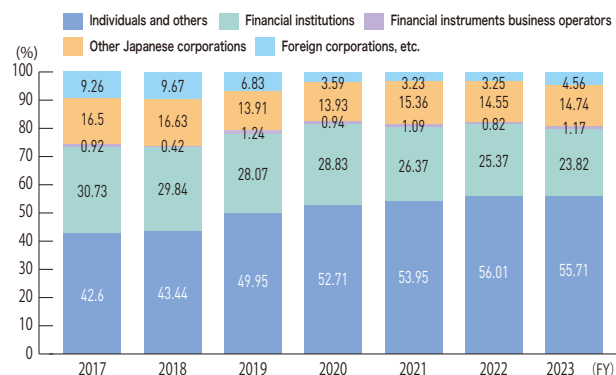
Registration deadline for interim dividend payment:
September 30

Major shareholders (top 10)

Name	Number of Nikko shares held (1,000 shares)	Shareholding ratio (%)
Nikko Trading-Partner Shareholding Association	6,079	15.86
The Master Trust Bank of Japan, Ltd. (trust account)	3,599	9.39
Nikko Employees' Shareholding Association	1,700	4.43
Custody Bank of Japan, Ltd. (trust account)	909	2.37
Sumitomo Mitsui Banking Corporation	878	2.29
Nippon Life Insurance Company	855	2.23
Sumitomo Life Insurance Company	745	1.94
The Hyakujushi Bank, Ltd.	683	1.78
Meiji Yasuda Life Insurance Company	648	1.69
Nakanishi Electric Co., Ltd.	621	1.62
Total	16,716	43.61

Nikko holds treasury shares totaling 1,671,600, 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 the second decimal place.

Composition of shareholder types (%)



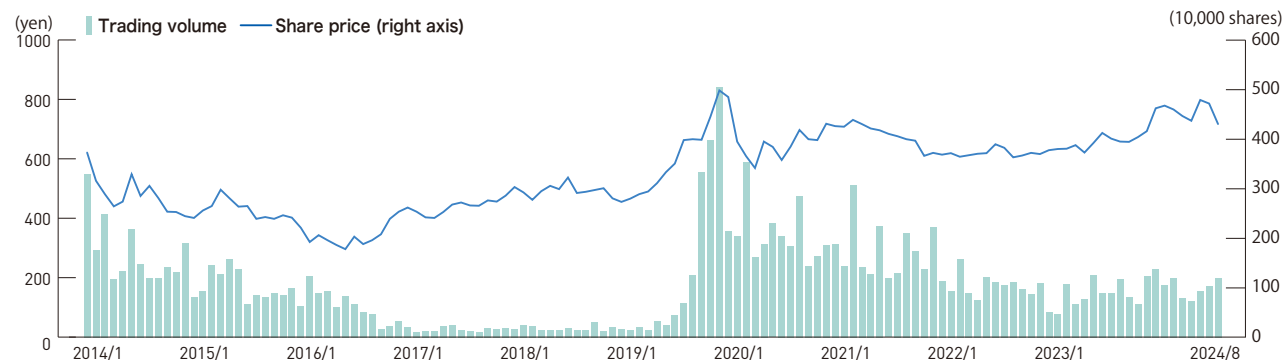
Stock performance comparison (TSR: total shareholder return, %)

Investment period	1 year	3 years	5 years	10 years
	(End of Mar. 2023 to end of Mar. 2024)	(End of Mar. 2021 to end of Mar. 2024)	(End of Mar. 2019 to end of Mar. 2024)	(End of Mar. 2014 to end of Mar. 2024)
Nikko shares	25.6	17.1	93.0	100.4
TOPIX	41.3	52.5	96.2	188.6
Machinery index	46.2	52.8	117.0	201.8

The above table shows total shareholder return including dividends as of the end of March 2024 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 (January 2014 – August 2024)

Trading volume and Share price



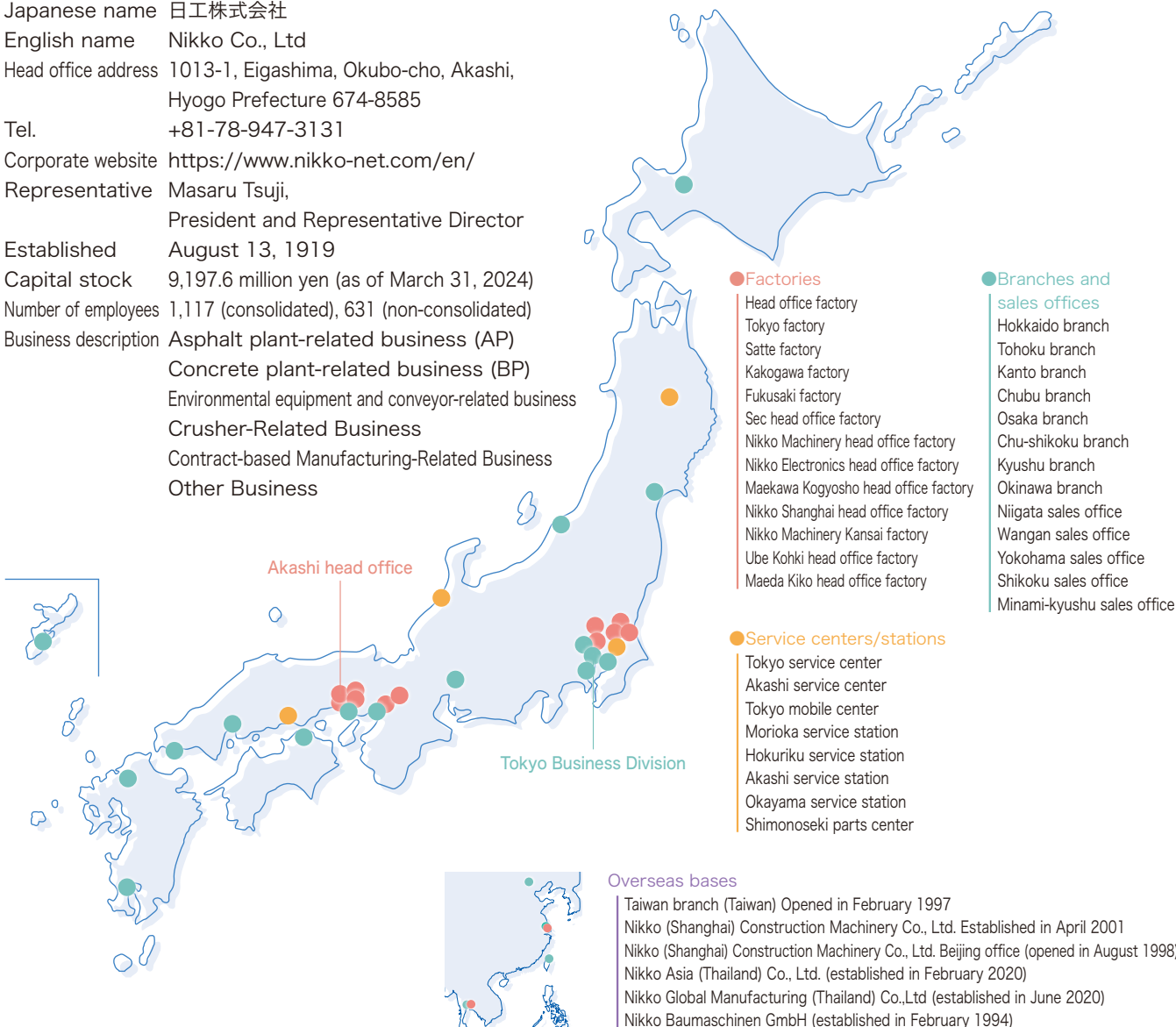
Valuation of share price

	Mar. 2020	Mar. 2021	Mar. 2022	Mar. 2023	Mar. 2024
Year-end share price (yen)	609	731	607	634	766
PER (times)	14.8	13.5	14.1	23.8	22.4
PBR (times)	0.8	0.9	0.7	0.8	0.9
Dividend yield (%)	6.6	4.5	4.9	4.7	3.9
Year-end market cap (mil. yen)	24,360	29,240	24,280	25,360	30,640

Company Overview and Offices and Sites

Company Overview (as of March 31, 2024)

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 stock 9,197.6 million yen (as of March 31, 2024)
Number of employees 1,117 (consolidated), 631 (non-consolidated)
Business description Asphalt plant-related business (AP)
 Concrete plant-related business (BP)
 Environmental equipment and conveyor-related business
 Crusher-Related Business
 Contract-based Manufacturing-Related Business
 Other Business

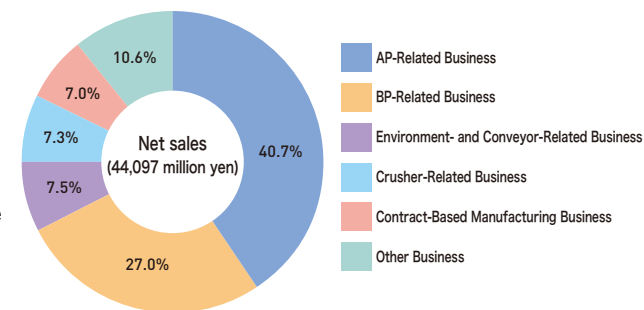


Group companies

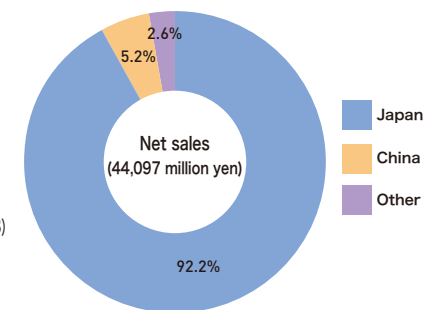
Nikko Electronics Corp.
 Nikko Machinery Co., Ltd.
 Tombo Industry Co., Ltd.
 Nikko Sec Co., Ltd.
 Nikko Kosan Co., Ltd.
 Maekawa Seisakusho Co., Ltd.
 Ube Kohki Co., Ltd. (a group company since March 2022)
 Matsuda Kiko K.K. (a group company since July 2023)
 Nikko (Shanghai) Construction Machinery Co., Ltd.
 Nikko Asia (Thailand) Co., Ltd
 Nikko Global Manufacturing (Thailand) Co.,Ltd
 Nikko Baumaschinen GmbH
 Nishi-nihon Fudohsan Co.,LTD.

Net sales breakdown by business

Net sales breakdown by business segment (FY 2023)



Net sales breakdown by region (FY 2023)



Summary of Subsidiaries

Related Business	Company Name		Performance Trend	FY 2021	FY 2022	FY 2023
AP BP Other	Nikko Electronics Co., Ltd.	Design, manufacture and sale of hardware and software for control panels, switchboards, and monitoring panels	Net sales (million yen)	1,642	1,726	1,937
			Operating income (million yen)	162	228	325
			Operating margin (%)	9.9	13.2	16.8
AP BP Other	Nikko Machinery Co., Ltd.	Manufacture and sale of construction equipment and flooding preventive facilities, including floodgates and waterproof boards	Net sales (million yen)	2,416	1,816	2,158
			Operating income (million yen)	378	76	320
			Operating margin (%)	15.6	4.2	14.8
Other	Nikko Sec Co., Ltd.	Manufacture and sale of temporary construction equipment and machinery for construction work, material handling machines, and computer-related equipment	Net sales (million yen)	1,531	1,377	1,423
			Operating income (million yen)	196	150	169
			Operating margin (%)	12.8	10.9	11.9
Other	Tombo Industry Co., Ltd.	Manufacture and sale of soil farming tools, camp and gardening supplies, including shovels and scoops, and concrete mixers for mixing and kneading	Net sales (million yen)	743	757	741
			Operating income (million yen)	38	15	7
			Operating margin (%)	5.1	2.0	0.9
Crusher	Maekawa Kogyosho Co., Ltd.	Manufacture and sale of crushing plants, crushers, etc.	Net sales (million yen)	353	432	315
			Operating income (million yen)	106	143	77
			Operating margin (%)	30.0	33.1	24.4
Other	Nikko Kosan Co., Ltd.	Services related to housing renovation, insurance agency and real estate	Net sales (million yen)	476	460	432
			Operating income (million yen)	45	29	(14)
			Operating margin (%)	9.5	6.3	—
Contract-based manufacturing	Ube Kohki Co., Ltd.	Manufacture and installation of various plant facilities, manufacture and sale of gas holders, and development, manufacture and sale of solar LED lightings, etc.	Net sales (million yen)	—	2,175	2,471
			Operating income (million yen)	—	143	114
			Operating margin (%)	—	6.6	4.6
Contract-based manufacturing	Matsuda Kiko K.K.	Manufacture and assembly of various plants and industrial machinery	Net sales (million yen)	—	—	472
			Operating income (million yen)	—	—	121
			Operating margin (%)	—	—	25.6
AP BP	Nikko (Shanghai) Construction Machinery Co., Ltd.	Manufacture and sale of asphalt / recycling plants and anti-pollution devices, with a focus on the Chinese market	Net sales (million yen)	3,956	4,990	2,624
			Operating income (million yen)	61	335	(3)
			Operating margin (%)	1.5	6.7	—
AP	Nikko Asia (Thailand) Co.,Ltd	Sale and maintenance of asphalt / recycling plants	Net sales (million yen)	162	377	566
			Operating income (million yen)	(114)	(106)	(174)
			Operating margin (%)	—	—	—
AP	Nikko Global Manufacturing (Thailand) Co.,Ltd	Manufacture, sale and maintenance work of asphalt / recycling plants	Net sales (million yen)	28	193	527
			Operating income (million yen)	(125)	(303)	(378)
			Operating margin (%)	—	—	—

	Glossary	Overview
A P	Asphalt plant (AP)	Facility for producing asphalt mixtures. It mainly consists of a dryer for heating and drying aggregate, a material measurer, and a mixer for mixing materials.
	Recycling plant (RP)	Asphalt pavement material recycling plant is a plant facility for processing used asphalt pavement material (recycled aggregate) and reusing it as a raw material for new asphalt mixtures.
	AS mixture, mixture	Abbreviation for asphalt mixture. Asphalt mixture made by mixing aggregate (crushed stone, sand, etc.), filler (stone powder), and asphalt.
	Medium-temperature mixture (medium-temperature asphalt compound)	Paving material that can reduce manufacturing and construction temperatures by approximately 30°C while maintaining the same quality as conventional heated asphalt mixtures.
	Recycled mixture	Recycled mixture is an asphalt compound produced using used asphalt pavement materials (asphalt rubble, cuttings, etc.) as raw materials. It is used as a paving material mixed with new asphalt mixture.
	Foamed equipment	Device that sprays a small amount of water into heated asphalt to generate fine bubbles. This technology uses the bearing effect of fine bubbles to ensure quality and workability even when the manufacturing and construction temperatures of asphalt mixture are lowered, and is expected to be effective in reducing CO ₂ emissions.
B P	Batcher plant (BP)	Large plant facility for manufacturing concrete. Homogeneous concrete is manufactured by mixing materials such as cement, water, sand, gravel, and admixtures in predetermined proportions.
	CUCO	The collective term for a consortium of 55 companies implementing the NEDO Green Innovation Fund project "Project for Development of Technology for Producing Concrete and Cement Using CO ₂ ."
	Precast Concrete	Preformed secondary concrete products at factories.
	Soil improvement machine	Machine that mixes and stirs target soil and solidifiers to produce improved soil for specific applications. It consists of a hopper for feeding soil and solidifiers, a mixing section for mixing and stirring, and a belt conveyor for discharging the improved soil.
	Concrete sludge	Concrete sludge is a muddy waste material that is generated as a result of collecting and treating wastewater (washing wastewater) generated during the washing of mixer trucks and plant cleaning in ready-mixed concrete plants.
	Subscription Maintenance	Subscription contract for maintenance.

	Glossary	Overview
AP / BP	MS	Maintenance service. Modification and repair of plants and other facilities.
BP / Crusher	Mobile plant	Relocatable (self-propelled) plant facility. Nikko offers a lineup of crushers, belt conveyors, simple BPs, and soil improvement machines.
Crusher	Jaw crusher	Crusher for roughly crushing hard materials such as rocks and ores.
	Impact crusher	Crusher that uses impact force to crush, grind, and size stone and other materials.
Contract-based manufacturing	Gas holder	Widely used low-pressure gas storage facility that feeds gas when it is used in large quantities and stores it when it is not used much. They are available in spherical and cylindrical shapes. Ube Kohki designs and manufactures the cylindrical ones. The target gases include nitrogen, acetylene, methane, hydrogen gas, etc. In recent years, fermented biogas has been increasingly used.
	Water treatment plant	Factories and water purification plants generate sewage and wastewater. Water treatment plants are facilities that treat such sewage and wastewater and improve it to a level of water quality that is safe for human health and the environment. Major manufacturers include Swing Corporation, Kubota Corporation, Kurita Water Industries Ltd., METAWATER Co., Ltd., Torishima Pump Mfg. Co., Ltd., and Kobelco Eco-Solutions Co., Ltd.
Temporary construction	Temporary construction equipment	Facilities, structures, and other equipment temporarily installed in construction and civil engineering works.
	Raku Raku Ramp	It is made of aluminum alloy, which is flexible staircase with variable installation angle used for sloping, etc. NIKKO Group accounts for approximately 40% of the market share.
	Light bridge	Aluminum alloy safety passageway.
Other	Waterproof board	Flood prevention equipment installed at entrances and exits of buildings and facilities to prevent water from entering from outside.

Creating robust, people-friendly cities around the world.



For inquiries about this report,
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November 2024

