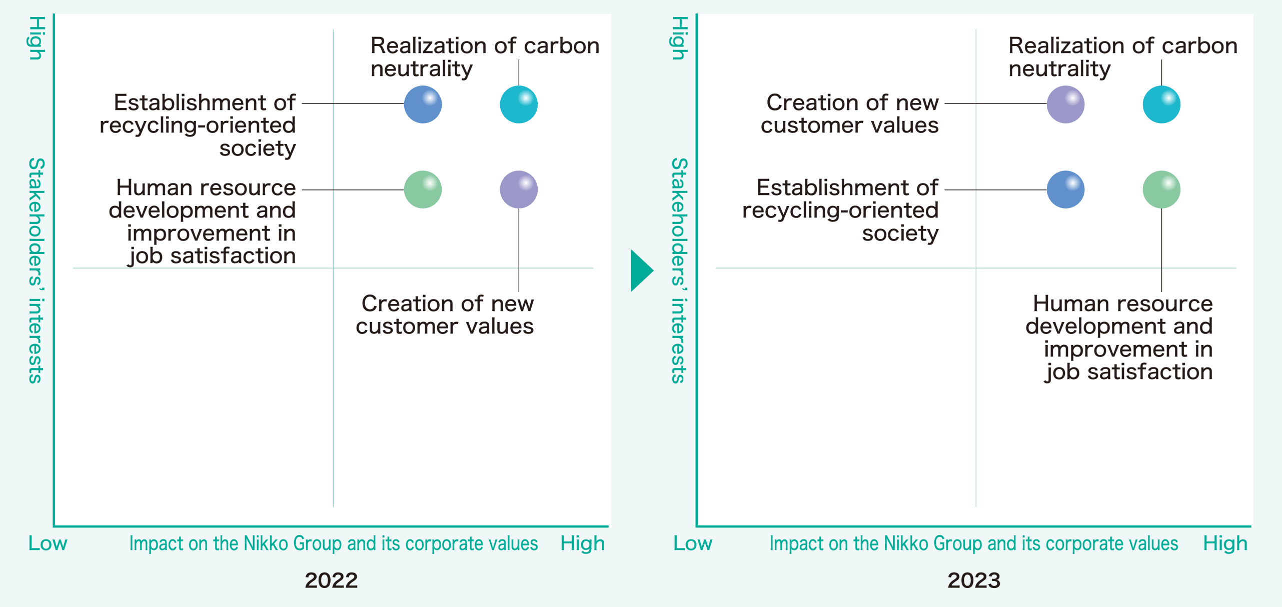
Nikko Group recognizes that there have been various risks and opportunities for the Group resulting from changes in the external environment in recent years. Specifically, the initiatives addressing the following have become indispensable for corporate sustainability: increasing geopolitical risks, supply chain instability, etc. in the political and economic fields; accelerating shift to carbon neutrality, biodiversity, etc. in the environmental and energy fields; digital transformation, generative AI, etc. in the technological field; and diversity and inclusion, diverse workstyles, employee engagement, human rights and demands on corporate ethics, etc. in the social field. In order for Nikko Group to achieve what it aspires to be in its 2030 Vision, it is indispensable that we not only appropriately grasp the changes in the external and industrial environments and maximize the corporate value in the various issues identified there, but also solve the materiality by taking into account the impact on stakeholders and sustainability.

Changes in Nikko Group's materiality map



Nikko Group established the Sustainability Committee in June 2023 with five members and appointed the Director and Manager of Corporate Planning Department as the chairperson. The committee's roles include (1) identification of materiality for realizing the long-term vision and (2) identification of the risks and opportunities of the materiality and clarification of the progress management policy (indicators and targets). We will implement our initiatives to address materiality, by bearing in mind "promoting self-reform to win the broad trust from society and fulfill our mission as a solutions partner that evolves with the customers" as stated in our Management Philosophy, leading to improvement in corporate values over the medium to long term.

The material matters for 2023 are (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. While these four remain the same as in 2022, we have made slight changes to their positioning. We changed the position of (4) human resource development and improvement in job satisfaction, which has been moved to the right-most position of the materiality map taking into account the impact of the new personnel system enacted in April 2023, and its importance has grown for improving the corporate value of Nikko Group. The reasons for changing the position of (4) human resource development and improvement in job satisfaction are as follows:

Human resource development and improvement in job satisfaction

Nikko Group is currently executing its Medium-Term Management Plan for FY 2022–2024 towards achieving the 2030 Vision. We consider the three pillars of salary raise, increase in personnel, and human resource development as measures to strengthen human capital. In the first year of the medium-term plan, we were able to achieve results in them generally in line with the plan.
We set the KPI in materiality along with the three pillars of the human capital strengthening measures and also launched the new personnel system from April 2023. The new personnel system aims to create a mechanism for future employees and boost job satisfaction as a business entity, while scrapping the existing seniority system. This is important for creating the foundation for expanding the revenues of Nikko Group in the next medium-term plan (FY 2025–2027), and we believe it is indispensable to raise not only the economic value but also the social and environmental values. It is a high-priority challenge for us to achieve the 2030 Vision.

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

	Materiality	What the Group aspires to be and how it is related	KPI	SDGs to which it contributes
Sustainability of society	Realization of carbon neutrality (➡ P.58)	About 70% of CO_2 emissions from APs in Japan (approx. 1.3 million tons a year) is estimated to be emitted by Nikko plants. While it will become a major risk if Nikko is late to respond to this, the Group believes that it also offers opportunities from various aspects starting from fuel conversion to electrification, as it is also an important social issue.	• CO_2 emissions (Scope 1, 2, and 3) FY 2030: 50% reduction (compared to FY 2021) FY 2050: Net-zero • Net sales of decarbonization- and low-carbon-related products FY 2030: 2.7 billion yen	7 AFFORDABLE AND CLEAN ENERGY; 13 CLIMATE ACTION
Sustainability of society	Establishment of recycling-oriented society (➡ P.63)	The arrival of a global recycling-oriented society is beneficial for Nikko in terms of the anticipated increase in recycling AP in China, as Nikko boasts a 99% recycling rate of asphalt waste and has a 70% share in AP in Japan. The Company has been engaged in the development of technology for recycling concrete sludge and is working on its practical applications.	• Recycling of asphalt waste • Recycling of plasterboards • Recycling of concrete sludge	8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Nikko's Sustainability	Creation of new customer values (➡ P.65)	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.	• Creating new values through DX • Flat-rate service outsourcing count	3 GOOD HEALTH AND WELL-BEING; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Nikko's Sustainability	Human resource development and improvement in job satisfaction (➡ P.67)	The importance of leveraging human capital increases further upon solving material matters 1 to 3. For Nikko to achieve the 2030 Vision, it is necessary to have human resources based on diversity and inclusion, and improving motivation by nurturing them, as well as improving their work-life balance and well-being also assuming importance.	FY 2030 • 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	5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH