Human Capital

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

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

[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]

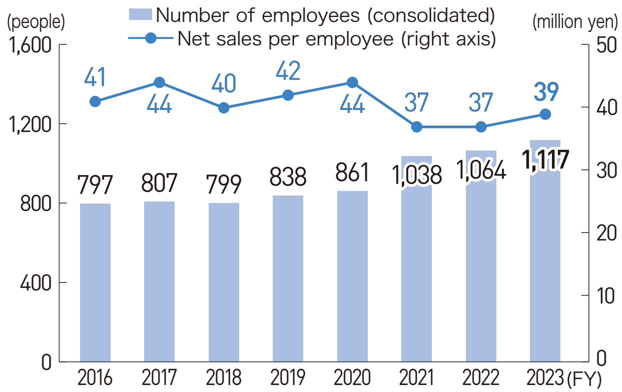
We are rebuilding the human resources management platform and system and carrying out active investments in human resources towards enhancing our human capital. The long-term (10-year) basic policy looking into the future lists the implementation of workstyle reforms for the employees and aims to significantly 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 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]

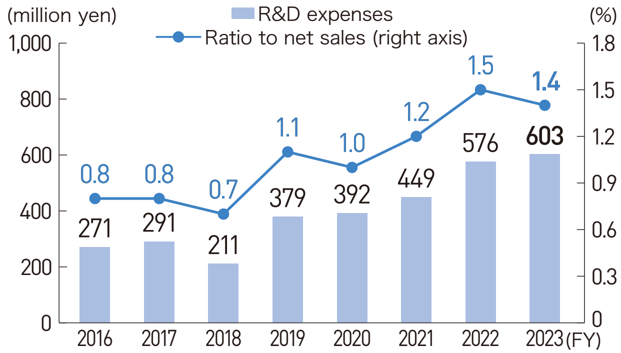
Currently, we are speeding up the initiatives aimed at commercialization of environmentally friendly products and their social implementation focused on decarbonized society in the short- to medium-term in accordance with the technological and product development roadmap through 2050. Nikko Group is 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
2.53billion yen (total of 1.19 billion yen during the three years of the previous medium-term plan)	• AP-related business field ◆ New environmentally friendly products ◆ Remote operations and automation support • BP-related business field ◆ Operation support center ◆ Product improvement ◆ System development • Environment- and conveyor-related field ◆ Product development ◆ E-commerce and other IT investment • Overseas ◆ Development of standard model	• 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

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

[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]

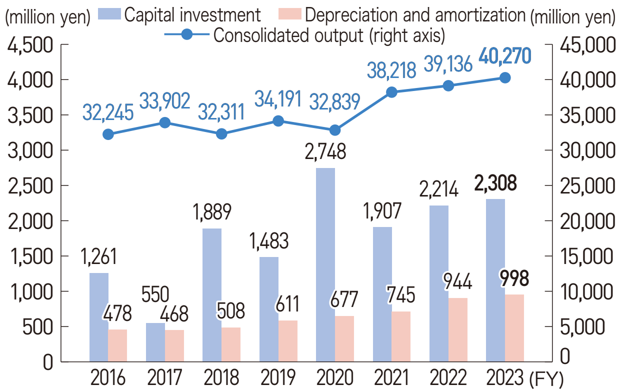
Nikko Group plans to make a cumulative capital investment of 6.0 billion yen during the three-year period of the current medium-term plan (cumulative 6.3 billion yen in the previous three-year medium-term plan period), which includes construction of a new plant in Hyogo Prefecture (0.5 billion yen) and 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 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)	• Construction of new plant in Hyogo Prefecture (0.5 billion yen) • Construction of development test center, etc. (1.0 billion yen)	• 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

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

[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 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

Output

- Scope 1, 2, and 3 CO_2 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

[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 CO_2 emissions from Nikko-made plants owned by our customers. Nikko Group will develop related technologies for reducing CO_2 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 CO_2 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 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**%)

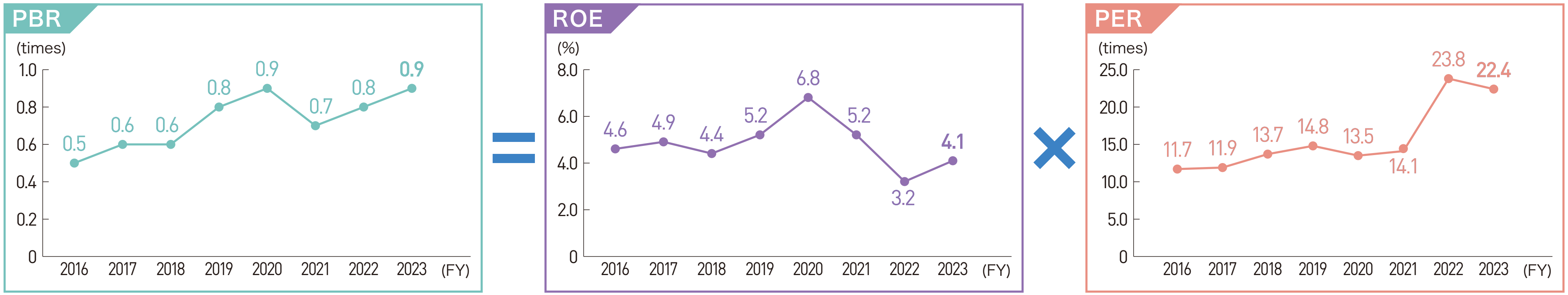
Towards achieving the numerical targets (consolidated net sales of 70.0 billion yen and operating margin of 10.0%) set forth in the 2030 Vision, we will position the current Medium-Term Management Plan period as the internal investment phase, in which we will make active investments to boost earning 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 x 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 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.

(1) Expansion of operating income

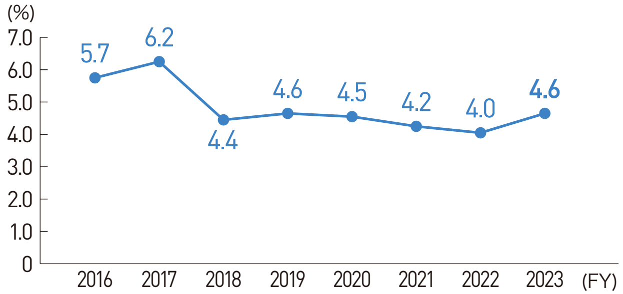
We plan to expand operating income through profit improvement of existing businesses such as AP- and BP-related businesses and growth of new businesses such as crushers, contract-based manufacturing, and other business. Maintenance services account for about 60% of net sales of the AP- and BP-related 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 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.

(2) Financial and capital policies

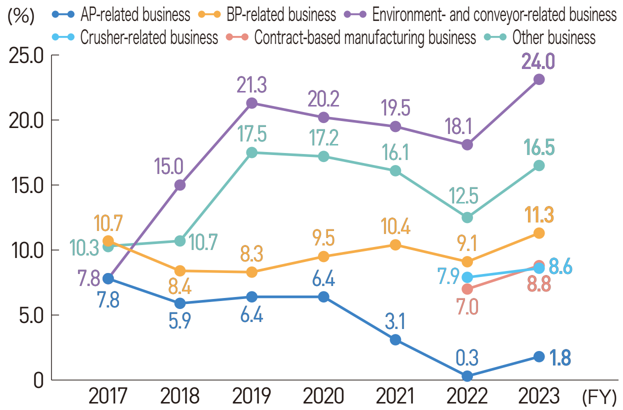
As for our financial and capital policies, we expect to raise dividends to shareholders by continuing the dividend payout ratio of 60% or more set forth by the current medium-term plan into the next medium-term plan. At the same time, we are considering flexibly carrying out share buyback under the next 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 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