Market Environment Trends

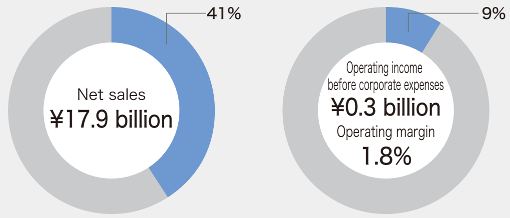
AP-Related Business

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

Net sales breakdown　　Segment income breakdown



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)

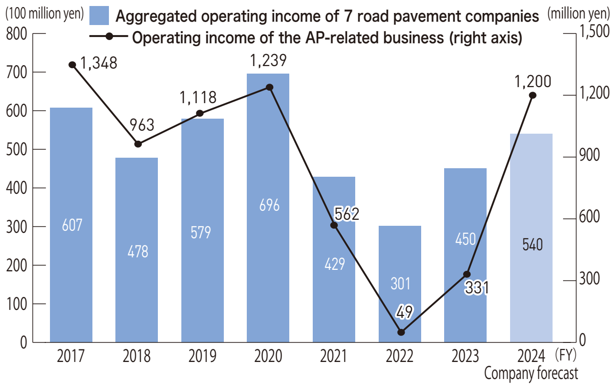
Business overview	Details
Products	Asphalt and recycling plants
Customers	Construction companies, road pavement companies, etc.
Market share	Static share in Japan: 77.5%
Sales composition and breakdown by region	41% of overall sales (Japan: 84%, Thailand: 3%, China: 13%)
Operating margin	1.8% (6.4% in 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).

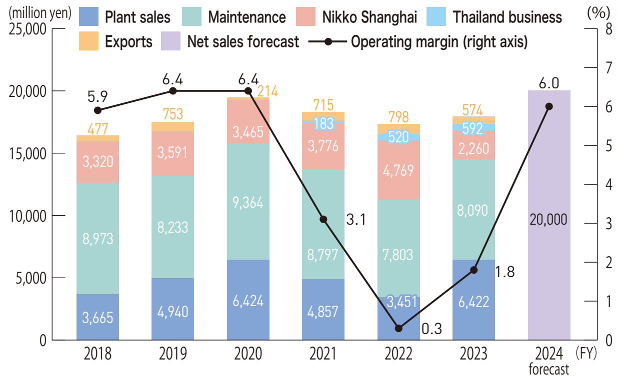
Trends in operating income of 7 road pavement companies and the AP-related business



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)	◎
	Remote operations and automation support of plants	FY 2022–2023	Identified issues and risks and completed listing about 95% of facilities and devices necessary for automated operation.	○
			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	○
			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.		—
	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)	◎
Global standard products	Designing and development of a competitively priced standard plant, including introduction of locally purchased supplies, to meet the needs of the overseas markets	FY 2023	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%