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	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.
			Opportunity	The Company will pursue differentiation by developing new products that contribute to realizing carbon-neutral society and CO_2 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.
		Risk of overseas manufacturers entering the Japanese market	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.
			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.
		Risk of shrinking market due to reorganization of road pavement industry	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.
			Opportunity	If shipment per plant increases because of integration, we can expect the amount spent on capital investment to increase in total.
②	Risk related to Nikko's technological innovation not catching up with the initiatives for reducing environmental burden		Risk	Asphalt plants primarily use fossil fuels as energy source. About 1.15 million tons of CO_2 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.
			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 CO_2 emitted by asphalt plants, and CO_2 absorption using ready-mixed concrete.
③	Risks related to the overseas business	Risk of intensifying competition in the high-end AP market in China	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.
			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.
		Risk of failing to achieve sales in accordance with the plan in the ASEAN market	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.
			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.

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.
	Oppor-tunity	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.
	Oppor-tunity	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.
	Oppor-tunity	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.
	Oppor-tunity	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.
	Oppor-tunity	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.
	Oppor-tunity	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.