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 alongtime. 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.
			Oppor-tunity	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.
			Oppor-tunity	It is difficult for overseas manufacturers lacking a sufficient maintenance system to successfully enter the Japanese market. Accordingly, if customers who have purchased such products recognize the strength of our comprehensive after-sales service framework, their evaluation of our company is expected to rise.
		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.
			Oppor-tunity	Through consolidation, higher operating rates per plant are expected to lead to improved profitability, enabling further capital investment and more efficient facility operations.
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 1.30 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.
			Oppor-tunity	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.
			Oppor-tunity	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 sales plan underachievement in the ASEAN market	Risk	As part of the growth strategy, we established a manufacturing subsidiary in Thailand in FY2020 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.
			Oppor-tunity	Nikko is the only international AP manufacturer that has production bases in the ASEAN market. With our capability to meet high expectations, we will likely have dominance also in the field of maintenance that will pose a major challenge to customers.

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 Risks related to increases in material prices	Risk	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	The majority of our products are made-to-order, which makes it easy to pass on increases as we make each estimate. We believe that the impact of rising prices on our future revenue is limited.
7 Risk of increasing and intensifying regional conflicts	Risk	There is a possibility of capital investment plans at Nikko's customers getting affected by the increases in crude oil prices and the changes in the global economy as more regional conflicts have arisen and intensified (e.g., in Russia and Ukraine; the Middle East).
	Oppor-tunity	We have been responding to requests for cooperation through official development assistance (ODA) in restoring buildings and infrastructure that have been lost because of conflicts. Our mobile crushers in particular have been used to help Ukraine as they can be directly carried onto the worksite. These machines are capable of quickly responding to demand that arises during an early stage of restoration.
8 Risks related to exchange rate fluctuations	Risk	In our mobile plant business, our main products are imported from Europe and sold in Japan. If foreign exchange hedging is not in place, we may be exposed to exchange rate fluctuation risks. In the event of yen depreciation, the price competitiveness of our products could decline.
	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.