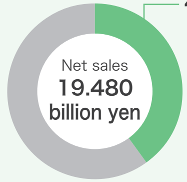
AP-related Business

We aim to establish a business foundation and contribute to revenues in the ASEAN market, which has a high medium- to long-term growth potential, while improving the profitability of our Japanese business boasting an almost 80% market share.

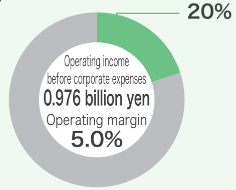
Executive Officer, General Manager of Asphalt Plant Sales Management Department, Business Division

Toru Okada

Net sales breakdown



Segment income breakdown



What the AP-related business aspires to be

As the leading asphalt plant company, we aim to solve the problems faced by our customers. We also will propose new customer values by leveraging unique DX and AI technologies. At the same time, we aim to achieve profitability comparable to the BP-related business by building business foundations in overseas markets such as Thailand and Vietnam and contributing to revenues.

Strategy for realizing the vision

We will grasp our customers' true requirements by leveraging our in-depth understanding of the customers, and will offer them optimum products at appropriate prices by closely working with our technology development divisions. We will also strengthen the maintenance service business to stabilize business performance and boost profitability.

Contribution to resolving materiality

We will contribute to resolving the Nikko Group's four material matters by proposing decarbonization technologies to customers, offering recycling plants, and providing subscription-based maintenance services and remote and automated support, in addition to improving employee job satisfaction and sharing values and goals.

Assumptions and measures during the new medium-term plan

- In Japan, we envisage a recovery in capital investment as road pavement companies' performance picks up.
- We hope to see replacement demand emerge for asphalt plants fueled by subsidies.
- In addition to the effect of increased net sales, overseas subsidiaries' improved revenue will drive operating income.

Medium-term plan targets for the AP-related business (million yen)

	FY2024 results	FY2025 forecast	FY2026 plan	FY2027 plan
Net sales	19,480	19,500	21,600	23,000
Operating income	976	1,000	1,600	2,350
Operating margin	5.0%	5.1%	7.4%	10.2%

*Operating income before corporate expenses

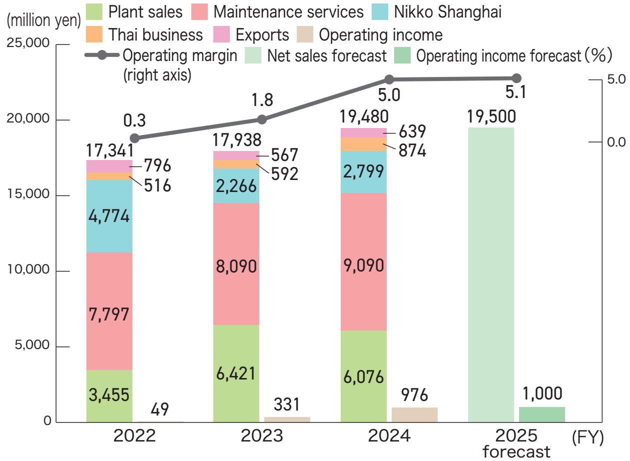
FY2024 financial results

The financial results for FY2024 exceeded the Company's forecast and we achieved significant growth in operating income. Order intake increased 3.0% from the previous fiscal year to 19.5 billion yen, posting the second consecutive year of increase, as customers' appetite for investment recovered. Net sales grew 8.6% from the previous fiscal year to 19.5 billion yen, and operating income increased 194.9% to 0.976 billion yen (operating margin of 5.0%) owing mainly to passing-on of costs to prices and growing net sales of maintenance services in Japan.

FY2025 performance forecast

For FY2025, we expect order intake to grow 12.8% from the previous fiscal year to 22.0 billion yen, net sales of 19.5 billion yen, similar to the previous fiscal year, and operating income of 1.0 billion yen, roughly unchanged (operating margin of 5.1%). In addition to the recovery of Japanese road pavement companies' earnings, we are expecting facility replacement driven by subsidies. Our overseas business is strong in Taiwan and we are expecting it to remain almost unchanged from the previous fiscal year.

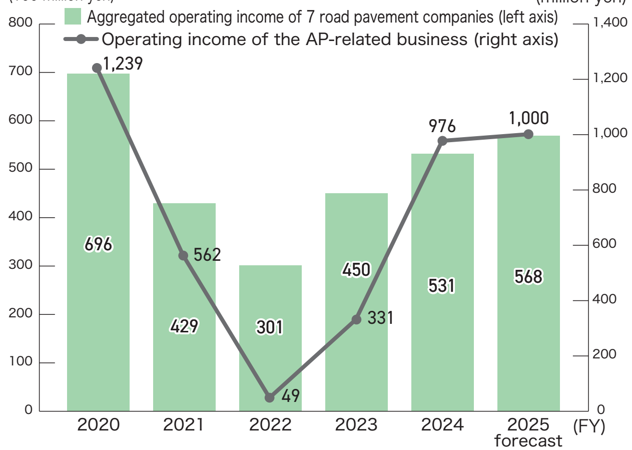
Net sales by product, operating margin, and net sales forecast



Leading performance indicators (business performance trend of road pavement companies)

We pay attention to business performance trend of road pavement companies as a leading performance indicator. The business performance of the seven road pavement companies bottomed in FY2022. In FY2024, both their net sales and operating income increased for the second consecutive year, with double-digit operating income growth achieved. In FY2025, they are expected to record a 1.1% increase in net sales and a 7.0% rise in operating income (operating margin of 5.6%), maintaining steady performance. The performance of the road pavement companies had worsened due to soaring asphalt prices. However, the asphalt price index (100 in 2020) peaked at 237.4 in July 2022 and declined to 166.3 in June 2025. The performance of the AP-related business is expected to continue on the recovery track. This is because of upgrades of aged infrastructure in the next five-year plan for national resilience starting in FY2026 and the projects spearheaded by the Ministry of Economy, Trade and Industry (METI) to promote investments in energy saving and to support structural transformation of demand.

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



Medium-Term Management Plan implementation strategy

Segment	Issues and goals	Strategic direction
AP-related Business	Profitability	Focus on profitability improvement given expected recovery in domestic demand
	Business transformation	

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

Issues

- Shrinking Japanese market
- Labor shortage in supply chains, etc.
- Entry of foreign rival companies
- Introduction of similar products by rival companies

Business strategies

1 Existing business (Japan)	• Promote proposals to rebuild plants using subsidies • Upgrade decarbonization- and DX-related products and introduce them early into the market • Capture demand for plant peripheral facilities
2 Growth strategy (overseas)	• Expand sales of models developed for ASEAN (ACE series) • Spread Japan's recycling technology further in ASEAN region • Expand sales areas in countries surrounding the ASEAN region
3 Expansion of maintenance services	• Improve organizational capability and efficiency through division of roles • Strengthen operation and maintenance services

Q&A with investors

Q. Is the earnings recovery sustainable?

A. An increasing number of customers are pursuing replacement of asphalt plants utilizing energy-saving subsidies. Replacement of facilities is likely to continue till around FY2027 partly as works to address aged infrastructure increase and customers' earnings recover thanks to the decline in asphalt prices.

Q. How far is operating margin expected to recover?

A. Operating margin of the BP-related business has reached 12%. We also would like to aim for profitability comparable to the BP-related business by passing on costs to prices, strengthening the maintenance service business, and improving revenue of the overseas business in addition to the effect of increased net sales.

Q. When do you expect the overseas business to become profitable?

A. As we explained in the overseas business round table talk, we would like to break even or become profitable in FY2027 partly by implementing measures unique to Nikko that are not affected by the market.

Topics

The budget of the projects to promote investments in energy saving and to support structural transformation of demand spearheaded by METI is expected to be 30.0 billion yen for FY2025 and 76.0 billion yen for FY2026. A plant- and workplace-type project can receive up to 1.5 billion yen in subsidies (2.0 billion yen for non-fossil fuel energy facilities), while a project for electrification and conversion to decarbonized fuel up to 0.3 billion yen and electrification facility project up to 0.5 billion yen.

Topics (new product)

Asphalt plant eligible for energy-saving subsidy VPIV (Kawaguchi Ascon)