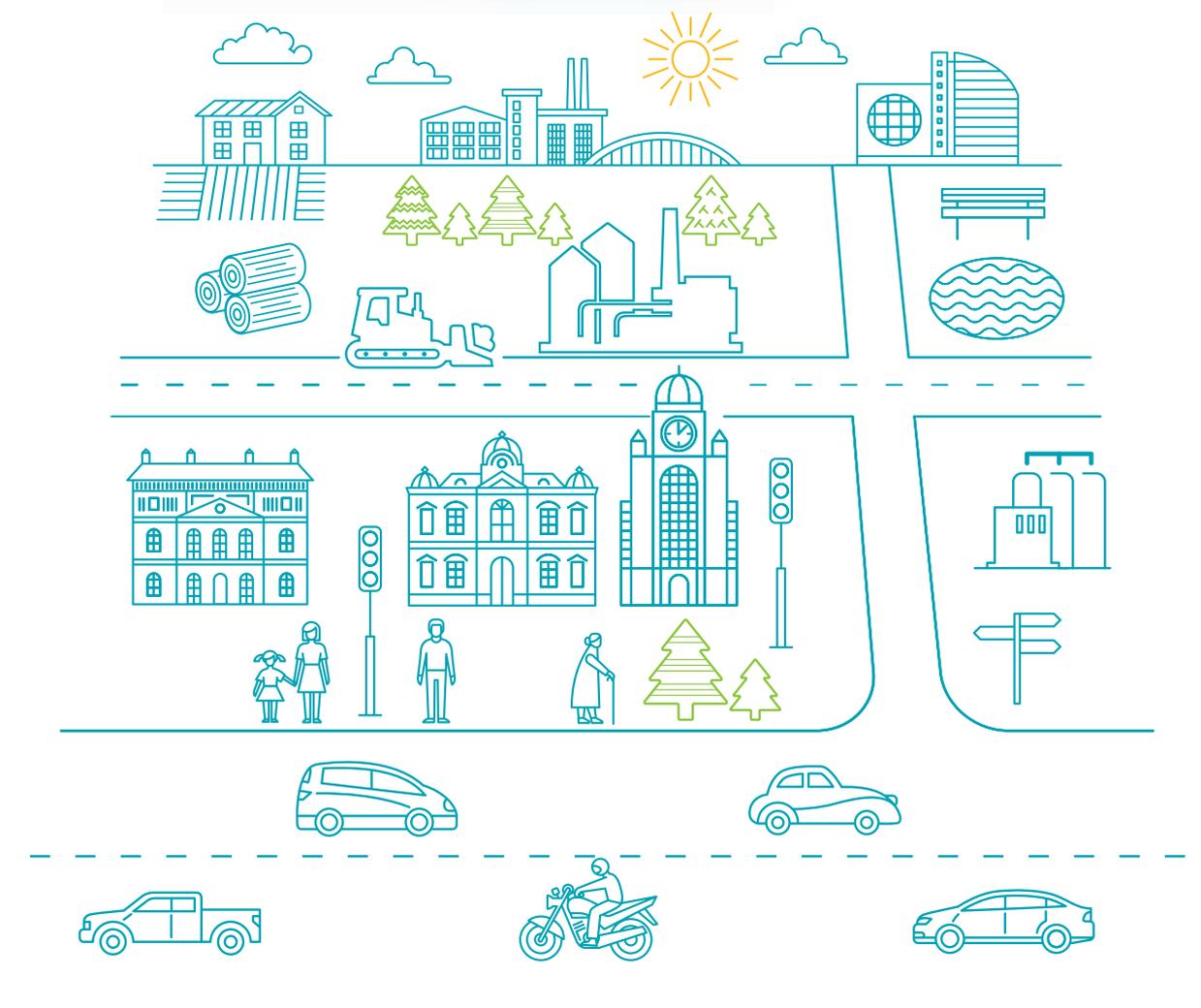


# Nikko Corporate Report 2020

Fiscal year ended March 31, 2020



Future creation that starts from an “N”

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### Editorial Policy

Nikko Corporate Report 2020 aims to disclose Nikko Group's medium- and long-term value creation efforts from both financial and nonfinancial aspects to all stakeholders including our shareholders and investors. The Report is edited referring to The *International Integrated Reporting Framework* established by the International Integrated Reporting Council (IIRC) and the *Guidance on Integrated Disclosure and Dialogues for Joint Value Creation* by the Ministry of Economy, Trade and Industry of Japan.

**Target readers** : All stakeholders involved in the Nikko Group.  
**Reporting period** : The Report mainly covers FY2019 (April 1, 2019 to March 31, 2020) but also includes information before and after this period.  
**Scope of reporting** : The Report reports on the Nikko Group comprising Nikko Co., Ltd. and eight subsidiaries (all of which are consolidated subsidiaries).  
**Company names** : "Nikko" and the "Company" refer to Nikko Co., Ltd. and the "Nikko Group" and the "Group" refer to the Nikko Group including consolidated subsidiaries.  
**Note on forward-looking information**  
 This Report includes statements on future outlook. We appreciate your understanding that actual performance may differ from the Company's projections.



### Corporate slogan

“Future creation that starts from an ‘*n*’”  
 Contribute to future society through corporate activities.

### Nikko Group Corporate Charter

#### Management Philosophy

Adopting a customer-first policy, the Nikko Group provides customers with truly satisfactory products and services, while continually promoting self-reform aimed at winning broad trust and fulfilling our mission as a solutions partner evolving with customers.

#### Company Motto

1. Serve society through business.
1. Work toward prosperity with sincerity and responsibility.
1. Produce appropriate profits through original ideas and improvement efforts.

#### Code of Conduct

##### 1. Compliance

We shall act according to our conscience, comply with laws, social norms, and internal rules, shall not commit any wrongdoings, and engage in fair and transparent corporate activities.

##### 2. Provision of better products and services

We shall enhance research and technology development to offer safe and high-quality products and services to customers.

##### 3. Communication with society

We shall strive to communicate with customers, shareholders, business partners, and local communities, ensure transparency of management, and fulfill accountability.

##### 4. In search of safety, comfort and affluence

We shall strive to give priority to safety, improve workplace environment and labor conditions so that each and every employee can feel comfort and affluence.

##### 5. Environmental preservation

We shall promote initiatives for environmental preservation and contribute to creation of a good environment.

##### 6. Elimination of anti-social forces

We shall not have any relationship with antisocial forces and organizations that pose a threat to the safety and security of civil society.

2019 Company song "Testament for the Future" and future creation dance

2018

Corporate slogan

"Future creation that starts from an 'n'"
Contribute to future society through corporate activities.

2007

Nikko Group Corporate Charter

Established the Nikko Group Corporate Charter comprising the Corporate Philosophy, Company Motto, and Code of Conduct with the aim of developing an effective group system and improving corporate value

1969

Company Motto

1. Serve society through business.
1. Work toward prosperity with sincerity and responsibility.
1. Produce appropriate profits through original ideas and improvement efforts.

1968

Company renamed to Nikko Co., Ltd.

The company was renamed as the main business shifted to manufacturing of construction machinery such as asphalt plants, batching plants, and belt conveyors reflecting the shift in the leading role of civil engineering works from tools to machinery along with the development in infrastructure technology

1967

Inaugural issue of Company newsletter Tombo was published

A communication tool between the management and employees as well as between employees

Founding Company Motto

•Fortitude and exertion
•Thorough consideration and decisive action

1919

Nikko Tool Manufacturing established

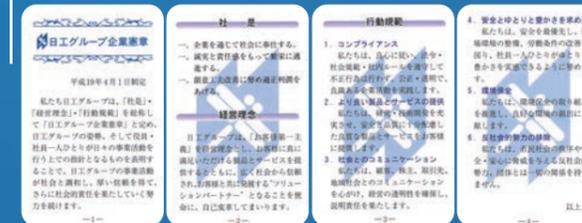
Originating from Suzuki Trading, a major trading firm during the Taisho era, the company was established with the main business of manufacturing and sales of hand tools such as shovels and pickaxes.

Nikko Group Corporate Charter Card

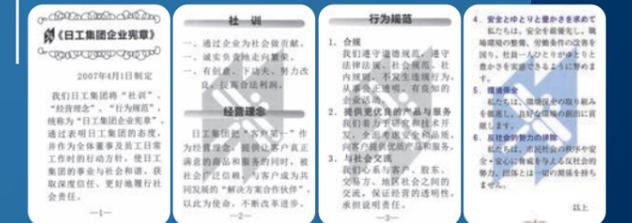
Nikko Group executives and employees always carry the pocket-sized Corporate Charter Card. Nikko Group Corporate Charter is the collective term for the Company Motto, Corporate Philosophy, and Code of Conduct, and it defines the guidelines for executives and employees in carrying out daily business activities. We aim for the Nikko Group's business activities, underpinned by its Corporate Philosophy, to harmonize with the society and win deep trust, based on which we will put into practice our corporate slogan "Future creation that starts from an 'n'" (new technologies born and started at "nikko" create future lifestyle).

Corporate Charter Card

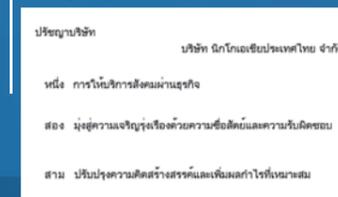
For Group companies in Japan (Japanese)



For Nikko (Shanghai) Construction Machinery Co., Ltd. (Chinese)



Company Motto (Thai)

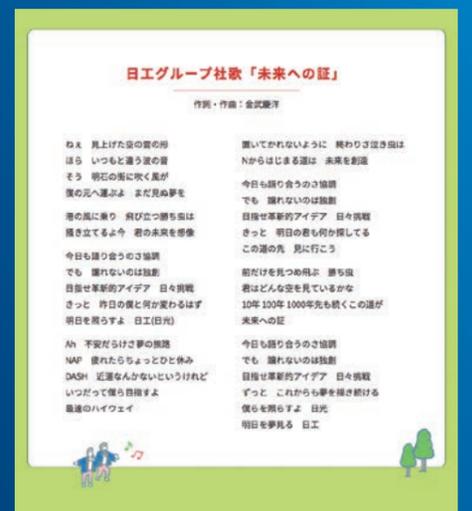


We explained the Group Corporate Philosophy based on the Company Motto to all employees of Nikko Asia (Thailand) Co., Ltd. established in February 2020 and distributed the Corporate Charter Card to its employees as well as the employees of the Thai manufacturing subsidiary established in June to inculcate the Corporate Philosophy.

Company song "Testament for the Future" and future creation dance

We created the company song "Testament for the Future" as a 100th anniversary project. Based on the theme of future creation, its lyrics convey what we aspire to be on an up-tempo, J-Pop melody, making it a friendly company song. The Future Creation Dance along with the company song was choreographed by Yu Fukuzawa, who has choreographed numbers of well-known idol groups. We held a company dance contest to unveil Future Creation Dance. A number of workplace-based teams participated in the qualifying round. The finals was held at the 100th anniversary celebrations in October 2019.

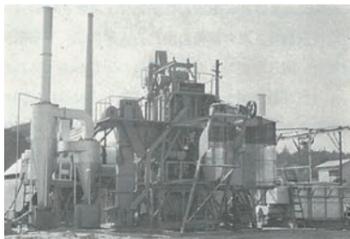
The winner of the Future Creation Dance Contest



https://www.nikko-net.co.jp/100th/dance/

History

Engaging with social issues for a century and moving ahead

<p>1919 » 1945</p>	<p>1946 » 1960</p>	<p>1961 » 1984</p>	<p>1985 » 2011</p>	<p>2012 » 2020</p>
<p><b>Start-up era</b></p> <p>Japan was booming economically in the Taisho era in the wake of World War I. Trade grew and various industries developed. In such a situation, the executives of Suzuki Trading, a Kobe-based general trading firm boasting the top annual sales in Japan at that time, established Nihon Kogyo Product Co., Ltd., which manufactured and sold hardware for construction such as shovels, spades, and pickaxes in August 1919.</p>  <p>The first shovels by the company</p>	<p><b>Postwar reconstruction and business expansion</b></p> <p>The Korean War broke out in 1950 and production of shovels expanded on the back of special procurement. Reflecting robust civil engineering works, the Company began manufacturing batching plants in 1956. As road construction expanded with the beginning of motorization, the Company developed an asphalt plant prototype in 1958. It built the foundation for transforming itself from a tool manufacturer to a construction machinery manufacturer.</p>  <p>An asphalt plant</p>	<p><b>Transformation into a construction machinery manufacturer</b></p> <p>The Company expanded operations to construction machinery such as asphalt plants and belt conveyors, which are essential for construction works, and in 1968 changed its name to Nikko Co., Ltd. It carried out development of products in response to the needs of the time through technological alliances with Boeing of the U.S., Benninghoven of Germany, and Philips of the Netherlands.</p>  <p>Product development at that time</p>	<p><b>Focus on environment-related business and expansion into Asia</b></p> <p>In 1998, the Company established the Environment Business Department and began development of cutting-edge plants and devices that are environmentally friendly based on plant engineering technology. In 2001, the Company established Nikko (Shanghai) Construction Machinery Co., Ltd. with the aim of making a full-scale entry into the Chinese market. Since the development, in 1977, of recycling plants that reuse asphalt pavement waste, the Company has been promoting recycling of all asphalt.</p>  <p>Celebrating the assembly of the first plant in Shanghai</p>	<p><b>Making plant products low carbon and strengthening of remote maintenance</b></p> <p>The Company developed a solid biomass fuel combustion system that can be used at asphalt plants in 2012. It focused on low-carbonization and decarbonization of plants by commercializing a combustion burner that can be used with diverse alternative fuels. The Company worked on advancement of control and analysis technologies for enhancing proactive prevention-type remote maintenance of customer plants and strengthened remote support. In 2020, the Company established Nikko Asia (Thailand) Co., Ltd. as the base for expanding into Southeast Asia and accelerated business expansion in Asia following the subsidiary in Shanghai.</p>  <p>Customer Support Center</p>

Transition of social issues

Improvement in labor productivity of civil engineering works

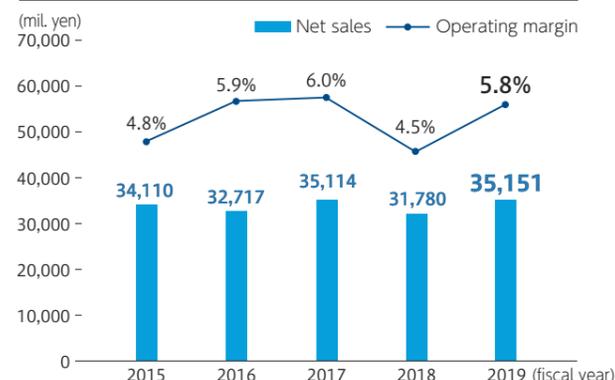
Development and expansion of land infrastructure (railroad, roads, ports, and dams)

Response to environmental pollution

Realization of recycling-oriented society, development of infrastructure in emerging countries

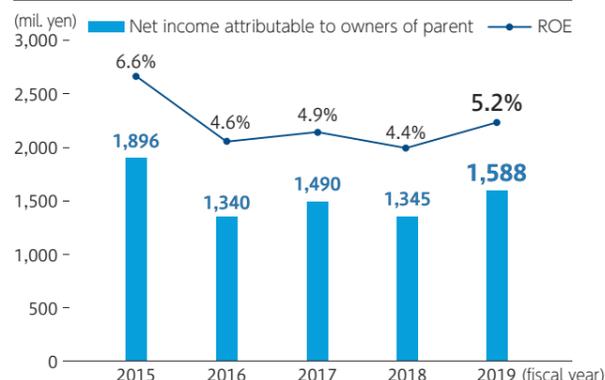


● Net sales/Operating margin



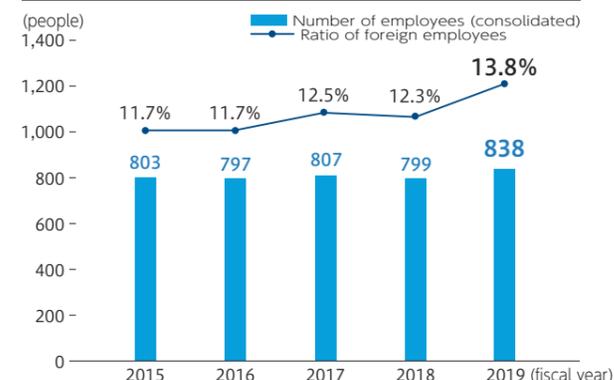
Operating margin in FY2019 came to 5.8%, up 1.3 ppt from FY2018. By business segment, operating margin of the Other Business significantly improved thanks to rapid increases in sales of waterproof boards and mobile plant products and that of the Environment- and Conveyor-Related Business was also favorable. However, operating margins of BP-related and AP-related businesses were stagnant. In the Medium-Term Management Plan, the Group aims operating margin of 7.9% in FY2021.

● Net income attributable to owners of parent, return on equity (ROE)



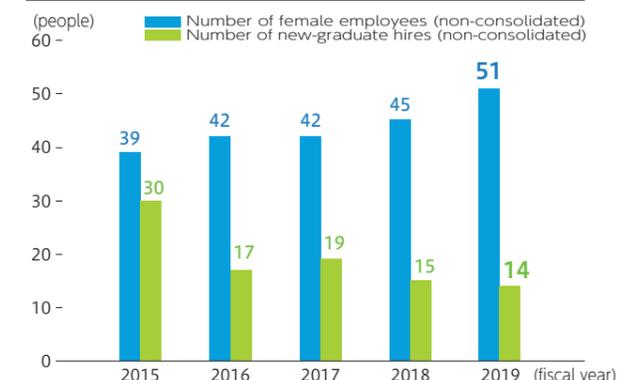
Net income attributable to owners of parent in FY2019 increased 18.1%, which is lower than the 35.9% increase in ordinary income. This is due to the increase in the effective tax rate to 39.6% for FY2019 from 30.4% in FY2018. ROE came to 5.2%, an improvement of 0.8 ppt from FY2018, as the Group controlled the decline in net assets to a minimum through active shareholder returns and a fall in valuation difference on available-for-sale securities. In the long term, the Group aims for ROE of 8% or more.

● Number of consolidated employees, ratio of foreign employees



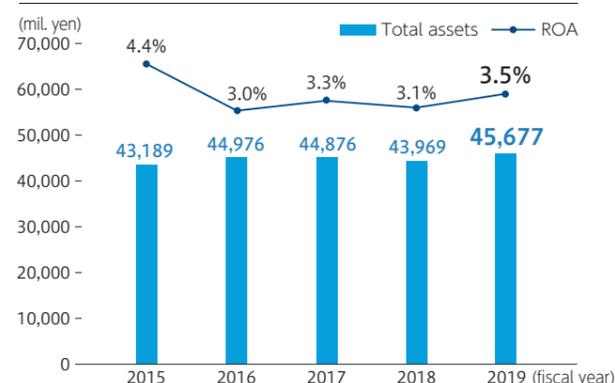
The number of consolidated employees was 838 in FY2019, an increase of 39 in FY2018. Of which, 116 were foreign nationals, up 18, accounting for 13.8% of the total. The main reason behind the increase is the new hiring for Nikko Asia (Thailand) Co., Ltd., a sales company established in February 2020. In the medium term, the number of foreign employees is expected to rise as the Thai manufacturing company, which has been finalized, will also contribute to an increase.

● Number of female employees, number of new-graduate hires (non-consolidated)



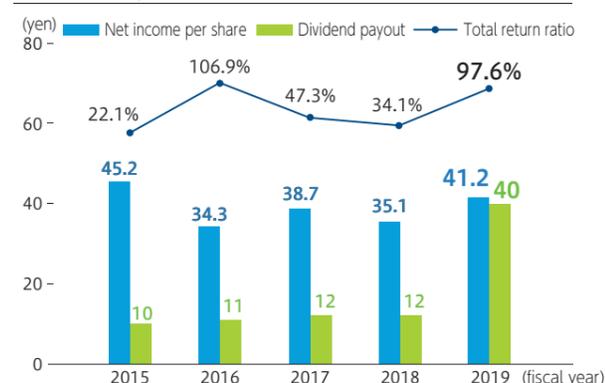
The number of female employees (non-consolidated) was 51 in FY2019, an increase of 6 from FY2018. The number of new graduate hires (non-consolidated) was 14. It has been on the decrease trend and there were no women. As stated in the Long-term Basic Policies of the Medium-Term plan, the Group aims to increase the female ratio along with improvement of productivity through implementation of the work-style reform.

● Return on total assets (ROA)



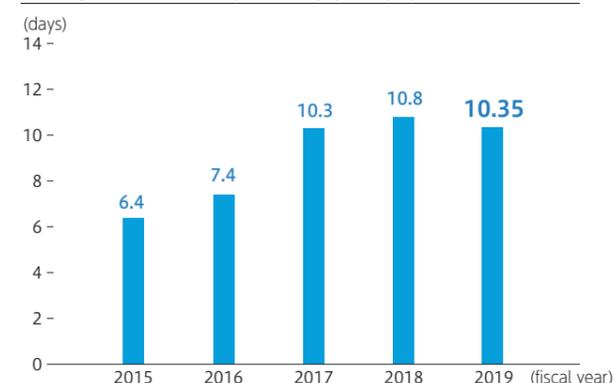
ROA in FY2019 came to 3.5%, an improvement of 0.5 ppt compared with FY2018. Total assets used increased 1.7 billion yen compared with FY2018. The factors behind the increase include a 2.3 billion yen increase in cash and cash equivalents, a 900 million yen increase in property and equipment reflecting proactive capital investment for the future growth as well as a progress in the cancellation of strategic shareholdings (a 1.6 billion yen decline in investment securities).

● Net income per share, dividends, total return ratio



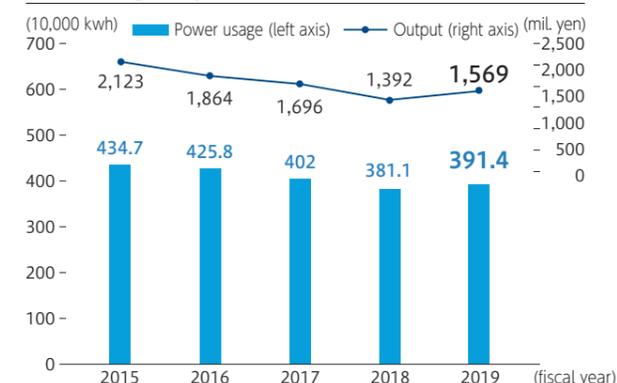
As the Group announced to enhance shareholder returns in the Medium-Term Management Plan, dividend payout in FY2019 increased significantly to 40.00 yen per share including the 100th anniversary commemorative dividend of 20.00 yen per share compared with the 12.00 yen per share in FY2018. Though it did not carry out share buyback, total return ratio greatly rose to 97.6% from 34.1% in FY2018. We conducted a five-for-one stock split of common shares effective October 1, 2019.

● Average number of annual paid holidays per employee (non-consolidated)



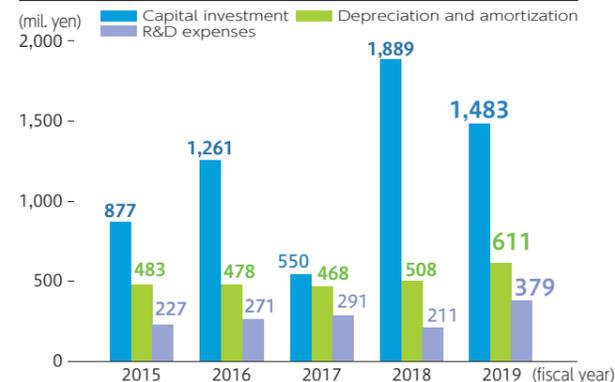
The average number of annual paid holidays per employee was 10.35 days in FY2019 on a non-consolidated basis. It declined from 10.8 days in FY2018. As stated in the Long-term Basic Policies of the Medium-Term Management Plan, the Group has been implementing an initiative to significantly raise labor productivity by improving operating efficiency. The Group believes increasing the number of paid holidays taken by employees is indispensable for improving employee satisfaction and realizing a good work-life balance.

● Power usage, output (non-consolidated)



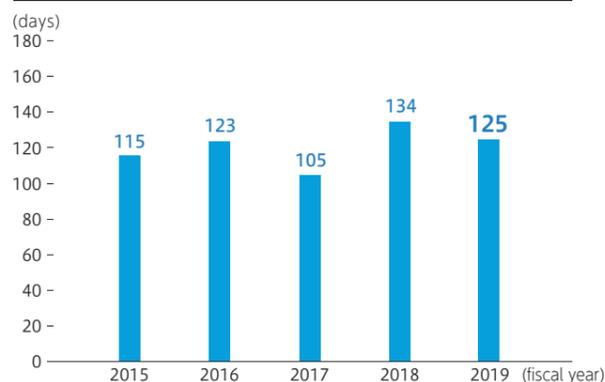
Power usage in FY2019 came to 3,914,000 kwh, an increase of 103,000 kwh from FY2018. Of the total, power usage by plants was 3,071,000 kwh, down 37,000 kwh amid rising output, while power usage by offices increased 140,000 kwh to 842,000 kwh. This was mainly because of Techno Center, which was completed in September 2018. The Group will continue to implement initiatives to conserve electricity.

● Trends in capital investment, depreciation and amortization, R&D expenses



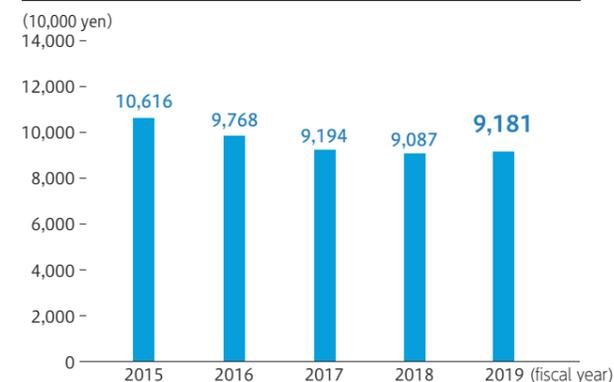
While the impact of capital investment related to the construction of Techno Center in FY2018 dissipated, it was almost 1.5 billion yen in FY2019 due to the on-going construction of a new production base for waterproof boards, whose demand has been increasing, at the Kansai Plant. The Group has been making capital investment exceeding depreciation and amortization since FY2013. R&D expenses increased almost 170 million yen from FY2018 and it also reflects changes in items for recording expenses.

● Cash conversion cycle



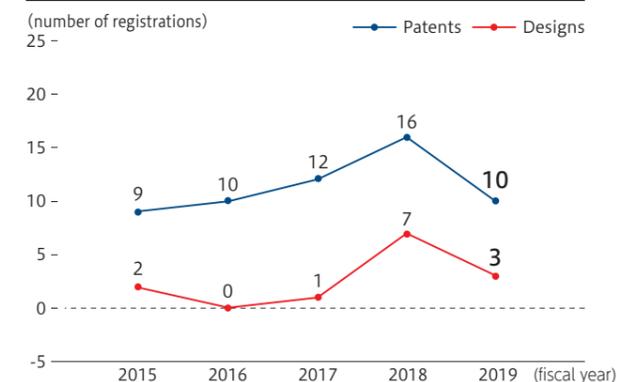
In FY2019, CCC was 125 days, 9 days shorter than FY2018. Inventories increased more than 600 million yen as work in process and partly-finished construction. At the same time, notes and accounts receivable-trade declined more than 800 million yen under the policy of eliminating bills whose repayment deadlines exceed 120 days and payables also improved. In the Medium-Term Management Plan, the Group aims to create cash and cash equivalents of 3.0 billion yen through improvement of CCC, and the Group was able to make a good start for achieving it.

● Changes in expenses of ISO activity items (non-consolidated)



Total expenses of ISO activity items (electricity, water, waste, and paper) in FY2019 came to 91.81 million yen, up 940,000 yen from FY2018. This is attributable to a 1.99 million yen increase in electricity charge, which accounts for a large share of the breakdown. The Group started using a new electricity company in March 2020 and is expecting savings of about 10 million yen in electricity charges in FY2020. It will continue with effective utilization of resources.

● Number of patent and design registrations



The Group registered 10 patents and 3 designs in FY2019, which were down by 6 and 4, respectively, from FY2018. From a long-term perspective, the Group has been verifying the content of patents and the number of patent registrations has declined compared with about 35 cases as in FY2011 and FY2012. However, it considers registering patents and designs important for differentiating products and services and improving brand value.

## CEO's Message

Grow in a medium to long term.  
I firmly believe that the passion we put into the Long-term Basic Policies is something that all employees can agree and empathize with.

*In the Medium-Term Management Plan formulated in 2019, we established the Long-term Basic Policies of the Nikko Group for the first time.*

*The Long-term Basic Policies have five main points. We interviewed President Tsuji on the especially important ones among them.*



Representative Director and President

辻 勝

### Q. The spread of the novel coronavirus infection profoundly changed the global economy and people's lives. What are the impacts on the Nikko Group and what are the business plans in the post-coronavirus era?

On behalf of the Nikko Group, I would like to extend my deepest condolences to those who lost their lives to the novel coronavirus infection. I would also like to express my heartfelt sympathy to those who contracted the disease and their families and related parties as well as those whose daily lives were affected by the spread of the infection. Furthermore, I would like to pay my respects and express my gratitude to those who are engaged in medical service, nursing care, and essential services. Under such circumstances, the Nikko Group conducted business to fulfill its social responsibilities while giving priority to safety and security of all stakeholders including employees.

The fact is that the novel coronavirus has not had any significant impact on our business performance in FY2020. There will likely be impact overseas, as Nikko Shanghai in China suspended its plant operations for a certain period of time and business promotion in ASEAN also has stagnated because travels to overseas were banned, but our current view is that these can be offset by the strong AP-related business in Japan.

We adopted telecommuting, staggered working hours, and avoidance of 3Cs (closed spaces, crowded places, and close-contact settings) across all departments following the declaration of emergency. We took measures both in and outside the company and were able to hold business negotiations through online meetings by maintaining certain distance also with customers using remote measures. While the novel coronavirus served as a trigger for productivity improvement, we plan to maintain this

results in regular operations (even after the epidemic subsides). There are about 50 sales persons at the Tokyo office, and they were able to shift to remote operations smoothly thanks to the free address system put in place two years ago.

An example of business efficiency improvement that got a boost from the novel coronavirus is the increase in the enrollment ratio of remote maintenance service. As users more strongly sought to avoid risks, the enrollment ratio rose to 67% as of the end of August 2020 from 46% as of the end of January 2020. In the Medium-Term Management Plan, the company has posted its aim to shift to before-sales service, which will foresee defects of a plant beforehand, and we intend to increase added value by taking advantage of IT devices including high-sensitivity sensors and image analysis.

Under such circumstances, the biggest trouble we faced during the coronavirus pandemic was that we could not hold training sessions for plant operators. Although we had held user training sessions users for about 200 people for AP and BP combined every year, it is difficult to hold such sessions this year. As a countermeasure, we are currently preparing electronic teaching materials including video contents. These materials can also be used for employee education and improving skills of partner companies.

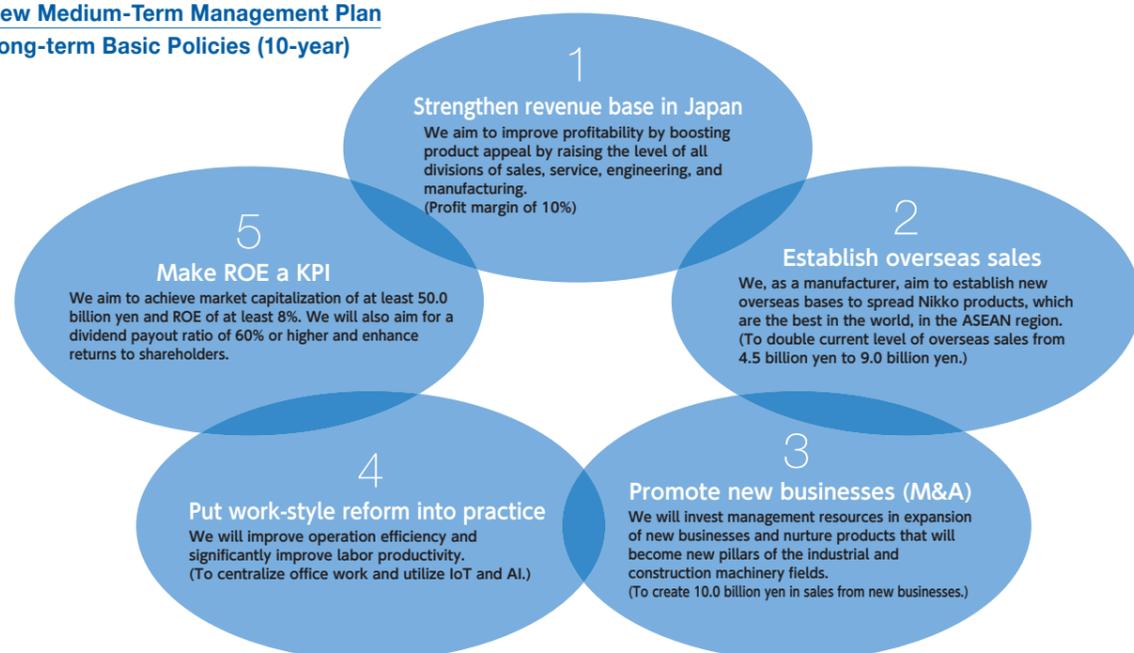
I believe that if we take the adverse effects of the novel coronavirus infection and convert them into opportunities one by one, the Nikko Group can strengthen its corporate culture in the medium term.

**Q Nikko Group formulated the Long-term Basic Policies towards 2030 along with the Medium-Term Management Plan announced in August 2019. What is the aim of the policies?**

Upon marking the milestone of our 100th anniversary in August 2019, we considered how we should be spending the next 100 years. A hundred years from now is certainly far in the future and it defies imagination. So, with an eye on the coming 10 years, which is a lot closer, we set forth 50 billion yen in net sales, 50 billion yen in market capitalization, operating margin of 10%, and ROE of 8% or more as the KPIs (key performance indicators) of the Long-term Basic Policies for 2030. The reason why we came to formulate this Long-term Basic Policies is because up until now, we have managed business by rewinding (rolling) three-year Medium-Term Management Plans. However, partly as we were overly focused on the figures in the near term due to the changes in the situation, we decided to announce

numerical goals that can be presented with pride as our new vision in 10 years and essentially incorporate the message of improving and growing across the board in the medium to long term. It cannot be helped if the management policy changes in the future, as we, the management, and the employees will be replaced as the time passes. In light of this, I would like to consolidate the parts that all the employees can agree upon and empathize, and demonstrate the stance, in terms of the company's growth, in the Long-term Basic Policies. These numerical targets are not easy to achieve but I believe that they are not unattainable. The results for the first fiscal year (FY2019) were in line with the Medium-Term Management Plan.

**New Medium-Term Management Plan  
Long-term Basic Policies (10-year)**



Setting these five policy items at the center, we will strengthen corporate governance and implement business management that is highly transparent and vibrant.

**Q Of the five key policy items of the Long-term Basic Policies, "Strengthen revenue base in Japan" appears to be important considering the high domestic sales ratio of Nikko. What are the concrete initiatives for improving product appeal and increase profitability by raising the level of all divisions of sales, service, engineering, and manufacturing?**

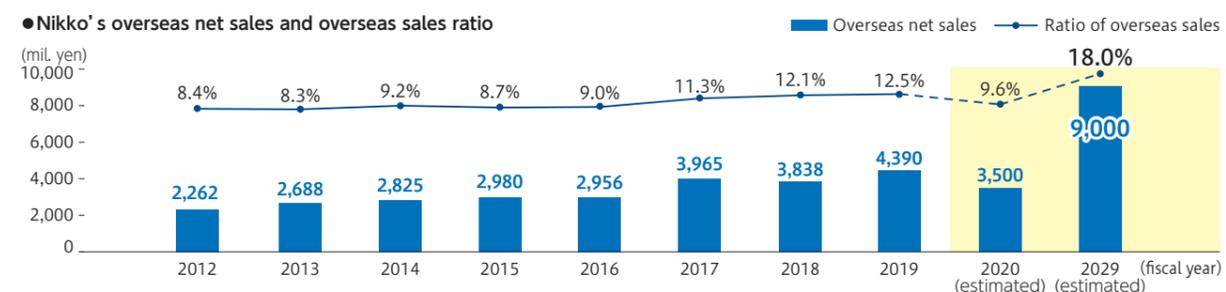
The pivoting foot of our business category is manufacturing, and our business flow consists of the following: sales people receive orders for the products we manufacture, which are engineered and designed based on user needs, the manufactured product is then installed at the site, and we provide maintenance service, and this is repeated. However, if there is a bottleneck in any department, or if any of the department excels than others, the overall flow will be disrupted. In other words, success (improvement in profitability) will not be achieved unless all departments grow at the same pace. For this reason, all divisions from sales to manufacturing in Japan have been working to resolve bottlenecks, but the situations at the departments differ as some need time to achieve it and some can realize it in a short period of time, or some departments can outsource operations while it is difficult for other departments. For example, people tend to think that engineering departments require high-level skills. However, with support from sales, employees with low-level skills can also handle highly difficult projects. Among the methods we use in Japan, sales has been able to carry out activities to improve efficiency including remote approaches, and we are building a cloud-based system that enables sharing of data such as manufacturing and service information in addition to the sales information.

We will actively make capital investment for improving productivity of manufacturing. In FY2019, we made record capital investment in manufacturing and achieved reduction in manhours by switching to cutting-edge facilities. About 30% of employees in design are also telecommuting to avoid the 3C situation due to the novel coronavirus and it appears to be functioning satisfactorily. We also have staff dispatched from design outsourcing companies at our office, and we learned that LINE WORKS and Zoom can let us communicate while telecommuting. In light of this, we are reviewing the operations because such an approach would enable us to solicit people with required skills not only from nearby dispatching services but also from around the country or even have people outside Japan handle the design operations off shore. Moreover, holding a meeting of sales, manufacturing, and engineering all together was a major event because of scheduling difficulties until now, but Zoom meetings removed those restrictions and the number of meetings between different divisions has increased significantly. The same can be said about those outside the company. As we accumulate more and more such cases, it would lead to improving the level from sales to manufacturing in Japan and in turn to improved profitability.

**Q "Establish overseas sales" is indispensable for the Nikko Group to grow in the medium to long term. What are the regions and business domains the company will focus on? Please explain them including the aim behind the establishment of sales and manufacturing companies in Thailand that has already been announced.**

Outside of Japan, we have built the foundation for AP business in China and it is very busy at the moment. The reason why we established a local subsidiary in Thailand is because Nikko's second-hand AP products had the top market share (brand) there. On February 25, 2020, we established a sales and service subsidiary in Thailand and on June 25, we established a manufacturing company. We are proceeding with the business plan on the assessment that we will be able to capture a certain level of market share by making a foray into Thailand. The manufacturing company has started construction of a new plant in Chonburi, Thailand, with the aim of starting production of new products in October 2021. First, we will capture market share in Thailand and then

expand the business throughout the ASEAN region. In particular, we have a track record of delivering products to Thailand and Indonesia, and we are also considering Vietnam and the Philippines. We also have a track record of sales to Russia but their purchasing power has come down and recently the business has dwindled. Nevertheless, Russia is a major power and we believe that there is potential for expanding business. India is another country which we think will see a large-scale AP demand as its infrastructure develops. We are also eyeing Australia. We set AP, where our strength lies, as our core business domain overseas, but we will also consider expanding if we find products in our Group that can be expanded overseas.



**Q. “Promote new businesses (M&A)” aims for creating new products that can become pillars, with the goal of 10 billion yen in 10 years.**

**Some fields such as the Mobile Plant Business started off smoothly. What are your views regarding the future (including M&As)?**

**What is the human resource strategy for expansion of new businesses?**

Among new businesses, mobile plants and waterproof boards of an affiliate have been expanding rapidly. We consolidated them into the disaster prevention category of the Nikko Group and will continue to grow them. Shovels and spades are mature products, but we launched a new product half the weight of conventional products with the same strength and they have been used in post-disaster restorations. Scaffolding we use at construction sites are also used for disaster prevention to secure evacuation routes. We had to withdraw from the Crime and Disaster Prevention 2020 scheduled in June 2020 taking into consideration the impact of the novel coronavirus, but we had even prepared a catalog of disaster- prevention-related products. We also plan to create pages dedicated for the business on our website. We will also strengthen online sales of these products. Currently, Nikko does not sell products online directly to consumers but we are considering introducing it. We plan to sell products in our regular online sales. We also want to realize an online remote trade show using videos and photos and start doing this for meetings of sales agents such as Nikko's Tombo-kai (120 companies in Japan) as early as this year. While online sales

business may not become one of the main businesses in the medium term, we will grow it so that it can generate profit. Currently we see several new businesses with potential of expanding to 1.0 billion yen, but we would like to find earnings drivers that have even larger potential.

We have been widely collecting M&A-related information for the past several years, but we won't consider it as a candidate unless it is a business that can be continued, which is the most important factor in management. A business that can be continued means a business with which we can share the infrastructure we have built so far including manufacturing and sales. The number of companies that are prospective M&A candidates falls drastically when we also consider business size that matches our stature and their affinity with us, but we will steadily continue with the process.

Our activities for realizing M&As are project-based. We don't have a department dedicated for it. Corporate planning and business planning work together and come up with projects. Coming together in an M&A to mutually improve, while sharing management policies and governance, is the ideal situation that we seek.

and Taiwan. In response to labor shortage, we trained Vietnamese technical interns in welding and other technique at the head office. They were outstanding, and we are implementing a plan to increase their number and build an employee dormitory on the Head Office Plant site. We will never reject diversity. I am interested in the attractiveness created by diversity. I would like to see innovation, which was conventionally unthinkable, resulting from the clash of various values with the utilization of diverse human resources in terms of gender, age, and nationality. However, we are not seeking a sudden change, but would rather like to make changes while valuing the corporate culture and mechanism we have built until now.

**Q. Sustainability of business is required upon proceeding with the Long-term Basic Policies.**

**In which fields of ESG (environment, society, and governance) do you have stronger awareness of issues upon promoting strengthening of sustainability?**

**What are the concrete measures for it?**

When a company becomes conscious of sustainability, we cannot neglect environment (E) in ESG. AP uses heavy oil and natural gas as heating fuel for manufacturing asphalt mixture and this emits more than 1 million tons of CO<sub>2</sub> a year in Japan.

As we drive forward improvement of fuel efficiency of AP, we have reduced CO<sub>2</sub> emissions, but it doesn't alter the fact that it emits CO<sub>2</sub>. If we cannot use heavy oil, the fact is that there is nothing we can do. AP will also eventually become all-electric, and we are also conducting research for using electricity which has low environmental burden.

As for the environment, we are not staying content with energy saving, and are maintaining communications with various businesses through technological study sessions and information exchange and are also pursuing independent studies and research. If we cannot solve it in our manufacturing process, we are also considering proposing systems to reduce environmental burden as part of our customers' business.

***We recognize that E (environment) is a materiality for Nikko upon considering sustainability. We would like to strive to contribute to solving the social issue of CO<sub>2</sub> emission reduction by overcoming this issue.***

**Q. “Put work-style reform into practice” is included in the Long-term Basic Policies. What are the initiatives under it?**

**When discussing productivity and innovation, it is necessary to promote diversity of the organization. What are the personnel strategies to promote active participation of foreign and female employees, who are minorities?**

We consider “Put work-style reform into practice” as operational reforms. Slightly reviewing the existing operations does not go beyond work-style improvement, and will not constitute work-style reform. What is important is to create a mechanism to entirely change the content of operations. It requires eliminating unnecessary assignments as well as changing the scope of work and creating new assignments.

As I have just mentioned in “Strengthen revenue base in Japan,” the minimum requirement for starting operational reforms is to systematically improve efficiency in our business flow from sales to maintenance. We will share information and make full use of our internal information network to pursue it.

At the same time, though we are not averse to diversification

of the organization in any way, we would accept it if we are told that we are not making enough efforts regarding it. So far, we did not find it necessary and we are not yet in a situation like that, but we would like to work on it with a positive attitude.

We have issued acceptance letters to female job seekers but they ended up not joining, and we are reflecting on whether it was a line of work that was not attractive to women. We have some job categories with restrictions on hiring of women, but at the same time we feel that it is necessary to increase the opportunities for them to participate actively.

In overseas, Nikko Shanghai in China employs about 100 people and it has a high retention rate. We are also increasing the hiring of local workers in Thailand (13 people)



We are working to improve values in a sustainable way with an aim to contribute to creating future society in accordance with the Corporate Philosophy with diversity of social values and creation of economic values in mind.

Three social issues on which Nikko Group is working

●Climate change and global warming

Asphalt plants use fossil fuel for their operation and emit approximately 1 million tons of greenhouse gases a year in Japan. Low-carbonization and decarbonization of plants is a major issue.

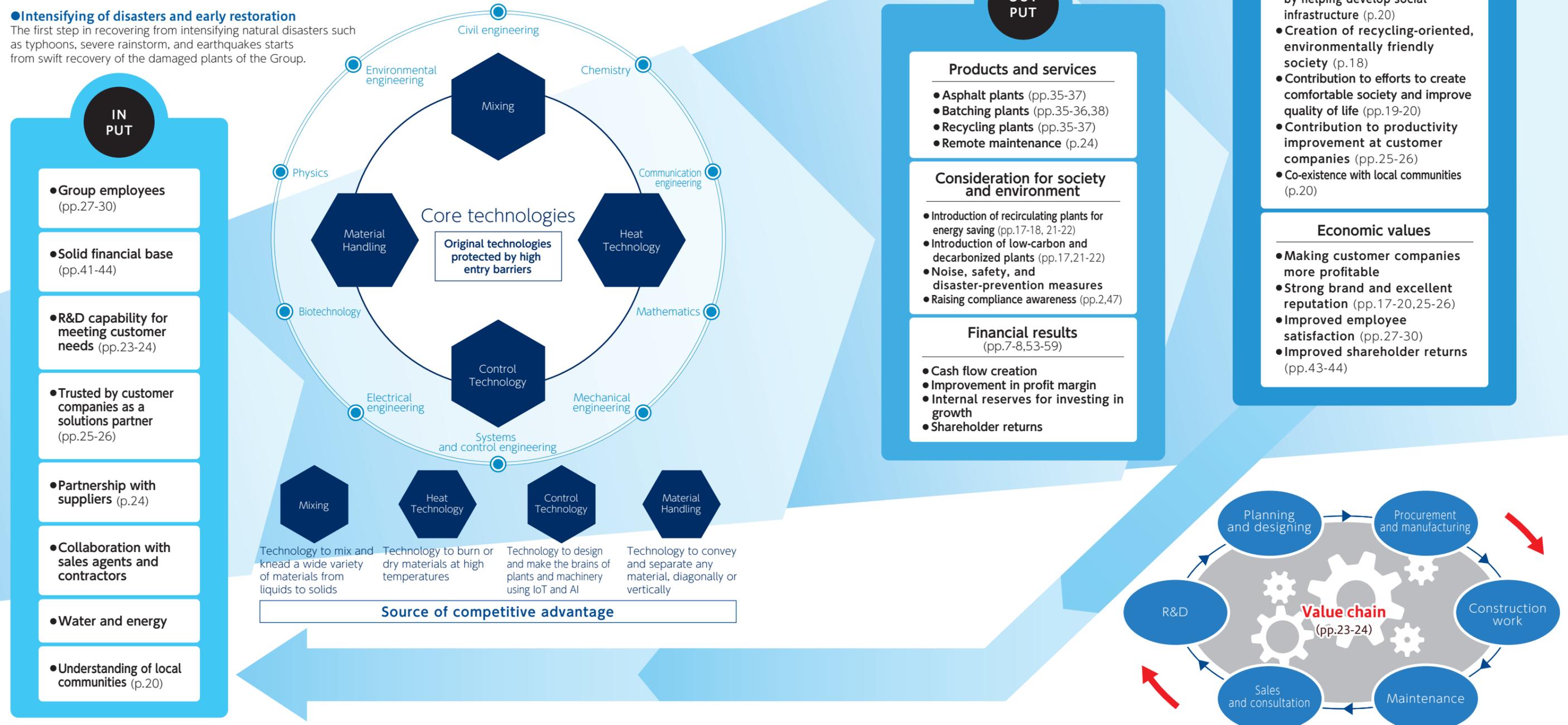
●Recycling of waste materials and establishment of recycling-oriented society

Improving resource productivity, by recycling of construction and road waste materials due to restrictions on natural resources and for reducing environmental burden, is being sought.

●Intensifying of disasters and early restoration

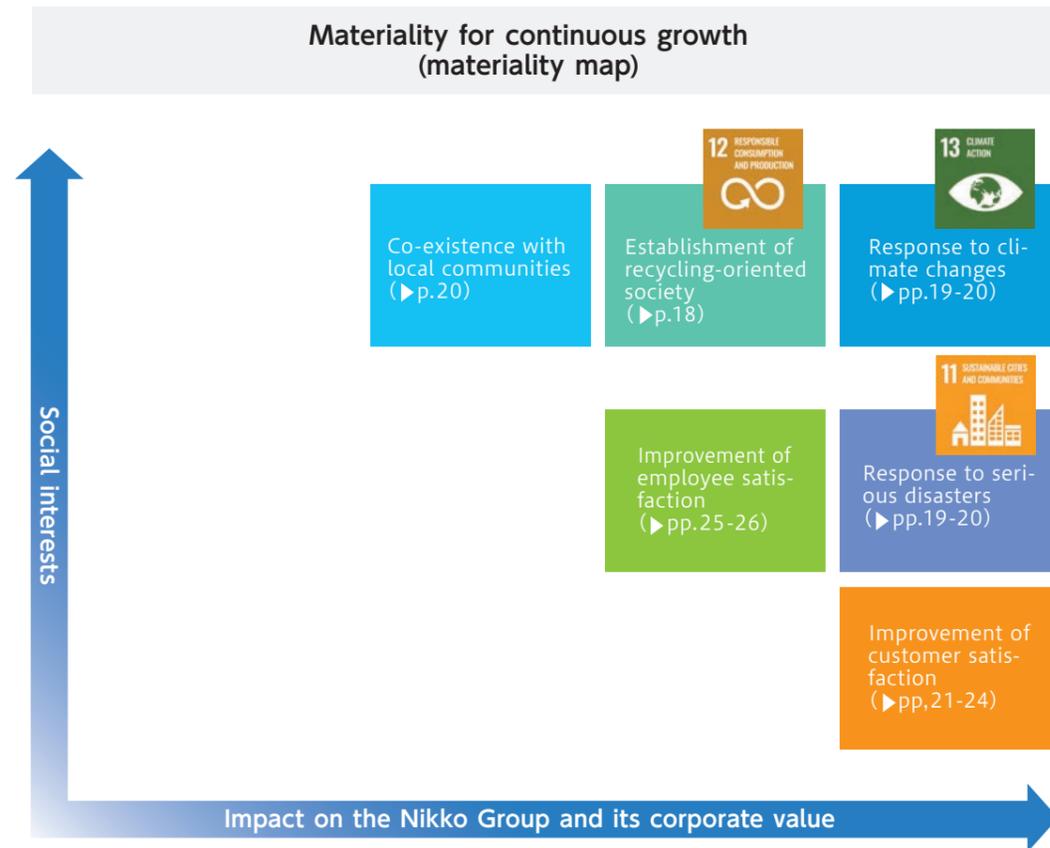
The first step in recovering from intensifying natural disasters such as typhoons, severe rainstorm, and earthquakes starts from swift recovery of the damaged plants of the Group.

Nikko Group's value Process of creation (conceptual diagram)



Corporate Governance (pp.45-52)

We identify materiality that will contribute to solving social issues and achieve continuous growth of business for improvement of corporate value. We promote continuous implementation of measures to address materiality to respond to the trust of diverse stakeholders and as a guideline for realizing “contribute to creating future society” in the Corporate Philosophy.

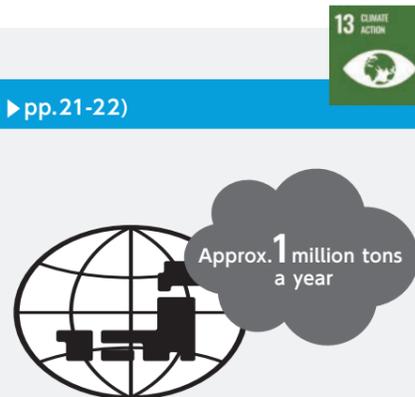


**Three social issues on which the Nikko Group is working**

1

**Climate change and global warming** (see pp.21-22)

Asphalt plants use fossil fuel for their operation and emit approximately 1 million tons of greenhouse gases a year in Japan. Low-carbonization and decarbonization of plants is a major issue.



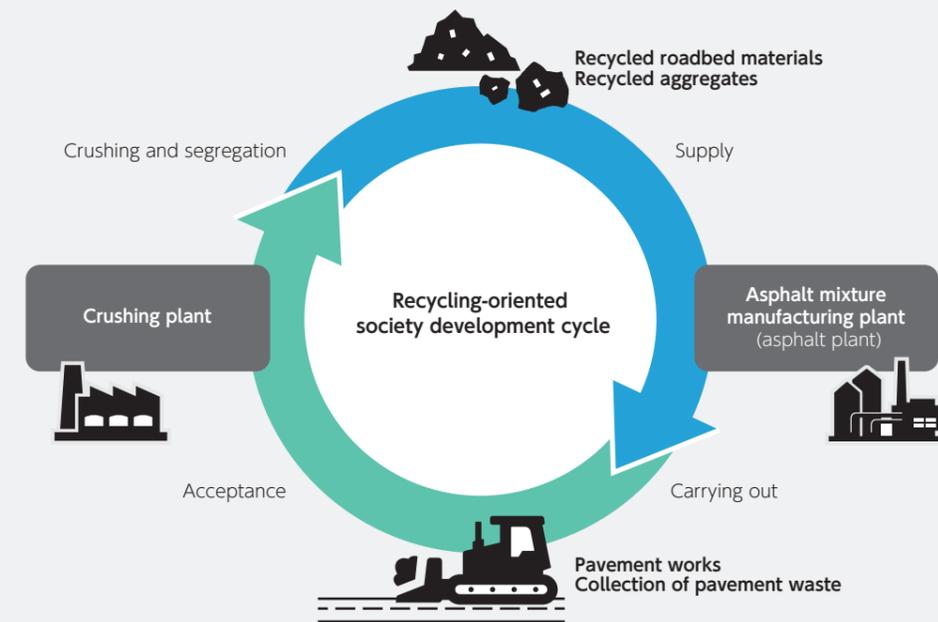
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**Recycling of waste materials and establishment of recycling-oriented society**

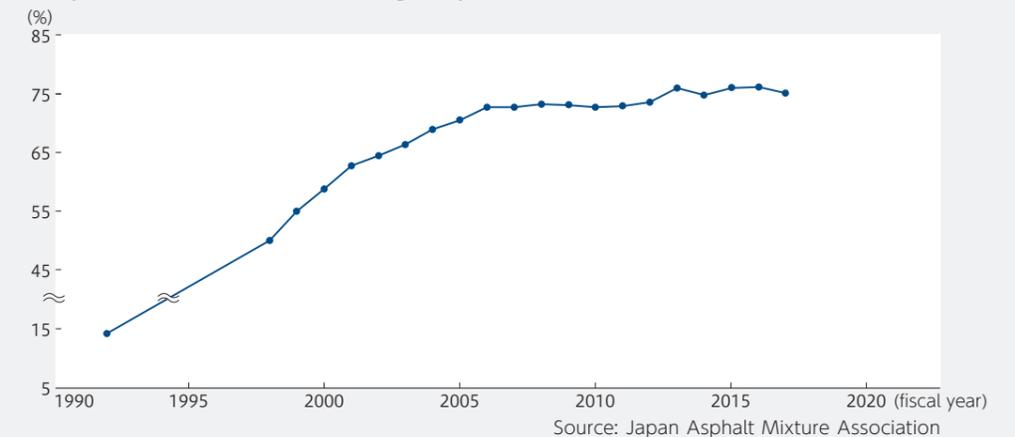


Improving resource productivity and establishing recycling-oriented society such as recycling of construction and road waste materials are being sought due to restrictions on natural resources and for reducing environmental burden. To advance recycling of asphalt and concrete waste materials, Nikko in 1970s commercialized asphalt plants and concrete plants that can handle resource recycling. Since then, we continued to improve the products and currently recycled mixture accounts for about 75% of asphalt raw materials at asphalt plants. Nikko closely works with customers to improve resource productivity and contributes to further reduction of environmental burden through product development and maintenance service of high-quality recycling plants and crushers.

●Diagram of recycling of concrete and asphalt blocks



●Recycled mixture ratio in manufacturing of asphalt mixture



# 3

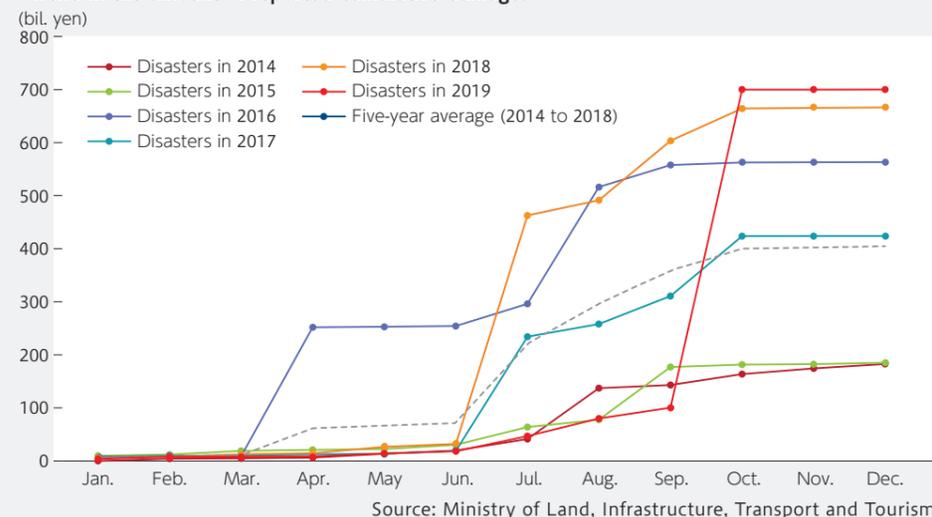


## Intensifying of disasters and early restoration

The first step in recovering from intensifying natural disasters such as typhoons, severe rainstorm, and earthquakes starts from swift recovery of the damaged plants of the Group. In recent years, unexpectedly high amount of rainfall is being recorded around the country and we are seeing frequent occurrences of localized, torrential rain damage. With typhoons getting heavier, and large earthquakes such as the Nankai Trough and Tokyo Metropolitan near-field earthquakes and the resultant tsunamis, and volcanic eruptions being anticipated, the natural disaster risks facing Japan is moving into a new stage.

### Reported civil engineering-related damages

#### ●Trend in the amount of reported cumulative damages



The first step of recovery from a natural disaster starts with the recovery operation of the asphalt and concrete plants that were damaged. The number of damaged plants (number of sites) manufactured by Nikko in the past three years (2017 to 2019) has increased only slightly, but the total number of dispatch records (number of dispatches made from confirmation of disaster situation to full recovery) increased 30%, pointing to disaster-related damages of plants becoming increasingly large and complex due to intensification of disasters.

#### ●Trend in plants damaged by natural disasters (2017-2019)

Year	Number of sites (parts)	Total dispatch record (sheets)
2017	46	83
2018	53	91
2019	52	107

### Introduced business continuity management (BCM) for swift recovery

In order to fulfill our social responsibility as the company holding a major share in Japan in asphalt and concrete plants, we have formulated and introduced business continuity management in the event of an emergency taking into account supply chains, affiliates and partner companies. We guarantee stable supply and engage in multifaceted support, from procurement to maintenance, during disasters to respond to early restoration of customer plants that were damaged.

### Overall image of business continuity management



#### ●Evaluation and review of business continuity activities

<b>Self-inspection of business continuity activities</b>	<ul style="list-style-type: none"> <li>The secretariat gives instructions to divisions to implement self-inspection of business continuity activities</li> <li>The result is reported to the Risk Management Committee and Board of Directors</li> </ul>
<b>Internal audit of business continuity activities</b>	<ul style="list-style-type: none"> <li>The internal audit team holds internal audit once a year</li> <li>✓ The secretariat offers information such as recognized issues regarding business continuity and related rules and regulations</li> <li>The Risk Management Committee attaches its opinions to the audit results, which then will be approved at the Board of Directors Meeting</li> </ul>
<b>Summary of business continuity activities</b>	<ul style="list-style-type: none"> <li>The Risk Management Committee summarize the overall business continuity activities and reports it to the Board of Directors</li> <li>The Board of Directors instructs future activity policies and necessary improvements</li> </ul>
<b>Prevention of recurrence and continuous improvement</b>	<ul style="list-style-type: none"> <li>When the business continuity plan or related rules are violated or unexpected damage is inflicted</li> <li>✓ Divisional heads implement measures to prevent recurrence and continuous improvement and report them</li> </ul>

## Co-existence with local communities

Our Head Office is located in Akashi City, Hyogo Prefecture—the place our factory was located when the company was established. The Nikko Business Foundation has been offering scholarships that do not require repayment for over 30 years since 1989 to domestic and overseas students enrolled in universities and institutes of technology offering a five-year program specializing in technology/engineering in Hyogo Prefecture and students from Hyogo Prefecture studying outside the prefecture.

Furthermore, the Foundation provides research grants to researchers (supervisors and faculty members) who conduct research on technology development in the research laboratories of the universities and technology/engineering colleges in Hyogo Prefecture and researchers who reside in Hyogo Prefecture and work for universities outside the prefecture. The recipients of these grants are not obligated in any way to join the Nikko Group or to provide the results of their research to the Group, and it genuinely incorporates the strong feeling "to contribute to the development of the local economy and communities by providing assistance for human resource development and technological innovations."

#### ●Number of scholarships and grants offered so far



Improvement of customer satisfaction (▶ see pp.23-26)

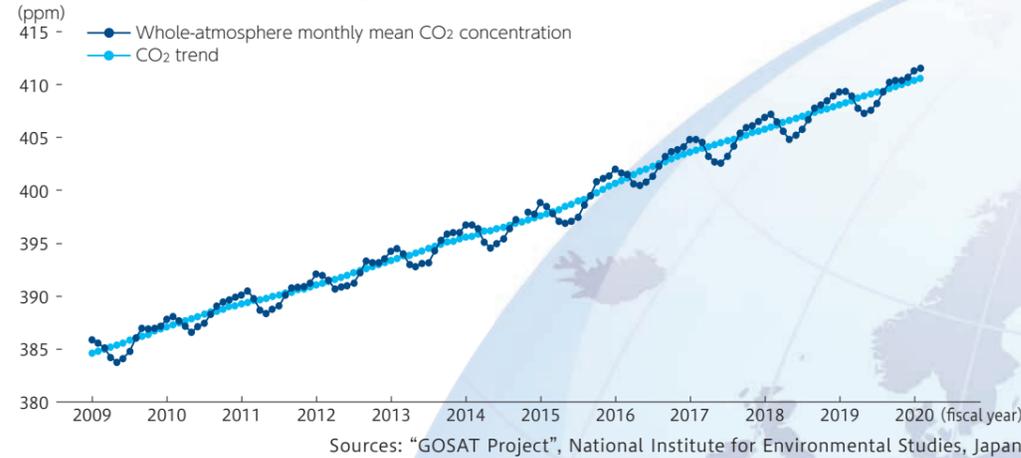
Improvement of employee satisfaction (▶ see pp.27-30)



The global environment is facing major changes including unseasonable weather and a rise in sea level due to global warming and deforestation and desertification due to development. Natural disasters are becoming larger and larger due to increases in greenhouse gases in the atmosphere, threatening our society and lives.

Nikko's asphalt plants also use fossil fuels as an energy source, therefore reducing greenhouse gas emissions is an urgent challenge to be addressed.

•Changes in the concentration of CO<sub>2</sub> in the atmosphere (FY 2009 - FY 2020)



Annual asphalt mixture output volume is approximately 40 million tons in Japan, and approximately 10 liters of fuel oil equivalent fossil fuels are used to produce 1 ton of asphalt mixtures. CO<sub>2</sub> emissions from this production are estimated to be 1 million tons. Based on Nikko's market share in Japan, 70% of these emissions are considered to be from Nikko plants. In order to realize reduction in CO<sub>2</sub> emissions, Nikko is working in close cooperation with our customers, road paving companies, on reducing carbon emissions and decarbonization in our asphalt plants.

•Examples of CO<sub>2</sub> emissions by fuel

Examples of fuel types	Emission factor	Per-unit calorific value	CO <sub>2</sub> emissions per unit
Coking coal	0.0245 tC/GJ	28.9 GJ/t	2.596 kg-CO <sub>2</sub> /kg
General coal	0.0247 tC/GJ	26.6 GJ/t	2.409 kg-CO <sub>2</sub> /kg
Crude oil	0.0187 tC/GJ	38.2 GJ/kl	2.619 kg-CO <sub>2</sub> /l
Gasoline	0.0183 tC/GJ	34.6 GJ/kl	2.322 kg-CO <sub>2</sub> /l
Jet fuel oil	0.0183 tC/GJ	36.7 GJ/kl	2.463 kg-CO <sub>2</sub> /l
Kerosene	0.0185 tC/GJ	36.7 GJ/kl	2.489 kg-CO <sub>2</sub> /l
Light oil	0.0187 tC/GJ	38.2 GJ/kl	2.619 kg-CO <sub>2</sub> /l
A fuel oil	0.0189 tC/GJ	39.1 GJ/kl	2.710 kg-CO <sub>2</sub> /l
Liquefied natural gas (LNG)	0.0135 tC/GJ	54.5 GJ/t	2.698 kg-CO <sub>2</sub> /kg

(Reference 1) Ratio of the amount of CO<sub>2</sub> emitted to obtain the same amount of heat from combustion (ratio of emission factors)  
 Coal (general coal): Natural gas (LNG) = 10 : 7.5 : 5.5  
 (Reference 2) Calculation method of CO<sub>2</sub> emissions per unit  
 Per-unit calorific value (GJ/t, GJ/kl) × emission factor (tC/GJ) × 44/12 = CO<sub>2</sub> emissions per unit (kg-CO<sub>2</sub>/kg, kg-CO<sub>2</sub>/l)  
 Sources: created based on the "Ministerial Ordinance on Calculation of Greenhouse Gas Emissions from Business Activities by Specified Emitters" (Ministry of Economy, Trade and Industry and Ministry of the Environment)  
 Sources: Ministry of the Environment

Specific efforts toward reducing carbon emissions and decarbonization in the asphalt mixture manufacturing process

Operational improvements (efforts to date)

- Decreasing the water content of mixture materials  
Decreasing the water content of new aggregates and recycled materials, the raw materials for asphalt mixture, by 1% can reduce CO<sub>2</sub> emissions by 0.8 liters/ton of A fuel oil equivalent.
- Reducing the number of intermittent operations  
As 30 to 60 liters of fuel oil is consumed to preheat asphalt plants, systematic continuous operation can reduce CO<sub>2</sub> emissions more effectively.
- Optimizing the manufacturing temperature  
Lowering the temperature setting by 10 degrees Celsius can reduce CO<sub>2</sub> emissions by 0.3 liters/ton.

Equipment improvements (efforts to date)

- Using high efficiency combustion burners and optimizing the dryer's capacity balance  
Using high efficiency combustion burners to optimize the capacity balance between new aggregate dryers and recycled materials dryers as heating and drying equipment can reduce CO<sub>2</sub> emissions by 0.5 to 1.0 liters/ton.
- Improving dryer's thermal efficiency  
Increasing dryer's thermal efficiency by 5% can reduce CO<sub>2</sub> emissions by 0.5 liters/ton.
- Reusing exhaust gasses from dryers  
Reducing exhaust gasses from recycled materials dryers to new aggregate dryers to recover waste heat can reduce CO<sub>2</sub> emissions by 1.0 liter.

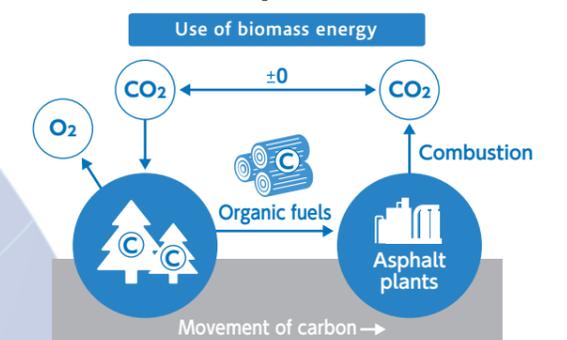
Utilizing alternative fuels (current efforts)

- City gas  
Using city gas as an alternative to A fuel oil can reduce CO<sub>2</sub> emissions by 23% compared to fuel oil.

•Biomass fuel (carbon neutral)

Wood tar (by-products of wood gasification power generation) and waste glycerin (by-products of bio-diesel fuel manufacturing) are defined as carbon neutral since they are plant-based materials. Fuel oil is used as an auxiliary fuel to stabilize combustion; however, it is also possible to operate with biomass fuel alone.

•Carbon neutral (zero CO<sub>2</sub> emissions) mechanism



•Nikko's waste glycerin combustion burner



Utilizing carbonized fuels generated from garbage (general waste) (verification test in progress)

Nikko is working on reducing carbon emissions and decarbonization in our asphalt plants by substituting carbonized fuels generated from general waste with fossil fuels including fuel oil. Nikko, together with Kawasaki Heavy Industries, Ltd., is working on the "evaluation project of pioneering waste management systems, etc. in small- and medium-sized waste management facilities" sponsored by the Ministry of the Environment, under a three-year plan, with FY 2020 being the final year of the project. Nikko developed carbonized fuel combustion burner in collaboration with Kawasaki Heavy Industries, Ltd. with the aim of utilizing carbonized fuels delivered by Kawasaki which are generated in garbage carbonization facilities, has completed in-house combustion tests, and will start conducting an impact assessment test on the quality of

mixtures to use the burner in asphalt plants from this fiscal year. If the garbage carbonized fuel system, developed with Kawasaki's excellent technology, become widely used throughout Japan, it will be possible to supply fuels to 1,100 asphalt plants operating in various regions. Through mixed combustion with fuel oil using a carbonized fuel injection burner newly developed in collaboration with Kawasaki Heavy Industries, Ltd., we hope to capture changes in the regulatory environment including introduction of carbon pricing\* in Japan to give momentum to commercialization. \*Price per ton for carbon emitted. The introduction of a tax on carbon emissions and emissions trading schemes based on this price are being under consideration. It is expected that there will be a policy effect of increasing carbon productivity by positioning efforts in combating climate change as an incentive for innovation.



Carbonization furnace constructed by Kawasaki Heavy Industries, Ltd., operating in the facility for manufacturing carbonized fuel from municipal waste in Saikai City, Nagasaki Prefecture (materials provided by Kawasaki Heavy Industries, Ltd.)



Powdered carbonized fuel

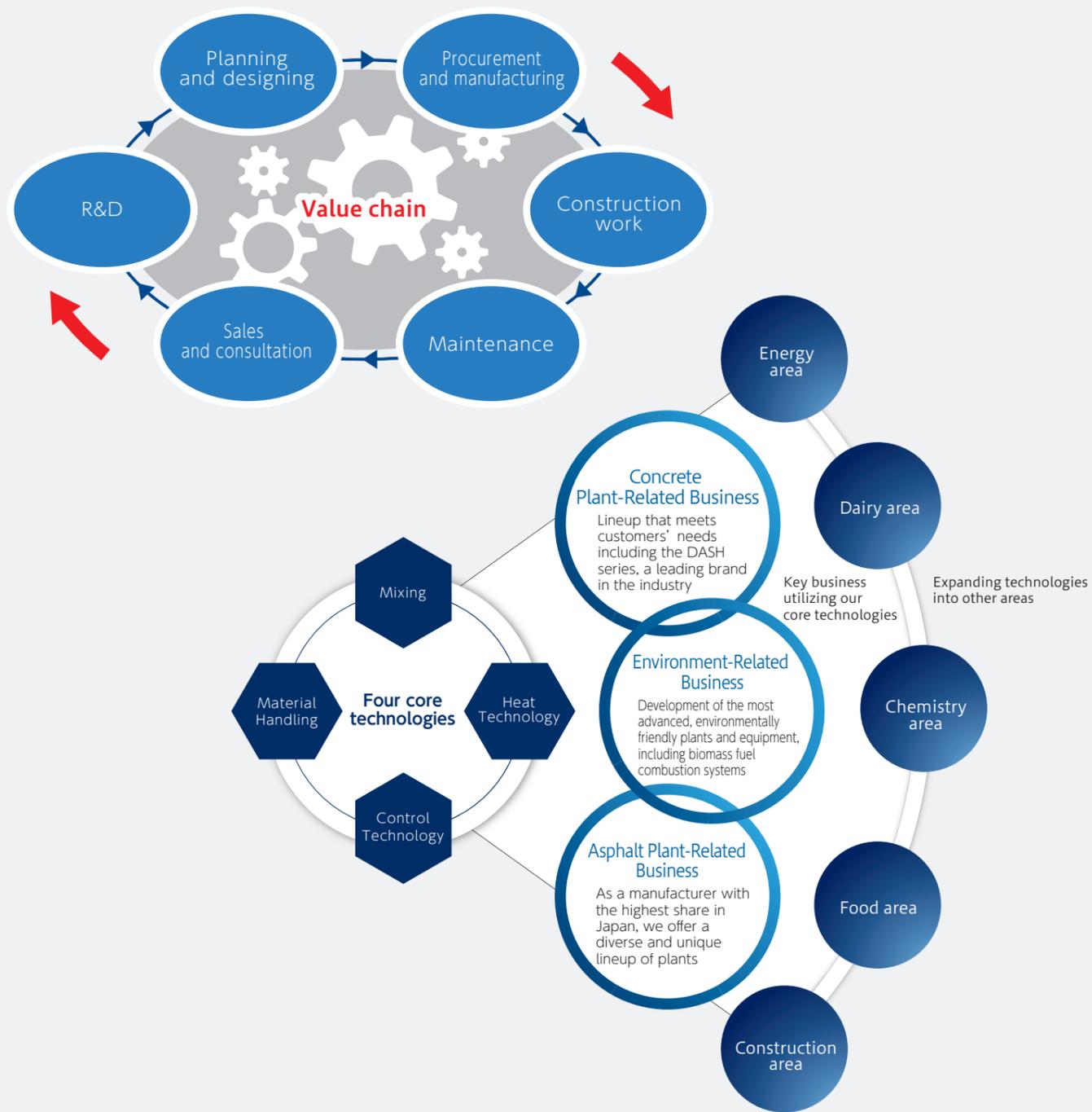


Jointly developed carbonized fuel combustion burner before installation in the plant

## Platform for delivering value to customers

Nikko Group upholds customer-first policy as our corporate philosophy, and it is our mission to provide products and services that truly satisfy our customers while gaining widespread trust from society, and become a solution partner that grows with our customers.

We will continue to contribute to manufacturing and urban development using our unique technologies backed by four core technologies and new ideas, and to refine our platform for delivering value to customers to gain the trust of customers and society.



## Toward a stronger platform for delivering value

Each of the divisions that make up Nikko's platform for delivering value, from planning and design to maintenance, is closely working with the sales sections to strengthen the platform in order to solve issues of our customers.

Toward a stronger platform for delivering value		
	Challenges to be addressed	Measures
Platform for delivering value	<b>R&amp;D</b> ○Expand low carbon emission functions in combustion technologies ○Develop applications of the mixing and kneading technologies we have developed in our concrete business to other areas including food and chemistry ○Develop high-sensitivity sensors for monitoring plants (to detect abnormal values of vibration, sound, electric current, etc.), control software, and software for big data analysis	◎Promote cooperation between industry and academia (joint research with Tokushima University, Kyoto University, and Osaka University) ◎Joint development with partners in different fields
	<b>Planning and designing</b> ○Propose suitable products that meet specifications requested by customers and respond to meet the delivery date ○Make technical proposals to solve problems at customers' plants	◎Develop new products that can meet quick delivery request ◎Solve problems in collaboration with sales and maintenance sections
	<b>Procurement</b> ○Find new suppliers and promote multiple purchases ○Combat price increases and promote cost reductions	◎Work with designing section and promote functional purchase ◎Understand characteristics of our suppliers and products, and promote cost reductions including overseas procurement
	<b>Manufacturing</b> ○Improve and succeed manufacturing skills and technologies ○Improve quality and productivity, and optimize manufacturing cost reductions ○Flexibly respond to requests for quick delivery, special specifications, and special products	◎Ensure unbiased age structure and promote multi-skilled work through rotation ◎Promote capital investment, ensure quality inspections, and promote easy-to-manufacture design structures ◎Manufacture through warehouse construction and factory layout restructuring, and expand storage space ◎Promote proactive responses to requests for special projects including outsourcing of the manufacturing process
	<b>Construction work</b> ○Reduce construction process ○Ensure safety guidance and safe work	◎Promote easy-to-construct structures by having the construction divisions participate from the planning and designing stages ◎Have in-depth meetings and ensure loss-free construction work by understanding the local situation in advance ◎Provide feedback to the designing section about structures that take construction safety into consideration
	<b>Maintenance</b> ○With a growing need for non-contact and remote services due to "with Corona (living with COVID-19)", we need to accommodate remote condition monitoring and preventive prediction for our customers' plants. ○Shift from after-maintenance to before-maintenance	◎Work with the R&D section to improve the accuracy of capability of detecting anomalies in our customers' plants ◎Provide remote support through remote maintenance and wearable terminals which meet non face-to-face and non-contact needs ◎Accumulate experience at the test plants and improve predictive capabilities ◎Drastically review service systems

Customer feedback

Nikko requests our customers to provide us with opinions about their satisfaction with the plants we have delivered and/or areas for improvement to improve our products and services as well as developing new products and services.

Voices from customers  
1

### Kuwana Ascon Kyodokigyotai

We visited Kuwana Ascon Kyodotai in Kuwana City, Mie Prefecture. Kuwana City is located in the middle of Nagoya City and Yokkaichi City, with good access to the city being provided with the Higashi-Meihan Expressway to the north and Isewangan Expressway to the south. The plant was completely renewed for the first time in almost 40 years, and in September 2019 the new plant went into operation. We talked to Director Misaki.



### Q&A

- Q: How and why did you plan to renew the plant?
- A: In the previous plant, a mixture silo and a heating recycle unit were added after the AP body was installed in 1978, but they had deteriorated from aging. So we have upgraded the plant to the latest environmentally friendly plant while increasing the capacity of the plant to further contribute to social infrastructure. In addition, as the plant manufacturers were different for each equipment, we are glad that we could unify them.
- Q: Why have you selected the Nikko's state-of-the-art plant : VP II this time?
- A: The biggest reason is that the new plant fit compactly on a small site. We planned to build a new plant on the same site where the previous one was dismantled, but we were worried whether the new plant would fit in well since we had also increased capacity. Adopting Nikko's plant has allowed us to operate without drastically changing the line of flow within the plant. As we were able to minimize the installation area of the AP, we were also able to build the office and aggregate yard at the same time. Another good point is that as we went to the exhibition held by Nikko in Akashi City last year to see the actual equipment, which gave us a clear picture of rebuilding.
- Q: Please tell us some of the difficulties you encountered during the rebuilding process.
- A: It took almost half a year from the time the previous plant was dismantled to the time the new plant started its operation. During that time, we also rebuilt the office and

- the stockyard at the same time in addition to the AP, so the process and the scope of work were tight. We held regular biweekly meeting where all contractors attended and made fine adjustments to resolve issues one by one, which led to the renewal of the office as planned.
- Q: What are the points, if any, you were particular about in the specifications?
- A: The first point is an increase in capacity. With the previous plant, we could not fully take advantage of its favorable location, with the V material manufacturing capacity of 60t/h, plus a mixture silo. For the new plant, we have increased its V material manufacturing capacity and added 2 mixture silos to accommodate shipments on highways and a variety of shipments. The second point is its appearance. Although we could not use the desired color due to the regulations of the landscape ordinance, we added a blue line as an accent color based on the corporate color of Matsuoka Construction Co., Ltd. and The Nippon Road Co., Ltd., under JV. In addition, "Yumehama-chan", the Kuwana City's official character, was displayed at the front of the plant to make the plant beloved by the local community. Lastly, we installed deodorizing equipment and took measures against dust by enclosing the entire plant in consideration of environment to the surroundings. We will continue the operation of the plant that is rooted in the local community.

Voices from customers  
2

### Kawagishi Bridge Works Co., Ltd. (Tsukuba Plant)

We visited Kawagishi Bridge Works Co., Ltd. (Tsukuba Plant) in Shimotsuma City, Ibaraki Prefecture. Shimotsuma City is located in the southwestern part of Ibaraki Prefecture, about 60km from Tokyo, adjacent to Tsukuba City, Joso City, and other cities, with an area of approximately 81km<sup>2</sup> and a population of about 46,000. With the Kokai River running in the east, the Kinu River in the west, and a sand swamp in the center, the area is rich in water resources. The main business of Kawagishi Bridge Works Co., Ltd. is steel frame business, and the company's products have been used in many high-rise buildings and large space structures since its establishment in 1906. The company newly constructed the Tsukuba Plant in 1991, and started manufacturing precast concrete. Nikko's batching plant (equipped with 1.5m<sup>3</sup> double-spindle SF mixer) was adopted when the Tsukuba Plant was newly constructed, and this time a new batching plant (DASH-Progress) equipped with a mixer for high-strength concrete (DASH-Hyper-167) was adopted in a plan to add another batching plant on the same site. We talked to Plant Manager Kanbayashi.



New plant mixer (DASH-Hyper-167)

### Q&A

- Q: What was the main reason for your decision to build an additional plant?
- A: We planned to add an additional plant to accommodate a wide variety of concrete. Another factor of the expansion plan was that when we use two types of concretes with different strengths in one product, we can use two plants to separate them to shorten the work process.
- Q: What were you particular about in the specifications of the newly added batching plants?
- A: We adopted a DASH-Hyper mixer for the new plant to mix and knead high-strength concrete faster. In addition, in order to make the best use of the site, we were particular about utilizing the existing corrugated silo and installing a switching damper at the head of the drawer conveyor so that aggregates were supplied from each inclined conveyor to the existing and new plants. We added two cement silos for the new plants, and in order to accommodate a wide variety of products,

- we put a divider in each silo to stock a total of four types of cement and admixtures.
- Q: How do you feel about using the newly added plant?
- A: The mixer is fully capable of mixing and kneading high-strength concrete, its performance is good, and mixing and kneading time has been shortened. In addition, we used to hand-wash the mixer, but automatic washing machine (SWAT) we adopted has dramatically shortened the work time for cleaning. As for the plant, sufficient lines of flow and work space are secured on each floor, and we realize the easiness of inspection and maintenance.
- Q: Do you have any comments or requests for Nikko in the future?
- A: Although the operator started working in the plant only a short while ago, the plant is easy to use and the control panel is easy to read and operate, which is very helpful. In the future, we expect Nikko to develop a plant in which anyone can manufacture concrete and perform maintenance easily.

All employees are the most valuable asset for Nikko. We focus our efforts on building an organization and strengthening our human resources that can quickly respond to all changes surrounding our business and make a sustained contribution to society.

It is our high-priority management theme to improve productivity by understanding expectations of employees with different attributes and values to develop a rewarding work environment.

## Employee situation

(End of FY 2019)

### ●Nikko Group (including affiliated subsidiaries)

Situation at consolidated subsidiaries	Number of employees*1	Number of temporary employees*2
Number of employees	838	152

### ●Situation by segment

Segment name	Number of employees*1	Number of temporary employees*2	Ratio by segment
Asphalt Plant-Related Business	434	54	51.8%
Concrete Plant-Related Business	214	36	25.5%
Environment- and Conveyor-Related Business	33	8	3.9%
Reportable segment total	681	98	81.3%
Other Business	120	47	14.3%
Entire Company (common)*3	37	7	4.4%
<b>Total</b>	<b>838</b>	<b>152</b>	<b>100.0%</b>

\*1 Employed employees: employees of Nikko + employees of affiliated companies (including accepted seconded personnel and excluding seconded personnel)

\*2 Temporary employees: temporary employees of Nikko + temporary employees of affiliated companies (including part-time workers and excluding temporary workers dispatched from agencies)

\*3 Entire Company (common): employees of the planning division, administrative division, etc.

### ●Situation at affiliated subsidiaries

(number of people)

Work location	Executives	Employees (including accepted seconded personnel and excluding seconded personnel)	Number of temporary employees	Total
Nikko Electronics Co., Ltd.	8	86	7	101
Nikko Machinery Co., Ltd.	6	39	29	74
Tombo Industry Co., Ltd.	6	11	3	20
Nikko Sec Co., Ltd.	6	29	7	42
Nikko Kosan Co., Ltd.	5	8	8	21
Maekawa Kogyosho Co., Ltd.	6	15	4	25
Nikko Baumaschinen GmbH	2	0	0	2
Nikko Asia (Thailand) Co., Ltd.	4	17	0	21
Nikko (Shanghai) Construction Machinery Co., Ltd.	6	105	0	111
<b>Total</b>	<b>49</b>	<b>310</b>	<b>58</b>	<b>417</b>

### ●Situation by gender (Nikko Co., Ltd.)

Male		Female	
Company employees	470	Company employees	17
Contract employees*4	37	Regional employees	34
Master*5	22	Partner employees*7	20
Senior*6	23	Fixed-term employees*8	12
<b>Total</b>	<b>559</b>	<b>Total</b>	<b>83</b>
Year-on-year change	0.0%	Year-on-year change	8.4%
Average age	44.1	Average age	44.1
Average years of service	19.8	Average years of service	10.1

\*4 Contract employees: rehired employees who are post-seniors or post-masters (non-regular employees)

\*5 Master: employees rehired after retirement (non-regular employees)

\*6 Senior: employees who are post-masters with extended employment (non-regular employees)

\*7 Partner employees: part-time employees with no fixed term (non-regular employees)

\*8 Fixed-term employees: part-time employees whose terms have been renewed (non-regular employees)

## Development of work environment

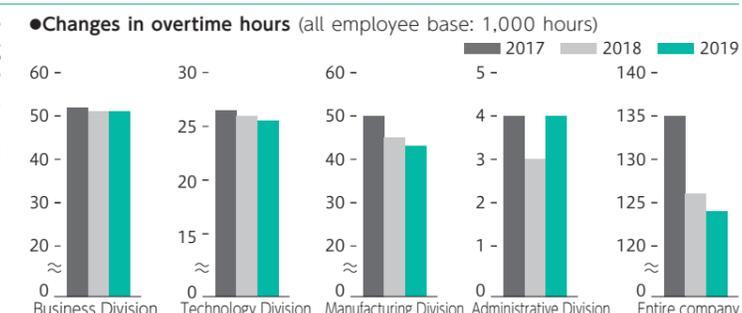
### Promotion of taking paid leave

Nikko's goal is to have 10 days of paid leave taken per year, and the actual number of days of paid leave taken in FY 2019 was 10.35 days.



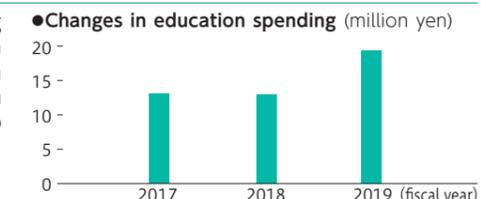
### Strengthening overtime management

Nikko is strengthening our overtime management with the aim of improving labor productivity, and we return the reduced overtime pay to our employees as a distribution. (Distribution: performance-linked salary paid in every three months based on budget achievement)



### Enriching training programs menus

In addition to regular in-house training program, Nikko offers e-learning opportunities for our employees to learn what they want to learn, when they want to learn it, as well as face-to-face training. Each employee can choose from a menu of courses tailored to his/her needs, ranging from professional practices and language skills to coaching and leadership training, to utilize these training programs for his/her own development.



### Three pillars in putting work-style reform into practice

With the aim of improving operating efficiency and labor productivity, Nikko is working on the following three initiatives.

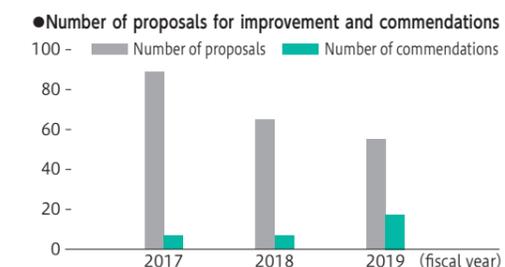
- ✓ Active use of web conference for the purpose of speedy information sharing and decision-making without being bound by time and place
- ✓ Promoting telework, establishing a decentralized work system, and overcoming challenges
- ✓ Improving production efficiency by investing in the replacement of manufacturing facilities

### Improvement activities: Campaign to improve operating efficiency

We have established an Improvement Activities Committee with the purpose of encouraging and promoting improvement activities based on the originality and ingenuity of employees to improve operating efficiency. A consultant (improvement leader) is appointed in each workplace to take charge of setting a theme for the group and providing advice on the point to be focused on and methods for improving operations. Specific proposals for improvement with various themes are reported and put into practice each month, including reduction of working hours and costs, quality improvement, and improving safety.

#### Motto for improvement activities

- Improvement is "selecting means and changing methods"**  
Let's find out faster and more accurate ways to work!
- Improvement is not a big change but a small one**  
No need to try to make a major change in the way you work! Try it slowly and steadily.
- Improvement is a fight against practical constraints**  
Let's find out what you can do now and do it!



Proposed improvements are commended and rewarded after going through fair review (by the Review Committee and Activities Improvement Committee), and shared with all employees. Employees who make outstanding proposals for improvement throughout the year are invited to participate in improvement training programs to learn initiatives of other companies to improve their operations and productivity through field trips.

## Nikko's Diversity in Female Employees' View

### Roundtable Talk of Female Employees

Gender diversity is considered to be a signal indicating a high potential for corporate value creation; however, the reality in the AP/BP industry is that there has been a deep-rooted perception that this industry is a "workplace for men", and women have been slow to enter the industry.

## Four women actively engaging in each section at Nikko discussed their ideas on breaking the current situation and the diversity of Nikko.

●Date of the talk: August 7, 2020 ●Location: Conference room at the head office (Akashi City, Hyogo Prefecture)  
\*The talk session was held in a large conference room under full infection control.

**Tachiki:** We are working on various measures to create a workplace where female employees can play an active role, including increasing the number of newly graduated female employees, 100% consumption of childcare leave, and encouraging to take paid leave. Nevertheless, female employees account for only about 13% of total workforce of the company. Currently, we have no female managers partly due to the low absolute number of female employees. Today, I would like to ask you, working in various sections of our company, about what you usually feel about work environment where it is easy for female employees to play an active role and promoting gender diversity. First of all, let me ask you what motivated you to join Nikko, and what you are currently doing.

**Matsuyama:** My first job after graduation was a general clerical work at a financial institution, but I was interested in accounting as a specialized field, so I changed my job to be on a career track at Nikko. As I live in Akashi City, I am glad that I could find a company in my hometown that is worth working for. I didn't know of Nikko when I was a student. Currently I am in the Financial Department and responsible for cash management, engaging in collecting accounts receivable, making payments to business partners, and calculating taxes.



**Satsuki Matsuyama**  
Financial Division, Treasury Section, joined Nikko in 2011 (mid-career recruitment) (graduated from School of Human Science and Environment)

**Ochi:** I was doing research on coal ash granulation when I was a student and used Nikko's mixer in my experiment. I had a very good experience with that mixer, and that was my motivation for joining Nikko. I am currently in the Development and Sales Department and in charge of developing markets other than those for AP and BP, with products developed by using our four core technologies.

**Haruo:** I wanted to work in design at a manufacturer, and felt that I could do what I wanted to do at Nikko's information session. When I was assigned to the Design Department, I was told that there had been no female designer, but even when I was in school, women were in the minority so it didn't bother me much.

**Ning:** I was working for a Japanese company in Shanghai, but I wanted to acquire more specialized skills in Japan, and that's why I joined Nikko. Currently I am working and learning at the Customer Support Center, aiming at becoming an AP maintenance representative.



**Kohka Ning**  
Service Planning Department, Customer Support Center, joined Nikko in 2020 (mid-career recruitment) (graduated from Department of Japanese Language)

**Tachiki:** When do you find it worthwhile at work, and when do you find it hard?

**Matsuyama:** Working in finance is something like struggling with numerical numbers, and I feel great when the numbers that didn't match up just match up perfectly (laugh). I am really thrilled by the process of one thing taking shape through consultation with the team members or when we have what we have aimed for, such as introduction of new systems and preparation of financial statements. On the other hand, I sometimes feel rushed every three months as Nikko uses a quarterly settlement system.

**Ochi:** The Financial Department has a gorgeous image with many female employees (laugh).

**Matsuyama:** The ratio of men to women is about half, so it is a diverse department in Nikko. When I joined Nikko, there were few female employees and we were encouraged to wear uniforms for clerical workers, with which I felt a bit uncomfortable, but now we are no longer

asked to wear uniforms and I feel that the organization has become more unbiased.

**Ochi:** The real pleasure in working in sales is that we are told by our customers who use the products we have delivered, "The product is a real help! Thank you." There are very few female salespeople, so our customers can easily remember us, but on the other hand, we may give them the impression that we are unreliable, so I try to be as confident as possible when dealing with customers.

**Haruo:** When designing, we often struggle between specifications our customers desire and manufacturing constraints, but when I witness the installation of the plant that I was involved in designing and confirm its operation, I feel that my hard work has paid off. Our working hours tend to be longer as the number of requests for design increases, and I think we have to come up with some solutions.

**Ning:** I am learning to provide services to our AP customers at the Customer Support Center. I am working hard to be familiar with wiring diagrams and mechanisms of the control panel. I provided support in Chinese for responding to inquiries about the ALBO control panel which is exported to Nikko Shanghai.

**Tachiki:** How do you think about Nikko's work environment from the perspective of female employees?

**Ning:** The good point for me is that there is a clinic on site, so I can consult a doctor when I don't feel well. This is very helpful in terms of health care. I also like the program which allows employees to take paid leave in a planned way.

**Matsuyama:** I feel that the workplace has a homey atmosphere and very comfortable to work. On the other hand, my previous workplace was a financial institution where many female employees work, so the support system for female employees was well established. I want the company to listen more to the female employees, since a workplace where female employees can work comfortably is also a workplace where everyone can work comfortably.

**Ochi:** For example, childcare leave program is in place to allow not only female employees but also male employees to take this leave, but I hear the number of childcare leave actually taken by male employees is extremely small. I hope the company will take measures to ensure that many male employees can take childcare leave, regardless of gender.

**Haruo:** There are overwhelmingly fewer female employees in my workplace and at first, I felt other employees were treating me very carefully, but now I think we have made a lot of progress in mutual understanding (laugh). I think that we, a minority, need to speak out more.

**Ochi:** I think that there is a big difference between men and women in terms of muscular strength, but otherwise there is no difference in ability, so I want to try to actively express my opinion. I'm sure that if we, female employees, can feel motivated to work, junior employees will follow us.



**Saori Ochi**  
Development and Sales Department, West Japan Sales Section, Development and Sales Group, joined Nikko in 2008 (graduated from Department of Urban Systems Engineering)

**Matsuyama:** I think one of the reasons why female employees leave the company is the relocation of their partners. If your partner is forced to relocate, you tend to have a choice between your partner moving out alone or you quitting your job. As our company has offices all over Japan, I think that allowing female employees to choose their work locations or to continue working remotely will have significant effect on retaining female employees.

**Tachiki:** We recognize the importance of the support programs to increase the number of female employees, but there seems to be more things we can do in terms of their operation.

**Matsuyama:** Our company offers a choice between global and area positions, but it would be nice to have a more flexible system instead of regulating the availability of relocation based on the type of job. Both men and women have periods when they are easy to accept relocation and when they want to avoid it if possible, and I think if there is a system where individual employees can tackle the challenge of accepting relocation when they want depending on their own situations, the number of female students applying to join Nikko will increase.

**Haruo:** A company that takes care of life stages of individual employees is very nice (laugh). The number of people who think that they are the company-first people like our parents is decreasing, and in most cases couples work together, so if you can challenge yourself in a company that takes care of individual situations of employees, you will be able to work for a long time. I feel a bit sad if the company believes that female employees would quit when they get married or have a baby. It is ideal that both men and women can demonstrate their abilities at work regardless of gender while sharing household chores at home.



**Mitsuki Haruo**  
Design Department, Design Section III, joined Nikko in 2014 (graduated from Department of Mechanical Systems Engineering)

**Tachiki:** If the system has become one that is based on men's perspective, it needs to be improved. I would like to ask you about skill development support which is necessary for female employees to play more active role.

**Matsuyama:** To be honest, I cannot have a clear picture of what skills I should acquire since I cannot find a role model within the company. I think it will be helpful if I have an opportunity to hear about the hardships of senior female employees who are in managerial positions at other companies.

**Ning:** Since I'm still inexperienced, I'm too busy learning specialized skills on maintenance. But in the future, I hope to play an active role in Nikko Shanghai by making use of my experience in Japan. In Shanghai, women are taking an active role in society and I feel that there is less gender distinction in the workplace there than in Japan. It is nice if there is a system where I can consult with senior employees of the same gender.

**Haruo:** From a woman's point of view, I feel a bit uncomfortable with the leadership like "follow me" and transfer of skills such as apprenticeship. As I expect that we can build a team which is more open and provides a sense of unity, I want to put into practice what I am feeling now when I become a manager.

**Ochi:** Female employees tend to stay in a certain specialty field for a long period of time, but I want to experience a variety of

jobs. I imagine that if I become a manager in the future, diverse experience will help me.

**Tachiki:** We have an excellent training program for new managers, but I feel that we need to provide systematic support to people who will become managers in the future. Lastly, can you give us some advice on providing information to junior female employees to increase the number of female employees?

**Matsuyama:** Since our job does not have a gorgeous image, it is not easy to appeal to female students, but how about actively sending out a message like "There is an excellent company in our hometown Akashi" mainly to women in Akashi City.

**Ochi:** The prevailing recognition is that working in the fields such as manufacturing and maintenance may be difficult for female employees as there has been no experience of accepting female employees in the worksite, but I think some women want to do welding work, so why not recruit men and women equally for all positions.

**Haruo:** I agree. There are no women's restrooms or changing rooms in departments where no female employees have been employed so far, but they may be properly equipped once the company decides to hire women.

**Ochi:** "There is a shiny women's restrooms in the manufacturing site!" This may appeal to women (laugh).

**Ning:** The number of female operators is increasing at our customers' plants, but sometimes I find no women's restrooms at the plant site I visit.

**Ochi:** I also have an experience that I didn't have a place to change into working clothes. The current situation of our industry is that we are lagging behind in women's advancement. I want Nikko to lead the transformation in the industry as a leading company.

**Tachiki:** Thank you for your unique and instructive suggestions. We are also considering setting up workshops for female students and active dissemination of information through SNS. We will ask for your cooperation in implementing these initiatives. Thank you very much for your time today.



**Facilitator: Yuki Tachiki**  
General Affairs Department (Joined Nikko in 2013)

# The first year of the Medium-term Management Plan showed results in developing new markets while leaving some challenges

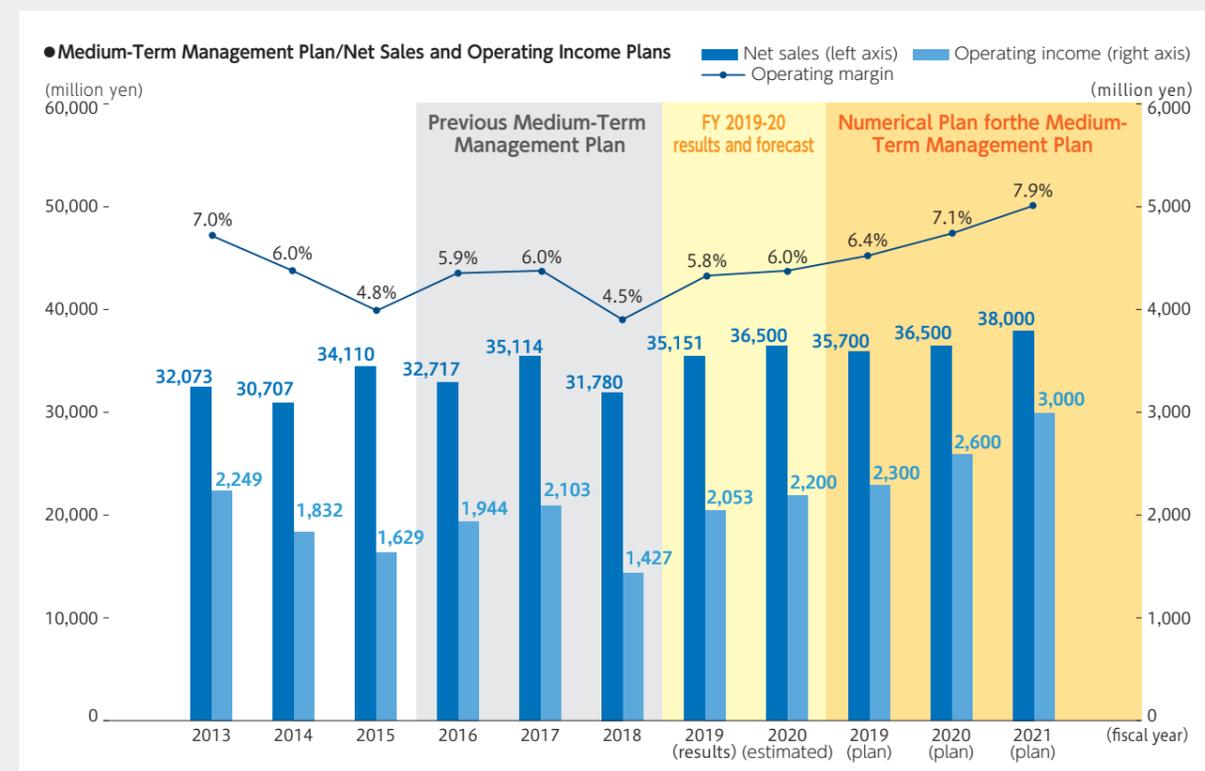
For FY 2019, the first year of the Medium-Term Management Plan (FY 2019 - FY 2021), consolidated net sales were 35.2 billion yen and operating income was 2.1 billion yen, slightly below our target (35.7 billion yen for net sales and 2.3 billion yen for operating income). Certain results were achieved, including a sharp growth in the mobile plant business, mainly in new business of mobile crushers and waterproof boards while leaving some challenges to be overcome including improvement in margin for the AP-related business.

In our Medium-Term Management Plan, Nikko pledged to return profits to shareholders with dividend payout ratio of at least 60%, and in FY 2019 we paid out dividends of 40 yen (FY 2018: 12 yen) including a 100th anniversary dividend of 20 yen, with dividend payout ratio of 97.6%.

For FY 2020, although there are uncertainties about macro environment including impact of COVID-19, the impact of COVID-19 pandemic on our business has been minimal, and we will steadily implement measures to achieve consolidated net sales of 36.5 billion yen (up 4% from FY 2019) and operating income of 2.2 billion yen (up 7%).

Although the 100th anniversary dividend of 20 yen will no longer be paid, we plan to maintain a dividend of 30 yen and continue to provide shareholders returns with total return ratio of 84.2%, together with share buyback of up to 400 million yen (up to 800,000 shares).

We expect that management reform in line with the Long-term Basic Policies will also proceed smoothly. We are further improving all sections in sales, services, technology, and manufacturing with the aim of strengthening revenue base in Japan, and in overseas market we set up a local sales and services office in Thailand in February and a manufacturing company in June 2020.



## Performance summary for FY 2019: New areas were strong while leaving challenges to be overcome in the AP-related business

Numerical targets were not met due to the low growth in the AP-related business. Operating income for the AP-related business was 1.12 billion yen and could not meet the company's target of 1.57 billion yen. Plant sales grew significantly by 34.5% due to an increase in order backlog at the end of FY 2018 while sales of well-selling maintenance service business were down by 8.1% compared to FY 2018. The total of VP series and MBC, which mainly use new types of recycled materials, accounted for 50% of total shipments, and sales of two recycle crushing plants, a new area, were also recorded.

Other business contributed positively to the FY 2019 results. Operating income was 1.02 billion yen, which was above the company's initial plan of 510 million yen. Sales of mobile plant products, a new area, grew by 449% compared to FY 2018, and sales of waterproof boards also grew by 305%. Sales of temporary construction materials also increased by 12% over FY 2018, driven by strong performance for well-selling rentals, and sales of crushers at our subsidiary Maekawa Kogyosho Co., Ltd. also showed steady growth of 5%. Operating margin of other business improved significantly from 10.7% to 17.5%.

Operating income of the BP-related business and environment- and conveyor-related business also grew slightly above the company's plan.

## FY 2020 business outlook: Measures to improve margin are planned for the AP-related business

For FY 2020, we expect consolidated net sales of 36.5 billion yen (up 4% from FY 2019) and operating income of 2.2 billion yen (up 7%). Net sales are in line with our target for the second year of the Medium-Term Management Plan in numerical comparison and operating income is short by 400 million yen. The shortfall in operating income is attributable to the low growth in the AP-related business (short by 540 million yen compared to the Medium-Term Management Plan), and we will continue to improve our profitability through measures such as brushing up the crushing plants and upgrading the version of the VP series, which has high added value. Compared to the Medium-Term Management Plan, operating income is slightly below the plan for the BP-Related business, almost in line with the plan for the environment- and conveyor-related business, and significantly above the plan for the other business.

## Overseas business: Nikko Shanghai remained steady and other overseas businesses also grew in FY 2019

In FY 2019, overseas net sales were 4.4 billion yen (up 14% from the FY 2018) and net sales ratio was 12.5%. We changed the fiscal year end of overseas subsidiaries from the end of December to the end of March, whose impact has been minimal.

In FY 2019, Nikko Shanghai posted net sales of 3.6 billion yen (up 4% from the FY 2018) and other overseas businesses 750 million yen (up 103%). Sales of 22 APs in Nikko Shanghai were characterized by an increase in sales of larger-sized plants, as demonstrated by the fact that sales of NBD400 exceeded those of NBD320, and an increase in sales of recycling systems to 9 units (5 units in FY 2018). The overwhelming majority of sales were conducted in the coastal areas (77%), followed by in the central area (14%) and in the western area (9%).

For FY 2020, although demand for AP in China is expected to be strong due to a recovery in infrastructure investment, we forecast sales may not meet the initial budget, considering impact of the suspension of operations at Nikko Shanghai due to the COVID-19 pandemic.

## New business: Mobile plant business and waterproof boards made a significant contribution

In FY 2019, new business grew significantly to achieve results that outperformed expectations in the Medium-Term Management Plan, with mobile plant business (mainly mobile crushers) posting sales of 500 million yen (90 million yen in FY 2018) and sales of 830 million yen in waterproof boards (210 million yen in FY 2018). The market share of mobile crushers grew to 13% and the demand for waterproof boards, manufactured and sold by our subsidiary Nikko Machinery Co., Ltd., has increased sharply partly due to disasters caused by the climate change in the past few years.

We have revised up our sales forecast for the mobile plant business in FY 2020 to 830 million yen from 700 million yen in the Medium-Term Management Plan. The market share of mobile crushers is expected to be 20%, and we will start selling mobiscreen series.

We saw a special demand for waterproof boards, manufactured and sold by our subsidiary Nikko Machinery Co., Ltd. in FY 2019 and net sales of standard waterproof boards were 400 million yen, and for FY 2020, we expect net sales of standard waterproof boards alone to be 600 million yen. With production at the new Kansai plant being getting on track, we are aiming at further growth in the future.

TOPIC 1

Established a local sales and services office in Thailand to expand business throughout ASEAN

Under the Long-Term Basic Plan, Nikko aims at achieving overseas sales of 9 billion yen in FY 2029 (FY 2019: 4.4 billion yen). In addition to China (Nikko Shanghai), we intend to expand our business throughout ASEAN with local sales and services office in Thailand, which boasts the largest market share in the used AP business, as a core center. In Thailand, where we see a large market potential, we set up a local sales and services office in February and a manufacturing company in June 2020.

Summary of Nikko NilKhosol Co., Ltd.

Nikko NilKhosol Co., Ltd. is a local sales and services office in Thailand with a capital of 120 million baht, of which 70% is owned by Nikko and 30% by NilKhosol. NilKhosol, our joint venture partner, has been our local contractor for the export of APs for about 5 years. Nikko NilKhosol will be located in the Chonburi Industrial Park, southeast of Bangkok, where a new factory will be constructed.

The area of a new factory is 40,542m<sup>2</sup>, larger than Nikko Shanghai's approximately 30,000m<sup>2</sup>, and production capacity is planned to be 30 APs (20 to 25 for Nikko Shanghai) and 900 tons of industrial machinery per year. The amount of total investment is 1.2 billion yen, and the new factory is scheduled to start operations in October 2021. In Thailand, we plan to achieve net sales of 1.7 billion yen in FY 2024 (300 million yen in FY 2019), and aim to turn into the black in FY 2021.

Business development in Thailand, landscape of competition and Nikko's strength and challenges

We plan to develop five types of business in Thailand. In addition to the current new plants, we will sell used plants and offer plant replacement, parts sales, and maintenance services. In the new AP market in Thailand, there are European, Chinese, and South Korean competitors. Although the local selling price of Nikko products will be set approximately 30% higher than those of competitors, we believe that we will be able to gain a certain market share due to the quality (stable operation) and low overall running costs. Since we have sales and manufacturing facilities in Thailand, we will be able to supply parts quickly with enhanced maintenance systems. On the other hand, as the market for new products in Thailand is not large enough, it is important for us to expand our business to the ASEAN countries.

Summary of local sales and services office in Thailand

Company Overview

- **Date to be established** June 25, 2020
- **Name** Nikko NilKhosol Co.,Ltd.
- **Capital** 120 million baht
- **Location** Pinthong Industrial Park Phase 4,
- **Business description** Chonburi Province, Kingdom of Thailand  
Manufacture and sale of
- **Investment ratios** asphalt plants and industrial machinery  
70% by Nikko Co., Ltd. and 30% by NilKhosol

Factory overview

- **Site area** 40,542m<sup>2</sup>
- **Factory area** 5,078m<sup>2</sup>
- **Total investment** Approximately 350 million baht  
(approximately 1.2 billion yen)
- **Production capacity** 30 asphalt plants and 900 tons of industrial machinery per year
- **Start of construction work (provisional)** September 2020



CEO MD President Yosuke Yamamoto



Exterior of Nikko NilKhosol Co.,Ltd.

TOPIC 2

Crushing-related business developing in various aspects

The crushing-related business posted total net sales of just under 1.2 billion yen in FY 2019, doubling from FY 2018. Although "crushing" has not yet become a core technology that can differentiate us from our competitors, we are working on it from various aspects and expect it to be a new area of business for the Nikko Group. In particular, since key users of the crushing plants are the same road paving companies as AP which has the largest market share, we believe that we can expect significant synergy effects including provision of maintenance services at the same time.

Crushing-related business with huge potential for expansion

"Crushing" is one type of mechanical separation operation for breaking solids into small pieces, and applications and types of crushing are different depending on the type and size of the solids to be crushed, and the type of crusher such as mobile or stationary. Until now, our subsidiary Maekawa Kogyosho Co., Ltd. has manufactured and sold mainly stationary crushers; however, sales have been low. In the future, we plan to expand our crushing-related business into various areas and users in our new mobile plant business, including mobile crushers (other business), crushing plants in the AP-related business, and small unit crushers in the environment- and conveyor-related business whose commercialization has been completed. In FY 2019, net sales were 230 million yen for crushing plants, 460 million yen for stationary crushers (Maekawa Kogyosho Co., Ltd.), and 500 million yen for mobile crushers.



Crushing plant

Stationary crushers

Mobile crushers

Small unit crushers

Mobile plant business plans sales of 1.3 billion yen in FY 2021.

For FY 2020, we expect net sales of 470 million yen for crushing plants, 320 million yen for stationary crushers (Maekawa Kogyosho Co., Ltd.), 830 million yen for mobile crushers (mobile plant business), and about 20 million yen for small unit crushers.

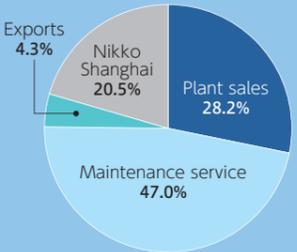
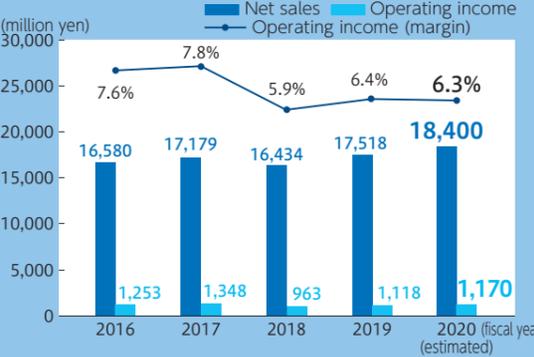
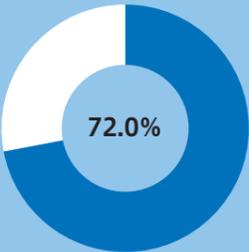
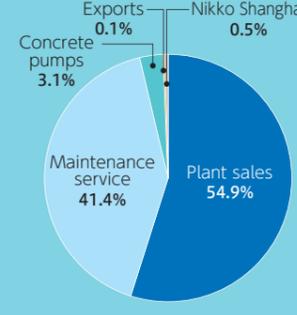
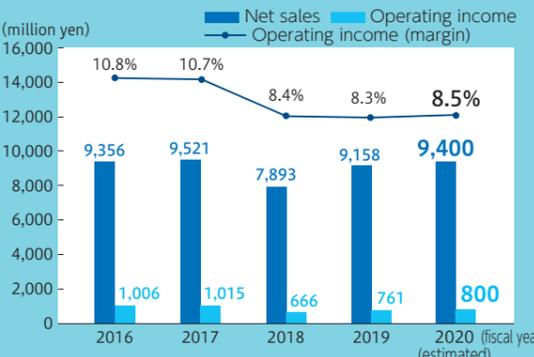
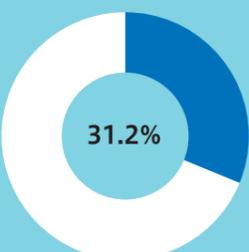
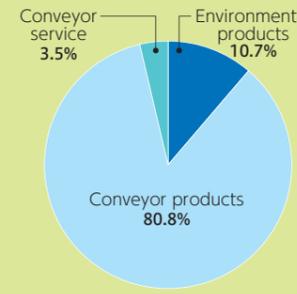
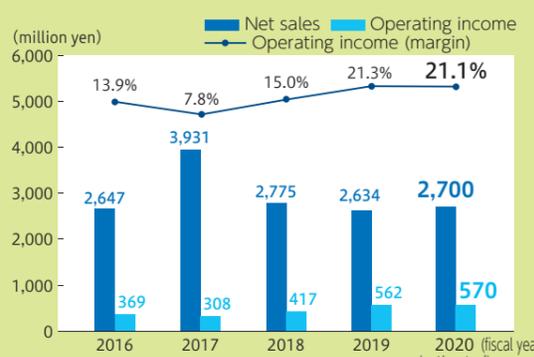
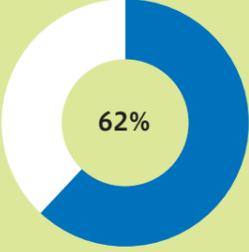
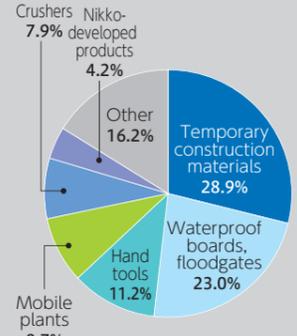
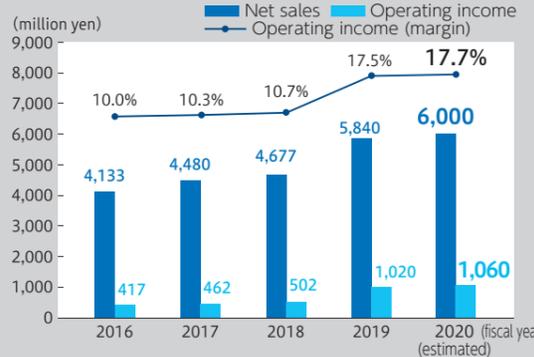
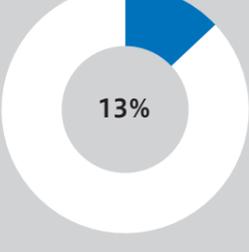
The core product of mobile crushers in the mobile plant business is the Kleemann product characterized by high crushing performance and low fuel consumption with a hybrid drive, and a stylish design. The best-selling product is a jaw crusher. We introduced impact crushers in FY 2019 and we will expand our product menu to promote sales of products in the future including impact crushers, cone crushers, and mobiscreen.

In addition to further promoting our sales activities in the core areas of crushed stone- and demolition and recycling-related businesses, we will expand our business by adding sales activities and methods to our own new customers.

We also plan to start activities of selling parts to and receiving more orders for maintenance works from customers to which we have delivered our products. Furthermore, we plan to expand inventory of parts that allow us to support the stable operation of products we have delivered, and enhance our maintenance service programs, with our eyes focused on the growth in FY 2021 and beyond.

Although we cannot currently expect profitability in the crusher-related business except for the one for Maekawa Kogyosho Co., Ltd., our mobile plant business is getting on track toward turning into the black in FY 2021. For the crushing plant business, we expect an improvement in profitability in the future due to increased sales in maintenance services and sales expansion of small unit crushers which have no other competitive product.

In FY 2019, our core AP-related business accounted for 49.8%, BP-related business accounted for 26.1%, environment- and conveyor-related business accounted for 7.5%, and other business accounted for 16.6% of total revenue of the Nikko Group. In FY 2019, other business grew significantly including new mobile plants and waterproof boards.

	Business description	FY 2019 business breakdown	Net sales and operating income by segment (margin)	Market share (based on Nikko's survey)
<b>AP Plant-Related Business</b> 	<p><b>Main products:</b> ●Asphalt plants ●Recycling plants ●Mixture silos ●Electronic control devices, plant management system</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p><b>MBD</b> New mid-sized AP with recycling unit at the center (hi-end model)</p> </div> <div style="text-align: center;">  <p><b>VP II</b> New mid-sized AP with recycling unit at the center</p> </div> <div style="text-align: center;">  <p><b>VP III</b> New small-sized AP with recycling unit at the center</p> </div> </div>			
<b>BP Plant-Related Business</b> 	<p><b>Main products:</b> ●Concrete plants ●Compact concrete plants ●Concrete pumps ●Electronic control devices, plant management system ●Concrete manufacturing plant facilities, etc.</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p><b>DASH-Hyper mixer</b> Mixer for ultra-strong concrete, with improved ease of maintenance</p> </div> <div style="text-align: center;">  <p><b>Cyber Advance</b> New control panel that can be operated from a tablet device</p> </div> <div style="text-align: center;">  <p><b>DASH-H275RAV-TRIU</b> Ultra-strong concrete plants</p> </div> </div>			
<b>Environment- and Conveyor-Related Business</b> 	<p><b>Main products:</b> ●Belt conveyors, conveyors for facilities, beverage container recycling plants ●Soil remediation plant, plastic recycling plant</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p><b>Modular belt conveyor</b> Conveyor using pipe frames whose lengths can be adjusted in increments of 10cm</p> </div> <div style="text-align: center;">  <p><b>Super modular conveyor</b> Simple sealed-type conveyor using steel plate frames that ensures higher safety</p> </div> <div style="text-align: center;">  <p><b>Choiwaru-no-jaw</b> A small unit crusher that integrates processes from feeding to discharge</p> </div> </div>			
<b>Other Business</b> 	<p><b>Main products:</b> ●Pipe scaffoldings, steel gangplanks, pipe supports ●Temporary aluminum staircases ●Shovels, spades ●Small-sized concrete mixers, mortar mixers ●Sluices, waterproof boards, crushers ●Real estate leasing, construction machinery product leasing ●Sales of housing renovation</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p><b>Mobile crushers</b> Fuel-efficient hybrid crushers</p> </div> <div style="text-align: center;">  <p><b>Roll breaker</b> Crusher with excellent maintenance cost, noise and vibration control, and particle size setting</p> </div> <div style="text-align: center;">  <p><b>Waterproof board</b> Waterproof boards, which are effective against water damage (internal flooding) caused by global warming</p> </div> </div>			

# For Continuous Growth

## Asphalt Plant-Related Business

Director  
Manager of BP Sales  
Management Department  
**Tomomi Nakayama**

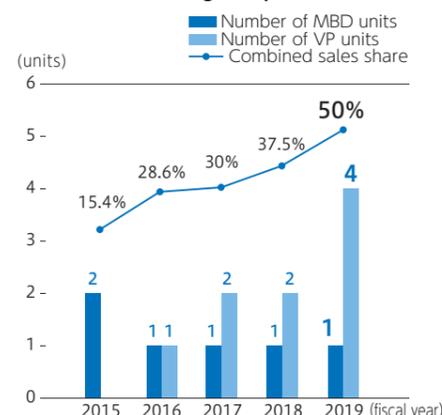


### Focus on improvement of plant margin in Japan, and launch Nikko Thailand in overseas

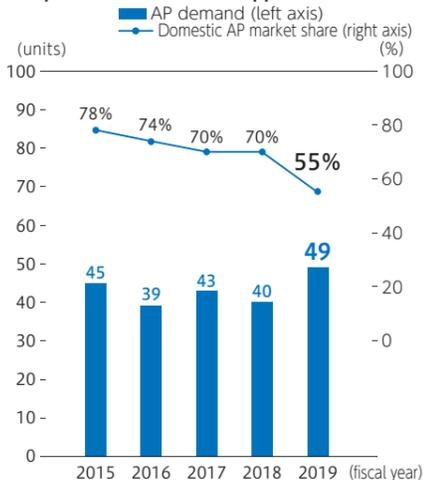
#### SWOT of AP-related business

- Strength** — Strengths and differentiation  
Overwhelming AP share in Japan; offering maintenance for the entire plant at customers including crushing plants
- Weakness** — Weaknesses and issues  
Weak price negotiation ability; differentiation of crushing plant products
- Opportunity** — Business opportunity  
Rising AP productivity thanks to work style reform by users, increasing environmental needs such as progress in use of gas as fuel for existing APs and application of carbonized fuel
- Threat** — Threats and risks  
Reduction of public works budget and development of similar models by competitors

#### ●Sales ratio of strategic AP products



#### ●Dynamic share of APs shipped



#### ▶Medium-Term Management Plan KPI, etc.

- Increase operating margin to 9.5% in FY2021 (6.4% in FY2019)
- Contribute to sustainable society

#### ▶Strategies for achieving KPIs

- Raise the combined share of MBD and VP, our new AP models that mainly produce recycled mixtures, to more than 50% of the overall domestic plant sales (50% in FY2019)
- Expand sales of recycled mixture crushing plants (two units sold in FY2019)
- Reduce environmental burden through sales expansion of energy-saving products and equipment and develop remote shipping system and automated shipping system

#### ▶FY2019 results

Compared with AP demand of 49 units in Japan in FY2019 (up 23% from FY2018), Nikko shipped 27 (down 4%), which is translated to dynamic share of 55% (down 15 ppt from FY2018). Of the 10 main APs, strategic products VP and MBD accounted for five (50%) and there also were two crushing plants. Overseas net sales grew 14% compared with FY2018. Net sales at Nikko Shanghai increased 5% and those in Taiwan and Russia also increased.

#### ▶FY2020 outlook

AP demand in Japan in FY2020 is expected to be 46 units, roughly unchanged, of which Nikko expects to ship 32 units with dynamic share of 70%. Of the 14 main APs, three are planned to be VP (no MBD), accounting for 21% of total. We plan to upgrade the version of VP to improve profitability, and will increase sales primarily of VP III and IV. Overseas net sales are expected to decline 20% compared with a year earlier. Net sales of Nikko Shanghai are likely to decline 18% on year and those in the ASEAN regions are also expected to decline. Following the establishment of the sales company in February 2020, Nikko Thailand established a manufacturing company in June and is expected to grow in the future.

#### ▶Contribution to sustainable society

Going forward, the trend of switching the fuel of APs from heavy oil to gas is expected to spread from the metropolitan areas to suburban cities. Suburban cities are home to 800 of the total 1,050 APs and the potential for Nikko is considered to be large. In the future, we will be able to use carbonized fuel generated in waste incineration facilities, currently under joint development with Kawasaki Heavy Industries, Ltd., for APs, and reduce fuel costs at customers as well as CO<sub>2</sub> emissions. This is expected to create demand for switching to Nikko's new burners and we will link the solution to a social issue to our business expansion.

## Concrete Plant-Related Business

Executive Officer  
Sales Division  
Manager, Industrial  
Machinery Sales  
Management Department  
**Morie Okaaki**

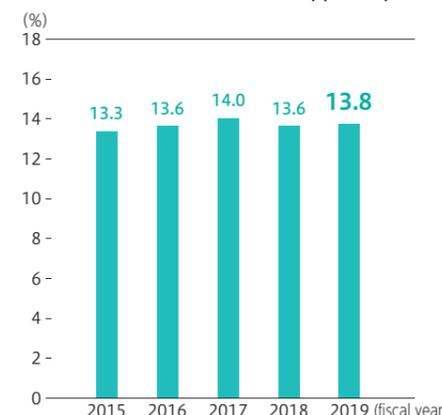


### Customers' needs for precast concrete has advanced; also focusing on environmental-issue related initiatives

#### SWOT of BP-related business

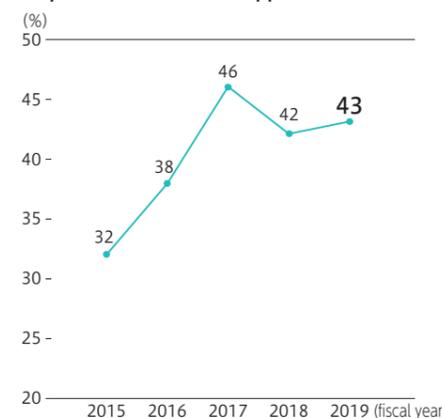
- Strength** — Strengths and differentiation  
Coordination between manufacture and sales; strong in-house maintenance service structure
- Weakness** — Weaknesses and issues  
Relatively high fixed cost ratio, and margin when taking over another company
- Opportunity** — Business opportunity  
Introduction of precast concrete in construction materials and environmental measures for returned concrete and sludge water treatment.
- Threat** — Threats and risks  
Decrease and consolidation of ready-mixed concrete plants in operation and competitors' restrengthening of business

#### ●Sales volume ratio of cement secondary product plants



Source: Cement Handbook 2020 by Japan Cement Association

#### ●Dynamic share of BPs shipped



#### ▶Medium-Term Management Plan KPI, etc.

- Raise dynamic share of BP units from 40% to 50% (FY 2021)
- Contribute to sustainable society

#### ▶Strategies for achieving KPIs

- DASH brand concrete plant with high performance in mixing, PR for Nikko's maintenance structure, differentiation with development of new high-performance mixer model, and approach to concrete plants for secondary products
- Expand sales of mobile BPs, which are suitable for use in disaster-stricken areas

#### ▶FY2019 results

Compared with BP demand of 74 units in Japan in FY2019 (up 25% from FY2018), Nikko shipped 32 units (up 28%). Dynamic share of 43.2% (up 0.8 ppt from FY2018). Repeat demand grew significantly. Plants for precast concrete declined five units but those for construction materials were strong. The performance of the BP-related business was roughly in line with the figures of the Medium-Term Management Plan.

#### ▶FY2020 outlook

We expect BP demand in FY2020 to be unchanged. However, there are clear difference between regions and we will strive to increase our market share primarily in western Japan, where demand is expected to be strong. We will expand sales in the precast concrete industry, where demand is expected due to work-style reform and i-construction. As there have been frequent occurrences of natural disasters in recent years, we are introducing mobile BPs, which can be operated in disaster-struck areas, in the market and we will continue to strive to expand their sales. In FY2020, net sales of the BP-related business are expected to increase 3% and operating income to increase 5%.

#### ▶Contribution to sustainable society

The ready-mixed concrete industry has been slow in dealing with returned concrete and sludge water treatment, which is a serious environmental issue faced by the industry. Returned concrete eventually becomes industrial waste and leads to capacity issues at final disposal sites. We believe it is necessary to revise JIS. At the same time, we will propose reuse of collected aggregates and the reuse of returned concrete and dewatered and hardened sludge cake using small mobile crushers. We also aim to solve social issues and expand our business at the same time through measures such as reducing the ratio of returned concrete by taking advantage of IT and AI technologies. We will also expand the sales of mobile BPs suitable for use in disaster-struck areas and network-type control panels that realize manpower saving.

## Environment- and Conveyor-Related Business

Business Division  
Manager, Industrial  
Machinery Sales  
Department  
Tokuhiko Mitsumune



### Plan to maintain high margin, expectations on newly introduced small-sized unit-type crushers

#### ►Medium-Term Management Plan KPI, etc.

1. Conveyor business: up 8% in net sales and up 5% in margin (compared with the growth rate in FY2018)
2. Contribution to sustainable society: increase the sales volume of beverage bottle separator crusher facilities to 15 units in the environment-related business (three times the result for FY2018)

#### ►Strategies for achieving KPIs

1. The conveyor business will focus on reviewing the sales routes and narrowing down of the industries of end-product manufacturers, to which conveyance products are sold. Lower the cost of mainstay products and bring out a new model with improved safety in FY 2020.
2. Environment-related business will focus on replacement demand from existing users with products supplied more than 10 years ago (120 targeted companies).

#### ►FY2019 results

In FY2019, the number of mass production conveyors among the conveyor-related products was unchanged but their margin increased 3%. This is primarily due to the price increase in mass production conveyors. By contrast, environment-related products had low sales, down 32% compared with FY2018, as there was no sales of large-scale plants. Nevertheless, we have high expectations on sales of our new product Petris (PET bottle separator) in the future. Operating income of the overall business rose 35% compared with FY2018 and margin was up 21.3% thanks to contribution of the conveyor-related products.

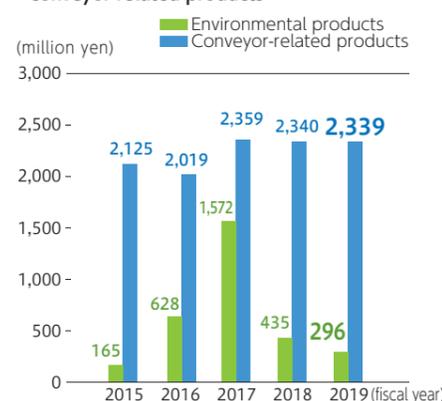
#### ►FY2020 outlook

In FY2020, we will reduce costs and expect sales volume of a new conveyor model, whose delivery time has been further shortened, to increase 17%, and we also plan to revise the selling price in tune with the current freight status. However, capital investment in plants, etc. is expected to be postponed or reduced in scale due to the impact of the novel coronavirus, and sales of mass production conveyors are expected to decline. Sales of environment-related products are expected to increase compared with the previous fiscal year, as we expect a large-scale project related to railroad. Operating income of the business is expected to slightly increase on year.

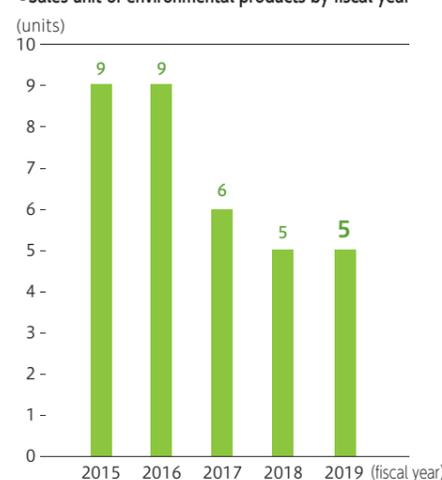
#### ►Contribution to sustainable society: small unit crushers

We developed and introduced Choiwaru-no-jaw, a small-unit crusher combining feeding, crushing, and discharge. We would like to make it a pillar of our environment-related products and will develop it into a crusher series and grow them as crusher-related products in a new field. This small unit crusher is unlike any products by other companies: it is installed with a jaw crusher manufactured by Maekawa Kogyosho Co., Ltd., which has supplied more than 1,700 units in Japan, combined with super modular conveyor technology, and assembled at our plant (suggested retail price: 15 million yen). It is expected to be used for crushing slag, metallic silicon, ceramic, pottery, rare metal, lime coke, and limestone, and we see major potential for ready-mixed concrete, for which we have an established track record in BP, in the medium term. There are about 3,000 ready-mixed concrete plants in Japan and disposal of returned concrete (residual ready-mixed concrete) from construction sites has become a serious environmental issue. Currently, pieces of returned concrete are too large for being fed to small unit crushers and we are selling and proposing dedicated frames for making returned concrete small and then crush them. In this manner, small unit crushers are aimed at solving a social issue and is expected to be a product that contributes to the business performance of the Nikko Group.

●Net sales of environmental products and conveyor-related products



●Sales unit of environmental products by fiscal year



## Other Businesses

Executive Officer  
Business Division  
Manager, Mobile Plant  
Business Department  
Takeshi Sone



### Mobile crushers and waterproof boards in the Mobile Plant Business have grown

#### ►Medium-Term Management Plan KPI, etc.

Mobile plant business-related net sales: 1.3 billion yen in FY2021 (90 million yen in FY2018)

#### ►Strategies for achieving KPIs

- Enhance sales ability, build service structure
- Build backup structure for administrative structure
- Develop mobile center function

#### ►FY2019 results

In FY2019, net sales of the other business rose 25% from FY2018 to 5.84 billion-yen, operating income rose 103% to 1.02 billion yen with operating margin of 17.5%. The result was favorable compared with the Medium-Term Management Plan, which had goals of 4.9 billion yen in net sales and 510 million yen in operating income. By individual product, sales of mobile plants increased 449% to 500 million yen, those of waterproof boards increased 305% to 830 million yen, those of temporary construction materials rose 11.5% driven by strong performance of highly profitable rental products, and those of crushers were also solid, up by 4.7%. Operating income registered growth significantly exceeding that of net sales as sales of highly profitable waterproof boards and crushers increased.

#### ►FY2020 outlook

In FY2020, net sales of the other business are expected to grow by 3% year on year to 6.0 billion yen and operating income is expected to increase by 4% to 1.06 billion yen with an anticipated operating margin of 17.7%. Among individual products, sales of mobile plants are expected to be 830 million yen, which is above the medium-term goal, but the domestic demand for mobile crushers is flat and we plan to raise the unit-based market share of mobile crushers to 20% compared with 13% in FY2019. The plan for waterproof boards is 900 million yen and this reflects our anticipation that there will be no repeat of the special demand seen in FY2018 for sliding waterproof boards (280 million yen). Sales of temporary construction materials would be difficult due to the impact of the novel coronavirus especially for rental products and we are expecting them to decline.

#### ►Contribution to sustainable society

**Demand for waterproof boards is increasing owing to climate change**  
Demand for the waterproof boards offered by subsidiary Nikko Machinery Co., Ltd. has been rapidly rising for about one year due to heavy rain damages resulting from climate change. 60% of the waterproof boards are for major shutter manufacturers and Nikko Machinery sells the remaining 40%. Until now, people had used sandbags to prevent rainwater from entering to cope with flood damage from typhoons but sandbags alone became insufficient and recently they began using waterproof boards. Waterproof boards are roughly divided into three types and about 80% of sales in FY2019 came from panel type products, 3 to 5% from hatch used for subways, and the remaining from sliding waterproof boards.

We have increased the production capacity of waterproof boards by two to threefold since March 2020. Production capacity of panel-type waterproof boards was increased to 150 to 170 sheets a month by introducing a new cutting machine at the Noda Plant. The completion of the Kansai Plant would further boost the capacity to 320 to 360 sheets per month in total. This enables sales of waterproof board worth 1.0 to 1.2 billion yen, though it also depends on panel installation companies.

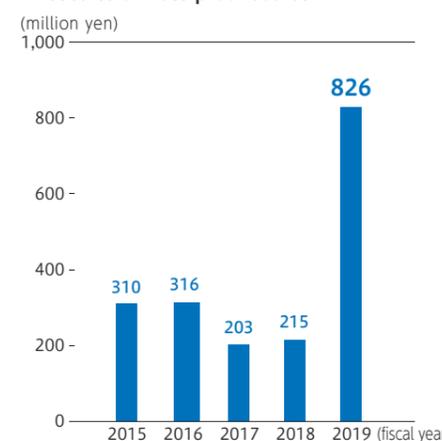
The number of companies manufacturing waterproof boards is estimated to be more than 20 but they are mainly small sized (except for the two major shutter manufacturers). Climate change is an important social issue and solution is expected to involve decarbonization, etc. in the long term, and we believe that the role of waterproof boards manufactured by us is significant.

●Demand for mobile crushers



Source: Japan Construction Equipment Manufacturers Association

●Net sales of waterproof boards



We will leverage the stable financial foundation to proactively make investments in international and new business fields and strive to further enhance shareholder returns.



Managing Director and General Manager of Financial Division  
**Hiroshi Fujii**

Born on January 16, 1959

- April 1982** Joined Taiyo-Kobe Bank Limited (current Sumitomo Mitsui Banking Corporation)
- June 2003** Manager of Tsukiji Corporate Sales Department, Taiyo-Kobe Bank Limited
- April 2009** Manager of Kansai Corporate Solution Sales Department, SMBC Consulting Co., Ltd.
- June 2011** Director, Nikko Co., Ltd.
- June 2011** Manager of Financial Department, Nikko Co., Ltd.
- June 2013** Manager of Financial Department and Information Center in-charge, Nikko Co., Ltd.
- June 2015** Manager of Financial Department and Legal Affairs and Information Center in-charge, Nikko Co., Ltd.
- June 2018** Managing Director of Nikko Co., Ltd. (current) General Manager of Financial Division of Nikko Co., Ltd.
- June 2018** General Manager of Financial Division of Nikko Co., Ltd.
- April 2020** Security Export Control in-charge, Nikko Co., Ltd. (current)

An appropriate financial strategy (capital productivity and capital policy) is important for the Nikko Group to fulfill the Long-term Basic Policies and ensure continuous growth. We interviewed Managing Director Hiroshi Fujii, who is also General Manager of Financial Division and in charge of IR/SR, on the important points in financial strategy.

We had been stressing the importance of early cash collection through improvement of operating funds, primarily to sales employees, since 2018 and its results are gradually showing. Until now, we took a lot more than a year to make receivables into cash after procuring materials upon receiving orders and acceptance inspection, as AP is free of customer credit risks. In that, the time taken till fund collection for large-scale AP projects exceeding 500 million yen per project had become even longer. We have now made it mandatory for customers to pay a third of the total order amount in advance at the time of receiving the AP order as a rule, and we are accelerating conversion into cash also by shortening the repayment deadlines of notes receivable. In FY2020, we are expecting at least 500 million yen in added cash flows from receipt of down payments alone. We plan to use 85% of net income attributable to owners of parent for shareholders in shareholder returns of dividends and share buyback, and the equity ratio is expected to be almost unchanged at the end of FY2020 (66.3% as of the end of FY2019).

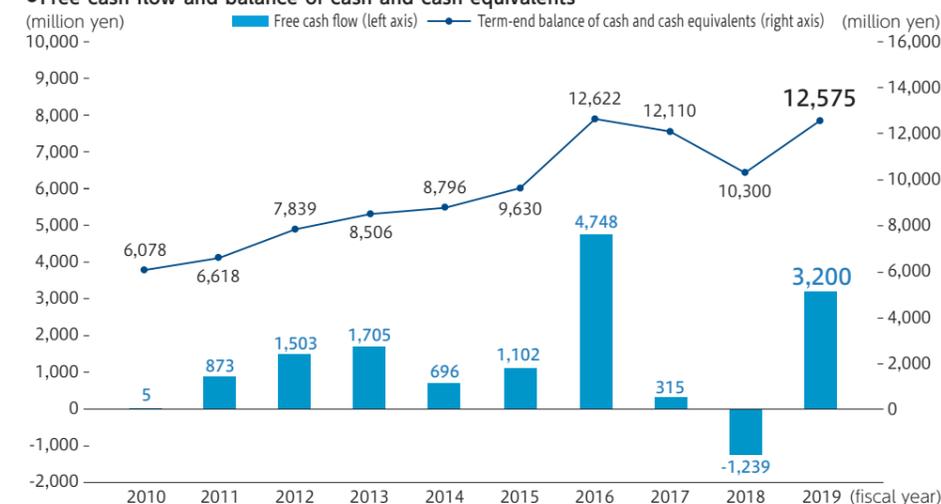
**First of all, what is your role as CFO of the Nikko Group?**

What I keep in my mind, as CFO, is to maintain a stable financial foundation so that we are always ready to make large-scale investments. I also consider further enhancement of shareholder returns as important, and I would like to implement financial strategies so as to avoid dividend cut (although dividend payout linked to business performance is the Group's basic policy).

**Could you please summarize the financial review for FY2019 and financial outlook for FY2020?**

Operating cash flow increased more than 4.0 billion yen, a significant improvement, to 3.8 billion yen in FY2019 from -0.2 billion yen in FY2018. Using also these as resources, we considerably raised dividends from 12.00 yen per share to 40.00 yen per share including the 100th anniversary dividend of 20.00 yen per share, achieving total return ratio of almost 100%. In spite of this, cash and cash equivalents increased to 12.5 billion yen at the end of FY2019 from 10.3 billion yen at the end of FY2018. This was partly due to the selling of strategic shareholding shares and an improvement in cash conversion cycle (CCC).

●Free cash flow and balance of cash and cash equivalents



How do you review and evaluate financial strategies till now with respect to the changes in the balance sheet over past 10 years split into two five-year periods (from the end of FY2009 to the end of FY2014 and from the end of FY2014 to the end of FY2019)?

Also, Integrated Report 2019 described a plan to liquidate the assets lying dormant on the balance sheet into cash and enhance shareholder returns along with growth investment.

Is the Group smoothly implementing the plan to generate cash of about 2.0 billion yen through selling of strategic shareholding shares and about 3.0 billion through improvement of CCC?

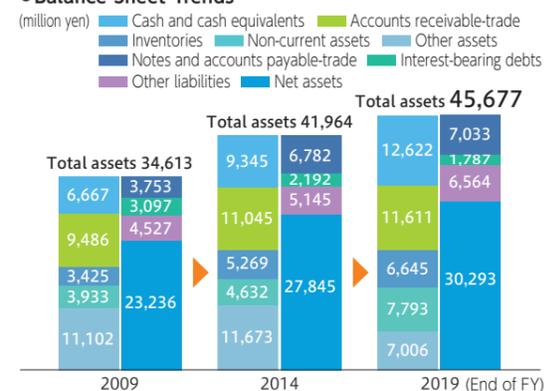
Looking back at the consolidated business performance for the respective five-year periods, net sales were 23.8 billion yen with operating income 260 million yen in FY2009, net sales were 30.7 billion yen with operating income 1.8 billion yen in FY2014, and net sales were 35.1 billion yen with operating income 2.05 billion yen in FY2019, meaning we have achieved steady growth. Non-current assets significantly increased in this process to 4.6 billion yen as of the end of FY2014 and 7.8 billion yen as of the end of FY2019. This is because depreciation and amortization exceeded capital investment every year since FY2013.

Before FY2012, the Japanese markets for AP and BP were matured and there were no new markets for growth in sight, so, to be honest, we could not be positive about making capital investment. However, road pavement and infrastructure investment recovered as the Fundamental Plan for National Resilience was launched after the replacement of the Democratic Party of Japan administration, and major earthquakes and other disasters occurred. The Group also increased its capital investment along with this.

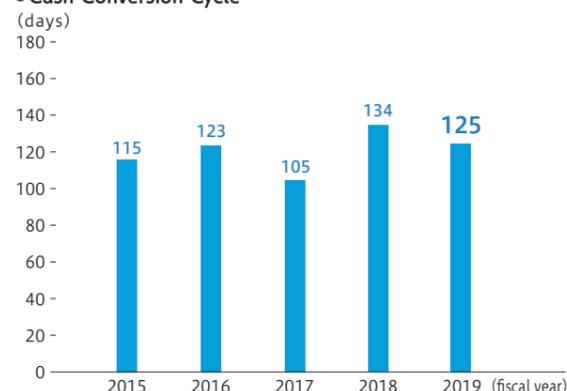
Equity ratio stayed roughly the same: 67.1% as of the end of FY2009, 66.3% as of the end FY2014, and 66.3% as of the end of FY2019; but net cash increased significantly from 3.6 billion yen to 7.2 billion yen, to 10.8 billion yen. Despite making capital investment exceeding depreciation and amortization, our financial strength improved. Other assets declined 4.6 billion yen compared with the peak, as we sold foreign subsidiaries Benninghoven and Shangtui Chutian Construction Machinery and some of strategic shareholding shares.

Regarding cash creation mentioned in Nikko Report 2019, selling some strategic shareholding shares generated 720 million yen in FY2019 and shortening CCC by 10 days created 900 million yen for a total of 1.6 billion yen. Cash creation in the first fiscal year of the medium-term plan went smoothly, but improvement of CCC will become more important given that selling strategic shareholding shares will likely decline to about 200 million yen a year.

● Balance Sheet Trends



● Cash Conversion Cycle



Upon promoting Long-term Basic Policies, how do you plan to steer the financial strategies?

In particular, what is your view on fund allocation to investment for growth in "Establish overseas sales" and "Promote new businesses"?

Based on this, what is your image of the optimum capital structure taking into consideration the manifestation of risks in the future?

Further, how do you plan to achieve 8% in ROE (capital cost, total asset turnover, financial leverage, etc.) and what is the shareholder and stakeholder return policy in the long term?

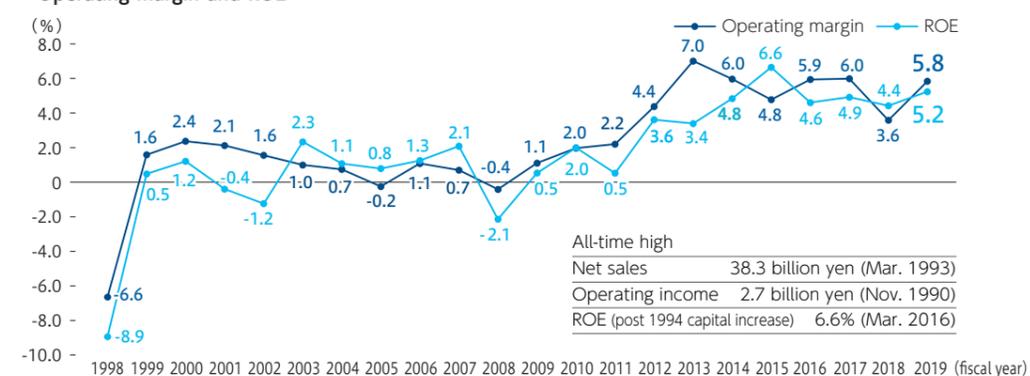
I believe that 10.0 to 15.0 billion yen needs to be distributed to growth investment (to achieve net sales of 50.0 billion yen in FY2029). Of this amount, 3.0 to 4.0 billion yen is for the international business and the remainder is for new businesses including M&As. In international investment, we plan to invest about 1.2 billion yen in Thailand as we had already announced, and it is essential that sales in Southeast Asia including Thailand grow as planned in order to achieve overseas net sales of 9.0 billion yen, which is the long-term goal. We continue to proactively consider M&As with the aim of fresh net sales of 10.0 billion yen, and I believe it would require 5.0

to 10.0 billion yen in investment. In terms of timing, we need to do it within four and a half years from now for achieving 10.0 billion yen in FY2029. The amount excluding the above two items is the investment in existing and new investment in Japan.

Achievement of 8% in ROE requires net income attributable to owners of parent of 2.5 billion yen and 4.0 billion yen in operating income if equity, which is the denominator, is roughly unchanged at above 30.0 billion yen. The difference with the operating income forecast of 2.3 billion yen for FY2020 is 1.7 billion yen, of which, we plan to achieve 1.2 billion yen through new investment with 8% operating margin of 15.0 billion yen and the remaining 0.5 billion yen by improving margin of the AP-related business in Japan. We don't think it would affect the financial soundness even if total assets in use is 60.0 billion yen with equity of 30.0 billion yen. I believe that utilizing interest-bearing debts is also important for growth.

The total return ratio in FY2020 will be 84% and we will strive to maintain dividend increase without slashing them in the medium to long term.

● Operating margin and ROE



You are not only serving as CFO but also in charge of IR / SR activities.

What are the points that you have come to realize through your interactions with institutional investors over the past several years?

How have you been giving feedback on those points to the management?

What the institutional investors requested in their interactions was to make investment for growth. As Nikko Shanghai in China demonstrated, AP has realized a high market share and created profits in a high-end field. Given this fact, it is clear that there is potential in other foreign markets for selling AP with Nikko's technology, and we should make investments with a sense of urgency—this is what they pointed out. Based on this, we announced the establishment of the sales base and manufacturing base of Nikko Thailand in a short period of time.

Another point made by investors is why we cannot improve profitability even though we have a 70% AP market share in Japan. This is linked to the low margin of the core AP-related business and it is difficult to ask customers to raise price for the same plant, so I have told the investors that we would try various means to raise prices. However, even if we win an order for VP (also for the purpose of building a track record) at a price that is cost plus alpha, there were many money-losing cases where we could not build them at the planned cost. Going forward, we will strive not to repeat the same mistakes in VP manufacturing and boost margin. The management has full understanding of the content of the dialogues with institutional investors.

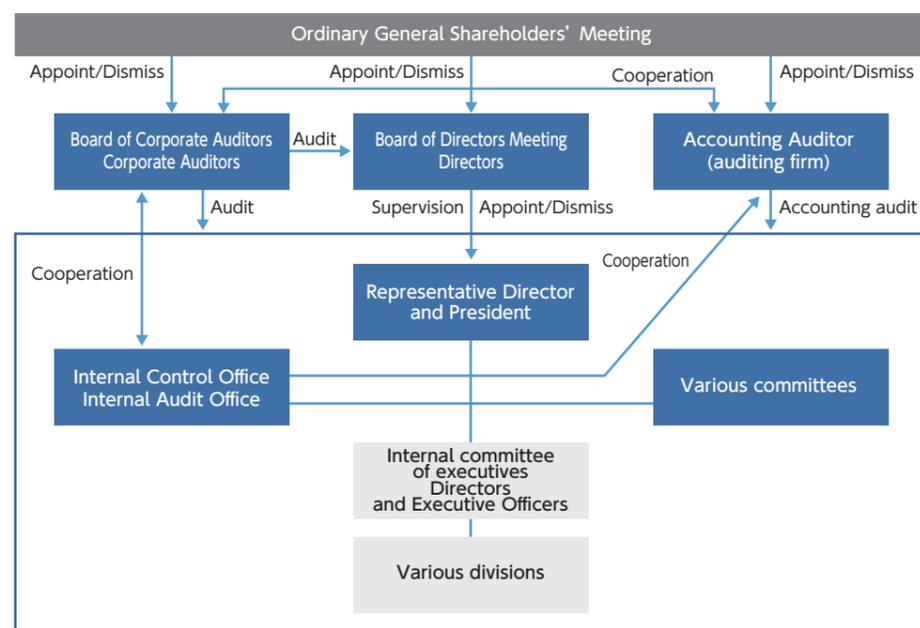


**Governance structure and decision-making bodies**

Nikko positions corporate governance as “the management governance function for maximizing corporate value for our shareholders and other stakeholders.” Under the Executive Officer system built upon the Board of Directors and the Board of Corporate Auditors, we endeavor to clarify management accountability, speed up business execution, increase the transparency of management decision-making, and strengthen compliance in order to ensure sound business management.

The Company’s decisions based on the situation of sites are made in an appropriate manner by human resources who understand and are capable of putting into practice the Nikko Group’s Management Philosophy. The term of Directors is set as one year to clarify management responsibility, and we have introduced the executive officer system to separate the execution and supervision of duties.

●Nikko’s organization and internal control relationship diagram



The main decision-making bodies and the number of their meetings in FY2019 are as follows.

<b>Board of Directors</b>	8 Directors (including 2 Outside Directors) + 4 Corporate Auditors (including 3 Outside Corporate Auditors) Chair: Masaru Tsuji (Representative Director and President)	13 meetings
<b>Board of Corporate Auditors</b>	4 Corporate Auditors Directors (including 3 Outside Corporate Auditors) Chair: Nobutaka Yasuda (Full-time Corporate Auditor)	10 meetings
<b>Internal Committee of Executives</b>	6 in-house Directors + 1 Senior Audit & Supervisory Board Member + 5 Executive Officers + Managers of Internal Control Office and Internal Audit Office Chair: Masaru Tsuji (Representative Director and President)	24 meetings
<b>Other meetings and various committees</b>	President and Outside Officers Meeting Subsidiary Management Strategy Liaison Committee Compliance Committee (Head: Hiroshi Fujii) Risk Management Committee (Head: Hiroshi Fujii) Finance Committee (Head: Hiroshi Fujii) Development Technology Committee (Head: Masaru Tsuji) Export Trade Control Committee (Head: Masaru Tsuji) Personnel System Committee (Head: Masao Natori) Reward and Punishment Committee (Head: Masao Natori) Company-wide Promotion Selection Committee (Head: Masao Natori) Safety and Health Committee (Head: Masao Natori) Improvement Activity Committee (Head: Kazuhiro Yamada) Tombo-kai Vitalization Committee (Head: Morie Okaaki) Product Commercialization Committee of each business (Head: General Manager of each business division)	

**Reasons for appointing outside directors and outside officers**

Outside officers	Reasons for appointment	Achievements
Outside (Independent) Director <b>Noriaki Nagahara</b>	Nagahara has a high-level track record in corporate legal affairs from the specialist perspective as a lawyer and possesses deep insight. He was appointed to the position on the expectation that he would contribute to corporate governance leveraging his specialist knowledge from a neutral position.	He attended all of the 13 Board of Directors Meetings (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from a lawyer’s perspective.
Outside (Independent) Director <b>Tsutomu Yuasa</b>	Yuasa was appointed on the expectation that he can reflect his abundant knowledge and experience, of being engaged many years in corporate management as a director of an operating company, in Nikko’s management, and monitor and supervise duty execution from an independent and objective standpoint.	He attended all of the 13 Board of Directors Meetings (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the perspective of a corporate manager with broad experience.
Outside Corporate Auditor <b>Shigeru Sadakari</b>	Sadakari was appointed on the expectation that he can reflect his abundant experience, in overall corporate management and broad knowledge gained in his engagement in corporate management over many years at financial institutions and an operating company, in supervising and providing instructions regarding the legality of management execution from an objective and neutral standpoint.	Since his appointment on June 19, 2019, he attended all of the 10 Board of Directors Meetings (100% attendance rate) and all of the 9 meetings of the Board of Corporate Auditors (100% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the perspective of corporate manager with broad experience.
Outside (Independent) Corporate Auditor <b>Naoki Ota</b>	Ota was appointed on expectations that he can reflect his abundant experience, in overall management and broad knowledge gained in his engagement in corporate management over many years at an operating company, in supervising and providing instructions regarding the legality of management execution from an objective and neutral standpoint.	Since his appointment on June 19, 2019, he attended 9 out of the 10 Board of Directors Meetings (90% attendance rate) and 8 out of the 9 meetings of the Board of Corporate Auditors (88.9% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the perspective of corporate manager with broad experience.
Outside (Independent) Corporate Auditor <b>Tsuyoshi Fukui</b>	Fukui has been demonstrating high performance as Certified Public Accountant and also has deep insight in corporate management, and he was appointed on the expectation that he would supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint.	Since his appointment on June 19, 2019, he attended 9 out of the 10 Board of Directors Meetings (90% attendance rate) and 8 out of the 9 meetings of the Board of Corporate Auditors (88.9% attendance rate) held in the fiscal year under review and made comments regarding deliberations as necessary from the expert perspective of a Certified Public Accountant.

### Development of internal control system

The basic idea of the internal control system is to develop rules as well as to flexibly plan and implement employee training, and ensure its effectiveness, which has priority. In accordance with the basic policy regarding internal control, the Group reorganized the Audit Office into the Internal Audit Office to strengthen audit structure, formulated the compliance rules and basic risk management rules, and established the Compliance Committee and Risk Management Committee. Subsequently, it divided the Internal Audit Office to the Internal Control Office and Internal Audit Office to clearly separate promotion of internal controls and evaluation function. The Nikko Group will continue to improve the structure to raise the effectiveness of the internal control system.

### Development of risk management structure

Risk factors surrounding the management include changes in market environment, product price fluctuations, exchange rate fluctuation, environment, and other regulations regarding products, protection of intellectual properties, capital investment, and impacts of disasters, wars, terror attacks, strikes, etc. To swiftly cope with these risks, Nikko established the basic risk management rules. The Risk Management Committee comprehensively recognizes, evaluates, and analyzes risks faced by Nikko and the Nikko Group, deliberates issues and countermeasures, and reports them to President.

The Company also receives advices and guidance and proposals for improvement from experts including its corporate lawyers and tax accountants.

### Officers' remuneration

Officers' remuneration primarily consists of cash, and the 155th Ordinary General Shareholders' Meeting in 2018 approved the allotment of shares with restriction on transfer as share-based compensation and the Company has been offering part of officers' remuneration in its own shares. The Officers' Remuneration Regulations stipulates the concrete scope of payment depending on rank, and remunerations are paid based on the stipulation.

The Company will further improve transparency of its remuneration system so as to contribute to continuous improvement in corporate governance and corporate value and shall pursue reforms to the remuneration system so as to switch from one based on rank to an incentive-type system.

#### Key points of the revision of remuneration system (in operation from FY2020)

##### ● Changed the share allotment basis from value of shares to number of shares

If the shares are allotted based on the value of shares, the number of shares to be allotted declines as the stock price rises, a design wherein the incentive factor did not fully function. We believe that changing the basis of allotment to the number of shares and deciding the number of shares to be allotted every year will improve the incentive effect as the business performance improves and the stock price rises.

##### ● Strengthening the link between officers' bonus and management indicators

We believe that the incentive for improving business performance and achieving management plans would increase as we introduce officers' bonus calculation standard of (i) evaluation of achievement of consolidated net income and (ii) evaluation of achievement of management plan and decide the amount of markup based on rate of achievement based on the evaluation.

#### ● Total remuneration amount by officer rank

Officer ranks	Total amount of remuneration (million yen)	Total amount of all types of remuneration (million yen)			Number of entitled officers (people)
		Fixed compensation	Performance-linked compensation	Retirement allowance	
Directors (excluding Outside Directors)	154	128	25	–	6
Corporate Auditors (excluding Outside Corporate Auditors)	20	18	2	–	1
Outside officers	27	25	2	–	5

### Evaluation of effectiveness of Board of Directors

The Group conducts a questionnaire survey of its eight Directors and four Corporate Auditors, who compose the Board of Directors, to verify how the Board of Directors contributes to effective functioning of corporate governance, to identify issues, and make improvements.

#### Evaluation items

- |   |  |
|---|--|
| 1. Overall evaluation of Board of Directors (8 questions) | 4. Quality of discussions at Board of Directors Meetings (6 questions) |
| 2. Composition of Board of Directors (3 questions)        | 5. Provision of information, training (3 questions)                    |
| 3. Operation of Board of Directors (5 questions)          | 6. Other (free description)  |

### Overview of analysis and evaluation results

It was found that the Board of Directors was operating appropriately overall—it was implementing management aimed at improving corporate values and having essential discussions upon decision making. The evaluation score improved from the previous evaluation. Regarding enhancement of discussions at the Board of Directors meetings, it confirmed that it was exchanging opinions freely and constructively regarding Nikko's medium to long term issues, which also reflected the sufficient discussions held regarding the long-term vision and new Medium-Term Management Plan.

Two main issues to be addressed were identified—one being the necessity to develop corporate information data for achieving the long-term vision and to further deepen the discussions to improve corporate values based on data regarding the quality of discussions, and another being the need to enhance the opportunities for training, by external experts, of newly appointed Directors to fulfill their duties regarding information and training.

Nikko's Board of Directors has confirmed that the Group will strengthen initiatives to improve its effectiveness so as to cope with changes in business and management environment.

#### ● Status of reducing strategically-held shares

The Board of Directors annually examines whether or not to continue holding strategically-held shares and facilitates the gradual sales of the shares if it determines that there is no rationale to keep holding them. To make this decision, the Board looks into the purpose of holding the shares, their risks, Nikko's relationship with the issuers, and capital cost.

In the last three years, we sold a total of 19 issues at a total value of 1.32 billion yen. We aim to further sell shares worth approximately 600 million yen in the next three years.

#### ● Status of reducing strategically-held shares (In million yen)

	FY2017	FY2018	FY2019
Number of shares sold	7 (5)	6 (1)	6 (2)
Amount sold	405	194	720
Book value	221	106	272
Gain on sales	184	88	448

( ) denotes the number of shares that have been completely sold off.

#### ● Dialogues with shareholders and investors

We position the building of long-term, trusting relationships with our shareholders and investors as an important management issue. We proactively work on improving constructive dialogues through the appropriate information disclosure in both Japanese and English and regular information dissemination by our management staff. The opinions of our Japanese and overseas shareholders and investors we have learned through meetings with them are reported to the Board of Directors and shared with relevant sections to reflect them in our management decisions and reports for investors.

#### ● Shareholder/investor dialogues

Event types	FY2018		FY2019	
	Number of events	Number of participants	Number of events	Number of participants
Financial Results Briefing Sessions	4	58	4	69
Individual meetings	12	15	23	28
Small group meetings by Nikko	1	6	2	8
Ordinary General Shareholders' Meeting	1	43/713	1	53/791

(attendance in person/attendance in writing)

## Nikko's Governance in Corporate Auditors' View

### Corporate Auditors Roundtable Talk

We interviewed the four Corporate Auditors, who audit the Board of Directors supervising execution of business and are the last bastion of Nikko Group, on independence and effectiveness of the Board of Directors, improvement of internal control and audit activities, and Corporate Philosophy and internal control.



**Shigeru Sadakari**  
(Outside Corporate Auditor)

**Naoki Ota**  
(Outside Corporate Auditor)

**Tsuyoshi Fukui**  
(Outside Corporate Auditor)

**Nobutaka Yasuda**  
(Full-time Corporate Auditor)

●Date of the talk: August 6, 2020 ●Location: Conference room at the head office (Akashi City, Hyogo Prefecture)  
\*The talk session was held in a large conference room under full infection control.

#### Board of Directors' independence and effectiveness

**Yasuda:** Today, we, the three Outside Corporate Auditors and myself, Yasuda, would like to discuss Nikko's governance and internal control. Nikko is a Company with Board of Corporate Auditors. What do you think of Nikko's governance format from the Outside Corporate Auditor's view?

**Sadakari:** The viewpoints regarding monitoring of duty execution are different between Directors and Corporate Auditors. Regarding the quality of audit, I feel that the double-layer structure of Board of Directors and Board of Corporate Auditors is effective. In the future, there will be room for reconsideration if the size of the company expands and business structure becomes broader.

**Fukui:** I work with various companies because of my job as a Certified Public Accountant, and a great majority of directors also serve as executive officers and bear the responsibilities for both acceleration and braking. In a board of directors where a majority of the directors also serve as executive officers, the corporate auditors and the board of corporate auditors, which apply the brakes, play a significant role.

**Ota:** At Nikko, I feel that the Directors, who are professionals in executing their duties, and the Corporate Auditors, who monitor and supervise the Directors' job execution, are functioning well and the Board of Directors Meetings have active discussions and are operated at a good pace.

**Yasuda:** In recent years, other companies are increasingly establishing nomination and compensation committees, which are optional, and are having outside officers involved to improve independence of the board of directors. We are also considering introducing such a committee and what are your thoughts about this?

**Sadakari:** For a nomination and compensation committee to function, it is necessary to offer personnel information regarding executive candidates to outside officers, and improve the transparency of the evaluation system, which is the premise for deciding compensation. Establishment of the committee could accelerate development of such a system, so it requires more discussions.

**Fukui:** Five outside officers attend Nikko's Board of Directors Meeting and their ratio is above 40%. If internal promotion is the premise, all executive candidates will come under strict scrutiny from outside and Nikko has established a culture that facilitate outside officers to voice their opinions. At the same time, I feel that we need to devise ways to have the stakeholders understand the actual situation.

**Yasuda:** Nikko has been striving to proactively bring out the opinions of outside officers through regular meetings of the president and the five outside officers. How do you feel about this, after having attending the meetings so far?

**Ota:** When I look at a company, I place importance on the humanity of the representative director. In that sense, having opportunities to closely exchange opinions with the president is very valuable.

**Fukui:** I am paying attention to whether the president embodies the control environment, which is the core element of internal control. Unless the top creates an atmosphere that conveys the importance of a highly transparent and sound operation, effectiveness cannot be guaranteed.

**Sadakari:** In the previous fiscal year, President Tsuji and we, three Outside Corporate Auditors, were newly appointed and the discussions might not have had enough depth. This year, we are two years into our jobs and I am hoping that our discussions will go deeper.

**Yasuda:** In addition to independence, the Board of Directors also requires diversity. I recognize that Nikko is not satisfied with the current situation either, and that it is necessary for the Company to move on to the next step. What are your views on this?

**Fukui:** Diversity is indispensable in a decision-making body. Diversity is flexibility, and the best management judgment is possible only when you multiply the superior qualities of each member. The Company has made progress in diversity in terms of skills, and I am expecting that it will work on ensuring diversity such as gender, nationality, and age from a medium- to long-term perspective.

**Sadakari:** Nikko has built a track record in China and has made its foray into Thailand. It is necessary for the Company to develop overseas markets further for its growth. The Company needs good local managers in order to maintain a sense of togetherness with local employees working in these countries. Appointment of women also should not be merely for satisfying the quota. It is

important to have them gain experience in their career paths and increase female human resources who are management candidates.

If the Company has yet to develop a support system for them, I would like it to review it.

**Ota:** This is my actual feeling based on my experience of working in manufacturing outside Japan for long; it is important to succeed in the business upon understanding the climate and culture of the country where the company made a foray into. The first step in that is to accept diversity.

**Yasuda:** Thank you for pointing them out. Nikko carries out a self-evaluation questionnaire survey to improve the effectiveness of the Board of Directors. Please share your opinions regarding ensuring the effectiveness.

**Ota:** The core element of the effectiveness of the Board of Directors is whether or not the process for making management decision is managed well. A third-party committee is installed at an organization where misconduct occurred and it scrutinizes the content of the deliberations leading to the resolution. I make conscious efforts to take part in deliberations from the perspective of whether or not they can withstand an after-the-fact verification.

**Sadakari:** In verification of evaluation results, it should not be limited to whether or not the score improved from last time, instead it is necessary to confirm the countermeasures taken regarding the identified issues. I would like to deepen the discussions at the President and Outside Officers Meeting scheduled in September.

**Fukui:** I am afraid that my understanding may not be deep enough given the fact that this is my first year, but at the same time I feel that I was probably able to evaluate from a fresh perspective. There are fewer restraints on outside officers, so I feel that we can make contributions to improving the effectiveness by answering the questionnaire without holding back.

#### Improvement of internal control and audit activities

**Yasuda:** Thank you for your opinions. We are looking forward to your honest views regarding the issues identified in the self-evaluation questionnaire survey at the next President and Outside Officers Meeting. Next, I would like to ask about the role of auditors expected by the shareholders and other stakeholders.

**Sadakari:** Corporate Auditors assume defensive governance, and I feel that the corporate culture of Nikko is good at defense but has an issue in decisive

risk-taking. I would like to express my opinions also regarding whether the Company is making decisive management judgment from the perspective of leveraging sound financial strength for future growth.

**Ota:** The greatest advantage of Outside Corporate Auditors is that we know the cases of other companies. It would probably be difficult for internal officers alone to be certain whether or not the audit function is sound. If we can relativize the audit activities and functions of Nikko based on our experience at other companies till now, we can identify the weaknesses and issues.

**Fukui:** I believe that we can fulfill sound audit functions by combining the internal information, of which Full-time Corporate Auditor Yasuda has full knowledge, with the insights from other companies the three of us with varying careers have.

**Yasuda:** As a long time employee of Nikko, I mainly worked in sales departments and I am confident about my understanding of risks unique to the Company. I firmly keep in mind that I am expected by the stakeholders to ensure transparency and objectivity of the management by clearly reporting everything, including negative information, to outside officers who have restrictions on collecting internal information. What is your view regarding the three-pillar audit at Nikko?

**Fukui:** Full-time Corporate Auditor Yasuda works side-by-side with the internal audit divisions and I feel there are no issues in terms of information cooperation and communication. There are five or more meetings every year, where the Accounting Auditor reports to Corporate Auditors, and we confirm the valuable information and opinions gained from on-side audit.

**Sadakari:** I also agree that the collaboration between internal audit divisions and Accounting Auditor is functioning. If anything, I feel that the Internal Audit Office and Internal Control Office have limited human resources. Workplaces and positions where human resources well-versed in internal audit and internal control can demonstrate their abilities have been expanding, so I would also like younger employees to gain experience in these divisions.

**Yasuda:** Thank you for your valuable opinions. After Shanghai, Nikko established a sales and maintenance subsidiary and manufacturing subsidiary in Bangkok. We need to strengthen internal control and internal audit of overseas subsidiaries and we are considering asking Outside Corporate Auditors to carry out visiting audit of overseas subsidiaries. What kind of perspectives are important?

**Ota:** Most of human resources dispatched from manufacturers' head offices to local subsidiaries are from sales or manufacturing fields and are inexperienced in finance and accounting, and there are many cases where they could not identify accounting fraud at local subsidiaries. It is important that we learn from past wrongdoings and scandals, and for expats to report whatever they found strange to the internal audit division or corporate auditors of the head office early on.

**Fukui:** Internal control of overseas subsidiaries is vulnerable. It is necessary that the internal audit division, accounting auditor, and board of corporate auditors closely work together on the assumption that the head office's control would not reach there. The Company should thoroughly audit them even if it incurs a certain cost.

#### Corporate Philosophy and internal control

**Yasuda:** Nikko's Corporate Charter stipulates the Code of Conduct, which calls for all officers and employees to win deep trust of all stakeholders and fulfill social responsibilities. What are your thoughts on instilling the Corporate Philosophy and improvement of internal control?

**Sadakari:** I think the Corporate Charter showcases the wisdom of the predecessors at Nikko and it is in a good shape. What is important is whether or not it incorporates the spirit that fraud cannot be tolerated for the Company to be recognized by the society.

**Fukui:** Actions of autonomous individuals build social trust for the Nikko Group and there is a strong tie between instilling the Corporate Philosophy and improvement in effectiveness of internal control.

**Ota:** When you are asked to choose between profit and compliance, it is important to have a corporate culture that clearly answers compliance. At many companies that caused scandals, there were excessive pressure to pursue profit, so we should learn from the scandals of other companies and focus on instilling Nikko's unique Corporate Philosophy and Code of Conduct.

**Yasuda:** We had Outside Corporate Auditors discuss Nikko's governance and internal control. Many issues pointed out in the discussions would not have been identified from an internal perspective alone and we have learned a lot. We will continue to encourage the executive side, implement strict audit and supervision, and respond to the responsibility placed on us by the stakeholders. Thank you for your cooperation today.

Directors



**Takahisa Nishikawa**  
 Born on March 31, 1959  
**April 1982** Joined Nikko Co., Ltd.  
**June 2007** Executive Officer, Nikko Co., Ltd.  
**June 2008** Director, Nikko Co., Ltd.  
**June 2011** Managing Director, Nikko Co., Ltd.  
**June 2012** Representative Director and President, Nikko Co., Ltd.  
**June 2012** Internal Control in-charge and General Manager of Technology Division, Nikko Co., Ltd.  
**April 2019** Representative Director and Chairman, Nikko Co., Ltd. (current)  
**April 2019** Affiliates in-charge and General Manager of Manufacturing Division, Nikko Co., Ltd. (current)  
 Shareholding in the Company: 109,500 shares



**Masaru Tsuji**  
 Born on June 4, 1960  
**September 1987** Joined Nikko Co., Ltd.  
**June 2007** Executive Officer, Nikko Co., Ltd.  
**June 2008** Director, Nikko Co., Ltd.  
**June 2011** Managing Director, Nikko Co., Ltd.  
**April 2015** General Manager of Business Division and Tokyo Head Office, Nikko Co., Ltd.  
**June 2015** Senior Managing Director, Nikko Co., Ltd.  
**April 2016** General Manager of Business Division, Nikko Co., Ltd.  
**April 2019** Representative Director and President, Nikko Co., Ltd. (current)  
**April 2019** Internal Control in-charge and General Manager of Technology Division, Nikko Co., Ltd. (current)  
 Shareholding in the Company: 91,500 shares



**Hiroyuki Sakurai**  
 Born on September 27, 1961  
**April 1985** Joined Nikko Co., Ltd.  
**June 2007** Executive Officer, Nikko Co., Ltd.  
**June 2008** Director, Nikko Co., Ltd.  
**June 2013** Manager of Corporate Planning Department and General Affairs Department, Nikko Co., Ltd.  
**June 2015** Managing Director of Nikko Co., Ltd. (current)  
**June 2015** Deputy General Manager of Business Division (in charge of overseas), Manager of International Business Department, and General Manager of Operations Division, Nikko Co., Ltd.  
**April 2016** Deputy General Manager of Business Division, Manager of International Business Department, and Corporate Planning and General Affairs in-charge, Nikko Co., Ltd.  
**April 2018** Corporate Planning and General Affairs in-charge, Nikko Co., Ltd.  
**June 2018** General Manager of Corporate Planning Division, Nikko Co., Ltd. (current)  
 <Important concurrent position>  
 Chairman, Nikko (Shanghai) Construction Machinery Co., Ltd.  
 Shareholding in the Company: 78,000 shares



**Hiroshi Fujii**  
 Born on January 16, 1959  
**April 1982** Joined Taiyo-Kobe Bank Limited (current Sumitomo Mitsui Banking Corporation)  
**June 2003** Manager of Tsukiji Corporate Sales Department, Taiyo-Kobe Bank Limited  
**April 2009** Manager of Kansai Corporate Solution Sales Department, SMBC Consulting Co., Ltd.  
**June 2011** Director, Nikko Co., Ltd.  
**June 2011** Manager of Financial Department, Nikko Co., Ltd.  
**June 2013** Manager of Financial Department and Information Center in-charge, Nikko Co., Ltd.  
**June 2015** Manager of Financial Department and Legal Affairs and Information Center in-charge, Nikko Co., Ltd.  
**June 2018** Managing Director of Nikko Co., Ltd. (current)  
**June 2018** General Manager of Financial Division of Nikko Co., Ltd.  
**April 2020** General Manager of Financial Division and Security Export Control in-charge, Nikko Co., Ltd. (current)  
 <Important concurrent position>  
 Representative Director and President, Nikko Kosan Co., Ltd.  
 Representative Director, Nikko Baumaschinen GmbH  
 Shareholding in the Company: 53,500 shares



**Toshifumi Kinugasa**  
 Born on October 26, 1960  
**April 1984** Joined Nikko Co., Ltd.  
**June 2007** Executive Officer, Nikko Co., Ltd.  
**October 2008** Manager of Engineering Department, Nikko Co., Ltd.  
**April 2010** Manager of Design Department, Technology Division, Nikko Co., Ltd.  
**June 2012** Director, Nikko Co., Ltd. (current)  
**June 2012** General Manager of Manufacturing Division and Head Office Factory Manager, Nikko Co., Ltd.  
**April 2013** General Manager of Manufacturing Division, Nikko Co., Ltd.  
**April 2019** Director of Techno Center, Nikko Co., Ltd. (current)  
 <Important concurrent position>  
 Representative Director and President, Tombo Industry Co., Ltd.  
 Shareholding in the Company: 63,000 shares



**Noriaki Nagahara**  
 (Outside/Independent Director)  
 Born on July 18, 1951  
**April 1984** Certified as an attorney and joined Harada Law Office  
**October 1988** Succeeded Harada Law Office  
**January 2007** Established Kobe Jugobanri Law Firm and became Director (current)  
**June 2007** Outside Corporate Auditor, Nikko Co., Ltd.  
**June 2015** Outside Director, Nikko Co., Ltd. (current)  
 <Important concurrent position>  
 Director, Kobe Jugobanri Law Firm  
 Shareholding in the Company: None



**Tsutomu Yuasa**  
 (Outside/ Independent Director)  
 Born on June 27, 1946  
**April 1970** Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)  
**April 2002** Joined Rock Field Co., Ltd.  
**July 2002** Director, Rock Field Co., Ltd.  
**July 2005** Managing Director, Rock Field Co., Ltd.  
**July 2008** Senior Representative Managing Director, Rock Field Co., Ltd.  
**July 2014** Vice-Chairman of the Board of Directors, Rock Field Co., Ltd.  
**June 2016** Outside Director, Nikko Co., Ltd. (current)  
 Shareholding in the Company: 5,000 shares



**Tomomi Nakayama**  
 Born on January 10, 1963  
**April 1982** Joined Nikko Co., Ltd.  
**January 2011** Branch Manager of Chubu Branch, Nikko Co., Ltd.  
**April 2013** Manager of AP Sales Department, Tokyo Head Office, Nikko Co., Ltd.  
**July 2013** Manager of Asphalt Plant Sales Management Department, Tokyo Head Office, Nikko Co., Ltd.  
**June 2015** Executive Officer, Nikko Co., Ltd. (current)  
**June 2015** Manager of Business Planning Department, Business Division and Manager of Asphalt Plant Sales Management Department, Tokyo Head Office, Nikko Co., Ltd.  
**April 2016** Manager of Business Planning Department, Business Division, Manager of Asphalt Plant Sales Management Department, and Director of AP Technology Center, Nikko Co., Ltd.  
**April 2018** Manager of Business Planning Department, Business Division, Manager of Asphalt Plant Sales Management Department, Director of AP Technology Center, and Manager of Mobile Plant Business Department, Nikko Co., Ltd.  
**April 2019** General Manager of Business Division, Manager of Business Planning Department, and Manager of Asphalt Plant Sales Management Department, Nikko Co., Ltd. (current)  
**June 2019** Director, Nikko Co., Ltd. (current)  
 Shareholding in the Company: 32,760 shares

Corporate Auditors



**Shigeru Sadakari**  
 (Outside Corporate Auditor)  
 Born on September 22, 1957  
**April 1980** Joined Taiyo-Kobe Bank Limited (current Sumitomo Mitsui Banking Corporation)  
**April 2010** Executive Officer and Manager of Internal Audit Department, Sumitomo Mitsui Banking Corporation  
**May 2011** Managing Executive Officer, The Minato Bank, Ltd.  
**April 2013** Senior Representative Managing Director and Senior Managing Executive Officer, The Minato Bank, Ltd.  
**June 2015** Representative Director and Vice President, Kobe Tochi Tatemono Co., Ltd.  
**June 2016** Representative Director and President, Kobe Maintenance of Building Co., Ltd. (current)  
 Shareholding in the Company: None



**Naoki Ota**  
 (Outside/Independent Corporate Auditor)  
 Born on March 1, 1955  
**April 1979** Joined Nittoseiko Co., Ltd.  
**February 2009** Representative Director and President, Wacoh Corporation  
**March 2011** Director, Nittoseiko Co., Ltd.  
**March 2013** Director and Manager of Fasteners Business Department, Nittoseiko Co., Ltd.  
**March 2016** Full-time Auditor, Nittoseiko Co., Ltd. (current)  
 <Important concurrent position>  
 Full-time Auditor, Nittoseiko Co., Ltd.  
 Shareholding in the Company: None



**Tsuyoshi Fukui**  
 (Outside/Independent Corporate Auditor)  
 Born on July 24, 1965  
**October 1991** Joined the Kobe Office of Century Audit Corporation (currently Ernst & Young ShinNihon LLC).  
**August 1995** Certified as Certified Public Accountant of Japan.  
**April 2018** Joined the Kobe Office of RSM Seiwa (current).  
 Shareholding in the Company: None



**Nobutaka Yasuda**  
 (full-time)  
 Born on September 27, 1959  
**April 1982** Joined Nikko Co., Ltd.  
**June 2011** Executive Officer, Nikko Co., Ltd.  
**January 2012** Manager of Batching Plant (BP) Business Department, Nikko Co., Ltd.  
**June 2013** Manager of Business Planning Department, Nikko Co., Ltd.  
**April 2014** Manager of Business Planning Department, Nikko Co., Ltd.  
**June 2016** General Manager of the Tokyo Head Office and Manager of Business Planning Department  
**June 2019** Internal Control in-charge Corporate Auditor, Nikko Co., Ltd. (full-time) (current)  
 Standing Corporate Auditor, Nikko Co., Ltd. (full-time) (current)  
 Shareholding in the Company: 37,000 shares

Executive Officer

**Minoru Tanaka,**  
 Senior Executive Officer  
 Born on December 18, 1960  
**April 1981** Joined Nikko Co., Ltd.  
**October 2007** Branch Manager of Tohoku Branch, Nikko Co., Ltd.  
**April 2010** Director of Tokyo Service Center, Nikko Co., Ltd.  
**January 2011** Director of Tokyo Service Center, Leader of Planning Group, and Leader of Parts Group, Nikko Co., Ltd.  
**June 2012** Executive Officer and Manager of Service Planning Department, Nikko Co., Ltd.  
**June 2012** Executive Officer and Manager of Service Planning Department, Director of Customer Support Center, and Leader of Solution Team, Nikko Co., Ltd.  
**April 2013** Executive Officer and Manager of Service Planning Department, and Director of Customer Support Center, Nikko Co., Ltd.  
**April 2018** Executive Officer and Manager of Service Planning Department, Nikko Co., Ltd.  
**June 2019** Senior Executive Officer and Manager of Service Planning Department, Nikko Co., Ltd. (current)

**Masao Natori,**  
 Executive Officer  
 Born on May 22, 1961  
**April 1984** Joined Nikko Co., Ltd.  
**November 2007** Director of R&D Center, Nikko Co., Ltd.  
**June 2008** Executive Officer and Director of R&D Center, Nikko Co., Ltd.  
**April 2010** Executive Officer and Manager of Engineering Department, Nikko Co., Ltd.  
**April 2012** Manager of Engineering Department and Manager of Cost Management Department, Nikko Co., Ltd.  
**June 2012** Executive Officer, Deputy General Manager of Technology Division, and Manager of Technology Department, Nikko Co., Ltd.  
**April 2016** Executive Officer, Manager of Corporate Planning Department, Manager of General Affairs Department, and Manager of Cost Management Department, Nikko Co., Ltd.  
**June 2019** Executive Officer, Manager of Cost Management Department, Nikko Co., Ltd.  
**March 2020** Executive Officer, Manager of Corporate Planning Department, Manager of General Affairs Department, and Manager of Cost Management Department, Nikko Co., Ltd. (current)

**Morie Okaaki,**  
 Executive Officer  
 Born on November 2, 1963  
**April 1986** Joined Nikko Co., Ltd.  
**April 2004** Manager of Kitakanto Sales Office, Nikko Co., Ltd.  
**January 2007** Manager of BP Business Department, Nikko Co., Ltd.  
**April 2009** Manager of BP Business Department and Business Expansion Promotion Team, Nikko Co., Ltd.  
**April 2010** Manager of BP Business Department, and Conveyance & Environmental Business Department, Special Environment Sales Section, Conveyance Sales Department, Nikko Co., Ltd.  
**July 2013** Manager of BP Sales Management Department, Nikko Co., Ltd.  
**April 2016** Manager of BP Sales Management Department, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center, Nikko Co., Ltd.  
**June 2016** Executive Officer, Manager of BP Sales Management Department, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center, Nikko Co., Ltd.  
**April 2017** Executive Officer, Manager of Industrial Machinery Sales Management Department, and Director of Industrial Machinery Technology Center, Nikko Co., Ltd.  
**April 2019** Executive Officer and Manager of Industrial Machinery Sales Management Department, Nikko Co., Ltd. (current)

**Takeshi Sone,**  
 Executive Officer  
 Born on February 25, 1970  
**April 1990** Joined Nikko Co., Ltd.  
**June 2012** Director of Tokyo Service Center, Nikko Co., Ltd.  
**October 2013** Director of Tokyo Service Center and Director of Wangan Service Station, Nikko Co., Ltd.  
**April 2015** Deputy Manager of Service Planning Department and Director of TSC Center, Nikko Co., Ltd.  
**April 2016** Branch Manager of Chubu Branch, Nikko Co., Ltd.  
**April 2018** Branch Manager of Kanto Branch, Nikko Co., Ltd.  
**April 2019** Branch Manager of Kanto Branch and Manager of Mobile Plant Business Department, Nikko Co., Ltd.  
**June 2019** Executive Officer, Branch Manager of Kanto Branch, and Manager of Mobile Plant Business Department, Nikko Co., Ltd. (current)

**Kazuhiro Yamada,**  
 Executive Officer  
 Born on December 16, 1970  
**April 1995** Joined Nikko Co., Ltd.  
**April 2008** Promoted to managerial position in Business Development Promotion Office, Nikko Co., Ltd.  
**April 2008** (Transfer) Representative Director and President, Maekawa Kogyosho Co., Ltd.  
**April 2019** Manufacturing Division Head Office Factory Manager, Nikko Co., Ltd., and Representative Director and President, Maekawa Kogyosho Co., Ltd.  
**October 2019** Manufacturing Division Head Office Factory Manager, General Manager of Manufacturing Technology Office, Nikko Co., Ltd., and Representative Director and President, Maekawa Kogyosho Co., Ltd.  
**April 2020** Manufacturing Division Head Office Factory Manager, General Manager of Manufacturing Technology Office and Quality Assurance Office, Nikko Co., Ltd., and Representative Director and President, Maekawa Kogyosho Co., Ltd.  
**June 2020** Executive Officer, Manufacturing Division Head Office Factory Manager, General Manager of Manufacturing Technology Office and Quality Assurance Office, Nikko Co., Ltd., and Representative Director and President, Maekawa Kogyosho Co., Ltd. (current)

In FY 2019, the global economy continued to face risks surrounding the overseas economic conditions including US-China trade war and the Brexit from the EU. In Japan, the domestic economy as a whole also remained uncertain partly due to the consumption tax hike on October 1. Amid deteriorating business confidence, the COVID-19 pandemic that occurred toward the end of fiscal year completely changed the economic picture both domestically and internationally. As a result, the domestic economy marked even worsened negative growth for the January-March period. At this point, the end of COVID-19 pandemic is not yet in sight.

Under these circumstances, the impact of COVID-19 on the construction-related industry which is closely related to the Nikko Group was relatively minor, supported partly by ample order backlog. We expect that the impact of COVID-19 on the construction-related industry to remain small in the future; however, we will monitor the future investment trend of our customers more closely than ever before.

In August 2019, Nikko formulated and announced the New Medium-Term Management Plan (for FY 2019 - 21). In formulating the New Medium-Term Management Plan, we first envisioned what the Nikko Group should be in 10 years (our vision) and then set numerical targets that need to be achieved in the first three years. Specifically, we aim to increase net sales by about 50% from the current level to 50 billion yen in 10 years. To achieve this goal, we aim for net sales of 38 billion yen, and operating income of 3 billion yen in FY 2021. Net sales results for the first year and the forecast for the second year of the Medium-Term Management Plan are likely to be close to the targets in the Plan while operating income will fall slightly short of achieving our targets in the Plan. The entire staff will work as one on various measures to increase profitability.

Asphalt plant (AP)-related business, our mainstay, posted a 6.6% increase in net sales over the previous year. Domestic product sales increased significantly by 34.5% over the previous year partly due to order backlog while maintenance service sales decreased by 8.1%. As for overseas, exports increased by 58.5% and net sales in Nikko Shanghai increased by 8.0% compared to the previous year. On the other hand, growth in net sales in the ASEAN market, which

we position as a strategic market, was sluggish. Please note that Nikko has changed the method of consolidating our two overseas subsidiaries including Nikko Shanghai by provisionally closing their accounts on March 31, which is the consolidated closing date, from the first quarter of FY 2019. The impact of this change was an increase in net sales by 43 million yen and a decrease in operating income by 79 million yen.

Concrete plant (BP)-related business marked a 16.0% increase in net sales over the previous year. Both plant products and maintenance services showed a steady increase in net sales by 31.9% and 2.9%, respectively. New orders received marked a positive growth of an increase of 12.3% in FY 2019, partly due to a high order backlog at the beginning of the period. The demand for disaster restoration in western Japan, active investment by the precast concrete industry, and an increase in demand due to the extension of the Hokuriku Shinkansen Line, etc. supported the growth. Domestic ready-mixed concrete prices generally remained strong.

Environment- and conveyor-related business marked a 5.1% decrease in net sales over the previous year, of which environmental product sales decreased by 31.9% with no large-scale projects, and conveyor product sales remained almost unchanged. Operating income increased significantly by 34.7% over the previous year partly due to an increase in conveyor product prices and a decrease in large-sized environmental products.

In other business, net sales increased strongly by 24.9%. By product, mobile plant product sales increased by 448.9%, waterproof board sales increased by 304.7%, temporary construction material sales increased by 11.5%, and crusher sales increased by 4.7% compared to the previous year. Operating income also doubled, posting a 103.2% increase, due to strong growth in sales of high-margin products.

The result was a 3.3% decrease in new orders received to 33,915 billion yen, a 10.6% increase in net sales to 35,151 billion yen, a 43.9% increase in operating income to 2,053 billion yen, and a 18.1% increase in net profit attributable to the parent to 1,588 billion yen, all compared to the previous year. Net sales were virtually unchanged with cut-off error factors of 1.333 billion yen due to COVID-19.

### Financial Situation and Free Cash Flow

Current assets increased by 2,036 billion yen on the balance sheet at the end of FY 2019 compared to the previous year. Cash and cash equivalents increased by 2,275 billion yen and inventories increased by 619 million yen while accounts receivable was 829 million yen. Property and equipment increased by 855 million yen. This was due to capital investment of 1,483 billion yen including investment of 660 million yen in AP- and BP-related businesses to upgrade production facilities for labor saving and efficiency improvement, and 229 million

yen in waterproof boards to purchase land and buildings for the Kansai factory. Investments and other assets decreased by 1,196 billion yen, which was attributable to the active sales of cross-held shares.

The net result of the above was a remarkable improvement in free cash flow (FCF) of 3.2 billion yen (FY 2018: -1,239 billion yen). The balance of cash and cash equivalents at the end of FY 2019 was 12,575 billion yen (FY 2018: 10.3 billion yen).

### FY 2020 Estimated Profit and Loss

In FY 2020, many uncertainties linger in the global economy due to the COVID-19 pandemic; however, the construction-related industry, a key business area for our group, is expected to be driven by solid construction investment from the government and businesses as various projects will continue to be carried out. In China, our major market, Nikko Shanghai is expected to post about 20% decrease in net sales due to the impact of COVID-19, and ASEAN markets are also expected to be affected by COVID-19 and currency depreciation. But still, we see China as a market where we can take advantage of the technologies we have developed over the years in Japan, as environmental regulations have been tightened further and recycled mixtures are starting to be used more widely there. In the ASEAN region, a local sales and services office was established in Thailand in February

2020, and we will continue to focus our efforts there as we can expect to reduce costs by having a new factory in the future.

For the full fiscal year, we expect consolidated net sales of 36.5 billion yen, up 3.8% year on year, consolidated operating income of 2.2 billion yen, up 7.1%, and a 18.7% increase in consolidated net income attributable to owners of parent to 1.85 billion yen. In addition, the special dividend from Maeda Road Construction Co., Ltd. will have the effect of 350 million yen in non-operating income.

Order backlog at the beginning of the period will be 12,219 billion yen, a decrease by 9.1%, year on year.

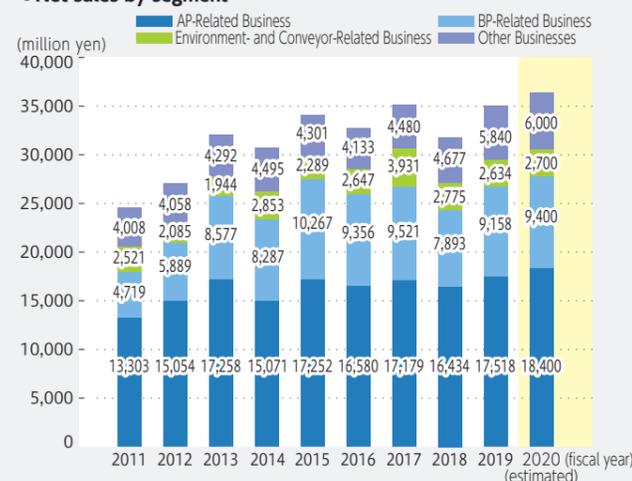
We plan to pay out dividend of 30 yen per share for the full year and continue to enhance shareholders returns with total return ratio of 84.2%, together with share buyback of up to 400 million yen.

### Outlook for Each Segment

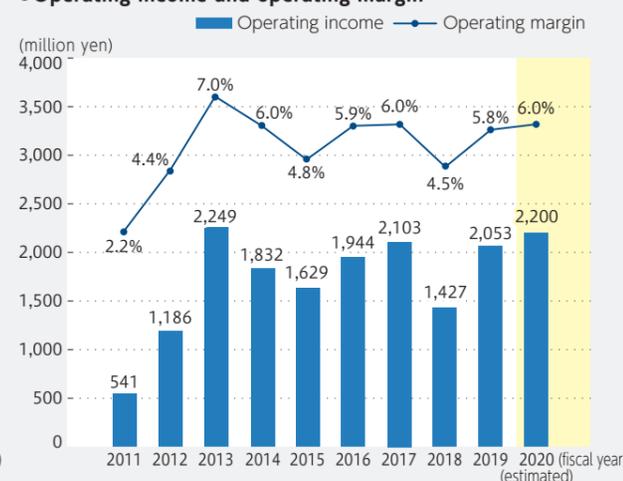
In FY 2020, for the AP-related business, we expect net sales to grow by 5.0% year on year to 18.4 billion yen and operating income to increase by 4.6% to 1.17 billion yen. For the BP-related business, we expect net sales to grow by 2.6% year on year to 9.4 billion yen, and operating income to increase by 5.1% to 800 million yen. We plan to increase revenues and profits in all four

businesses. For the environment- and conveyor-related business, net sales are forecasted to rise 2.5% year on year to 2.7 billion yen and operating income to rise 1.4% to 570 million yen, and for other business, net sales are forecasted to rise 2.7% to 6 billion yen and operating income to rise 3.9% to 1.06 billion yen.

● Net sales by segment



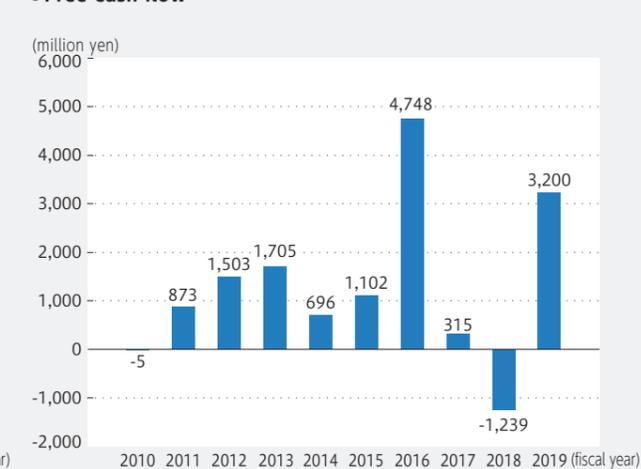
● Operating income and operating margin



● Equity and equity ratio



● Free cash flow



		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (fiscal year)	
Key results	Net sales (million yen)	23,803	24,553	27,087	32,073	30,707	34,110	32,717	35,114	31,780	35,151	
	Cost of sales (million yen)	17,976	18,590	20,175	23,736	22,683	25,825	24,131	26,301	23,485	25,512	
	Gross profit (million yen)	5,827	5,962	6,911	8,337	8,024	8,285	8,586	8,812	8,295	9,639	
	Selling, general and administrative expenses (million yen)	5,356	5,420	5,725	6,087	6,192	6,655	6,641	6,708	6,868	7,585	
	Operating income (million yen)	470	541	1,186	2,249	1,832	1,629	1,944	2,103	1,427	2,053	
	Ordinary income (million yen)	812	621	1,108	1,982	1,582	1,648	1,993	2,239	1,576	2,142	
	Net income before income taxes (million yen)	817	542	1,228	1,987	1,800	2,940	1,878	2,299	1,933	2,440	
	Net income attributable to owners of parent (million yen)	461	122	881	888	1,348	1,896	1,340	1,490	1,345	1,588	
	Net income per share (yen)	10.99	2.92	21.01	21.18	32.17	45.24	34.3	38.7	35.1	41.2	
	Number of consolidated subsidiaries	9	9	8	8	8	8	8	8	8	9	
	Number of affiliates accounted for using equity method	1	2	2	2	1	—	—	—	—	—	
Profitability	Operating margin (%)	2.0	2.2	4.4	7.0	6.0	4.8	5.9	6.0	4.5	5.8	
	ROA (%)	1.4	0.3	2.4	2.2	3.2	4.4	3.0	3.3	3.1	3.5	
	ROE (%)	2.0	0.5	3.6	3.4	4.8	6.6	4.6	4.9	4.4	5.2	
Segment results	Japan (million yen)	21,169	22,464	24,823	29,403	27,881	31,130	29,761	31,148	27,941	30,761	
	Overseas (million yen)	2,633	2,088	2,263	2,669	2,825	2,980	2,956	3,965	3,838	4,390	
	China (million yen)	1,892	1,812	1,752	1,684	2,072	2,220	2,026	3,389	3,357	3,637	
	Other (million yen)	740	276	510	984	753	760	930	576	481	1,083	
	Ratio of net sales outside Japan (%)	11.1	8.5	8.4	8.3	9.2	8.7	9.0	11.3	12.1	12.5	
	Net sales by business	Asphalt Plant-Related Business (million yen)	13,750	13,303	15,054	17,258	15,071	17,252	16,580	17,179	16,434	17,518
		Concrete Plant-Related Business (million yen)	4,840	4,719	5,889	8,577	8,287	10,267	9,356	9,521	7,893	9,158
		Environment- and Conveyor-Related Business (million yen)	1,911	2,521	2,085	1,944	2,853	2,289	2,647	3,931	2,775	2,634
		Other Businesses (million yen)	3,301	4,008	4,058	4,292	4,495	4,301	4,133	4,480	4,677	5,840
	Operating income (loss)	Asphalt Plant-Related Business (million yen)	1,354	896	1,492	2,125	1,214	1,234	1,253	1,348	963	1,118
		Concrete Plant-Related Business (million yen)	△ 156	△ 39	317	678	712	878	1,006	1,015	666	761
Environment- and Conveyor-Related Business (million yen)		203	530	250	166	527	337	369	308	417	562	
Other Businesses (million yen)		△ 2	△ 7	59	388	451	277	417	462	502	1,020	
Amount after elimination of transactions between segments (million yen)		△ 193	—	—	—	—	—	—	—	—	—	
Corporate expenses (million yen)	△ 734	△ 838	△ 933	△ 1,109	△ 1,074	△ 1,097	△ 1,102	△ 1,031	△ 1,122	△ 1,409		
Orders	Total new orders received (million yen)	22,743	26,169	26,564	33,915	34,500	33,284	34,134	33,616	35,103	33,915	
	Total order backlog (million yen)	4,316	5,933	5,410	7,246	11,039	10,212	11,629	10,132	13,454	12,219	
Financial position	Total assets (million yen)	32,858	34,989	37,278	40,348	41,964	43,189	44,976	44,876	43,969	45,677	
	Equity (million yen)	23,117	23,289	24,353	26,167	27,845	28,528	29,089	30,286	30,414	30,293	
	Interest-bearing debts (million yen)	2,948	2,840	2,849	2,212	2,206	2,362	1,987	1,799	1,718	1,787	
	Equity ratio (%)	70.4	66.6	65.3	64.9	66.4	66.1	64.7	67.2	69.2	66.3	
Net assets per share (yen)	550.87	555.16	580.88	624.23	664.35	680.71	749.27	791.16	793.76	780.68		
Dividends	Dividend per share (yen)	6	6	7	7	9	10	11	12	12	40	
	Total dividend (million yen)	251	251	293	293	376	418	426	458	459	1,550	
	Dividend payout ratio (%)	54.6	205.4	33.3	33.1	27.9	22.0	31.9	30.8	34.2	97.6	
	Dividend on equity (%)	1.1	1.1	1.2	1.1	1.4	1.5	1.5	1.5	1.5	5.1	
Capital investment, etc.	Capital investment (million yen)	492	292	335	844	815	877	1,261	550	1,889	1,483	
	Depreciation and amortization (million yen)	486	432	389	392	419	483	478	468	508	611	
	R&D expenses (million yen)	211	239	256	295	276	227	271	291	211	379	
	R&D expenses to net sales (%)	0.89	0.97	0.95	0.92	0.90	0.67	0.83	0.83	0.66	1.08	
Cash flows	Cash flow from operating activities (million yen)	890	574	2,457	2,641	1,001	△ 1,040	5,064	274	△ 218	3,839	
	Cash flow from investing activities (million yen)	△ 895	299	△ 954	△ 936	△ 305	2,142	△ 316	41	△ 1,021	△ 639	
	Free cash flow (million yen)	△ 5	873	1,503	1,705	696	1,102	4,748	315	△ 1,239	3,200	
	Term-end balance of cash and cash equivalents (million yen)	6,078	6,618	7,839	8,506	8,796	9,630	12,622	12,110	10,300	12,575	

## Consolidated Balance Sheets

		(million yen)	
Assets	2018	2019 (fiscal year)	
<b>Current assets</b>			
Cash and cash equivalents	10,347	12,622	
Notes and accounts receivable-trade	10,731	9,902	
Electronically recorded monetary claims	1,628	1,709	
Merchandise and finished goods	1,190	935	
Work in process and partly-finished construction	3,903	4,473	
Raw materials and supplies	933	1,237	
Consumption taxes receivable	209	–	
Other business	453	560	
Allowance for doubtful accounts	△7	△14	
<b>Total current assets</b>	<b>29,390</b>	<b>31,426</b>	
<b>Non-current assets</b>			
<b>Property and equipment</b>			
Buildings and structures (net)	3,216	3,495	
Machinery, equipment and vehicles (net)	609	817	
Tools, furniture and fixtures (net)	361	353	
Land	2,216	2,472	
Lease assets (net)	–	2	
Right-of-use assets (net)	–	68	
Construction in progress	102	152	
<b>Total property, plant and equipment</b>	<b>6,507</b>	<b>7,362</b>	
<b>Intangible assets</b>			
Other business	418	431	
<b>Total intangible assets</b>	<b>418</b>	<b>431</b>	
<b>Investments and other assets</b>			
Investment securities	5,976	4,341	
Investments in capital	11	11	
Long-term loans receivable	6	12	
Deferred tax assets	576	953	
Other business	1,234	1,287	
Allowance for doubtful accounts	△152	△150	
<b>Total investments and other assets</b>	<b>7,652</b>	<b>6,456</b>	
<b>Total non-current assets</b>	<b>14,578</b>	<b>14,250</b>	
<b>Total assets</b>	<b>43,969</b>	<b>45,677</b>	
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable-trade	2,270	2,430	
Electronically recorded obligations	938	1,176	
Accounts payable-factoring	2,391	3,427	
Short-term loans payable	1,532	1,548	
Income taxes payable	421	627	
Accounts payable-other	630	538	
Provision for bonuses	412	415	
Provision for directors' bonuses	52	65	
Provision for loss on order received	35	54	
Other business	2,095	2,260	
<b>Total current liabilities</b>	<b>10,781</b>	<b>12,545</b>	
<b>Long-term liabilities</b>			
Long-term loans payable	186	239	
Deferred tax liabilities	98	5	
Provision for directors' retirement benefits	135	145	
Retirement benefit-related liabilities	2,010	2,089	
Other business	342	358	
<b>Total non-current liabilities</b>	<b>2,773</b>	<b>2,838</b>	
<b>Total liabilities</b>	<b>13,554</b>	<b>15,383</b>	
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	9,197	9,197	
Capital surplus	7,808	7,918	
Retained earnings	12,049	12,632	
Treasury stock	△576	△420	
<b>Total shareholders' equity</b>	<b>28,478</b>	<b>29,328</b>	
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	2,010	1,119	
Foreign currency translation adjustment	163	55	
Accumulated retirement benefit-related adjustment	△238	△235	
<b>Total accumulated other comprehensive income</b>	<b>1,935</b>	<b>939</b>	
<b>Non-controlling interests</b>	<b>–</b>	<b>25</b>	
<b>Total net assets</b>	<b>30,414</b>	<b>30,293</b>	
<b>Total liabilities and net assets</b>	<b>43,969</b>	<b>45,677</b>	

## Consolidated Statements of Income

		(million yen)	
	2018	2019 (fiscal year)	
<b>Net sales</b>	<b>31,780</b>	<b>35,151</b>	
<b>Cost of sales</b>	<b>23,485</b>	<b>25,512</b>	
<b>Gross profit</b>	<b>8,295</b>	<b>9,639</b>	
<b>Selling, general and administrative expenses</b>	<b>6,868</b>	<b>7,585</b>	
<b>Operating income</b>	<b>1,427</b>	<b>2,053</b>	
<b>Non-operating income</b>			
<b>Interest income</b>	<b>2</b>	<b>2</b>	
Dividends income	157	139	
Insurance income	7	31	
Other business	75	63	
<b>Total non-operating income</b>	<b>243</b>	<b>236</b>	
<b>Non-operating expenses</b>			
Interest expenses	40	46	
Loss on sales of securities	3	–	
Loss on disposal of non-current assets	2	22	
Foreign exchange losses	7	36	
Compensation for damage	30	24	
Other business	8	18	
<b>Total non-operating expenses</b>	<b>93</b>	<b>147</b>	
<b>Ordinary income</b>	<b>1,576</b>	<b>2,142</b>	
<b>Extraordinary income</b>			
Gain on sales of investment securities	409	468	
Gain on sales of non-current assets	–	23	
Insurance proceeds from disaster	–	53	
<b>Total extraordinary income</b>	<b>409</b>	<b>545</b>	
<b>Extraordinary loss</b>			
100 anniversary program cost	–	119	
Loss on sales of investment securities	–	19	
Loss on valuation of investment securities	–	76	
Loss on disaster	8	–	
Loss on valuation of investments in capital	44	–	
Impairment loss	–	32	
<b>Total extraordinary loss</b>	<b>53</b>	<b>247</b>	
<b>Net income before income taxes</b>	<b>1,933</b>	<b>2,440</b>	
<b>Income taxes-current</b>	<b>651</b>	<b>969</b>	
<b>Income taxes-deferred</b>	<b>△63</b>	<b>△117</b>	
<b>Total income taxes</b>	<b>587</b>	<b>852</b>	
<b>Net income</b>	<b>1,345</b>	<b>1,588</b>	
<b>Net income attributable to owners of parent</b>	<b>1,345</b>	<b>1,588</b>	

## Consolidated Statements of Comprehensive Income

		(million yen)	
	2018	2019 (fiscal year)	
<b>Net income</b>	<b>1,345</b>	<b>1,588</b>	
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	△638	△891	
Foreign currency translation adjustment	△125	△108	
Retirement benefit-related adjustment	26	3	
<b>Total other comprehensive income</b>	<b>△737</b>	<b>△996</b>	
<b>Comprehensive income</b>	<b>607</b>	<b>592</b>	
(Breakdown)			
Comprehensive income attributable to owners of the parent	607	592	
Comprehensive income attributable to non-controlling interests	–	0	

Consolidated Statements of Cash Flows

	(million yen)	
	2018	2019 (年度)
<b>Cash flow from operating activities</b>		
Net income before income taxes	1,933	2,440
Depreciation and amortization	508	611
Impairment loss	-	32
Increase (decrease) in allowance for doubtful accounts	7	5
Increase (decrease) in retirement benefit-related adjustment	16	82
Increase (decrease) in provision for directors' retirement benefits	14	10
Interest and dividends income	△159	△141
Interest expenses	40	46
Foreign exchange losses (gains)	△1	15
Loss (gain) on sales and valuation of investment securities	△405	△373
Loss on valuation of investments in capital	44	-
Loss (gain) on sales of property, plant and equipment	-	△23
Decrease (increase) in notes and accounts receivable-trade	95	686
Decrease (increase) in inventories	△991	△687
Increase (decrease) in notes and accounts payable-trade	△1,008	1,317
Insurance proceeds from disaster	-	△53
Other business	73	491
Subtotal	168	4,460
Interest and dividends income received	160	141
Interest expenses paid	△39	△46
Proceeds from insurance income from disaster	-	53
Income taxes paid	△507	△769
Cash flow from operating activities	△218	3,839
<b>Cash flows from investing activities</b>		
Payments into time deposits	△47	△47
Proceeds from withdrawal of time deposits	47	47
Purchase of investment securities	△11	△11
Proceeds from sales and redemption of investment securities	834	772
Purchase of property, plant and equipment and intangible assets	△1,849	△1,393
Payments of loans receivable	△1	△8
Collection of loans receivable	0	2
Other business	5	-
Cash flows from investing activities	△1,021	△639
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	83	45
Proceeds from long-term loans payable	-	100
Repayment of long-term loans payable	△112	△36
Purchase of treasury stock	△0	△0
Proceeds from stock issuance to non-controlling shareholders	-	25
Repayments of finance lease obligations	-	△0
Cash dividends paid	△496	△1,002
Cash flows from financing activities	△526	△868
<b>Effect of exchange rate changes on cash and cash equivalents</b>	△43	△55
<b>Net increase (decrease) in cash and cash equivalents</b>	△1,810	2,275
<b>Cash and cash equivalents at beginning of year</b>	12,110	10,300
<b>Cash and cash equivalents at end of year</b>	10,300	12,575

Stock overview (as of March 31, 2020)

**Stock listing** Tokyo Stock Exchange (first section)  
**TSE code** 6306  
**State of issuance** Total number of shares authorized for issuance: 150,000,000  
 Total number of outstanding shares: 40,000,000 (including 1,229,230 treasury shares)  
**Number of share units** 100  
**Number of shareholders** 7,812  
**Transfer Agent** Mitsubishi UFJ Trust and Banking Corporation  
 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212  
**Fiscal year** From April 1 to March 31  
**Ordinary General Shareholders' Meeting** June

**Registration deadline for year-end dividend payment:** March 31  
**Registration deadline for interim dividend payment:** September 30

Major shareholders (top 10)

Name	Number of shares held (in 10,000)	Shareholding ratio (%)
Nikko Trading-Partner Shareholding Association	548	13.70
The Master Trust Bank of Japan, Ltd. (trust account)	173	4.33
Nikko Employees' Shareholding Association	170	4.27
Japan Trustee Services Bank, Ltd. (trust account)	143	3.57
Nikko Co., Ltd.	122	3.07
Sumitomo Mitsui Banking Corporation	120	3.00
Nippon Life Insurance Company	85	2.13
Yasumitsu Shigeta	85	2.13
Sumitomo Life Insurance Company	74	1.86
The Hyakujushi Bank, Ltd.	68	1.70

(Notes) Numbers of shares are rounded down to the nearest 10,000 shares.

Composition of shareholder types (%)



Share prices and trading volume in the past 10 years (July 2010 - July 2020)



**Stock performance**

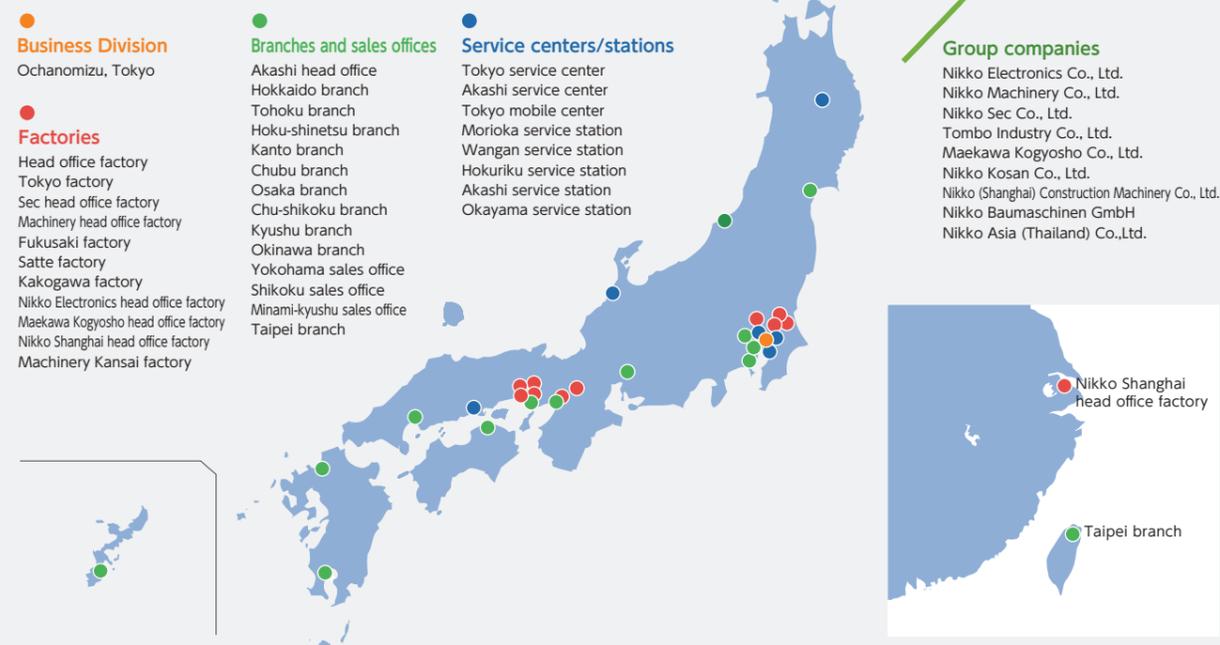
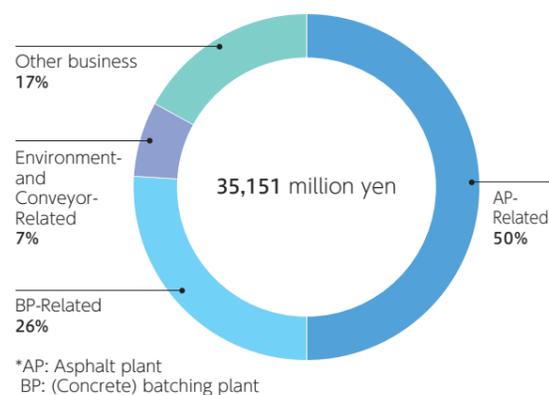
Period held	1 year (3/31/19-3/31/20)	3 years (3/31/17-3/31/20)	5 years (3/31/15-3/31/20)
Nikko	+27%	+51%	+38%
TOPIX	-12%	-7%	-9%
Machinery index	-13%	-14%	-13%

(Notes) 1. TOPIX: Tokyo Stock Price Index  
 2. Machinery index: TSE first section

Company Overview (as of March 31, 2020)

**Japanese name** 日工株式会社  
**English name** Nikko Co.,Ltd  
**Head office address** 1013-1, Eigashima, Okubo-cho, Akashi, Hyogo Prefecture 674-8585  
**Tel.** +81-78-947-3131  
**Representative** Representative Director and President Masaru Tsuji  
**Established** August 13, 1919  
**Capital** 9,197 million yen (as of March 31, 2020)  
**Number of employees (consolidated)** 838 (as of March 31, 2020)  
**Number of factories** 11 (including 1 overseas)  
**Business segments** Asphalt Plant-Related, Concrete Plant-Related, Environment- and Conveyor-Related, Other

● Net sales breakdown by business segment (FY 2019)



**Nikko Electronics Co., Ltd.**

Manufacture and sale of control systems, covering processes from circuit designing to manufacturing of control panels, switchboards and monitoring panels.

Net sales (million yen)	FY2017	FY2018	FY2019
	1,795	1,669	1,727
Number of Directors	Number of individuals concurrently holding position at parent		Percentage of sales to Nikko in FY 2019
	8	4	
<b>81.3%</b>			

**Nikko Machinery Co., Ltd.**

Manufacture and sale of construction equipment and flooding preventive equipment, including floodgates and waterproof boards.

Net sales (million yen)	FY2017	FY2018	FY2019
	1,765	1,765	2,124
Number of Directors	Number of individuals concurrently holding position at parent		Percentage of sales to Nikko in FY 2019
	6	4	
<b>35.8%</b>			

**Nikko Sec Co., Ltd.**

Manufacture and sale of temporary equipment and machinery for construction work, material handling machines, and computer-related equipment.

Net sales (million yen)	FY2017	FY2018	FY2019
	1,510	1,519	1,692
Number of Directors	Number of individuals concurrently holding position at parent		Percentage of sales to Nikko in FY 2019
	6	3	
<b>0.1%</b>			

**Tombo Industry Co., Ltd.**

Manufacture and sale of soil farming tools and gardening supplies, including shovels and scoops, and concrete mixers for mixing and kneading.

Net sales (million yen)	FY2017	FY2018	FY2019
	722	688	660
Number of Directors	Number of individuals concurrently holding position at parent		Percentage of sales to Nikko in FY 2019
	6	4	
<b>0.4%</b>			

**Maekawa Kogyosho Co., Ltd.**

Manufacture and sale of crushing plant/equipment, grinders, etc.

Net sales (million yen)	FY2017	FY2018	FY2019
	415	439	466
Number of Directors	Number of individuals concurrently holding position at parent		Percentage of sales to Nikko in FY 2019
	6	5	
<b>1.5%</b>			

**Nikko Kosan Co., Ltd.**

Services related to housing renovation, property insurance agency, life insurance agent and real estate.

Net sales (million yen)	FY2017	FY2018	FY2019
	323	471	471
Number of Directors	Number of individuals concurrently holding position at parent		Percentage of sales to Nikko in FY 2019
	5	3	
<b>32.1%</b>			

**Nikko (Shanghai) Construction Machinery Co., Ltd.**

Manufacture and sale of asphalt/recycling plants and anti-pollution devices.

Net sales (million yen)	FY2017	FY2018	FY2019
	3,299	3,468	3,756
Number of Directors	Number of individuals concurrently holding position at parent		Percentage of sales to Nikko in FY 2019
	6	4	
<b>3.2%</b>			

**Nikko Asia (Thailand) Co.,Ltd.**

Number of Directors	Number of individuals concurrently holding position at parent	Number of employees
4	3	17

Future creation that starts from an “*n*”



For inquiries about this report, please contact:

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September 2020

