



Nichireki Group

Integrated Report 2022



Basic philosophy (Spirit of sowing the seeds)

Sowing the seeds, giving them water, letting them flower, and reaping the fruits

Continuously creating new business through the accumulation of unceasing effort

Management philosophy

To ensure the Nichireki Group contributes to society by creating roads:

- We will supply road paving materials and their corresponding construction methods to satisfy requirements for outstanding functionality and cost.
- We will offer advanced consulting that watches vigilantly over roads, which are the common assets of the people.
- We will implement construction technology that is trusted by customers.

By completely unifying these elements, the Nichireki Group considers its management philosophy as the aim of remaining a highly profitable corporate group that spearheads the creation of roads worthy of the trust of its stockholders and a wide range of customers. We also strive to ensure that every employee in the Group can exercise his or her abilities to the fullest through meaningful work.

“Sow the Seeds”

“Let us advance forward by sowing the good seeds.”

This is the motto of the Nichireki Group.

Let us sow the strong seeds that will not die
even if a severe drought strikes.

By the sweat of our brow,
let us spread fertilizer.

Then the plants will grow up to bear good fruit.

Even if we do not harvest the fruits ourselves,

I believe this:

If we do not sow the seeds and
spread fertilizer,

but only aim to gain the fruits,

we will never enjoy true prosperity.



Eiichi Ikeda (Founder)

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■ Editorial Policy

The purpose of the Integrated Report is to assist the shareholders in understanding our activities that contribute to society by introducing the Nichireki Group's Corporate Philosophy and reporting a wide range of topics such as our corporate activities based on the Medium-term Management Plan, financial information and business challenges. This report includes a message from the President, the Medium-term Management Plan and other key Environmental, Social, and Governance (ESG) information that helps start dialogue, as well as our initiatives for sustainability issues comprehensively and concisely. In preparing this report, we referenced guidelines such as International Integrated Reporting Framework advocated by International Integrated Reporting Council (IIRC) and Guidance for Collaborative Value Creation issued by the Ministry of Economy, Trade and Industry.

■ Period Covered

Fiscal Year Ended March 31, 2022
(April 1, 2021 to March 31, 2022)
(Information on or after April 1, 2022 is partially included)

■ Organizations Covered

NICHIREKI CO., LTD. and its subsidiaries and associates
(consisting of 35 consolidated subsidiaries and 5 associates)

■ Published

September 2022

■ Disclaimer on Forward-looking Statements

The earnings forecast and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable as of the date of publication of this report. Actual results may differ significantly from the forecast due to a wide range of factors.

Business of the Nichireki Group

The Nichireki Group develops business activities that offer a wide variety of products, works, technologies, and so forth mainly related to road paving.

Applied and Processed Asphalt*¹ Products Business



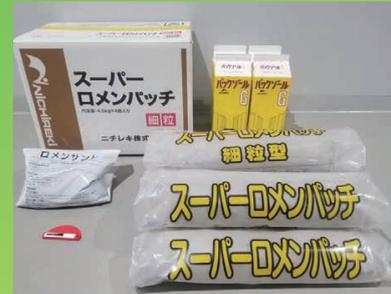
Manufacturing and sales of applied and processed asphalt products including asphalt emulsions,² modified asphalt,³ bridge deck slab waterproofing materials, road surface repairing materials, crack repairing materials, landscape paving materials and industrial products, as well as manufacturing, processing, and sales of construction and civil engineering materials



Rapid breaking asphalt emulsion
SUPER TACKZOL



Low-carbon modified asphalt for long-life pavement
SUPER SHINAYAKAPHALT



Cold curing bump repairing material
SUPER ROMEN PATCH

Road Paving Business



Contracting for road paving, bridge deck slab waterproofing, water and sewage and other civil engineering work, including relevant survey and diagnosis, design and administration processes



On-site base course recycling construction method
STABI-CEMENT RC construction method



High-performance bridge deck slab waterproofing method
HQ HIBRANE AU construction method

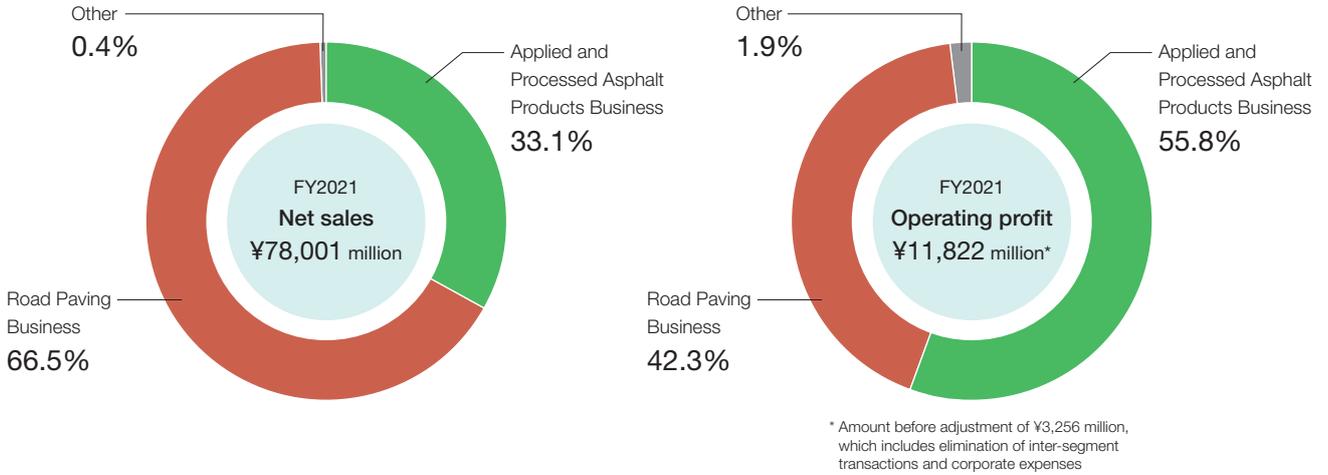


DX compatible road surface condition measuring vehicle
SMART ROMEN CATCHER LY Jr.

Glossary

- *1. Asphalt : Refined from crude oil. Black in color and a solid body at room temperature, but becomes liquid when heated. Mainly used in asphalt pavement.
- *2. Asphalt emulsion : Made by emulsifying asphalt and water, and maintains a liquid body at room temperature. Mainly used for bonding pavement layers together and in a cold mixture for paving.
- *3. Modified asphalt : A high performance asphalt made by adding various modifiers to the asphalt. Mainly used in roads with heavy traffic and pavements that require drainage, reduced noise features, and so on.

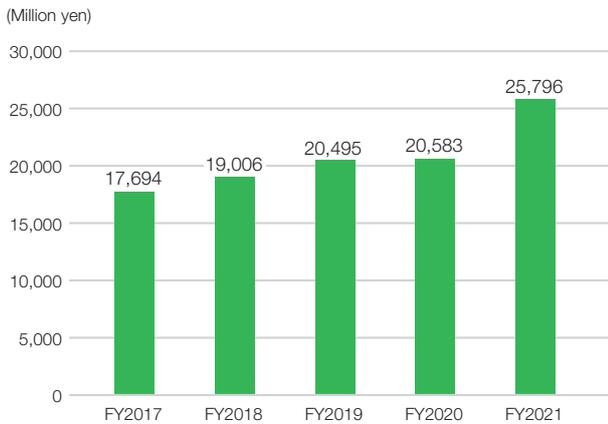
Composition of Net Sales and Operating Profit



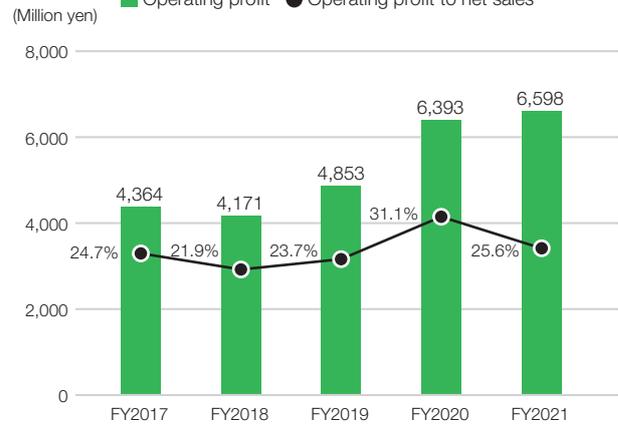
Performance Trend by Segment

Applied and Processed Asphalt Products Business

Net sales

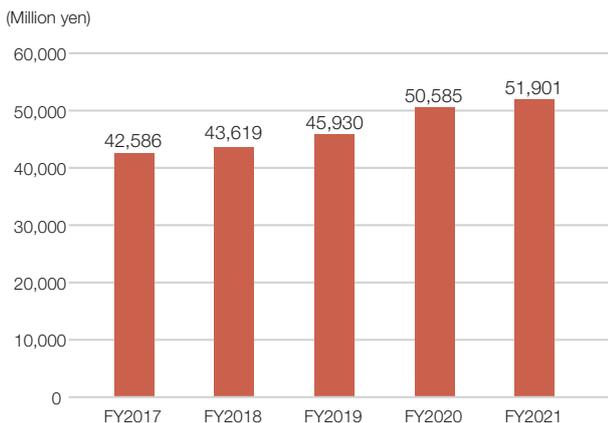


Operating profit and operating profit to net sales

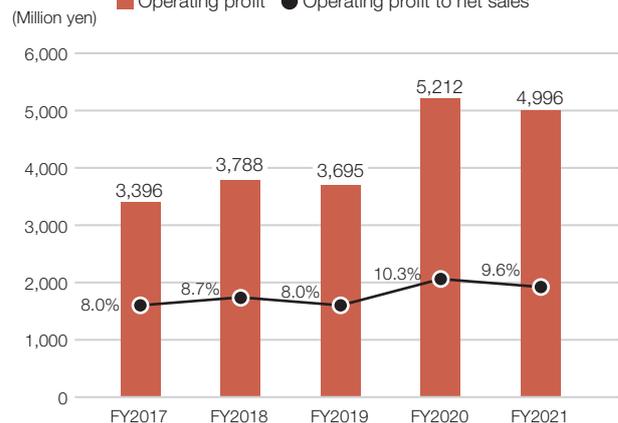


Road Paving Business

Net sales



Operating profit and operating profit to net sales



Business Domain of the Nichireki Group

Nichireki Group's technologically advanced products and construction methods, etc. are used not only for general road paving but also in various surrounding areas.



HQ HIBRANE AU construction method
(high-performance bridge deck slab waterproofing method)



SUPER SURFTREAT construction method
(asphalt emulsion surface treatment construction method)



L-seal tape
(molded water cut-off material for bridge ends)



SMART SHOBAN CATCHER
(DX compatible non-destructive bridge deck slab survey vehicle)



THERMOTEC construction method
(heat-blocking paving)



POLYPHALT SS
(flow and wear resistant modified asphalt)



NEOTAIYU SEALCOLD
(oil-resistant joint sealant)



CONTAINERPHALT SUPER
(modified asphalt for heavy loads)



Seamless joint
(embedded type expansion joint)



CA mortar filling construction method
(Shinkansen slab track filling construction method)



SUPER ROMENPATCH
(cold curing bump repairing material)



COALCUT R construction method
(resin-based anti-skid paving)



SHINAYAKAPHALT
(modified asphalt for long-lasting paving)



STABI-CEMENT RC construction method
(on-site base course recycling construction method)



CRACKSEAL NX
(hot applied crack sealant)



RESCUEPATCH
(high durability, all-weather type cold applied patching material)



EMULTEC SAMI construction method
(crack prevention cushion layer construction method)



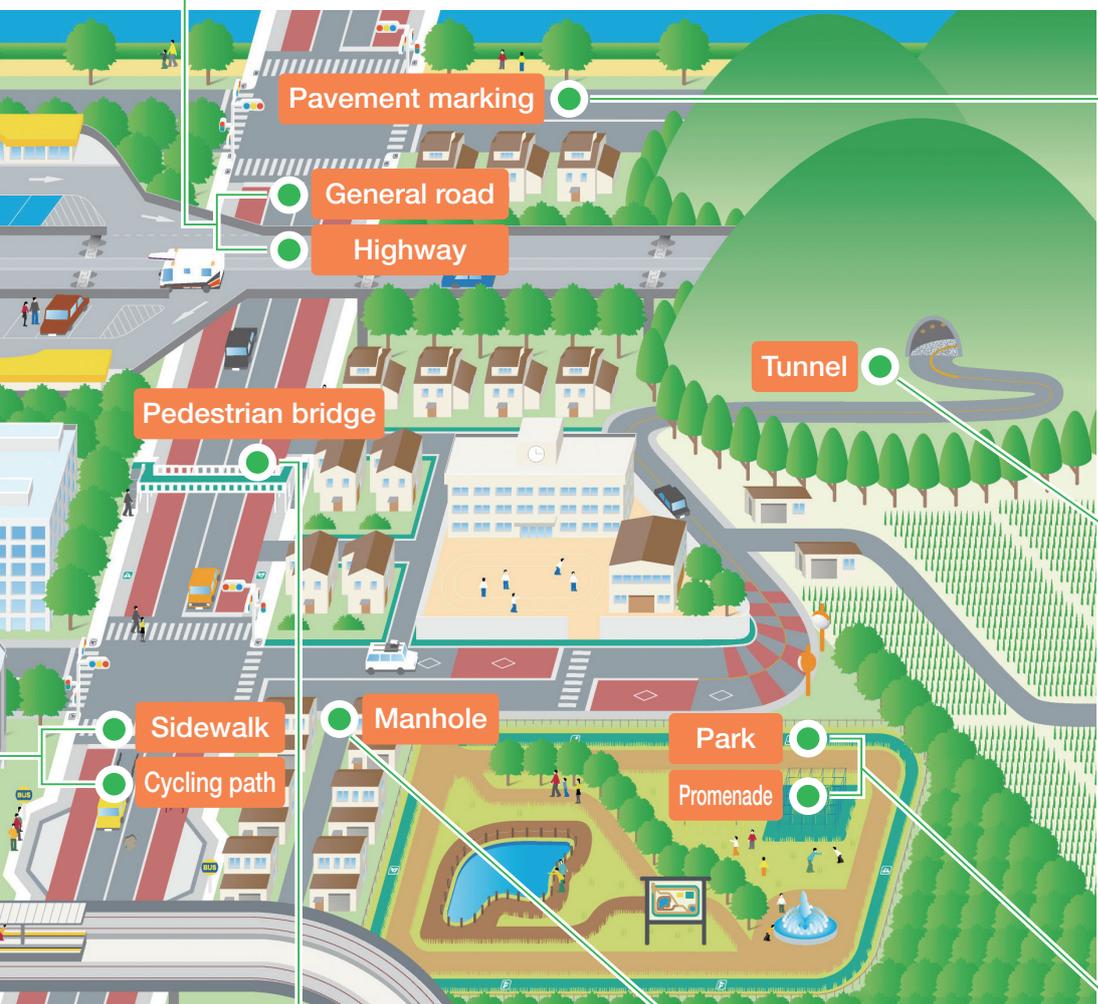
SUPER TACKZOL
(rapid breaking asphalt emulsion)



THERMOTEC construction method
(heat-blocking paving)



COALCUT R construction method
(resin-based anti-skid paving)



Lining



Road marking



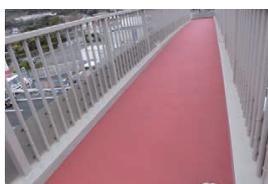
COLORPHALT CLEAR
(colored paving)



SEROSEAL
(hot applied joint sealant for concrete joints)



ASWOOD paving
(wood chip paving)



COLORPHALT KT method
(resin mortar based color paving)



MR² method
(manhole top repairing method)



SUPER ROMENPATCH
(cold curing bump repairing material)



COLORPHALT DA construction method
(rubber chip paving)

History of the Nichireki Group

Founded by Eiichi Ikeda in October 1943, the Nichireki Group has continued to deliver to the market many originally developed materials and construction methods relating to road paving, including asphalt emulsion, modified asphalt, bridge deck slab waterproofing materials and construction method, on-site base course recycling construction method, and surface processing construction method. Ever since its foundation, we maintained our policy to fulfill the social responsibilities required of companies in such time or social environment, which is to develop eco-friendly materials and construction methods with reduced CO₂ emission, longer life, recyclability,

Nichireki's History

Foundation and development

- 1943** Eiichi Ikeda founds Nihon Rekisei Kagaku Kogyosho to engage in construction waterproofing works using asphalt.
- 1946** The Company begins to undertake paving construction works
- 1949** The Company establishes the Company
- 1950** The Company builds an asphalt emulsion plant and laboratory in Oku, Tokyo
- 1954** The Company changes its name to Nichireki Kagaku Kogyo Co., Ltd. due to company split and merger, etc.
- 1961** Japan's first cationic asphalt emulsion, CATIOZOL, is awarded the Tanahashi Invention Award
- 1963** The Company issues and distributes the first volume of Asphalt Paving Course (eight volumes in total)

Strengthens corporate culture and develops internal foundations

- 1968** The Company builds a new head office building in Kudan, Chiyoda-ku, Tokyo (to present)
- 1969** The Company introduces a computer system utilizing telex network to offices throughout Japan
- 1973** The Company participates in Research Survey Committee on Bridge Deck Pavement of Long Bridges (Honshu-Shikoku Bridge) established within the Japan Road Association
- 1974** The Company is listed on the First Section of both Tokyo Stock Exchange and Osaka Securities Exchange.
- 1975** The Company opens the Ikeda Museum of 20th Century Art in Ito City, Shizuoka
- 1977** The Company opens a technical research center in Oyama Plant in Tochigi Prefecture
- 1980** The Company is registered with the Minister of Construction as a construction consultant in road department.

Nichireki's Technology

Materials

- Joint material, waterproofing material for concrete paving **long lasting** 1
- Rain-resistant emulsion CATIOZOL **long lasting** 1

- POLYPHALT SS to address rutting **long lasting** 2
- EMULSION A used in the track of Shinkansen **long lasting**
- SINOPHALT to address cracks in bridge steel deck plate pavement. **long lasting** 3

Construction technology (Construction methods)

- On-site mixing method to enhance durability of gravel road **safety**

- STABI-CEMENT RC construction method for repairing the existing pavement on-site **CO₂ emission reduction** **recycling**

Consulting (Survey & diagnosis technology)



1 CATIOZOL for improving gravel roads into pavements with the on-site mixing method



2 POLYPHALT SS for addressing rutting caused by the advancement of motorization



3 SINOPHALT used for long-span bridges (Honshu-Shikoku Bridge)

External Environment

Reconstruction after WWII—Dawn of road construction and improvement

- 1945** End of World War II
- 1948** Ministry of Construction is established
- 1954** First Road Improvement Five-Year Plan is approved by Cabinet
- 1956** Japan Highway Public Corporation is established
- 1959** Metropolitan Expressway Public Corporation is established
- 1962** Hanshin Expressway Public Corporation is established
- 1964** Class-4 special improvement business starts

Advancement of motorization

- 1966** Beginning of era of private car ownership; advancement of motorization
- 1969** Tomei Expressway is fully completed
- 1970** Honshu-Shikoku Bridge Authority is established
- 1972** Reversion of Okinawa to Japan
- 1973** First oil crisis

and safety functions and performances, as well as to provide safe and secure paving for road administrators and ultimately the users of the road. We have also put our efforts in sophisticated consulting business utilizing road surface survey technology to keep a close eye on the road conditions. Going forward, under the swift and accurate decision-making, we will pull our strength together to make resilient responses and continue to grow into a sustainable corporate group.

Vision for the 100th Anniversary of Foundation

Deliver peace of mind to all stakeholders by creating roads

Beginning of management based on the Medium-term Management Plan

- 1985** The Company is registered with the Minister of Construction as a surveyor
- 1989** The Company starts the First Medium-term Management Plan
- 1994** The Company changes its name to NICHIREKI CO., LTD.
- 1999** The Company begins disclosure of consolidated financial statements
- 2002** The Company starts overseas business by establishing Beijing Luxin Dacheng Exquisite Paving Co., Ltd. in Beijing, a joint venture between Japan and China
- 2003** The Company implements an area-based business structure to facilitate the integrated operation of branch and group companies within the jurisdiction of the branch

Reconstructs internal foundation and strengthens corporate governance

- 2006** The Company discloses basic policy for establishing internal control system
- 2008** The Group acquires ISO9001
- 2012** The Group acquires ISO14001
- 2014** The Company converts its consolidated subsidiaries into wholly-owned subsidiaries
- 2016** The Company completes the new laboratory building in the Technical Research Center
- 2017** The Company newly establishes a plant in Fengxian Chemical Industrial District in Shanghai
- 2020** The Company acquires land in Tsukubamirai City to construct a production and logistics base
- 2022** The Company selects and shifts to the Prime Market of the Tokyo Stock Exchange following the market reform

- ROMENPATCH for reducing noise and vibration caused by bumps **safety**
- TOUGHPHALT SUPER for porous paving **safety**
- AF PHALT for recycled mixture **recycling**

- Modified asphalt for warm mix for reducing temperature during production and construction **CO₂ emission reduction**
- SUPER TACKZOL with immediately breaking even at night or at low temperatures **long lasting**
- L-seal tape to prevent leakage from junctures **long lasting**
- SHINAYAKAPHALT to address cracks **long lasting**
- SUPER SHINAYAKAPHALT for reducing temperature during production and construction **CO₂ emission reduction** **long lasting**

- ASWOOD paving utilizing timber obtained from forest-thinning operations **CO₂ emission reduction** **recycling**
- EMULTEC construction method to extend the life of the paved road **CO₂ emission reduction** **long lasting** **4**

- HQ HIBRANE AU construction method for high-performance waterproofing bridge deck slab **long lasting**
- SUPER SURFTREAT construction method for road surface protection **CO₂ emission reduction** **long lasting**
- STABI-CEMENT RC construction method using ICT technology **CO₂ emission reduction** **recycling** **6**

- ROMEN CATCHER LY for inspecting road surface condition **5**
- ROMEN CATCHER FWD for diagnosing paving strength

- SMART SHOBAN CATCHER to determine the structural soundness of the bridge deck slab top surface using AI
- SMART Road Surface Inspection Service to determine the priority of pavement repair using AI
- GLOCAL-EYEZ for easy inspection of road surfaces with a smartphone **7**



4 EMULTEC SAMI construction method for delaying the formation of cracks



5 ROMEN CATCHER LY for inspecting the road surface condition day and night



6 STABI-CEMENT RC construction method with road stabilizers using ICT technology



7 GLOCAL-EYEZ for inspecting road surfaces with a smartphone

Introduction of paving with low-environmental burden and establishment of regulations on performance

- 1991** Collapse of Japan's economic bubble
- 1995** The Great Hanshin-Awaji Earthquake
- 2001** Enactment of "Technical Standards and Commentaries for the Structure of Pavement"
→Standardization of performance of paving structure
- 2005** Privatization of the four road-related public corporations

The first year of social capital maintenance / Major renewals

- 2008** Global Financial Crisis of 2008
- 2009** Incorporation of revenue source specified for roads into general revenue
- 2011** The Great East Japan Earthquake
- 2013** The first year of social capital maintenance (full-scale anti-decrepitude measures began)
- 2020** COVID-19 pandemic
- 2021** Tokyo Olympic and Paralympic Games
- 2022** Russia-Ukraine Crisis

Flexibly adapt to and support the

Manabu Obata

President and Representative Director

Inherit the “spirit of sowing the seeds,” and become a company that delivers peace of mind to all stakeholders by creating roads

Ever since its foundation, Nichireki has inherited as its corporate culture the **spirit of sowing the seeds**, which constitutes the company's basic philosophy. And in line with a corporate philosophy of fusing this basic philosophy with a management philosophy of **contributing to society by creating roads**, Nichireki provides a wide range of products, technologies, and construction services connected with road paving.

Nichireki, a corporate group, will celebrate the 100th anniversary in 2043, 21 years from now. We set our **Vision for the 100th Anniversary of Foundation** by thinking about what we should provide to the world, how we would like to survive, and what we should achieve for these purposes. The future vision of ourselves is to be a corporate group that delivers peace of mind to all stakeholders, including customers, shareholders/investors, suppliers, employees, and local communities by creating roads and affecting the lives of the people.

To make this vision a reality, we conduct business with **ESG** perspectives at the heart of everything we do. We have moved especially swiftly to grapple with environmental issues. Specifically, we have focused on developing low-carbon products and construction methods that are easy to use and kind to the environment. These include asphalt emulsion and materials for repairing road surfaces that can be handled at normal temperatures. As a company that brings peace of mind to society, we will continue to prioritize reducing environmental impact.

At the same time, Nichireki is committed, as its social mission, to supplying road infrastructure that helps **prevent or mitigate the impact of disasters**, and contributing to the growth of our country's economy and the development of its industry. As such, we are working to develop and promote products and construction methods that are more resilient and last longer. With autonomous driving technology set to transform automobiles, we expect the repair or rehabilitation of aging pavement to become increasingly important as part of national strategy.

Internally, meanwhile, we are moving proactively to ensure our employees are enthusiastic and engaged, and to **create workplaces in which they can work with**

changes in our operating environment, future of transportation infrastructure

peace of mind. Nichireki has viewed increasing engagement by employees with the company as vital for our long-term survival. As concrete measures for achieving that, in the spring of this year we gave our personnel system a makeover, raising our mandatory retirement age to 65 years and allowing employees to stay with us until they are 70 should they wish to do so.

Nichireki's competitiveness is reliant on strong technological capabilities, so as part of our investment in human capital in our R&D division, we have started providing even more extensive support for employees to obtain PhDs. The goal is to acquire plenty of top-flight talent and ensure that they are highly motivated by encouraging our personnel to exercise freedom in their research and take on the challenge of creating new value.

We hope that the results of initiatives like these will make themselves felt as contributions to society through the development and uptake of new products and construction methods.

Leverage our technological capability to create solutions, earn the confidence of customers, and carve out fresh growth opportunities.

The business environment related to infrastructure construction such as road paving is changing dramatically in recent years. This makes the management of various risks as Nichireki conducts its business operations vital, but it also generates new opportunities for growth.

As a result of the Russia-Ukraine crisis and the worldwide trend toward decarbonization, the price of crude oil has been soaring recently. These skyrocketing prices pose a risk for the Applied and Processed Asphalt Products Business, as straight asphalt, the main raw material for our products, is made from crude oil.

That said, due to the convenience of vehicles that drive on roads, there is little room for substitution in transportation and logistics, so we believe that demand for Nichireki's products and construction work will hold up even in the face of sky-high crude prices.

Regarding growth opportunities, we will benefit from the Japanese government's **five-year acceleration plan for disaster prevention, disaster mitigation, and building national resilience.** Under this plan, around ¥15 trillion is expected to be allocated to such investment during the five years from FY2021. Of this, the Ministry of Land, Infrastructure, Transport and Tourism's

FY2022 road-related budget is expected to swell year on year to ¥2.3175 trillion. We therefore believe that demand related to aging infrastructure repair and large-scale renewals will continue to rise. Action by local governments to address decrepit infrastructure, in particular, is yet to really get started, and Nichireki intends to tap into such needs and translate them into future growth. And as part of our efforts to expand the market, we are pushing forward with expanding our business to encompass air and sea ports as well as private-sector factories and parking lots.

Another growth opportunity is expanding needs to reduce environmental impact. As mentioned earlier, Nichireki has focused on developing eco-friendly products and construction methods. For example, asphalt emulsion and road surface repairing materials that are usable at normal temperatures, less frequent repair work thanks to longer-lasting materials, and the promotion of recycling construction methods all help to cut CO₂ emissions. Furthermore, we are being proactive in protecting the environment by making use of timber from forest thinning and construction waste. In addition, we are generating results in developing products and construction methods that are gentle on humanity, such as modified asphalt that emits less odor, which makes roadside environments more pleasant.

The technological capability to come up with eco-friendly products and construction methods like these constitutes Nichireki's principal strength. And besides benefitting people and the environment, we also create various solutions that contribute to enhancing construction efficiency, boosting pavement functionality, and making road surface inspection and management more convenient. We have earned the trust of numerous customers, and are carving out new growth opportunities.

With the government revving up its efforts to strengthen national resilience, the fleshing out of our lineup of high value-added products and construction methods is increasing our profitability and supporting earnings

While the prices of crude oil and raw materials will continue to climb for some time, we do not think this will have a significant impact on our future financial performance. Market needs are rising for **longer-lasting**



and higher-performance products or methods coupled with **reduced environmental impact**, and to satisfy this demand, we will be conscious of the importance of properly producing and delivering what's required.

Regarding our financial results for FY2021, although we fell slightly short of the previous year's figures for operating profit and ordinary profit, the Applied and Processed Asphalt Products Business and the Road Paving Business both performed well, with net sales and profits topping initial forecasts.

As for our operating situation, we have been stepping up our efforts to win national resilience-related business, and SHINAYAKAPHALT, an eco-friendly product that extends pavement life, propelled sales higher. Also contributing to earnings was a sharp increase in work performed using the STABI-CEMENT RC construction method, in which the road's existing asphalt mixture and the base course are crushed and mixed at the same time with asphalt emulsion and cement at the site. Furthermore, ASWOOD paving, which utilizes wood-based paving material to reduce environmental load was also well received. The expansion of sales of these eco-friendly products and construction methods has given a lift to profitability and underpinned the profit reported for the term.

Added to that, GLOCAL-EYEZ, a smartphone-based road inspection system developed jointly with the University of Tokyo and SmartCity Research Institute as a means of driving digital transformation (DX) also made waves, with more and more customers, most notably local governments, deploying it. With GLOCAL-EYEZ, a smartphone mounted on a car films the paved road surface and checks for damage such as cracks and

bumps. It has received high marks as a revolutionary solution that makes inspecting and managing roads both straightforward and affordable.

Performance targets contained in our five-year Medium-term Management Plan, the aim of which is to evolve into a company with strong organizational resilience, revised upward

Nichireki is in the midst of executing its **Medium-term Management Plan (Shinayaka 2025)** for the period FY2021 to FY2025. The plan comprises four priority measures: "Expand and cultivate our business markets, and penetrate markets," "Enhance R&D capabilities and improve productivity," "Strengthen the Group's management foundation," and "Boost environmental investments to contribute to the creation of a decarbonized society." Its aim is to evolve us into a company with strong organizational resilience. As we move toward our Vision for the 100th Anniversary of Foundation, it will allow us to lay the foundations for keeping our operations sustainable.

Concerning progress made in the first fiscal year of the plan, sales volume of SHINAYAKAPHALT jumped 123% from the previous year, while that of the STABI-CEMENT RC construction method increased by 50% with respect to **expanding and cultivating our business markets, and penetrating markets**. This outstanding performance was centered on sales to local governments, and we expect the momentum to be maintained for some time. We also focused on the slab track CA mortar filling construction method for the Hokuriku Shinkansen, and the COLORPHALT KT construction method that improves the safety of pedestrian bridges without adversely affecting the landscape.

As for **enhancing R&D capabilities and improving productivity**, the success of the aforementioned GLOCAL-EYEZ is worthy of mention. We will continue working to expand its adoption while developing an upgraded version so as to further enhance its performance and functionality and make it even more convenient to use. We can also claim success in developing the STABI-CEMENT RC construction method, which involves attaching sensors to equipment and utilizes ICT to enable work to be performed while taking measurements for various data items in real time. The measurements can be shared via the Internet whenever needed, allowing project personnel to confirm work status and measurement data wherever they are. Going forward, we will be expanding the method's deployment as a tool for supporting remote presence of construction sites, which is being promoted by the Ministry of Land, Infrastructure, Transport and Tourism.

In the area of **strengthening the Group's management foundation**, our aim is to foster unity as a corporate group and manage our operations on a consolidated basis so as to maintain a firm grip on our

business as a whole, while still leveraging the advantages of Group companies, which conduct business in ways that are aligned with the characteristics of the respective regions in which they operate. With that in mind, we are making active use of tech such as online conferencing in order to strengthen cooperation across the Group. We are also improving our governance structure to meet the requirements for companies listed on the TSE Prime Market, and stepping up the release of information to, and communication with, shareholders and investors. At the same time, and as mentioned earlier, we are taking steps to reform our approach to personnel, such as raising the mandatory retirement age and implementing a scheme to support employees in obtaining PhDs. In addition, we are acting to boost work motivation through more generous rewards to employees, and the hope is that this will enhance our corporate value.

Finally, with respect to **boosting environmental investments to contribute to the creation of a decarbonized society**, we are continuously renovating existing buildings and facilities to reduce energy consumption. And with the same objective, we are also replacing the Group owned vehicles with hybrid vehicles. Regarding the construction of **Tsukuba Big Ship**, the centerpiece of this priority measure, the start of work has unfortunately had to be delayed due to a number of issues: soaring prices of steel and other building materials amid the Russia-Ukraine crisis, shortages of semiconductors for manufacturing equipment, and massive delays in delivery times of materials due to procurement headaches.

Meanwhile, regarding the numerical targets set forth in “Resilience 2025 (Shinayaka 2025),” we had been eyeing consolidated results in FY2025 of net sales of ¥77.0 billion, operating profit of ¥7.8 billion, ordinary profit of ¥8.0 billion, ROIC of at least 6.5%, and ROA of at least 5.0%. However, thanks to continued high levels of public investment, expanding markets, and providing high value-added products and construction methods, our financial performance now looks set to improve. Furthermore, the start of construction of Tsukuba Big Ship has been delayed for the reasons mentioned earlier, making it unlikely to go into operation during the period of the plan. This means that the depreciation burden associated with it are not going to be booked during this period, so we have decided to revise the numerical targets upward. The new targets are net sales of ¥86.0 billion, operating profit of ¥10.0 billion, ordinary profit of ¥10.2 billion, ROIC of at least 8.0%, and ROA of at least 6.0%.

Over the four years until FY2025, we expect operating income of approximately ¥37 billion plus depreciation as cash flows from our main business. We plan to allocate the surplus cash to investment for growth such as Tsukuba Big Ship (approx. ¥30 billion), regular investments related to the maintenance of existing facilities and equipment (approx. ¥8 billion), and returns to shareholders (approx. ¥6.5 billion).

As for distributing profits to shareholders, while maintaining a basic policy of stable dividends, we also endeavor to raise dividends as we improve our financial results. Under “Resilience 2025 (Shinayaka 2025),” our targets for FY2025 include a dividend payout ratio of

approximately 25%, and we will continue to reward our shareholders for their support by distributing profits to them at high levels.

Focus on activities that let more people know what Nichireki is aiming for, and what sorts of businesses it engages in

Given Nichireki’s current situation, the FY2025 numerical targets we are aiming for with “Resilience 2025 (Shinayaka 2025)” represent a considerable challenge. To ensure that we hit them, we are going to need to tell as many people as possible about the nature of our business and the products and construction methods we are developing. We will therefore need to communicate not only with our customers, but with the whole society including everyone who uses roads. To communicate with more people in this way, we will be employing a range of approaches, including various IR initiatives as well as advertising. We intend to focus on activities that let more people know what this company called Nichireki is aiming for, and what sorts of businesses it engages in, so as to raise our corporate value.

The environment shaping the world is undergoing massive changes, what with global threats such as COVID-19 and the Russia-Ukraine crisis, and it is getting harder and harder to predict what is going to happen next. Yet even in a phase like this, we at Nichireki are committed to contributing to the safety and security of our stakeholders through the provision of transportation infrastructure essential for industrial development and people’s everyday lives. We want people to view infrastructure that is kind to the environment as being as *natural a presence as air*, and we promise to continue to deliver such infrastructure.

I hope that all our stakeholders will understand the significance of such initiatives, and look forward to seeing us develop further in the future. We will be counting on your support.

Manabu Obata

President and Representative Director

Financial and Non-financial Highlights

Key Financial Data (Consolidated)

		FY2017	FY2018	FY2019	FY2020	FY2021
Financial Results						
Net sales	(Million yen)	60,570	62,919	66,725	71,471	78,001
Operating profit	(Million yen)	5,445	5,593	6,009	9,140	8,566
Ordinary profit	(Million yen)	5,628	5,731	6,225	9,574	9,311
Profit attributable to owners of the parent company	(Million yen)	3,882	3,589	1,821	6,357	6,811
Comprehensive income	(Million yen)	4,702	2,837	856	7,787	6,800
Financial Position						
Net assets	(Million yen)	50,811	52,889	52,827	62,010	68,075
Total assets	(Million yen)	69,838	70,297	71,487	82,732	88,425
Cash Flows						
Cash flows from operating activities	(Million yen)	4,645	5,417	3,203	9,098	7,737
Cash flows from investing activities	(Million yen)	(3,604)	(5,482)	(3,352)	(5,694)	(2,361)
Cash flows from financing activities	(Million yen)	(1,151)	(845)	(1,027)	2,512	(1,430)
Cash and cash equivalents at end of period	(Million yen)	19,195	18,367	17,181	23,110	27,091
Per Share Information						
Basic earnings per share	(Yen)	135.42	125.18	63.53	219.72	222.91
Net assets per share	(Yen)	1,772.17	1,844.66	1,842.51	2,048.05	2,226.97
Dividends per share	(Yen)	27.00	32.00	34.00	38.00	42.00
Management Indicators						
Equity ratio	(%)	72.8	75.2	73.9	74.9	77.0
Ordinary profit to total assets	(%)	8.3	8.2	8.8	12.4	10.9
Rate of return on equity	(%)	8.0	6.9	3.4	11.1	10.5
Operating profit to net sales	(%)	9.0	8.9	9.0	12.8	11.0
Ordinary profit to net sales	(%)	9.3	9.1	9.3	13.4	11.9
ROIC	(%)	7.8	7.5	8.0	11.2	9.3
ROA	(%)	5.7	5.1	2.6	8.2	8.0
Dividend payout ratio	(%)	19.9	25.6	53.5	17.3	18.8

Non-financial Data (Consolidated)

Number of employees	(persons)	797	831	917	924	958
Research and development costs	(Million yen)	711	653	709	787	865
Number of patents maintained	(patents)	39	39	30	29	31
Capital investment	(Million yen)	2,858	2,866	1,700	7,539	3,352
Energy use (oil equivalent)*	(kL)	7,173	6,228	5,705	6,523	6,238
CO ₂ emission*	(t-CO ₂)	16,270	13,624	13,378	12,355	12,362

*Scope: 19 plants in Japan

Six Capitals for Realizing Value Creation (FY2021 results)

Financial Capital



Net sales	¥78,001 million
Operating profit	¥8,566 million
Equity ratio	77.0 %

Intellectual Capital



Research and development costs	¥865 million
Number of patents maintained	31
Number of employees at our research laboratory	43

Human Capital



Number of employees	958
The First-Class Civil Engineering Works Execution Managing Engineer	479
Professional Engineer	41
PhD holder	4

Manufacturing Capital



Capital investment	¥3,352 million
Number of plants (Japan)	19

Social Capital



Number of bases (Japan)	101
(Located in 44 prefectures out of 47)	

Natural Capital

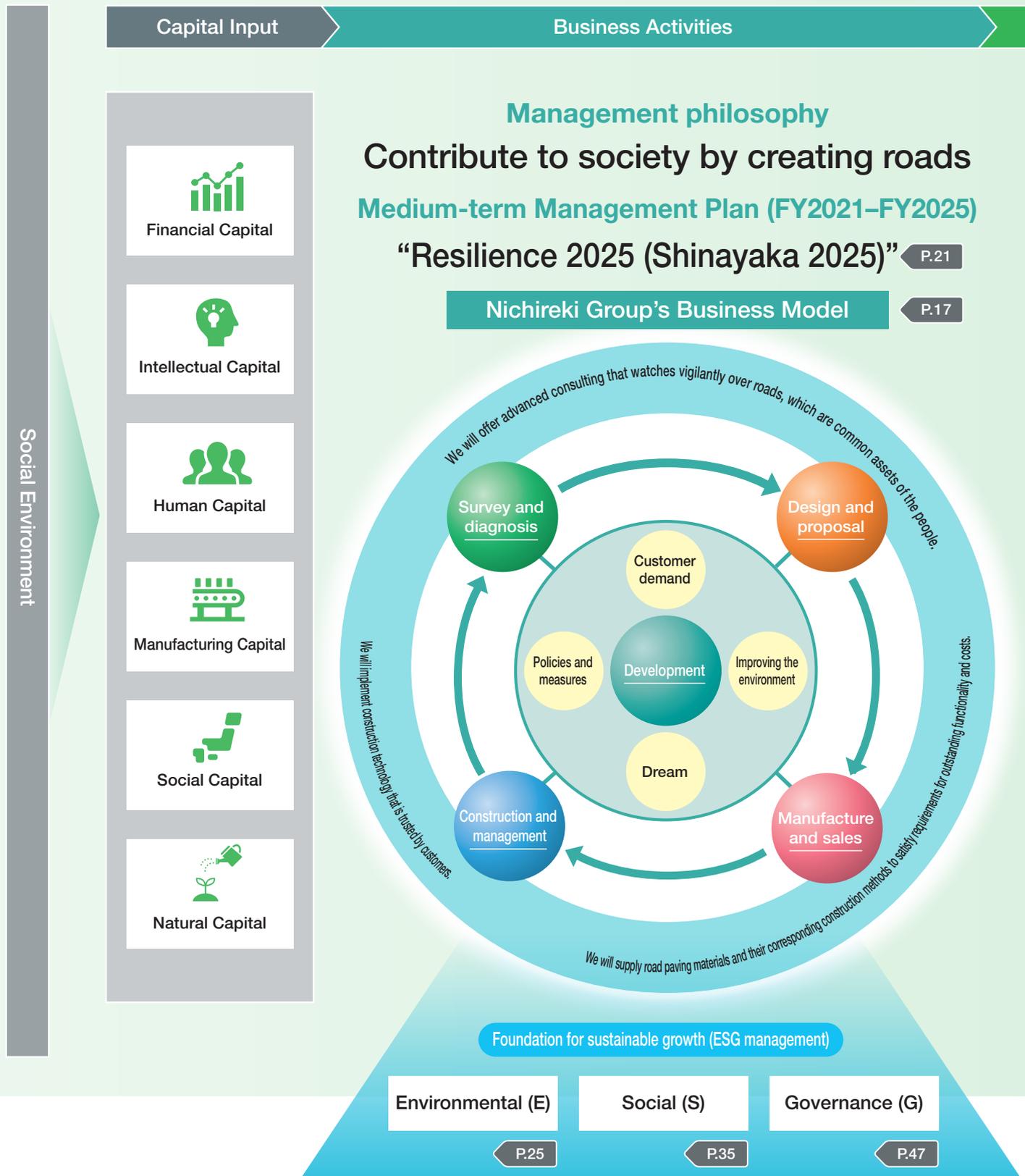


CO ₂ emission*	12,362 t
(Reduced by 33% from FY2013)	

*Scope: 19 plants in Japan

Value Creation Process

The Nichireki Group will accurately grasp the social environment that is changing continuously, and develop its own business model to enhance its medium- to long-term corporate value while aiming to realize the creation of a sustainable society.



Social value created through business activities

Vision for the 100th Anniversary of Foundation

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Financial targets

(FY2025)

Consolidated net sales	¥86,000 million
Consolidated operating profit	¥10,000 million
Consolidated ordinary profit	¥10,200 million
Ordinary profit margin	11.9% or more
ROIC	8.0% or more
ROA	6.0% or more
Dividend payout ratio	Approx. 25%

Deliver peace of mind to all stakeholders by creating roads



ESG targets

(FY2025)

Sales ratio of eco-friendly products and construction methods	30% or more
Number of newly developed (improved) products and construction methods launched	10 or more
Number of products of joint research and development rolled out	2 or more
Annual overtime	640 hours or less
Number of days of annual paid leave taken	50% or more of the number of paid vacation days given

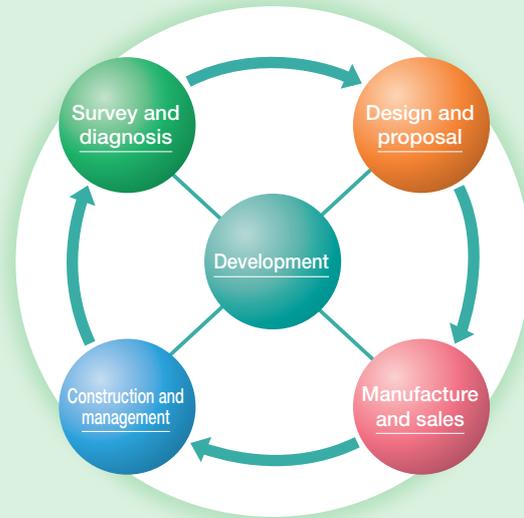
SDGs pursued



Note: Net sales and profits are expected to exceed the initial targets thanks to expanding markets and providing high value-added products and construction methods, etc. Furthermore, the depreciation cost associated with it will not be incurred due to the delay in the start of construction on the Tsukuba Big Ship project, which has made operations unlikely to begin during the period of the plan,. Taking all these factors into account, we revised the numerical targets for FY2025 upward on May 10, 2022.

Business Model

The Nichireki Group's main strength lies in its R&D capabilities, which demonstrate creativity and uniqueness to come up with new products and construction methods that satisfy customer requests and market needs. Another of the Group's strong points is its ability to consistently handle all types of work involved in road pavement by itself, such as the role of consulting firms and design firms that make propositions on products and construction methods, as well as the role of materials manufacturers and construction companies.



Development

As the leading company in paving materials, the Nichireki Group constantly anticipates the increasingly diverse and sophisticated needs of society, and supplies the latest technologies that will contribute to society.

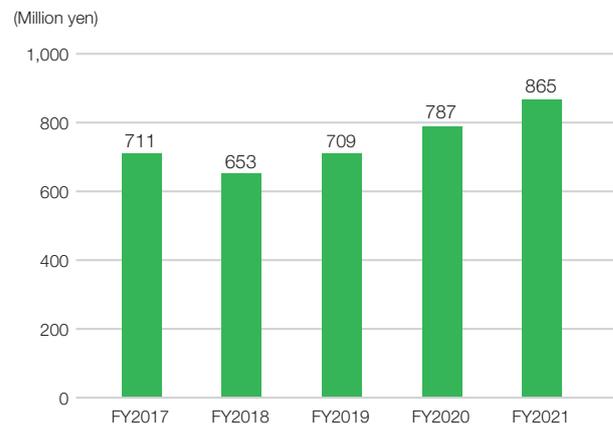
To further enhance the quality and accuracy of our development activities, in recent years we have assigned around 10% of Nichireki employees to our Technical Research Center, which forms the heart of our R&D activities. We are also investing about 10% of our consolidated operating profit in R&D. We have installed new performance evaluation testing machines in addition to our conventional testing equipment, and promote R&D of eco-friendly products and construction methods to align with this era of social infrastructure maintenance, such as making roads last longer and making large-scale renewals.

The Technical Research Center also serves as a comprehensive R&D institution that not only conducts R&D, but also contributes to developing the capabilities of employees through the provision of training. For example, the center serves as the venue for various technical seminars covering topics such as new construction methods.



Technical Research Center

Research and development costs





Laboratory building



Sunlight exposure testing device

Patents held by the Nichireki Group

	FY2017	FY2018	FY2019	FY2020	FY2021
Number of patents maintained	39	39	30	29	31
Number of patents applied	0	3	6	7	3
Number of patents registered	0	2	2	1	3

Survey and diagnosis

Social infrastructure such as paved roads and bridges, which are indispensable for day-to-day living, has become dilapidated in recent years, making proper maintenance and management essential.

At Nichireki, we have been utilizing ICT, IoT, and AI technology to leverage the power of data and digital to pursue the digital transformation (DX) of road inspections, with a view to enabling infrastructure to be managed safely and securely. Against that backdrop, we have developed the SMART Series of measurement devices to support extensive social infrastructure management. Specifically, we have developed SMART ROMEN CATCHER LY Jr. (road surface condition measuring vehicles), which inspects the damage of road paving; ROMEN CATCHER FWD (pavement deflection amount measuring vehicle), which diagnoses the structural soundness of the road pavement; and SMART SHOBAN CATCHER (non-destructive bridge deck slab survey vehicle), which identifies the range and depth of damage locations on the top surfaces of concrete deck slab inside bridges.

Furthermore, we have developed GLOCAL-EYEZ (smartphone-based road inspection system), which allows anyone with a smartphone and a vehicle to inspect roads at low cost, and we have already begun offering the system as a service.



SMART ROMEN CATCHER LY Jr.
(road surface condition measuring vehicle)



SMART SHOBAN CATCHER
(non-destructive bridge deck slab survey vehicle)



GLOCAL-EYEZ
(smartphone-based road inspection system)

Design and proposal

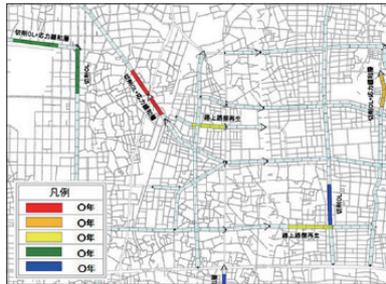
We propose optimal maintenance & management plans and repair methods based on the results of diagnosis. We make social infrastructure last longer by assisting in creating a maintenance cycle to help people have safe and comfortable living environment.

For medium- to long-term maintenance and management planning, we calculate lifecycle costs using various combinations of repair methods, and then select the most economical pattern of methods. And based on this, we draw up repair plans for each fiscal year, and propose the optimal repair methods.

For example, with ROMEN CATCHER FWD (pavement deflection amount measuring vehicle), the structural soundness of the existing pavement is determined by measuring the deflection, allowing stretches that need repairing and appropriate repair methods to be selected.



SMART ROMEN CATCHER FWD
(pavement deflection amount measuring vehicle)



Repair plan diagrams

番号	分類	路線名	区分	場所	延長	点検実施期間	診断結果	措置内容	措置実施時期
①	B	〇〇線	1級	〇〇地先	400m	〇年	Ⅲ-2	路上部舗装再生	〇年
②	B	〇〇線	1級	〇〇地先	300m	〇年	Ⅲ-2	路上部舗装再生	〇年
③	B	〇〇線	1級	〇〇地先	600m	〇年	Ⅲ-1	切削オーバーレイ	〇年
④	B	〇〇線	2級	〇〇地先	700m	〇年	Ⅲ-2	路上部舗装再生	〇年
⑤	C	〇〇線	2級	〇〇地先	300m	〇年	Ⅲ-1	切削オーバーレイ	〇年
⑥	C	〇〇線	その他	〇〇地先	400m	〇年	Ⅲ-1	表層打合せ	〇年
⑦	C	〇〇線	その他	〇〇地先	200m	〇年	Ⅱ	シール材注入	〇年

Project list with repair methods

Manufacture and sales

We endeavor to preserve the environment by manufacturing high value-added products that offer superior environmental performance in terms of keywords such as CO₂ reduction, long-lasting, recycling, and safety at our eco-friendly plants (19 plants in Japan). We are also using ICT to improve logistics, enhancing efficiency while keeping convenience for customers at the forefront of our minds.

The Nichireki Group employs an integrated style of selling that involves the sales force and technical personnel working together to propose tailor-made technical solutions to customers to resolve the various issues they face. In this way, we strengthen trust with existing customers and also win new customers.



Sendai Plant



Oyama Plant



Chiba Plant



Shizuoka Plant



Himeji Plant



Oita Plant

Construction and management

In addition to earning the trust of the customers who entrust us with construction work, etc., we also seek to make residents living along roads feel safe. Specifically, we are proactive about utilizing ICT and robotic construction machinery, thereby helping to relieve the labor shortages faced by the construction industry, and endeavor to emphasize safety and complete work to high standards of quality.

With the STABI-CEMENT RC construction method (on-site base course recycling construction method), which allows damaged pavement to be reused and transformed into new pavement at the current location, we have developed a system that enables various data measurements to be taken in real time during construction using sensors, etc. mounted on the road stabilizer used. This improves overall productivity and precision in construction management and quality control.



HQ HIBRANE AU construction method (construction with a binder spraying robot)



STABI-CEMENT RC construction method (mixing with a road stabilizer)

Vision for the 100th Anniversary of Foundation

The Nichireki Group has set a vision for the 100th Anniversary of Foundation toward long-term growth. It represents our desired state when we mark the 100th anniversary of foundation in 2043.

Under our management philosophy, we aim to grow into a sustainable organization by flexibly adapting to various changes in our operating environment while developing and managing business from more of an ESG perspective.

Our management philosophy is contributing to society by creating roads. We view “roads” of “creating roads” as “roads and lives,” and “contributing to society” as “delivering peace of mind to society.” We will evolve into a corporate group that “delivers peace of mind to all stakeholders, including customers, shareholders, investors, suppliers, employees and local communities through creating roads and affecting the lives of the people.”

Basic policy

In response to various changes in the business climate expected to occur on a large scale and at a fast pace, our organization strives to take flexible actions as one based on prompt and appropriate decision making, aiming to be a sustainable corporate group.

Business environment

- Trends in public investments and government policies (disaster prevention, disaster mitigation and national resilience)
- Economic impact of natural disasters, infectious diseases, etc.
- Currency market fluctuations stemming from factors such as the international situation
- Fluctuations in raw material prices and supply trends
- Social changes brought about by autonomous driving society and DX
- Changes in business practices such as decarbonized society
- Expansion of corporate social responsibilities such as ESG, SDGs, etc.
- Changes in the labor market such as new working styles, a declining workforce, and an increasing portion of the elderly



2025 Medium-term Management Plan Resilience 2025 (Shinayaka 2025)

—Aiming to be a company with strong organizational resilience—

FY2021 to FY2025

Priority measures

- Expand and cultivate our business markets, and penetrate markets
- Enhance R&D capabilities and improve productivity
- Strengthen the Group’s management foundation
- Boost environmental investments to contribute to realizing a decarbonized society

Corporate Philosophy

Basic philosophy

Sowing the seeds, giving them water, letting them flower, and reaping the fruits



Management philosophy

Contribute to society by creating roads

- Provide road paving materials and their corresponding construction methods to satisfy requirements for outstanding functionality and cost
- Offer advanced consulting that constantly watches over “roads,” which are the common assets of the people
- Implement construction technology that is trusted by customers

2043

Vision for the 100th Anniversary of Foundation

Deliver peace of mind to all stakeholders by creating roads

Develop and manage business from more of an ESG perspective

Flexibly adapt to various changes in the business climate

- Customers** Ensure environmental preservation, safety and quality in the processes of developing, improving and manufacturing products, construction work, surveys, etc.
- Shareholders and investors** Enhance corporate value through more extensive information disclosure and deeper dialog
- Suppliers** Constantly maintain and strengthen good and strong partnerships
- Employees** Create a work environment in which each and every employee finds their job meaningful and feels worth living
- Local communities** Win the trust of the community by paying attention to the environment and safety and contributing to society

SDGs pursued



Progress with Implementing the Medium-term Management Plan

Medium-term Management Plan

“Resilience 2025 (Shinayaka 2025)”

—Aiming to be a company with strong organizational resilience—

Priority measures

Expand and cultivate our business markets, and penetrate markets

- In Resilience 2025 (Shinayaka 2025), we continue to expand and cultivate our business markets and firmly establish in-house developed/manufactured products and construction methods for our customers and markets.
- We will boost sales of eco-friendly products and construction methods developed/manufactured in-house, which offer performance and functionality, such as long-lasting, recycling, CO₂ reduction, and safety.

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Progress in FY2021

- As a result of stepping up our efforts in the realms of disaster prevention and mitigation and national resilience, we expanded the volume of work performed using the STABI-CEMENT RC construction method by around 1.5 times.
- The sales ratio of eco-friendly products and construction methods jumped from 12.6% in the previous fiscal year to 21.2%. In particular, sales volume of SHINAYAKAPHALT, which contributes to longer life of paved roads, more or less doubled year on year.

Enhance R&D capabilities and improve productivity

- In order to respond to various changes in the business environment, we will actively bring in new technologies and digital technologies from other industries and then evolve our own ones to tackle the development of innovative products and construction methods.
- We will strengthen the organic connection of human resources and other management resources to improve the productivity of the entire corporate group. In addition, we will strive to establish an advanced logistics network based on the concept of supply chain management.

Progress in FY2021

- We developed the ICT-driven STABI-CEMENT RC construction method, which allows various data measurements to be taken in real time during construction using equipment-mounted sensors, and GLOCAL-EYEZ, which enables road inspections to be performed with ease using a smartphone.
- We managed to increase productivity by taking various steps to achieve DX, and reinforcing support and cooperation that straddles regional and departmental boundaries.

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Strengthen the Group's management foundation

- We will build a robust financial and managerial foundation to fulfill our corporate social responsibility and continuously enhance corporate value under any circumstances.
- Aiming to achieve further growth, we will promote the development and training of human resources that will support sustainable growth.
- We will promote the sophistication and expansion of ICT and advance DX to improve our work environment and increase operational efficiency.

Progress in FY2021

- We strengthened IR and reinforced governance ahead of our move to the TSE Prime Market.
- We raised our mandatory retirement age to 65 and designed a scheme for expanding support for employees to earn PhDs with the aim of securing and retaining high-caliber talent (the scheme was introduced in April 2022).
- We migrated to new groupware, conducted more meetings online, made progress with eliminating paper documents, and promoted teleworking.

Boost environmental investments to contribute to realizing a decarbonized society

- As a strategic move for the future, we will build an eco-friendly, advanced production and distribution site in Tsukubamirai City, Ibaraki Prefecture to accelerate our efforts toward the transition to a decarbonized society.
- We will strive to reduce energy consumption by replacing the Group-owned vehicles with hybrid vehicles and renovating existing buildings and facilities.

Progress in FY2021

- In light of factors such as soaring prices of steel and other building materials amid the Russia-Ukraine crisis and shortages of semiconductors for manufacturing equipment, we pushed back the start of construction of the new production and distribution site, Tsukuba Big Ship.
- We continued to renovate existing buildings and facilities to reduce energy consumption and made progress with replacing Group-owned vehicles with hybrid vehicles.

Numerical targets

Financial targets

	FY2020 results	FY2021 results	FY2025 targets
Consolidated net sales	¥71,471 million	¥78,001 million	¥86,000 million
Consolidated operating profit	¥9,140 million	¥8,566 million	¥10,000 million
Consolidated ordinary profit	¥9,574 million	¥9,311 million	¥10,200 million
ROIC (return on invested capital)	11.2%	9.3%	8.0% or more
ROA (return on assets)	8.2%	8.0%	6.0% or more

ESG targets

	FY2020 results	FY2021 results	FY2025 targets	FY2043 targets	Target stakeholders and SDGs mapping
Sales ratio of eco-friendly products and construction methods ¹	12.6%	21.2%	30% or more	80% or more	Customers Local communities     
Number of newly developed (improved) products and construction methods launched ²	10	1	10 or more	40 or more	
Ordinary profit margin	13.4%	11.9%	11.9% or more	10% or more	Shareholders and investors 
Dividend payout ratio	17.3%	18.8%	Approx. 25%	Approx. 30%	
Number of products of joint research and development rolled out ³	2	1	2 or more	10 or more	Suppliers  
Annual overtime ⁴	640 hours or less 77.8%	640 hours or less 87.2%	640 hours or less	360 hours or less	Employees  
Days of annual paid leave taken ⁵	50% or more of number of days granted 52.4%	50% or more of number of days granted 56.4%	50% or more of number of days granted	90% or more of number of days granted	

¹ Eco-friendly products and construction methods are those more conscious of the environment than existing ones. Sales ratio refers to a ratio to consolidated net sales.

² The cumulative number of new products and construction methods (including those improved) to be launched from FY2021 onward. The figures of FY2020 results are the cumulative totals from FY2016 to FY2020.

³ The cumulative number of developed products to be launched from FY2021 onward as a result of joint R&D projects. The figures of FY2020 results are the cumulative totals from FY2016 to FY2020.

⁴ Covers all Group employees.

⁵ Covers employees who are granted 10 or more days of annual paid leave.

Environmental

To Sustain Rich Global Environment

Basic approach

In recent years, companies are required to make a higher level of effort to address environmental issues, which include integrating ESG management, helping achieve the SDGs, addressing climate change-related issues, and promoting decarbonization in society. The Nichireki Group will proactively manage business in a more environmentally conscious way to both protect and maintain the global environment and achieve its sustainable development.

To these ends, the Nichireki Group has set up the Environmental Management Committee that deliberates on and examines group-wide initiatives to address general environmental issues including climate change and the evaluation and review of such initiatives. The Nichireki Group also manages environmental measures and ensures the implementation thereof from a sustainability perspective.

Toward the realization of sustainable society

The Nichireki Group promotes activities to contribute to the achievement of SDGs, such as initiatives to reduce CO₂ emissions by cold temperature construction methods and high durability construction methods among others, initiatives for 3Rs (Reduce, Reuse, Recycle) centered on recycling construction methods, initiatives in biodiversity conservation that make efficient use of timber from forest thinning.

We will further accelerate our efforts toward the realization of carbon neutrality (eliminating net emissions of greenhouse gas including CO₂) by 2050,.



Environmental policy

The Nichireki Group acquired the certification for integrated management system including environmental management system (ISO 14001) in February 2012, in addition to the certification for quality management system (ISO 9001) that has been implemented. Five efforts are specified in our environmental policies that form the backbone of environmental management system. Under those policies, we promote development and provision of eco-friendly products and construction methods, with reducing wastes, saving natural resources and energy, and recycling, while of course complying with laws and regulations, in mind.

Environmental Policies

As a corporate group that is indispensable for creating “roads,” we will strive to preserve the global environment, improve the local living environment and contribute to the realization of a sustainable society.

To these ends, we will promote environmental management and make the following efforts.

April 1, 2022

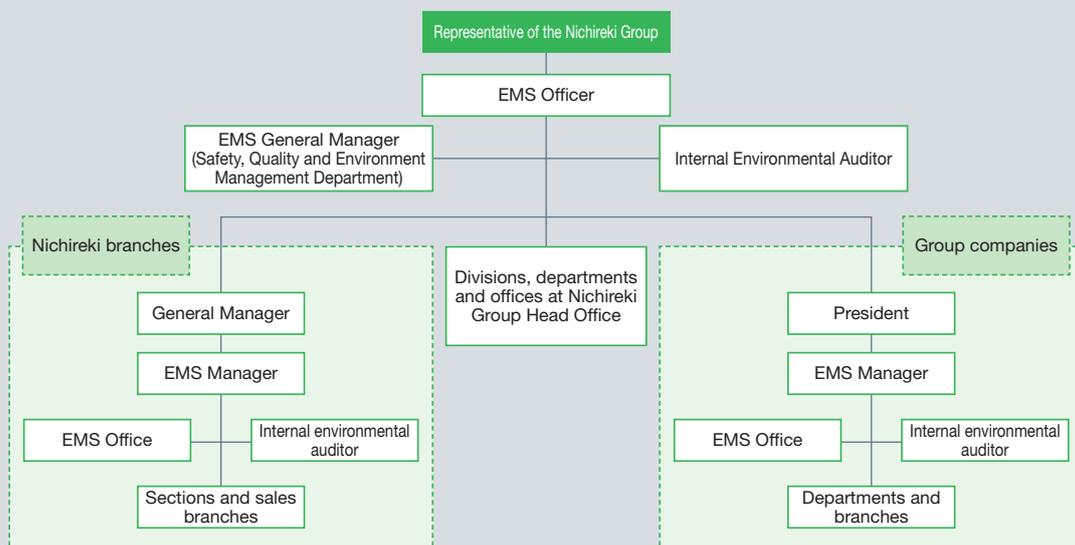
Manabu Obata, Representative, Nichireki Group

1. We comply with environmental laws and regulations, and promote an environmental management system.
2. We promote the reduction of waste products, saving of natural resources, energy conservation, and recycling activities.
3. We develop eco-friendly products and construction methods, and provide them to society.
4. We promote environmental protection activities and strive to prevent pollution.
5. We strive to further improve environmental awareness through education and business activities to reduce the impact on our environment.



ISO Certificate of Registration (Union of Japanese Scientists and Engineers ISO Registration Center)

Environmental Management System (EMS)





Responding to Climate Change

Information Disclosure Based on TCFD Recommendations

The Nichireki Group considers addressing the impact of climate change on its business to be one of its key managerial challenges. Accordingly, we support the Task Force on Climate-related Financial Disclosures (TCFD) and proactively take measures against climate change.

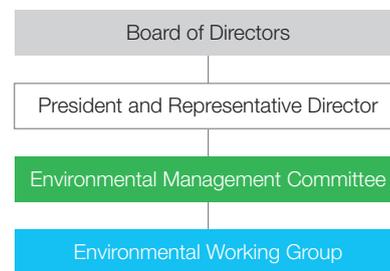
We clarify the impact on our business of the risks and opportunities brought about by climate change and take measures, thereby enhancing social sustainability and our corporate value while improving our business continuity.



Governance

In the Nichireki Group, the Board of Directors deliberates on and resolves key matters such as a basic policy for addressing general environmental issues including climate change. Particularly, the Environmental Management Committee, chaired by the President and Representative Director and comprised of General Managers of Corporate Planning, Administration, Business, and Technology Development Divisions, deliberates on and examines how to address group-wide environmental issues. Such deliberated and examined issues are ultimately presented to the Board of Directors. The Board of Directors is reported and reviews each year the progress of environmental management as well as business risks and growth opportunities related to environmental issues.

Governance system diagram



Risk Management

In the Nichireki Group, the above-mentioned Environmental Management Committee has a group-wide risk management system that regularly monitors climate change-related risks. In addition, we will seek to advance our approach of appropriately identifying and examining material risks that could significantly impact our business management by, for example, improving our scenario analysis and assessment so as to sufficiently hedge tail risk (the risk of an event with a small probability of happening but could cause enormous losses if once happened).

Strategy

The Nichireki Group identifies climate change-related risks and opportunities from both short-term and medium- to long-term perspectives. The Nichireki Group also performs two types of scenario analysis—the 2°C scenario with the assumption that the goals of the Paris Agreement will be achieved and the 4°C scenario with the assumption that no additional responses to policies will be provided—, assesses the level of impact of such risks and opportunities on its business, and considers countermeasures. We will assess the resilience of the countermeasures on an ongoing basis and consider new countermeasures as necessary.

2°C scenario

A scenario assuming that countries around the world will have stricter regulations and policies toward decarbonization and accordingly take stricter measures against climate change, and that the increase in the global average temperature will be below 2°C above pre-industrial levels.

4°C scenario

A scenario assuming that countries around the world will not take sufficient measures against climate change and that the global average temperature will rise 4°C above pre-industrial levels.

The Nichireki Group's risks and opportunities expected, financial and business impact levels assessed, and countermeasures based on the above scenarios are as shown in the table below.

Classification	Type	Risks and opportunities expected	Financial and business impact		Countermeasures
			2°C	4°C	
Transition risks	Policies, laws and regulations	<ul style="list-style-type: none"> Limitation of our business activities due to greenhouse gas emissions regulations Increase in facility costs due to greenhouse gas emissions regulations Cost increase due to the introduction of carbon tax 	High	Medium	<ul style="list-style-type: none"> Purchase low-carbon fuel and green power, and install solar panels Develop low-carbon manufacturing methods and construction methods as well as construction technology, etc. (e.g., cold paving materials, robotic construction) Promote the innovation of manufacturing processes (improve the Tsukuba Big Ship and other sites) Reduce CO₂ emissions by using low-carbon vehicles and equipment
		<ul style="list-style-type: none"> Mandatory use of alternative materials and recycled materials 	High	Medium	<ul style="list-style-type: none"> Develop products and construction methods using sustainable materials
	Technology	<ul style="list-style-type: none"> Intensifying competition in technology development toward the creation of a decarbonized society 	High	Medium	<ul style="list-style-type: none"> Put more effort into developing low-carbon products and construction methods
	Market	<ul style="list-style-type: none"> Increase in procurement costs due to soaring petroleum-based raw materials Increase in waste disposal cost 	High	Medium	<ul style="list-style-type: none"> Consider increasing raw materials suppliers or narrowing down the current raw materials suppliers Examine and develop alternative materials Promote recycling
Physical risks	Acute	<ul style="list-style-type: none"> Increase in the costs of restoring our production facilities and logistics infrastructure if being severely damaged during extreme weather events Suspension of production and shipment due to the difficulty of obtaining raw materials resulting from extreme weather events 	Medium	High	<ul style="list-style-type: none"> Take stronger business continuity measures in our manufacturing sites and supply chain
	Chronic	<ul style="list-style-type: none"> Decrease in productivity with increasing temperature during summer 	Medium	High	<ul style="list-style-type: none"> Improve a work environment by using air-conditioning clothing, power assist suits, etc. Promote labor-saving practices by using IoT, AI, robots, and other solutions
Opportunities	Products and services	<ul style="list-style-type: none"> Increases in needs adapted to climate change and opportunities for receiving orders 	High	Medium	<ul style="list-style-type: none"> Put more effort into making propositions of low-carbon products and construction methods and developing them in response to changes in consumer preferences
	Resilience	<ul style="list-style-type: none"> Increase in infrastructure resilience needs 	High	Medium	<ul style="list-style-type: none"> Expedite the development of products and construction methods that help prevent and mitigate disasters Promote our one-stop solutions business that comprises all the processes from design and proposal based on survey, diagnosis and prediction with the use of IoT and AI to manufacture and sales followed by construction and management
	Resource efficiency	<ul style="list-style-type: none"> Reduction in operating costs with increase in productivity through the innovation of manufacturing processes 	High	Medium	<ul style="list-style-type: none"> Install more productive manufacturing equipment that uses IoT and AI (in the Tsukuba Big Ship and other sites)

Metrics and Targets

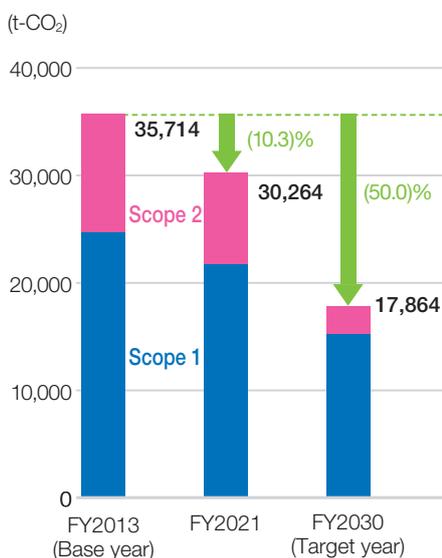
The Nichireki Group has set the target of achieving net-zero greenhouse gas emissions across its value chain by 2050. Taking fully into account the goal set by the government of aiming to reduce greenhouse gas emissions by 46% from FY2013 by FY2030, the Nichireki Group has also set the target of reducing Scope 1 and 2* greenhouse gas emissions by 50% from FY2013 by FY2030.

To achieve these target levels, we will promote the reform of manufacturing methods and others, the purchase of green power and the installation of solar panels. In the medium and long run, we will also proactively use vehicles and construction equipment that use low-carbon fuel, decarbonized fuel, hydrogen and electricity.

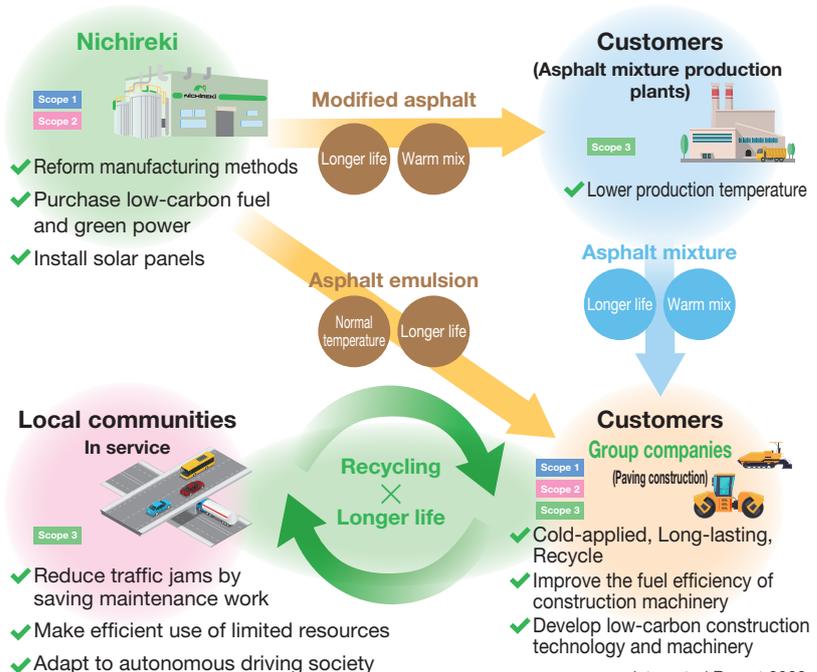
Furthermore, we will work at increasing sales of eco-friendly products such as longer-life and warm mix modified asphalt and other paving materials, and encouraging the development of low-carbon cold-laid paving materials and construction technology.

*Scope 1: direct greenhouse gas emissions from the reporting company (fuel combustion and industrial processes)
 Scope 2: indirect greenhouse gas emissions from consumption of electricity, heat, or steam supplied by other companies
 Scope 3: other indirect emissions not covered in Scope 1 or 2 (that occur in other companies related to the reporting company's activities)

CO₂ emissions reduction targets



Overview of how Nichireki's products and construction methods help reduce CO₂ emissions



Approx.
22% reduction
in CO₂ emissions
during asphalt mixture
production

SUPER SHINAYAKAPHALT

Eco-friendly feature

The temperature of mixture production can be lowered by 50°C from 180°C to 130°C compared to our traditional SHINAYAKAPHALT product. This enables a reduction in fuel consumption during mixture production, cutting CO₂ emissions by approximately 22%.



SHINAYAKAPHALT

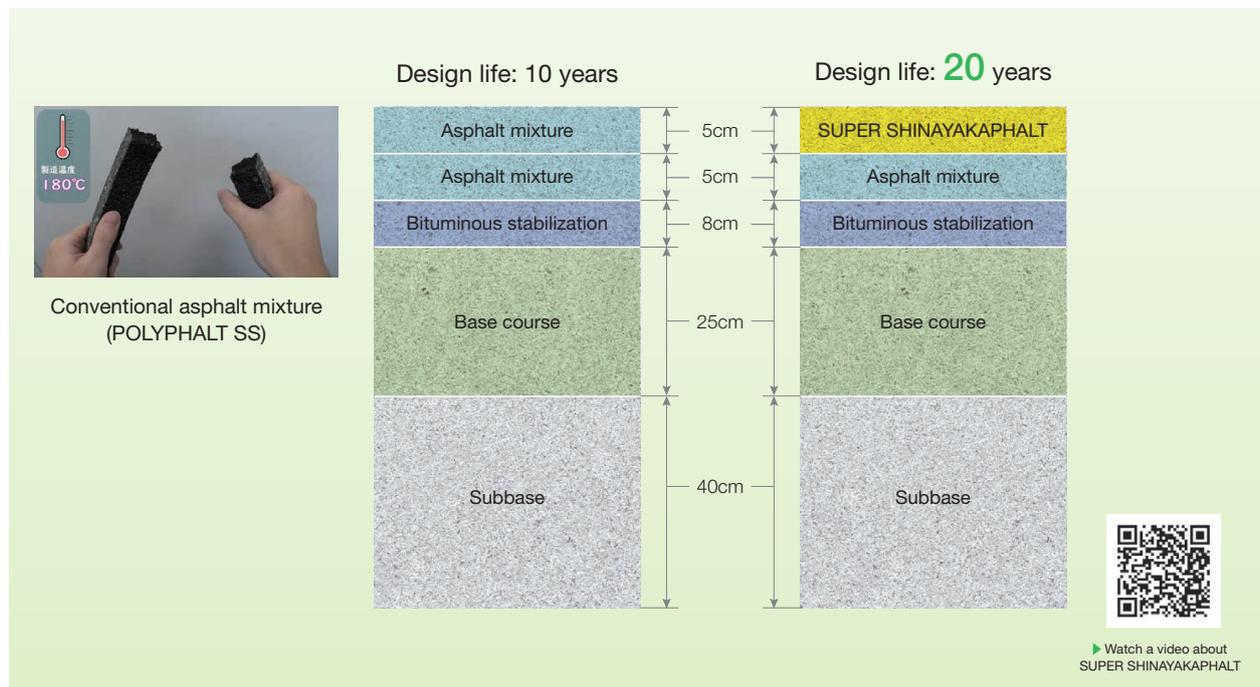
Tastainability™

(Tastainability™ is a coined word that combines 'Tasu' and 'Sustainability.' 'Tasu' means 'plus' in Japanese; Tastainability™ means 'Plus sustainable feature'.)



SUPER SHINAYAKAPHALT

As with SHINAYAKAPHALT, this material with 1.7 times greater performance than general asphalt mixture helps extend the life of road pavements and reduces construction times by approximately one half. This enables us to reduce CO₂ emissions caused by construction work, traffic jams, etc.



The Nichireki Group responds to CO₂ emissions reduction needs of its customers and other stakeholders. We also contribute to the creation of roads in a sustainable way by adding greater performance and functionality, such as not only low-CO₂ feature but also longer life and recycling features, that is, providing *Tastainability*TM.

Approx.
20% reduction
in CO₂ emissions
by recycling
the existing pavement

STABI-CEMENT RC construction method

Eco-friendly feature

We recycle the existing paving whose damage has become more severe and widespread and construct new pavement at present location. This enables an approximately 80% reduction in pavement debris from the site, reducing CO₂ emissions by approximately 20%.



Damaged road pavement



Construction with a road stabilizer

*Tastainability*TM

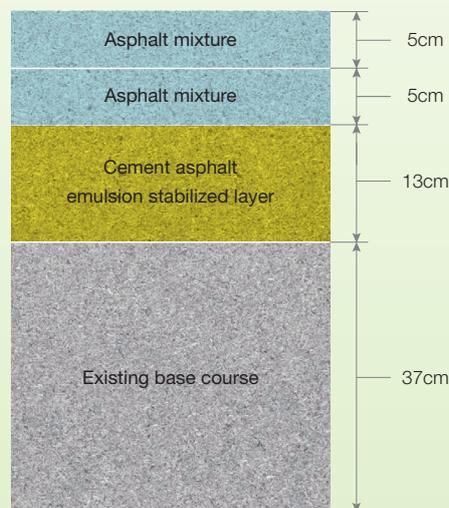


This method also helps shorten a construction period and reduce traffic jams accordingly, which contributes to the further reduction of CO₂ emissions.

Full layer reconstruction



STABI-CEMENT RC construction method



* Comparison with the construction method of reconstructing full layers that we remove the existing pavement and construct new pavement.
<Prerequisite for Comparison>
Road Type: General Local Road
Design CBR: 4
Traffic Volume Class: N₅



▶ Watch a video about STABI-CEMENT RC construction method

Approx.
48% reduction
in CO₂ emissions
by long-lasting and
recycling

SUPER SHINAYAKAPHALT + STABI-CEMENT RC construction method

Eco-friendly feature

We recycle the existing pavement whose damage has become more severe and widespread, and construct new pavement at present location (STABI-CEMENT RC construction method). We then use long-lasting asphalt mixture (SUPER SHINAYAKAPHALT) on the reconstructed pavement. This hybrid method enables longer-life paving than ever, reducing CO₂ emissions by approximately 48% in a 50-year pavement life cycle.

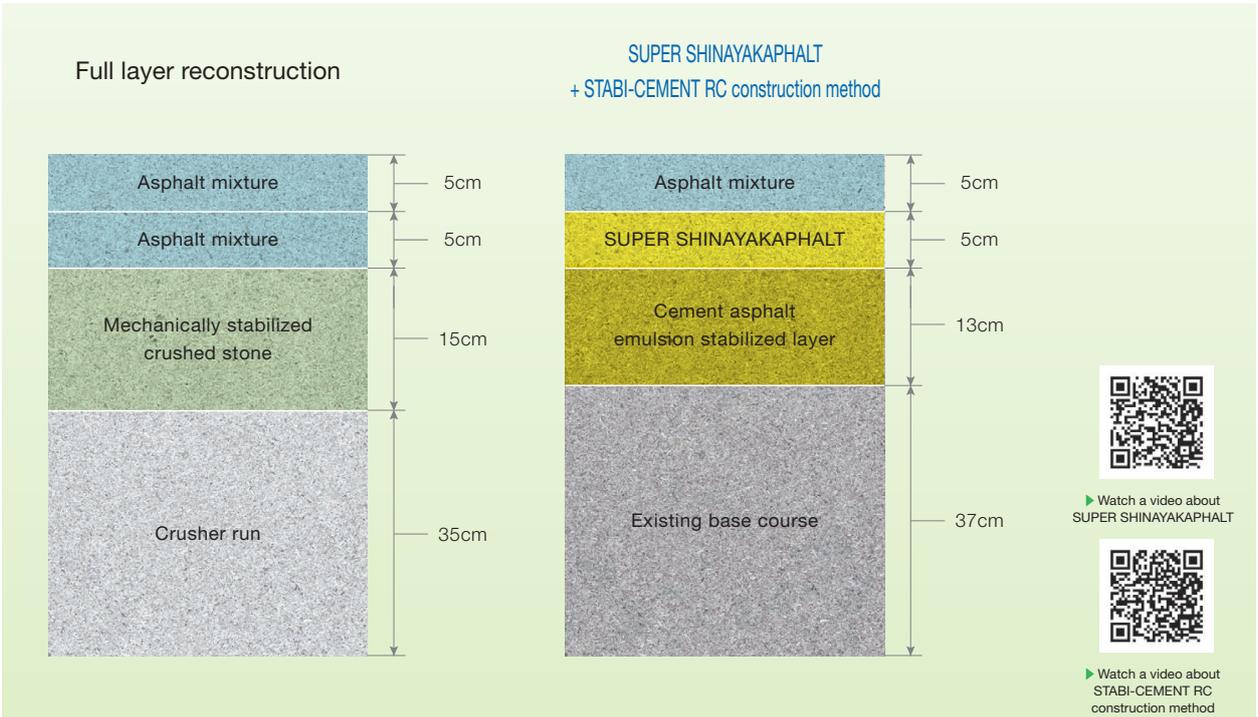
Tastainability™



SUPER SHINAYAKAPHALT



STABI-CEMENT RC construction method



Approx. **30%** reduction in CO₂ emissions compared to the typical pavement using hot mix

ASWOOD paving

Eco-friendly feature

This method makes effective use of resources such as forest-thinning materials, cutting CO₂ emissions by approximately 30% compared to the typical pavement using hot mix.



Forest-thinning materials



Example of constructed path



Using forest-thinning materials and other resources without combusting prevents CO₂ from being emitted into the atmosphere and contains CO₂ as it is within the materials and resources (CO₂ fixation). For example, when we construct a 1,000 m² of sidewalks and other paths with 4 cm in thickness using the ASWOOD paving method, we can fix CO₂ whose amount is equivalent to the amount of CO₂ absorbed by approximately 1,300 Japanese cedar trees per year.

ASWOOD paving



We can meet various needs of our customers by offering different types of ASWOOD paving method. One of which has higher load resistance, allowing a pavement management vehicle to drive through.



▶ Watch a video about ASWOOD paving

Approx.
61% reduction

in CO₂ emissions
compared to thin-layer
paving using hot mix

SUPER SURFTREAT construction method

Eco-friendly feature

We improve the functionality of the existing road surface that has undergone surface roughening with this method by applying and smoothing a thin layer of cold special slurry mixture. As construction is possible at normal temperature, this method reduces CO₂ emissions by approximately 61% during construction, compared to thin-layer paving using hot mix.



Dedicated vehicle applying and smoothing a thin layer of mixture



After construction

Tastainability™

Preventing potholes caused by severe cracks helps extend the life of a paved road.



Longer life

Avg. applied thickness: $t = 1.2 \text{ mm}$
Max. applied thickness: $t = 5.0 \text{ mm}$



Existing paved road

Applicable areas

- ① Roads of N₅ and lower traffic classes
- ② Neighborhood streets and streets within the premises of housing estates
- ③ Sidewalks and cycling paths
- ④ Platforms inside stations
- ⑤ Paved runway shoulders at airport, road shoulders, etc.



▶ Watch a video about SURFTREAT construction method

Approx.
17% reduction
in CO₂ emissions
during asphalt mixture
production

Modified Guss Asphalt

Eco-friendly feature

The temperature of mixture production using the modified guss asphalt is 190°C, 50°C lower than the high temperature at 240°C normally required during the production of hard asphalt mixture that is generally used for the binder course of steel deck plate during bridge deck paving. Modified guss asphalt enables a reduction in fuel consumption during mixture production, cutting CO₂ emissions by approximately 17%.



During construction

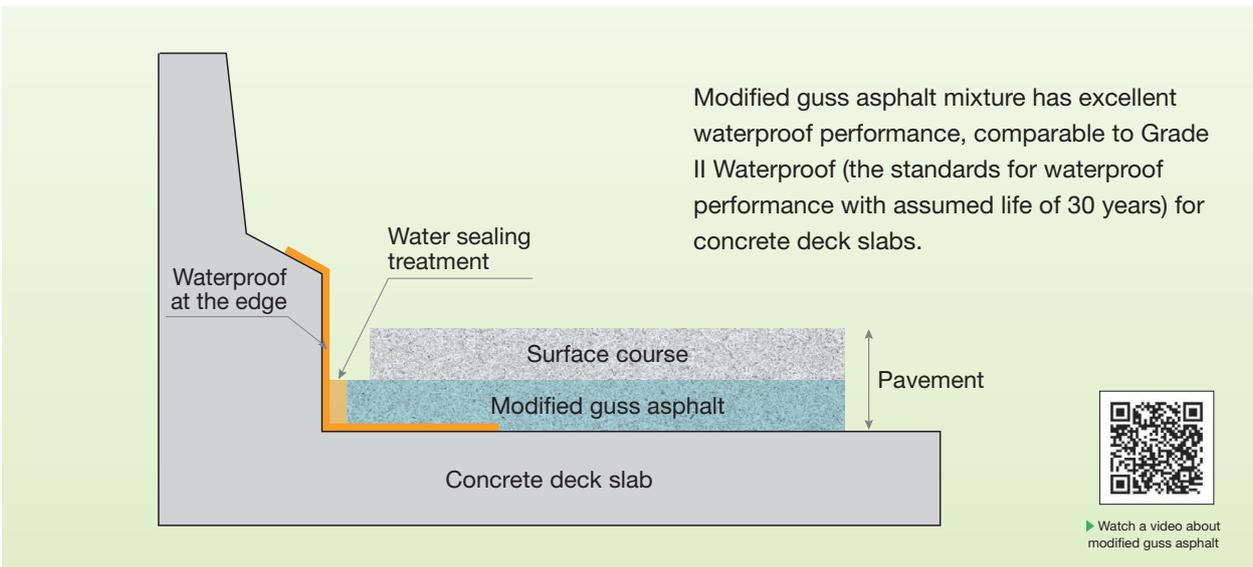


After construction

Tastainability™



The lower temperature produces less asphalt-specific odor. This material provides much higher durability than the traditional one, which helps extend the life of bridge deck pavement and reduce construction times, ultimately reducing CO₂ emissions.



▶ Watch a video about modified guss asphalt

Social

Toward a Rewarding Work Environment



Workstyle reforms

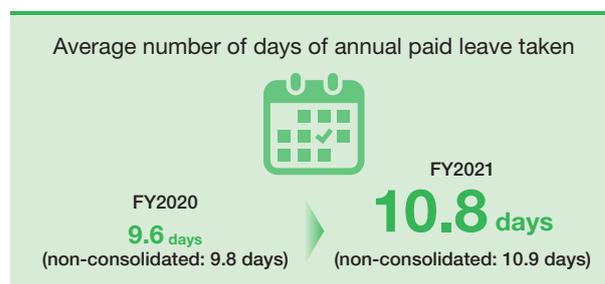
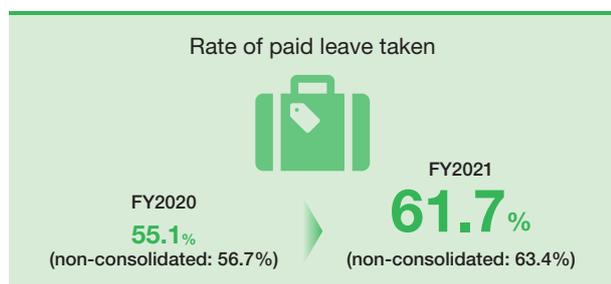
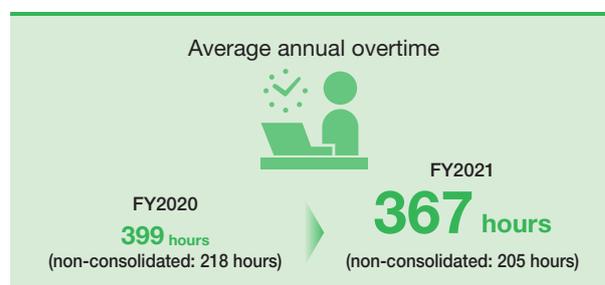
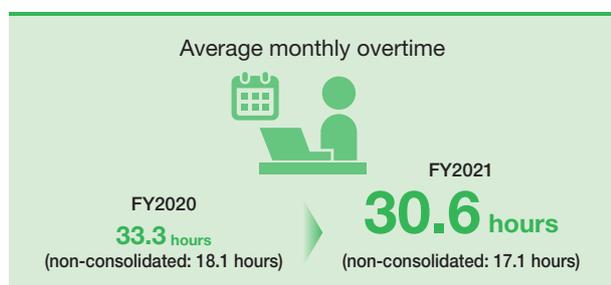
The Nichireki Group has appropriate labor management in place and is continuously working to reduce long working hours.

In FY2020, we introduced a cloud-based employee time clock system using ICT, with which we gather accurate attendance information, including each employee's clock-in, clock-out, statutory overtime, and paid leave taken, and appropriately manage them.

In addition, in order to encourage employees to take more paid leave, we introduced a "planned paid leave program" which has employees report their planned paid leave dates, the number of which must be greater than the legal requirement, in advance to the human resources department at the beginning of each fiscal year. We also encourage employees to take long vacations during the Year-end through New Year season and summer season.

Furthermore, we are systematically expanding the use of mobile PCs and migrating our groupware and business operating systems into the cloud in order to introduce and promote remote working to a wider range of employees as part of the initiative to offer more options of working.

We will continue improving employees' work-life balance by promoting operational efficiency in order to develop a work environment where every employee can keep growing and deliver their full potential.



Medium- to long-term targets

Item	FY2020 results	FY2021 results	FY2025	FY2043	SDGs mapping
Annual overtime^{*1}	640 hours or less 77.8%	640 hours or less 87.2%	640 hours or less	360 hours or less	
Number of days of annual paid leave taken^{*2}	50% or more of number of days granted 52.4%	50% or more of number of days granted 56.4%	50% or more of number of days granted	90% or more of number of days granted	

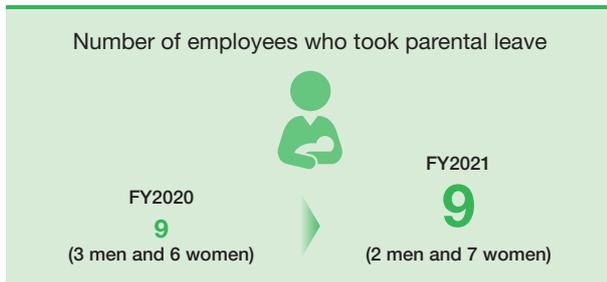
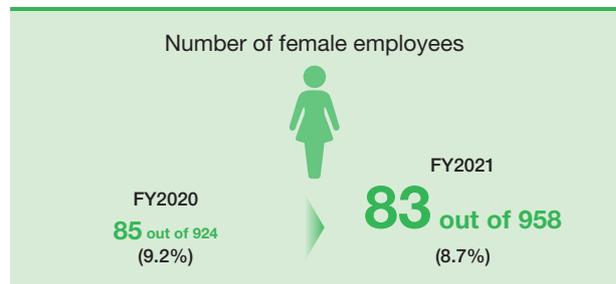
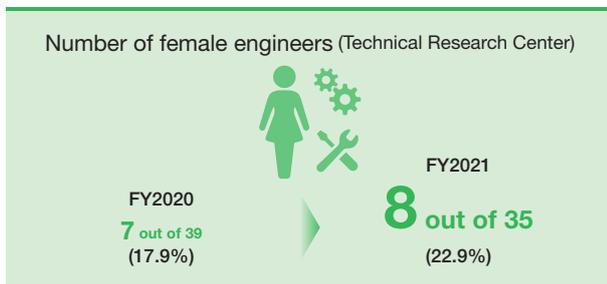
*1 Covers all Group employees.

*2 Covers employees who are granted 10 or more days of annual paid leave.

Promotion of diversity and inclusion

The Nichireki Group strives to develop a work environment where employees of diverse backgrounds can perform to the best of their abilities beyond nationality, generation, and gender. By effectively combining the diverse perspectives and values brought about by individual differences, we are striving to develop an environment in which we can respond quickly and appropriately to the demands of all stakeholders, including our customers, and to create a corporate culture that takes diversity as its strength.

We also develop a work environment where employees can take parental leave without hesitation and raise their children with peace of mind. We have developed and are managing various systems such as a parental leave system and a short working hour system. In response to the recent amendment of the Ordinance for Enforcement of the Act on Child-care Leave, Caregiver Leave, etc. that took effect in April 2022, we now disseminate the parental leave system to applicable employees and confirm their intention.



Training programs for talent development

The Nichireki Group is making efforts to improve its training programs to enhance employees' competencies and awareness of compliance.

For example, the training to develop new hires who will lead the company in the future used to be for a month, but has been changed to two months since FY2021. This has allowed them to learn more about the business manner and essential knowledge at work. Then, after they are assigned, we provide careful guidance and consideration at the workplace such as OJT under the supervision of senior employees in charge of education and training.

In addition, we provide training by rank and profession so that they can continuously enhance knowledge and skills related to our business as well as various internal seminars to promote and support the acquisition of official qualifications.

Group training programs



Operating a new HR system

We started a new HR system in April 2022 as part of further strengthening of the management foundation that supports the Group's sustainable growth. The major features include the introduction of age 65 retirement to develop a work environment where older employees can thrive. Besides, aiming at bringing out the full potential of each employee, we have begun initiatives for placing the right person in the right position and introduced a role-based payroll system. As part of this, we have newly established specialist positions (technical professional positions) and introduced a new career path for engineers. We have also enhanced our aid for employees who support our R&D and technological capabilities to acquire PhDs as part of their career development.

Improving mental health

Since FY2016, we have carried out annual stress checks for all employees for the purposes of preventing mental disorders and making the workplace more comfortable and healthier.

We make efforts to diminish employees' stress by assessing the stress factors at work based on the aggregation and analysis of the stress check results and using them to improve the work environment.



Training for supervisors



Training for engineer work



Training for construction work



Training for new hires

Implementing Initiatives for Occupational Health and Safety

Policy on health and safety

Under its Health and Safety Management Policy, the Nichireki Group has prepared a manual covering its occupational health and safety management system titled Nichireki Cosmos, to eliminate accidents and disasters and prevent incidents caused by a third party. To further promote safety initiatives, the Nichireki Group has upgraded its Head Office's Safety, Quality and Environment Management Office into a department in November 2020, and established the Health and Safety Section in each branch as a separate organization.

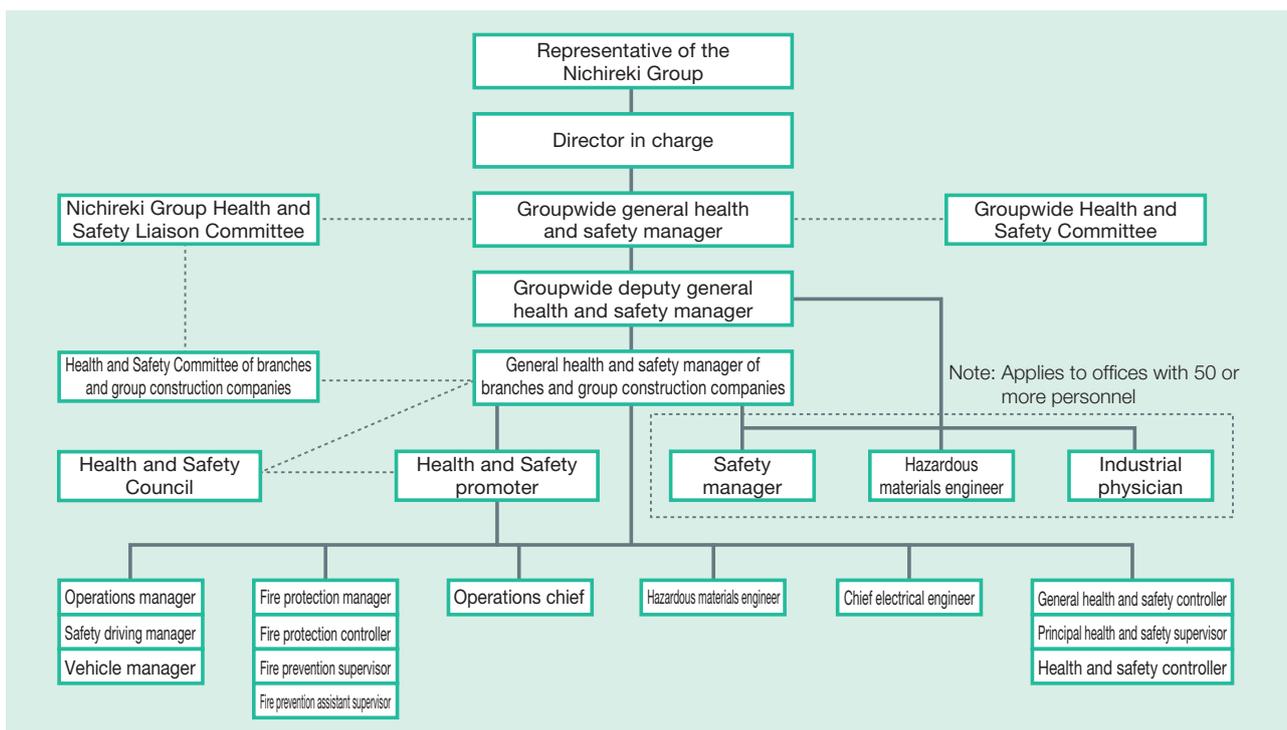
Health and Safety Management Policy

We will diligently manage the occupational health and safety management system, eliminate accidents and disasters, and create a safe and comfortable work environment.

April 1, 2022
Manabu Obata, Representative, Nichireki Group

1. We will comply with laws, regulations, ordinances, and internal rules on occupational health and safety.
2. We will improve the effectiveness of safety assemblies, and establish a safety culture.
3. We will improve meetings before work and Kiken Yochi (hazard prediction; "KY") activity to prevent hazards and improve safety.
4. We will strengthen safety patrols so that safe behavior becomes the norm.
5. We will ensure that workers use finger pointing and calling and wheel chocks to prevent human errors.
6. We will promote the 5S practice (Seiri, Seiton, Seiso, Seiketsu, and Shitsuke in Japanese or Sort, Set in order, Shine, Standardize, and Sustain in English).
7. We will implement the one, two, three practice.
(slow down by one tenth, inter-vehicle distance by two times, and depart three minutes earlier than scheduled)

Health and safety management system



Initiatives in FY2021

At the Nichireki Group, employees and subcontractors make concerted efforts to eliminate accidents, aiming to achieve the goal of zero accidents. Specific initiatives in FY2021 are as follows:

Compile a health and safety management rule book and implement the rules

We have compiled a health and safety management rule book in a way that complies with relevant laws and regulations and addresses health and safety issues within the Group. In preparation for implementing the rules in April 2021, we held briefings for all offices nationwide to ensure that all employees are aware of the related laws and regulations and internal rules while increasing employees' awareness to make sure that they comply with the prescribed procedures and perform basic practices such as finger pointing and calling.

Standardize forms such as checklists

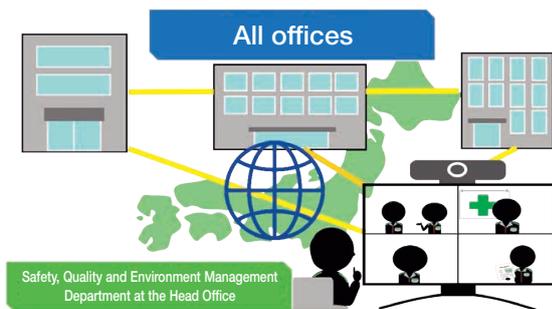
We have standardized our inspection form, which is used to check our sales cars, to indicate the Group's standard check items, aiming for comprehensive and reliable safety management.

Promote safety patrols by the Safety, Quality and Environment Management Department nationwide

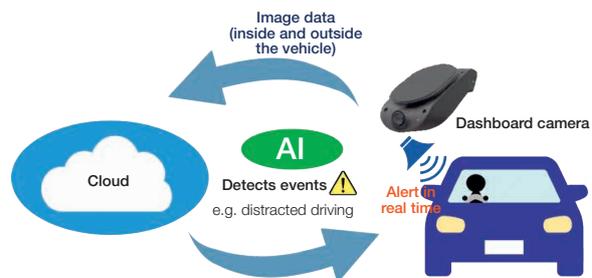
We have identified sites with potential dangers through the safety patrols at all offices. We took thorough measures for improvement to develop a safer and more comfortable work environment for facilities with potential dangers, especially in the production plants. For example, we reinforced fall prevention measures from heights and increased workplace illumination.

Install AI-powered dashboard cameras

We have completed the installation of AI-powered dashboard cameras onto asphalt distributors, tank lorries and road surface measuring vehicles in FY2021. The device analyzes the driving situation in front and inside of the vehicle and alerts the driver of anticipated dangers.



Online health and safety meetings



AI-powered dashboard camera



Online distribution of safety declaration by the Representative of the Group



Safety patrol on plant premises

Outcome of the initiatives in FY2021

As shown in the table below, the number of accidents during FY2021 totaled 35, the same as FY2020. The number of car accidents increased by six from FY2020, and the causes include lack of safety confirmation and careless driving. On the other hand, the number of accidents involving damage to the public decreased by five thanks to measures such as standardizing vehicle body inspection procedures. Vehicles with AI-powered dashboard cameras had no record of accidents.

Number of accidents

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Accidents involving damage to the public	12	5	15	13	15	10
Equipment-related accidents	3	8	5	4	5	3
Car accidents ^{*1}	6	5	0	2	10	16
Workplace injuries ^{*2}	3	2	2	3	5	6

*1 Work accidents resulting in injury

*2 Injuries resulting in four or more lost workdays

Future initiatives

The Nichireki Group will carry out the following activities and improve the situation on an ongoing basis, aiming to achieve zero accidents.

Eliminate car accidents

According to the health and safety management rule book, we will further increase employees' awareness to make sure that they comply with the prescribed procedures and perform basic practices such as finger pointing and calling. We will also instruct employees on safe driving using data recorded in dashboard cameras.

Eliminate accidents involving damage to the public

We will strive to eradicate damage to third parties along driving routes and around construction sites by, for example, ensuring the implementation of the hazard prediction activity, properly following work procedures, and appropriately allocating guides and lookouts.

Strengthen safety enlightenment activities

We will participate in various campaigns such as National Safety Week, National Occupational Health Week, Year-end and New Year Construction Accident Prevention Period, and Fiscal Year-end Construction Accident Prevention Month. We will also conduct safety patrols at all offices by the Safety, Quality and Environment Management Department.

Improve health and safety management level

We will share with all employees across the Group the causes of various types of accidents and countermeasures against them through online group-wide health and safety meetings and make efforts to increase safety awareness and prevent the occurrence of similar accidents.

Enhancing the Supply Chain Management

Policy for ensuring quality

Under its quality policy, the Nichireki Group constantly pursues the creation and supply of products and construction methods that meet the needs of customers as efforts in compliance with ISO9001.

Quality Policy

Based on its spirit of sowing the seeds embodied by “sowing the seeds, giving them water, letting them flower, and reaping the fruits,” the Nichireki Group is constantly creating and supplying products and construction methods that gain customer satisfaction and trust in order to contribute to society by creating roads.

April 1, 2022
Manabu Obata, Representative, Nichireki Group

1. We will create new customers by supplying competitive products and construction methods.
2. We will meet customers’ demands by developing attractive products and construction methods.
3. We will develop and utilize survey technologies tailored to customers and markets.



ISO Certificate of Registration
(Union of Japanese Scientists and Engineers ISO Center)

Cooperation with suppliers in procurement

The Nichireki Group has been carrying out ESG-oriented procurement activities with the entire supply chain in mind in cooperation with suppliers so as to grow into a sustainable corporate group.

We conduct a supplier evaluation for registration and certification at least once a year for the procurement of items that have an impact on product quality. As a result of the evaluation, we recommend that they take necessary measures for improvement for suppliers that are ranked low. We also actively carry out communication activities to deepen our relationships of trust with suppliers.

Medium- to long-term targets

Item	FY2020 results	FY2021 results	FY2025	FY2043	SDGs mapping
Percentage of suppliers evaluated	100%	100%	100%	100%	 

Projects commended

Received an award for the process management excellent construction for the Chiba-Togane Road paving work (Construction period: October 6, 2018 to June 26, 2020)

The Chiba-Togane Road paving work was selected as process management excellent construction, and NICHIREKI ROAD CO., LTD. of the Nichireki Group was awarded for the process management excellent construction by East Nippon Expressway Company Limited.

The project included making parking lots barrier-free and repairing green spaces within the Noro Parking Area both inbound and outbound lanes of the Chiba-Togane Road that extends from the Keiyo Road Chiba East Junction to Togane City as well as repairing the pavement and installing wire ropes in the section between Mobarata Kita Interchange and Mobarata Chonan Interchange on Ken-o Expressway.

In the repair work of green spaces within the Noro Parking Area, we shared the instructions of the expert review committee with the contractee and the design company and made careful adjustments to carry out reliable construction. In addition, in the work on the Ken-o Expressway, despite limited road closure time, we were able to complete the construction within the schedule by enhancing the readiness and quickly responding to the situation, contributing to the progress of the entire project. As a result, we received high evaluation from the contractee.



Received the Excellent Construction Work Award for the road surface repair project (2-1, heat-blocking paving work) (Construction period: September 7, 2020 to March 8, 2021)

The heat-blocking paving work on the special Tokyo metropolitan road Kasumigaseki Shibuya line (Route 412) that extends from 1-chome Nagatacho, Chiyoda-ku to 2-chome Akasaka, Minato-ku in Tokyo was selected as an excellent construction work, and the Tokyo Branch of NICHIREKI ROAD CO., LTD. received the Excellent Construction Work Award from the director of the 1st Construction Office of the Tokyo Metropolitan Government Bureau of Construction.

This construction work was difficult to coordinate the schedule because there were many political facilities such as the Prime Minister's official residence in the vicinity of the site, and it was necessary to close the Kasumigaseki Exit of the Metropolitan Expressway to traffic. We were highly regarded for formulating a detailed schedule through consultations with relevant ministries and agencies, steadily implementing it and achieving a high level of quality through safe and accident-free construction.

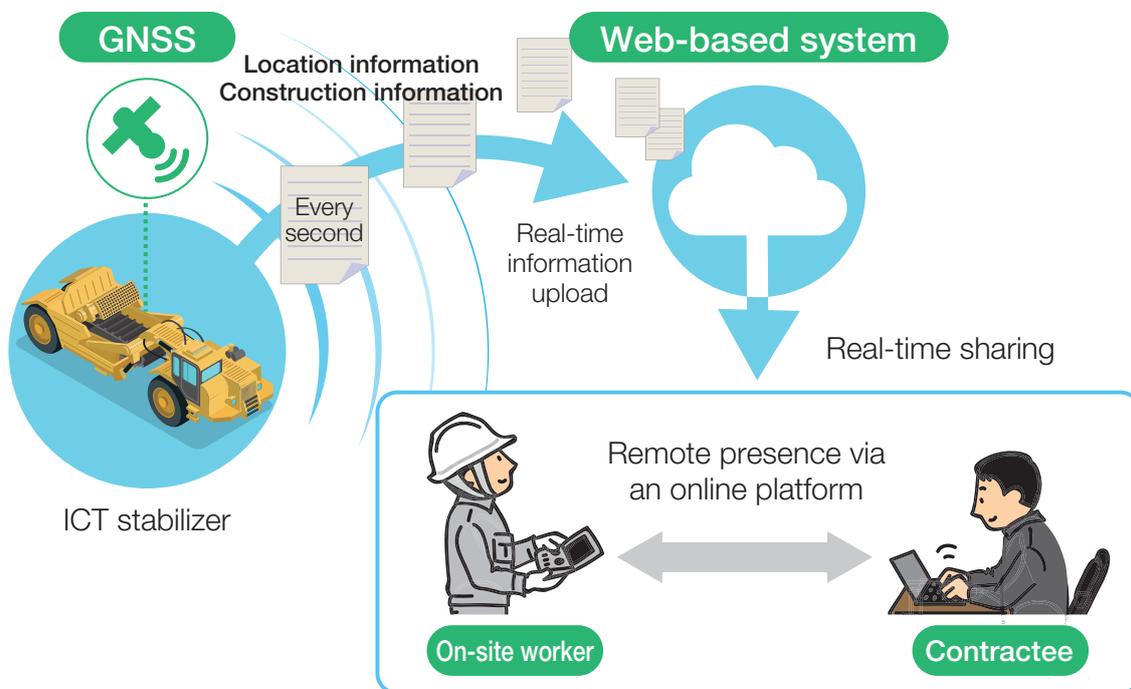


Taking on Initiatives as an R&D-oriented Company

Development of new products and construction methods

Today, companies are required to practice more eco-friendly and sustainable corporate activities around the world. The Nichireki Group is pursuing the development and improvement of eco-friendly and innovative products and construction methods, which offer performance and functionality in terms of keywords such as CO₂ reduction, long-lasting, recycling, and safety, to achieve the long-term goal of “net zero greenhouse gas emissions across the entire value chain by 2050.”

We have developed a new construction method using ICT, namely STABI-CEMENT RC construction method (on-site base course recycling construction method) in FY2021, the first fiscal year of the Medium-term Management Plan “Resilience 2025 (Shinayaka 2025)”. This new method can improve construction management and quality control by measuring various types of data in real time during construction using a sensor and other devices installed on a road stabilizer. The data can be shared through the internet in real time, and those involved in the construction work including the contractee are able to check the construction status and the measured data from wherever they are. As recommended by the Ministry of Land, Infrastructure, Transport and Tourism, we will utilize this remote presence tool for construction stage confirmation.



Medium- to long-term targets

Item	FY2020 results	FY2021 results	FY2025	FY2043	SDGs mapping
Sales ratio of eco-friendly products and construction methods ^{*1}	12.6%	21.2%	30% or more	80% or more	7 AFFORDABLE AND CLEAN ENERGY, 9 INDUSTRY, MANUFACTURE AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES
Number of newly developed (improved) products and construction methods launched ^{*2}	10	1	10 or more	40 or more	12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION

^{*1} Eco-friendly products and construction methods refer to those more conscious of environment than existing ones. Sales ratio refers to a ratio to consolidated net sales.

^{*2} The cumulative number of newly developed (improved) products and construction methods launched or to be launched in FY2021 or later. The figure for the FY2020 result is the cumulative total from FY2016 to FY2020.

Joint research and development with external partners

In research and development activities, Nichireki has been proactively promoting external alliances and open innovation with external partners so as to meet increasingly sophisticated and diversified technological needs and increase the investment efficiency in technological development. Those external partners include client entities; research institutions including universities; companies in different industries, including manufacturers of chemical materials and construction equipment; and industry peers.

As a result of these efforts, we have jointly developed GLOCAL-EYEZ, a smartphone-based road inspection system, with Professor Tomonori Nagayama of the University of Tokyo and SmartCity Research Institute. The application downloaded and installed to an ordinary smartphone attached to a car shoots the paved road and sends the data directly from the smartphone to a cloud server so that the inspection results can be confirmed on the internet after a few hours of AI analysis of damage on road, making road inspection easy and efficiently done by anyone.

We will continue proactively pursuing joint research and development with external partners.

	Crack diagnosis classification I (minor damage level)
	Crack diagnosis classification II (moderate damage level)
	Crack diagnosis classification III (major damage level)
	Pothole observed point
	Bump observed point

Road inspection by GLOCAL-EYEZ

Medium- to long-term targets

Item	FY2020 results	FY2021 results	FY2025	FY2043	SDGs mapping
Number of joint research and development projects*	2	1	2 or more	10 or more	

* The cumulative number of developed products launched or to be launched in FY2021 or later as a result of joint R&D projects. The figure for the FY2020 result is the cumulative total from FY2016 to FY2020.

Communicating with Society

Social contribution activities

The Nichireki Group proactively participates in disaster recovery activities and community contribution activities through many of its locations across the country to fulfil the social responsibility as a group of companies engaged in public works.

- **ASAHI KOGYO TECHNOs CO., LTD. (formerly, ASAHI KOGYO CO., LTD.)**

The company contributed to early securing of traffic by removing collapsed earth and sand when a slope disaster occurred on the Oita Expressway due to the heavy rain in July 2020. The company received an appreciation letter from the director of the Oita Expressway Office of West Nippon Expressway Company Limited.



- **AOMORI NICHIREKI CO., LTD.**

The company participated in community volunteer activities of Towada City Construction Association to clean up the flower beds on Kanchogai-dori Street.



- **HOKKAIDO NICHIREKI CONSTRUCTION CO., LTD**

The company arranged a Japanese Red Cross Society bloodmobile in its parking lot in response to the reports on the difficult situation for securing blood donors due to COVID-19. 20 employees donated blood.



- **Kanto Branch**

The branch visited Tochigi Prefectural Nasu Seiho High School to give a class on pavement for 16 second graders in Civil Engineering course of Construction Engineering Department.



- **IWATE NICHIREKI CO., LTD.**

The company invited 33 second graders of Iwate Prefectural Kurosawajiri Technical High School for a site visit. They observed the ICT road surface cutter and experienced work using cold asphalt mixture.



- **Kanto Branch**

The branch entered into an official sponsorship agreement (dated July 1, 2022) for the 2022-2023 season with Utsunomiya Brex of the B.LEAGUE, the men's professional basketball league.



We won the Grand Award in the Producer Goods and Industrial Category of the 70th Nikkei Advertising Awards and the Minister of Economy, Trade, and Industry Award of the 43rd Japan BtoB Advertising Award 2022

Nichireki's series of double-page spread advertisements placed on the Nikkei (morning edition) over two weeks, on July 26 and August 3, 2021, received the Grand Award in the Producer Goods and Industrial Category of the 70th Nikkei Advertising Awards hosted by Nikkei Inc. Nichireki won the Advertising Awards for the second year in a row following last year's Environment Minister's Award/Grand Award in the Environment Category.

This year, we also won the Minister of Economy, Trade, and Industry Award, which is the grand prize of the 43rd Japan BtoB Advertising Award 2022.

We expressed our stance on technological development with the advertising copy "Since it is a must, infrastructure must have environmental measures," which is working to reduce CO₂ emissions and conserve the global environment by extending product life and promoting recycling in the field of asphalt pavement.



We won the Katahira Award First Prize for Best Technical Paper at the 16th REAAA Conference 2021 and the Best Paper Award at the 34th Japan Road Conference

The technical paper *Experimental Development of New Test Method for Evaluating Interlayer Bonding Properties of Asphalt Pavement Considering Pore Water Pressure*, which was co-authored by Nippon Expressway Research Institute Company Limited and Nichireki, received the Katahira Award First Prize at the 16th REAAA Conference that was hosted by the Road Engineering Association of Asia and Australasia (REAAA) on September 13–15, 2021.



In addition, two technical papers by our employees received awards in the pavement category at the 34th Japan Road Conference that was hosted by Japan Road Association on November 4–5, 2021; *Case Study of Applying Cold Mixture for a Small-Scale Pavement on Metropolitan Road*, co-authored with Tokyo Metropolitan Public Corporation for Road Improvement and Management and MR² Construction Method Association, won the case paper award, and *Case Study of Special Modified Asphalt Mixture Used for Measures Against Deformation for Heavy-Traffic Bridge Deck Pavement* won the case incentive award.

Governance

Corporate Governance

Basic approach to corporate governance

The Nichireki Group implements all its management plans based on its corporate philosophy. To that end, we are pursuing sound, transparent and efficient management by establishing a corporate governance structure appropriate for the Nichireki Group's business and constantly checking the structure for further enhancement.

Responses to the Corporate Governance Code

Recognizing that the Corporate Governance Code established by Tokyo Stock Exchange, Inc. is what our society requests and expects us to be like, we intend to conduct our business by placing the code at the heart of business management in order to achieve sustainable growth of the Nichireki Group and increase its corporate value over the medium to long term.

The following outlines how we have responded to the "higher-level" principles of the Corporate Governance Code (five principles, except for Supplementary Principle 4.8.3 which stipulates the requirements for listed subsidiaries) that Prime Market listed companies are required to comply with:

- 1 Latter half of Supplementary Principle 1.2.4: Companies listed on the Prime Market should make the Electronic Voting Platform available, at least to institutional investors.
In light of increasing shareholding by institutional investors at home and abroad, Nichireki has already introduced the Electronic Voting Platform for institutional investors.
- 2 Latter half of Supplementary Principle 3.1.2: Companies listed on the Prime Market should disclose and provide necessary information in their disclosure documents in English.
Nichireki discloses and provides the English translation of its disclosure documents, including quarterly consolidated financial results, materials for annual financial results briefing session, Nichireki Group Integrated Report, and the latest information.

- ③ Latter half of Supplementary Principle 3.1.3: Companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework. Nichireki seeks to enhance the quality and quantity of its disclosure based on the TCFD framework by disclosing such information in the Nichireki Group Integrated Report (for details, please refer to pages 27 and 28 of this report). As the Japanese government is reportedly considering mandating the disclosure of sustainability information in Annual Securities Reports, we intend to work hard to respond to such requirements.
- ④ Principle 4.8: Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the med- to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as independent directors that sufficiently have such qualities. Nichireki appoints four independent Outside Directors who satisfy the independent officer requirements prescribed by the Tokyo Stock Exchange in comprehensive consideration of such factors as its business operations and business scale. Accordingly, four out of 12 Directors of the Company (i.e., one-third of all Directors) are independent Outside Directors.
- ⑤ Latter half of Supplementary Principle 4.10.1: Companies listed on the Prime Market should basically have the majority of the members of each committee be independent directors, and should disclose the mandates and roles of the committees, as well as the policy regarding the independence of the composition. Nichireki has established the Nomination and Remuneration Committee, a majority of the members (four out of six) of which are independent Outside Directors, as a voluntary advisory committee chaired by an Outside Director. The Committee seeks to ensure the independence and objectivity of its authority to determine the nomination and remuneration of officers by deliberating such material matters in advance of resolution of the Board of Directors.

For more details, please refer to the Corporate Governance Report posted on Nichireki's website.

 (Reference) Corporate Governance Report (available in Japanese only)
<https://www.nichireki.co.jp/investors/corporate-governance-report.html>

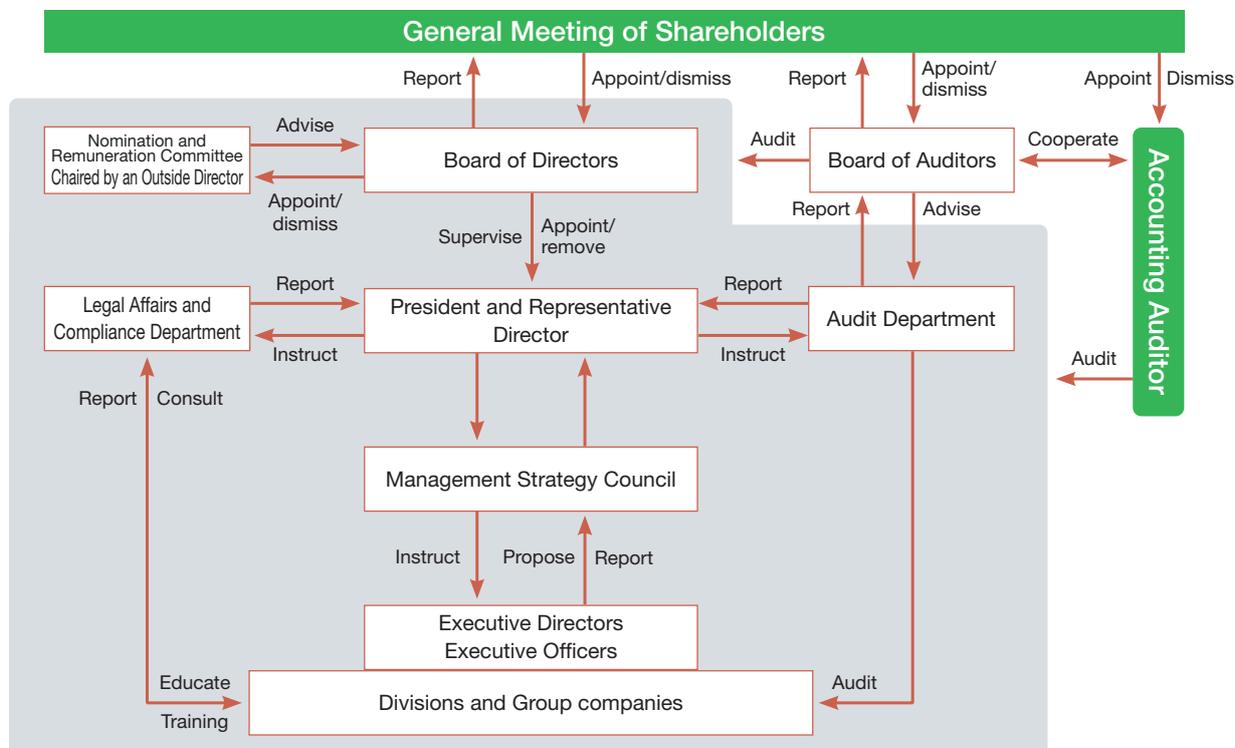
Corporate governance system

Nichireki has adopted a structure of a company with a board of auditors. With this structure, four Auditors, including two Outside Auditors, audit business execution by Directors in a fair and objective manner from an independent standpoint, and properly perform their management oversight functions.

As a company with a board of directors, Nichireki has the Board of Directors composed of 12 members: eight Executive Directors who are well versed in the Nichireki Group's business to enable quick and accurate decision-making on business execution, and four independent Outside Directors with high level of expertise to ensure transparent decision-making and proper supervision over management.

Nichireki pursues quick and accurate decision-making by having the Board of Directors have a stronger monitoring function than before, while maintaining the management oversight functions of Auditors as the cornerstone. We consider that such a corporate governance system will increase the soundness and efficiency of Nichireki's management and it is effective for the Nichireki Group's sustainable growth and enhancement of corporate value over the medium to long term.

Nichireki's corporate governance system is as shown below.



Board of Directors

The members of Nichireki's Board of Directors are eight Executive Directors and four Outside Directors who are not involved in business execution. In order to ensure the diversity of perspectives in the Board of Directors' decision-making and enhance its management oversight function, we appoint Outside Directors with in-depth knowledge and extensive insights in all aspects of corporate management. Further, four Auditors (two of whom are Outside Auditors) are allowed to attend the Board of Directors meetings and express their opinions, when necessary, in order to ensure sound management.

In principle, Nichireki's Board of Directors meeting is convened once a month. As any material information pertaining to Nichireki's management strategy must be reported to the Board of Directors adequately and in a timely manner, the Management Strategy Council consisting of eight Executive Directors meets, in principle, twice a month in advance of the Board of Directors meetings to make necessary decisions and reports for business execution so that Board's meetings can be operated efficiently and effectively.

Board of Auditors

Nichireki's Board of Auditors is composed of two Auditors who are well versed in the Nichireki Group's operations and two Outside Auditors who have abundant experience and in-depth insights in their areas of expertise. Each Auditor strictly audits the status of business execution by Directors, Executive Officers and other officers as well as matters such as the status of the Company's assets, in cooperation with the Accounting Auditor (an auditing firm) and the Audit Department, a department in charge of internal audits.

Nomination and Remuneration Committee

Nichireki has established the Nomination and Remuneration Committee, a majority of the members (four out of six) of which are independent Outside Directors, as a voluntary advisory committee. The Committee deliberates material matters regarding the nomination and remuneration of officers in advance of resolution of the Board of Directors in order to ensure the independence and objectivity of its authority over such matters.

Outside Officers (independent officers)

A total of six independent outside officers, including four Outside Directors and two Outside Auditors, are appointed to enhance the transparency of Nichireki's management. Nichireki assesses the independence of its outside officers based on the independence standards prescribed by Tokyo Stock Exchange, Inc. taking into account their personal, capital, and business relationships and other interests with Nichireki.

Outside officers (independent officers)

Title	Name	Reasons for appointment	Attendance at meetings (FY2021)	Significant concurrent positions
Director	Osamu Kobayashi	As a certified public accountant and a certified tax accountant, he has abundant experience, an extensive track record, and insight in corporate accounting and tax affairs.	14/14 Board of Directors meetings	Outside Corporate Auditor of NOK CORPORATION
Director	Haruko Shibumura	As an attorney-at-law, she has expertise, abundant experience, an extensive track record, and insight in corporate legal affairs including corporate compliance.	14/14 Board of Directors meetings	Outside Director of TAMURA CORPORATION Outside Director (Director who is an Audit & Supervisory Committee Member) of Astellas Pharma Inc.
Director	Takuya Kidokoro	As an attorney-at-law, he has abundant experience and track records in corporate restructuring and corporate legal affairs, as well as considerable knowledge about corporate management.	14/14 Board of Directors meetings 3/3 Board of Auditors meetings	Executive Director and Lawyer of RISA Loan Servicing, Inc. Adviser (Administrative Law Judge) to Financial Services Agency
Director	Mieko Fukuda	She has abundant experience and specialist knowledge gained through her engagement in corporate management and marketing-related divisions. In particular, as a management consultant she possesses a high level of expertise in market research, analysis, and strategy development.	10/10 Board of Directors meetings	
Auditor	Tsutomu Kanitani	As a certified tax accountant, he has expertise and abundant experience in corporate management including tax affairs and is well versed in corporate finance and accounting.	14/14 Board of Directors meetings 16/16 Board of Auditors meetings	
Auditor	Noriko Kawate	As a certified public accountant and a certified tax accountant, she has abundant experience, track records, and insight in corporate finance and accounting and is well versed in such services as consulting on business succession and advisory on corporate rehabilitation mainly in M&A and organizational restructuring.	10/10 Board of Directors meetings 13/13 Board of Auditors meetings	Outside Director of Ichigo Inc. Outside Corporate Auditor of Sumitomo Bakelite Co., Ltd.

* Mr. Takuya Kidokoro resigned as Outside Auditor and assumed the position of Outside Director on June 29, 2021.
Ms. Mieko Fukuda assumed the position of Outside Director on June 29, 2021.
Ms. Noriko Kawate assumed the position of Outside Auditor on June 29, 2021.

Internal Control and Compliance

Internal control

To ensure efficient execution of duties by directors, Nichireki has set the Board of Directors Regulations to clarify the authority, responsibilities and operations of the Board of Directors. Minutes of the Board of Directors will be prepared to record information on matters to be resolved by and reported to the Board of Directors and kept in accordance with the Information Management Regulations and other internal rules. Meanwhile, the Company has built a system to ensure the swift and precise execution of matters decided by the Board of Directors in accordance with the Administrative Authority Regulations and other internal rules.

To ensure the appropriateness of each Group company's operations, the Nichireki Group has established the Group Business Management Regulations and built a business management system based on its management philosophy. Under this business management system, Nichireki performs audits of Group companies and provides them with guidance on their business. At the same time, we have a policy to grant a pre-approval for any material matter regarding Group companies by receiving reports from them or discussing with them. While Nichireki has established the Group's internal rules as internal rules applicable to the entire Nichireki Group, Group companies have established their own internal rules following suit of Nichireki's internal rules to promote unity within the Group.

Nichireki has established the Basic Policy for Establishing Internal Control System (system necessary to ensure the appropriateness of operations prescribed by the Companies Act) based on a resolution of the Board of Directors and review the policy as needed according to systemic revision or the status of operations.

Basic Policy for Establishing Internal Control System

① System for ensuring compliance with laws, regulations and Nichireki's Articles of Incorporation in the execution of duties by directors and employees

Nichireki shall appoint a director in charge of compliance and set up the Legal Affairs and Compliance Department as the controlling department for the Nichireki Group's compliance. The Company shall also set the Group's internal rules and prepare the Compliance Manual, thereby making sure everyone in all of our Group companies is aware of the compliance rules. Nichireki shall open a hotline on the Nichireki Group network as a point of contact for reporting and consultation, which receives reports and provides consultation on compliance directly from and with the Group's employees. The hotline shall also accept their opinions and proposals on compliance.

If a director finds any violation of laws and regulations or other important facts regarding compliance at the Nichireki Group, the director shall report to auditors immediately.

If an auditor recognizes there is a problem with the Nichireki Group's compliance system, the auditor may give his or her opinions and request improvement measures to be formulated.

For internal audits, Nichireki shall set up the Audit Department to assess the achievement of major objectives of the Nichireki Group's internal management, including the effectiveness and efficiency of operations, the reliability of financial reporting, compliance with laws and regulations and other rules, and asset protection, in an objective and comprehensive manner, as well as to give advice, instructions, or corrective guidance to resolve issues. The Audit Department shall also exchange opinions and information with auditors and the accounting auditor when necessary.

Nichireki shall establish a system to receive professional advice on management-related legal issues from its corporate lawyer.

② System for the storage and management of information related to the execution of duties by directors

Information related to the execution of duties by directors shall be appropriately stored and managed in accordance with the Information Management Regulations and the Group's other internal rules or the Company's internal rules.

3 Rules and other systems for the management of risk of loss of Nichireki

For the Nichireki Group's risk of loss, we shall develop various regulations on risk management as part of the Group's business management. We shall also establish a system where its responsible departments set rules and guidelines, provide training, and prepare and hand out manuals as needed. In cases where it is necessary to address a new risk, the President shall immediately appoint a director to be responsible for addressing the risks and notify all Group companies of the matter. If the risk is likely to materialize and cause serious damage, the responsible director shall immediately report to the Board of Directors.

4 System for ensuring the efficient execution of duties by directors

Nichireki shall formulate a Group management plan and set and determine Group-wide management goals and targets and budget allocation for each fiscal year to promote the Group's cooperative framework and efficiently execute and manage business operations.

As the basis of the system for ensuring the efficient execution of duties by directors, Nichireki shall, in principle, hold the Board of Directors meeting once a month and an extraordinary meeting when necessary. Material matters related to the Company's management policies and management strategy shall be discussed to determine their execution by the Management Strategy Council in advance of the Board of Directors meetings. Nichireki shall precisely execute operations based on decisions made by the Board of Directors in a timely manner in accordance with the Administrative Authority Regulations and other internal rules.

5 System for ensuring the appropriate operations of the Corporate Group comprised of Nichireki and its subsidiaries

To ensure the appropriateness of the Nichireki Group's operations, Nichireki shall establish the Group's management philosophy common to all Group companies and develop the Group's operation system, such as establishing the Group's internal rules, based on the philosophy. In addition, the Group companies shall set their own internal rules on matters not stipulated in the Group's internal rules in compliance with internal rules set out by Nichireki.

Group companies shall discuss with and report to Nichireki on material matters related to business execution. Nichireki shall build a Group business management system to perform audits of Group companies and provide them with guidance on their business.

If a Group company recognizes that Nichireki's business management or guidance on its business may be in violation of laws or regulations, or otherwise, there is a compliance issue, the Group company shall report to the Audit Department or the Legal Affairs and Compliance Department. The Audit Department or the Legal Affairs and Compliance Department shall then immediately report to auditors. Auditors may give their opinions to and request directors (Board of Directors) to formulate improvement measures.

6 Matters related to employees assigned to assist auditors in their duties, the independence of such employees from directors, and ensuring the effectiveness of directions to such employees

Auditors may exchange opinions and information with the Audit Department, which is responsible for internal audits, and the accounting auditor when necessary and perform investigations and information gathering necessary to execute their duties based on their own judgment. Therefore, employees who are to assist auditors in their duties shall be assigned at the request of auditors if it becomes necessary.

Employees who are to assist auditors in their duties shall follow the auditors' directions and orders exclusively on operations subject to instructions given by the auditors.

Personnel matters of employees who are to assist auditors in their duties shall be discussed with the auditors in advance.

7 System for reporting from directors and/or employees of Nichireki and its subsidiaries to auditors and other systems regarding reporting to auditors, system for ensuring that a person who has made a report will not receive unfavorable treatment for reason of having made such report, and other systems for ensuring the effective performance of audits by auditors

Auditors may attend not only the Board of Directors meetings but also the Management Council meetings and other important meetings, as well as inspect documents on important decisions and conduct investigations on the status of operations and assets. Directors and employees shall report the schedule of important meetings to auditors.

Directors, employees, and auditors of the Nichireki Group companies (“Officers and Employees”) shall report to Nichireki’s auditors on material matters that may affect operations and financial results of the Nichireki Group and legal violations and other compliance issues indirectly through Nichireki’s responsible department or directly by whistleblowing or other means. Notwithstanding the foregoing, Nichireki’s auditors may request a report from Officers and Employees of the Nichireki Group whenever necessary.

Nichireki shall prohibit unfavorable treatment of each of Officers and Employees of the Nichireki Group companies who has made a report to Nichireki’s auditors for reason of having made such report and make sure all Officers and Employees of the Nichireki Group companies are aware of the matter.

When Nichireki’s auditors request the advanced payment of expenses to be incurred in the course of executing their duties, Nichireki’s responsible department shall deliberate on the matter and process the request immediately, unless the expenses or obligations are deemed not necessary for the execution of the auditors’ duties.

8 System for ensuring the reliability of financial reporting

To ensure the reliability of financial reporting and file the internal control report effectively and appropriately in accordance with the provisions of the Financial Instruments and Exchange Act, Nichireki shall build an internal control system and develop and operate the system appropriately.

9 System for eliminating anti-social forces

Nichireki shall respond to unreasonable demands from anti-social forces with a resolute attitude by the entire organization and develop a system necessary to eradicate all business and other relationships with anti-social forces.

Compliance

Nichireki places emphasis on complying with not only laws and regulations but also things that are not legally binding such as common sense and good sense as a member of economic society. Regarding compliance as a much broader concept than mere legal compliance, we believe that our concept of compliance also includes fully meeting social expectations.

(1) Basic approach

- (i) All officers and employees of the Nichireki Group shall act in accordance with the Nichireki Group's Corporate Philosophy and the Code of Individual Conduct to promote compliance.
- (ii) The Head of Compliance, who is appointed from among Nichireki's directors, shall promote compliance throughout the Nichireki Group.
- (iii) The Head of Compliance shall direct and take overall control of compliance officers assigned at each base of the Nichireki Group through the Legal Affairs and Compliance Department and strive to enhance the Nichireki Group's compliance system.

(2) Compliance promotion system

For the Nichireki Group's compliance system, the President of Nichireki appoints a responsible director as the Head of Compliance and sets up the Legal Affairs and Compliance Department as a responsible department. The President also appoints heads of Nichireki's departments, offices, and branches as well as presidents of Group companies as compliance officers to put in place a system where the Group as a whole works together to promote compliance.

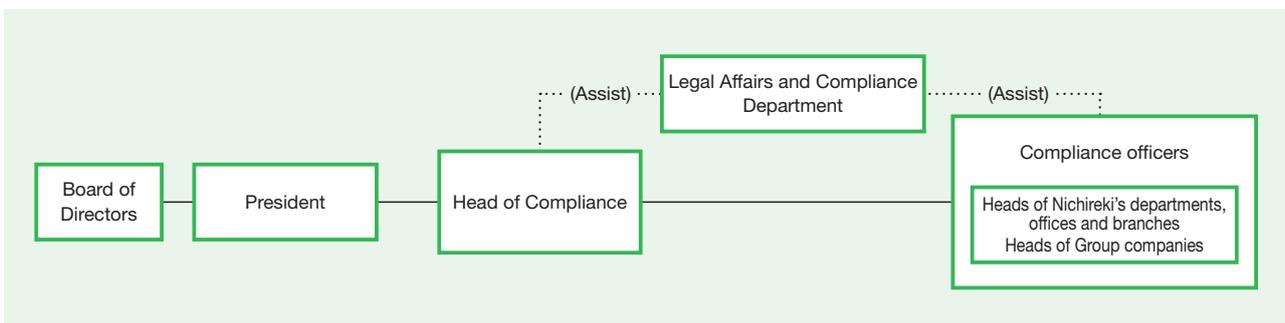
Under the direction of the Head of Compliance, the Legal Affairs and Compliance Department is responsible for work to promote compliance across the Nichireki Group. Specifically, the Legal Affairs and Compliance Department is responsible for planning and providing compliance training for the Nichireki Group's officers and employees, performing compliance audits of sales offices and other bases, and establishing, revising and abolishing the Group's internal rules and other systems, in addition to responding to compliance incidents that occur in daily operations.

Each compliance officer is responsible for work to promote compliance at a department, office, or branch he/she heads. Specifically, they monitor and manage the status of compliance within their own organizations and work to keep everyone informed about compliance information provided by the Legal Affairs and Compliance Department.

The Nichireki Group has also set the Group's internal rules and prepared the Compliance Manual, thereby making sure everyone in all of our Group companies is aware of the compliance rules.

These Group's internal rules include the Compliance Regulations, which stipulate such matters as compliance system, Regulations on Whistleblowing, Harassment Prevention Regulations, and Regulations on Compliance with the Antimonopoly Act. Given the importance of these regulations, they are established, revised, and abolished based on a resolution of the Board of Directors. In the case of any law amendment or incident that has become a social concern, the Legal Affairs and Compliance Department shall immediately examine the draft of regulations and seek a decision of the Board of Directors. For example, in response to the enforcement of the Amendments to the Whistleblower Protection Act in June 2022, the Board of Directors completely revamped the Regulations on Whistleblowing.

Compliance promotion system diagram



(3) Whistleblowing system

In accordance with the Regulations on Whistleblowing, the Nichireki Group has opened a hotline on the Nichireki Group network to receive reports and provide consultation on compliance directly from and with officers and employees of Group companies as well as to accept their opinions and proposals on compliance, in addition to consultation and reports made in writing or orally. The Nichireki Group seeks to early detect and correct any misconduct by establishing a whistleblowing system, placing the hotline at its core, thereby practicing compliance management that responds to stakeholders' expectations.

The whistleblowing system, including the hotline, is available for all officers and employees including not only regular employees but also part-time workers and temporary workers. The whistleblowing system is also available for retirees, regardless of the period of time since their retirement. In order to protect whistleblowers, we receive anonymous reports and prohibit the unfavorable treatment of whistleblowers and persons who cooperate in investigations, such as search for and reprisal against them. We also impose confidentiality obligations on officers and employees engaged in the reception of whistleblowing.

(4) Compliance training

At Nichireki, the Legal Affairs and Compliance Department plans and provides hands-on compliance training, which also introduce actual cases, for employees on a regular basis. For example, in consideration of the complete revision of the Harassment Prevention Regulations, which had been carried out to enable the Group as a whole to respond to the recently amended and enforced harassment-related acts (the Labor Measures Comprehensive Promotion Act, the Equal Employment Opportunity Act, and the Child Care and Family Care Leave Act), we provided harassment prevention training mainly for employees in managerial positions at the Nichireki's Head Office and those in each area. Also, in order to develop a sense of fairness, which is important in business transactions, we hold a training workshop on the Antimonopoly Act lectured by lawyers and other external experts and provide training on such themes as intellectual property right and insider trading regulations, thereby striving to raise the awareness of compliance among the Nichireki Group's employees.

The medium- to long-term targets for how many times the internal compliance training workshops will be held have been set as at least twice a year and intended to be maintained at the same level as now. If we provide too much compliance training, it may backfire and result in so-called "compliance fatigue." Therefore, we intend to aim for improving the sophistication of training from an operational perspective, such as enhancing the content of training, by selecting the appropriate themes to which officers and employees should pay attention, rather than increasing the number of times we hold training workshops.

Medium- to long-term targets

Item	FY2020 results	FY2021 results	FY2025	FY2043	SDGs mapping
Internal compliance training workshops	Twice a year	Twice a year	Twice a year	Twice a year	

Risk Management

Risk Management

We consider it necessary that (i) we are aware that risk management is one of our key managerial challenges, (ii) we constantly update material risks, and (iii) review on a daily basis whether our countermeasures and control measures against various types of risks are appropriate. We therefore decide on which department takes charge of each of the risks in the context of their nature, etc., and conduct risk management as part of our daily operations.

(1) Basic policy for risk management

For the Nichireki Group's risk of loss, we have developed various regulations on risk management as part of the Group's business management. We have also established a system where our departments responsible for risk management (e.g., the General Affairs Department, the Legal Affairs and Compliance Department, and the Safety, Quality and Environment Management Department) set rules and guidelines, provide training, and prepare and distribute manuals as needed. In cases where it is necessary to address a new risk, the President shall immediately appoint a director to be responsible for addressing the risk and notify all Group companies of the matter. If the risk is likely to materialize and cause serious damage, the responsible director shall immediately report to the Board of Directors.

(2) Management system

For financial and legal risks and those of disasters and other events, the status of risk management is reported to the President and the Board of Directors by departments in charge of these issues in accordance with relevant regulations (e.g., the Finance and Accounting Department for financial risks, the Legal Affairs and Compliance Department for legal risks, and the General Affairs Department and the Safety, Quality and Environment Management Department for risks of disasters).

(3) Major business risks

Major business risks that may affect the Nichireki Group's operating results and financial position include (i) through (viii) in the following box. By identifying and analyzing major business risks and having an in-depth review of countermeasures against the risks, we seek to minimize the risks and to curb the effects of them on our management and finance.

Major business risks and responses

(i) Raw material prices and supply trends

The Nichireki Group seeks to minimize the effects of procurement risks of raw materials. Specifically, we have a system in place where the Production Department occasionally monitors such risks and reports each month the procurement trends of raw materials to the Management Strategy Council comprised of Executive Directors, and the committee decides on the direction of how to respond to the trends so as to early promote purchase measures and the addition of increased costs to the selling prices of products.

(ii) Trends of public works

To scale back the effects of the financial conditions of the central and local governments on its business performance, the Nichireki Group seeks to perform a detailed analysis of the infrastructure improvement issues faced by the central and local governments, promotes its design and sales activities to receive orders for products and construction methods that contribute to the longer life and higher performance of paved roads and the reduction of environmental load, stimulates demand in the domains of airports, harbors, railways, parks and other facilities in addition to roads as its focus domain, and expands its business markets.

(iii) Trends of price competition

The Nichireki Group works at reducing its manufacturing and construction costs and seeks to minimize the effects of lower prices on its business performance while striving to mitigate the impact of price competition by developing high value-added products and construction methods.

(iv) Credit risks

The Nichireki Group thoroughly manages credit and receivables when entering into transactions and seeks to mitigate credit risks by, for example, using a credit research agency and holding credit monitoring meetings.

(v) Country risks

In the Nichireki Group, the Overseas Business Department, the Chinese Business Department and the Legal Affairs and Compliance Department have discussions to take appropriate measures to avoid risks for each project. These departments also share information with each other about the progress of overseas business, the existence of any troubles, the social landscapes of the markets that we plan to enter or have recently entered, amendments to laws and regulations, and other matters, and take necessary measures.

(vi) Information security

As measures to prevent information leaks, the Nichireki Group limits access to confidential data, limits the use of media that employees can take out of their workplaces, and provides employees with information security education. To brace ourselves for information security incidents, we have also set up a system centered around the System Engineering Department to immediately restore our data and systems, and take out a cyber insurance that covers all of our Group companies.

Please see the next page for the Nichireki Group's information security system.

(vii) Risks of natural disasters, infectious diseases, etc.

To brace itself for natural disasters, such as earthquakes and typhoons, and infectious disease outbreaks, the Nichireki Group has its internal regulations in place set mainly by the General Affairs Department, which include the BCP Management Regulations (regulations for the management of business continuity plan) and the Disaster Prevention Regulations, and has introduced a safety confirmation system to confirm the safety of employees in times of natural disasters.

In case of a disaster, the General Affairs Department compiles information, and depending on the situation, we set up a disaster response office led by the President to take action.

(viii) Risks associated with legal regulations, etc.

In the Nichireki Group, the Legal Affairs and Compliance Department and the Safety, Quality and Environment Management Department create opportunities to provide education about compliance as well as health and safety, and make sure that all officers and employees of the Group are aware of such important matters, thereby mitigating the risks of receiving administrative sanctions and penalties by legal regulations.

Information Security

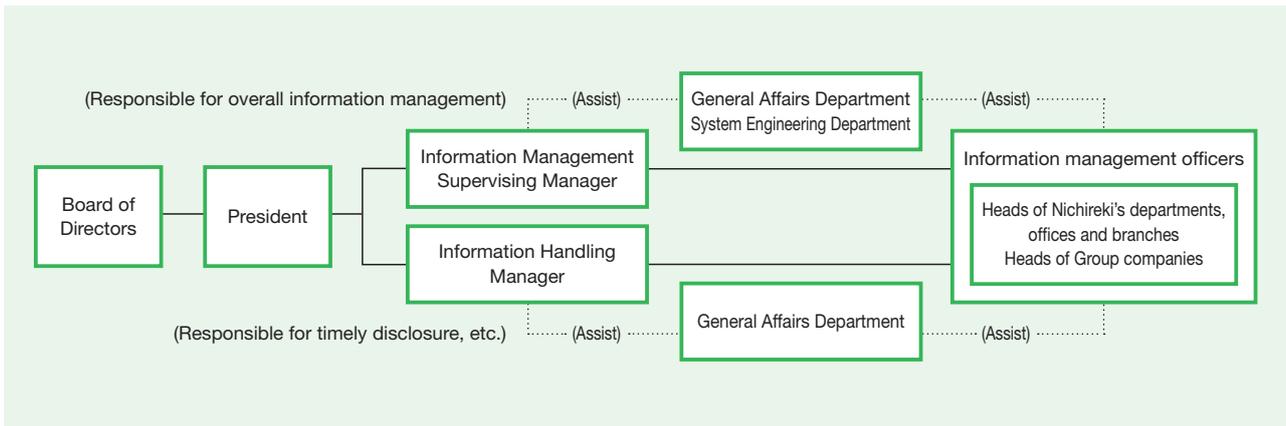
The Practical Guidelines for Corporate Governance Systems (CGS Guidelines) revised by the Ministry of Economy, Trade and Industry on July 19, 2022 state that "business becomes integrated with and indivisible from IT in many areas, and more business owners and shareholders use digital solutions and tools to make their investment decisions; under such situation, it is pointed out that having discussions about corporate governance based on the use of digital solutions and tools is becoming important." As described, using information and communications technology helps improve convenience and streamline operations, and ICT is essential for improving corporate governance and gaining a stronger competitive advantage.

The Nichireki Group seeks to streamline its operations by expanding and improving its information systems. We also expand our services that use ICT to serve our customers. For example, we manage construction in a new way with ICT-embedded road stabilizers using cloud computing, and use GLOCAL-EYEZ, a road inspection system using a smartphone.

The more we depend on ICT, the more we have ICT-specific risks. We consider that information security management in particular is one of key managerial challenges for many companies. Given this situation, the Nichireki Group has established a Basic Policy for Information Security, and strives to advance its information security management. Based on the Basic Policy for Information Security, the Nichireki Group has improved its system for the centralized management of information security by appointing a Director as Information Management Supervising Manager and appointing General Managers of departments, offices and branches and Presidents of Group companies as information management officers. Another Director is appointed as Information Handling Manager to mainly work on information disclosure, especially timely disclosure.

The Nichireki Group has its internal regulations and rules in place, such as the Information Management Regulations and the Information System Operations Management Regulations, and makes sure that all of its officers and employees are aware of information security by providing an employee training session, an explanatory session, and other learning opportunities.

Information management system diagram



Basic Policy for Information Security

- 1 Subject**
Information assets subject to this policy shall be all the information obtained in the course of business activities and held by the Nichireki Group.
- 2 Scope**
This policy shall be applicable to all officers and employees of the Nichireki Group, and they shall strive to conduct safe operations and to protect information assets.
- 3 Information management system**
A director shall be appointed as Information Management Supervising Manager under the Board of Directors, and an information management system shall be established covering all departments, offices and branches.
- 4 Group's internal regulations and rules in place**
The Nichireki Group shall have its internal regulations and rules in place that stipulate information handling, information system operations standards, standards for developing and introducing information systems, physical security measures, and outsourcing standards among others to implement and manage information security practices.
- 5 Internal audit**
Internal audit shall be regularly performed to verify if the Group's internal regulations and rules successfully work and are appropriately adhered to by its officers and employees.
- 6 Improving security literacy**
The Nichireki Group shall provide its officers and employees with education and training on an ongoing basis to maintain and improve their security literacy.
- 7 Adapting to changes in the business climate**
The Nichireki Group shall flexibly adapt to changes in its business domains, information assets being handled and the ICT (information and communications technology) landscape, and review its information security management rules and systems.

Directors and Auditors (As of June 29, 2022)

Directors



Manabu Obata

President and Representative Director

- April 1982 Joined the Company
- May 2007 Executive Officer and Tokyo Area Manager of the Company
President and Representative Director of Nichireki Tokushu Koji K.K.
- June 2011 Senior Executive Officer and Vice General Manager, Business Division of the Company
- June 2013 Managing Director and General Manager, Business Division of the Company
- June 2015 President and Representative Director of the Company
- June 2020 President and Representative Director of the Company (to present)



Yuji Kawaguchi

Executive Vice President and Representative Director

- April 1980 Joined the Company
- June 2011 Director, Senior Executive Officer, and Kanto Area Manager of the Company
President and Representative Director of NICHIREKI ROAD CO., LTD.
- June 2013 Managing Director and Kanto Area Manager of the Company
President and Representative Director of NICHIREKI ROAD CO., LTD.
- April 2018 Managing Director and Tokyo/Kanto Supervising Manager of the Company
- June 2018 Senior Managing Director and Tokyo/Kanto Supervising Manager of the Company
- April 2021 Senior Managing Director and East Japan Supervising Manager of the Company
- June 2022 Executive Vice President and Representative Director of the Company (to present)



Katsumi Eri

Senior Managing Director
General Manager, Business Division

- September 1981 Joined the Company
- June 2010 Executive Officer and Kansai Area Manager of the Company
President and Representative Director of Kiriki Nichireki Koji K.K.
- June 2013 Senior Executive Officer and Tokyo Area Manager of the Company
President and Representative Director of Nichireki Tokushu Koji K.K.
- April 2014 Senior Executive Officer and Vice General Manager, Business Division of the Company
- June 2015 Managing Director and General Manager, Business Division of the Company
- June 2020 Managing Director and General Manager, Business Division of the Company
- June 2022 Senior Managing Director and General Manager, Business Division of the Company (to present)



Akiyoshi Hanyu

Managing Director
General Manager, Technology Development Division

- April 1982 Joined the Company
- June 2011 Executive Officer and General Manager, Technical Research Center of the Company
- June 2013 Director, Senior Executive Officer, and General Manager, Technical Research Center of the Company
- June 2015 Managing Director and General Manager, Engineering and Manufacturing Division of the Company
- April 2020 Managing Director and General Manager, Technology Development Division of the Company
- June 2020 Managing Director and General Manager, Technology Development Division of the Company (to present)



Seiichi Nemoto

Managing Director
East Japan Supervising Manager

- April 1982 Joined the Company
- May 2014 Senior Executive Officer and Tokyo Area Manager of the Company
President and Representative Director of Nichireki Tokushu Koji K.K.
- June 2017 Director, Senior Executive Officer, and Tokyo Area Manager of the Company
President and Representative Director of Nichireki Tokushu Koji K.K.
- April 2018 Director, Senior Executive Officer, and Kanto Area Manager of the Company
- June 2021 Managing Director and Kanto Area Manager of the Company
- June 2022 Managing Director and East Japan Supervising Manager of the Company (to present)

(Significant concurrent position)

President and Representative Director of NICHIREKI ROAD CO., LTD.



Isamu Nagasawa

Director
West Japan Supervising Manager

- April 1983 Joined the Company
- April 2015 Executive Officer and Hokkaido Area Manager of the Company
President and Representative Director of Hokkaido Nichireki Koji K.K.
- May 2017 Executive Officer and Vice General Manager, Engineering and Manufacturing Division of the Company
- June 2017 Director, Senior Executive Officer, and Vice General Manager, Engineering and Manufacturing Division of the Company
- April 2019 Director, Senior Executive Officer, and Kyushu/Chugoku Supervising Manager of the Company
- April 2021 Director and West Japan Supervising Manager of the Company (to present)



Jun Yamamoto

Director
General Manager, Administration Division

- March 2020 Joined the Company
General Manager, Legal Affairs Office and General Manager, Compliance Office of the Company
- April 2020 Senior Executive Officer and General Manager, Legal Affairs and Compliance Department of the Company
- April 2021 Senior Executive Officer, General Manager, Legal Affairs and Compliance Department, and General Manager, Investment Strategy Office of the Company
- June 2021 Director, General Manager, Administration Division, General Manager, Legal Affairs and Compliance Department, and General Manager, Investment Strategy Office of the Company (to present)



Tatsuya Ito

Director
General Manager, Planning Division

- April 1986 Joined the Company
- April 2013 General Manager, Technical Department of the Company
- April 2015 Executive Officer and General Manager, Technical Department of the Company
- April 2016 Executive Officer, General Manager, Corporate Planning Department, and General Manager, Human Resources Department of the Company
- April 2020 Senior Executive Officer, General Manager, Corporate Planning Department, and General Manager, Human Resources Department of the Company
- June 2021 Senior Executive Officer, Vice General Manager, Planning Division, General Manager, Corporate Planning Department, and General Manager, Human Resources Planning Department of the Company
- April 2022 Senior Executive Officer, Vice General Manager, Planning Division, and General Manager, Human Resources Planning Department of the Company
- June 2022 Director, General Manager, Planning Division, and General Manager, Human Resources Planning Department of the Company (to present)

Outside



Osamu Kobayashi

Outside Director

March 1983 Registered as a certified public accountant
 June 1983 Registered as a certified tax accountant
 August 1996 Director of Kobayashi Accounting Office (to present)
 June 2004 Outside Auditor of the Company
 June 2015 Outside Director of the Company (to present)

(Significant concurrent position)

Outside Corporate Auditor of NOK CORPORATION

Outside



Haruko Shibumura

Outside Director

April 1994 Registered as an attorney-at-law (Daini Tokyo Bar Association)
 Joined Law Offices of Homma & Komatsu (currently, Homma & Partners)
 April 1999 Partner Attorney, Homma & Partners (to present)
 June 2015 Outside Auditor of the Company
 June 2019 Outside Director of the Company (to present)

(Significant concurrent positions)

Outside Director of TAMURA CORPORATION
 Outside Director (Director who is an Audit & Supervisory Committee Member) of Astellas Pharma Inc.

Outside



Takuya Kidokoro

Outside Director

October 2001 Registered as an attorney-at-law (Tokyo Bar Association)
 Joined Okuno & Partners
 April 2011 Partner, Okuno & Partners (to present)
 June 2019 Outside Auditor of the Company
 June 2021 Outside Director of the Company (to present)

(Significant concurrent positions)

Executive Director and Lawyer of RISA Loan Servicing, Inc.
 Adviser (Administrative Law Judge) to Financial Services Agency

Outside



Mieko Fukuda

Outside Director

April 2001 Registered as a small and medium enterprise management consultant (a member of Chuo Chapter, Tokyo Small and Medium Enterprise Management Consultant Association)
 April 2021 Representative, Fukumoku Research Office (to present)
 June 2021 Outside Director of the Company (to present)

Auditors



Masaaki Nohara

Full-time Auditor

April 1985 Joined the Company
 April 2013 General Manager, Corporate Planning Department of the Company
 April 2014 General Manager, General Affairs Department of the Company
 April 2018 Executive Officer and Vice General Manager, Administration Division of the Company
 June 2019 Full-time Auditor of the Company (to present)



Akihiko Kataoka

Auditor

April 1982 Joined the Company
 April 2011 General Manager, General Affairs Department and General Manager, Affiliated Business Department of the Company
 May 2013 General Manager, Shikoku Branch of the Company
 President and Representative Director of Shikoku Nichireki Koji K.K.
 April 2018 Executive Officer and Vice General Manager, Business Division of the Company
 June 2018 Auditor of the Company (to present)

Outside



Tsutomu Kanitani

Outside Auditor

August 1996 Joined Akira Nakamura Tax Accountant Office
 May 2000 Registered as a certified tax accountant
 Director of Tsutomu Kanitani Tax Accountant Office (to present)
 June 2015 Outside Auditor of the Company (to present)

Outside



Noriko Kawate

Outside Auditor

July 2001 Registered as a certified public accountant
 November 2004 Registered as a certified tax accountant
 February 2008 Representative Director of Clea Consulting Co., Ltd. (to present)
 November 2011 Registered as a U.S. certified public accountant
 February 2015 Partner, Cast Global Group (to present)
 June 2021 Outside Auditor of the Company (to present)

(Significant concurrent positions)

Outside Director of Ichigo Inc.
 Outside Corporate Auditor of Sumitomo Bakelite Co., Ltd.

Company Information (As of March 31, 2022)

Company profile

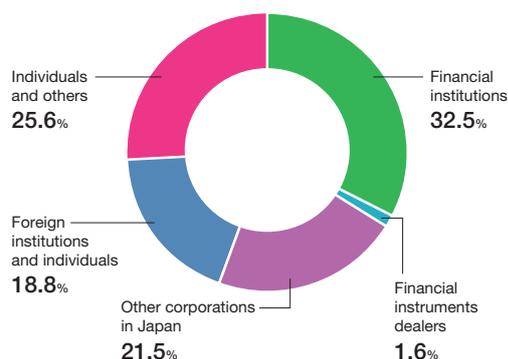
- Name** NICHIREKI CO., LTD.
NICHIREKI CO.,LTD.
- Head office location** 4-3-29, Kudan-kita, Chiyoda-ku, Tokyo, Japan
- Founded** October 1943

- Established** September 1949
- Share capital** ¥2,919 million
- Number of employees** 958 (consolidated)
431 (non-consolidated)

Stock information

- Securities code** 5011
- Listed stock exchange** Prime Market of the Tokyo Stock Exchange (TSE)
* Shifted from the First Section of the TSE in April 2022
- Shareholder registry administrator** Sumitomo Mitsui Trust Bank, Limited
- Status of shares**
 - Total number of shares issued 30,568,618 shares
*Excluding 1,117,337 treasury shares
 - Number of shareholders 4,036

Shareholder distribution



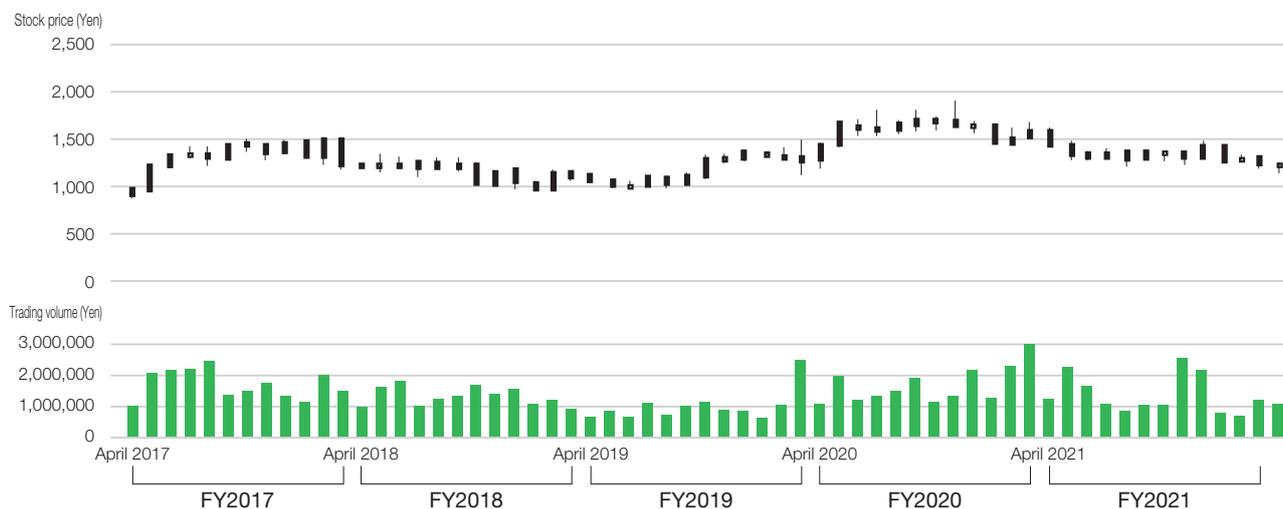
Note: The above composition percentages do not include the numbers of treasury shares (1,117,337 shares) and shares less than one trading unit (18,555 shares).

Major shareholders

	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,726	12.19
Hikari Tsushin K.K.	1,681	5.50
Nichireki Business Partners Shareholding Association	1,339	4.38
Custody Bank of Japan, Ltd. (Trust Account)	1,197	3.92
Mizuho Bank, Ltd.	1,108	3.63
Sumitomo Mitsui Trust Bank, Limited	1,100	3.60
Ikedo Museum of 20th Century Art	630	2.06
Nichireki Employees Shareholding Association	536	1.76
MUFG Bank, Ltd.	529	1.73
Custody Bank of Japan, Ltd. (Portion re-entrusted by Sumitomo Mitsui Trust Bank, Limited for Kajimaroad Co., Ltd. Retirement Benefit Trust Account)	524	1.71

Note:
* 1,117,337 treasury shares were excluded from the table above.
The treasury shares were excluded from the calculation of shareholding ratio.

Stock price trends



Global Network (As of August 31, 2022)

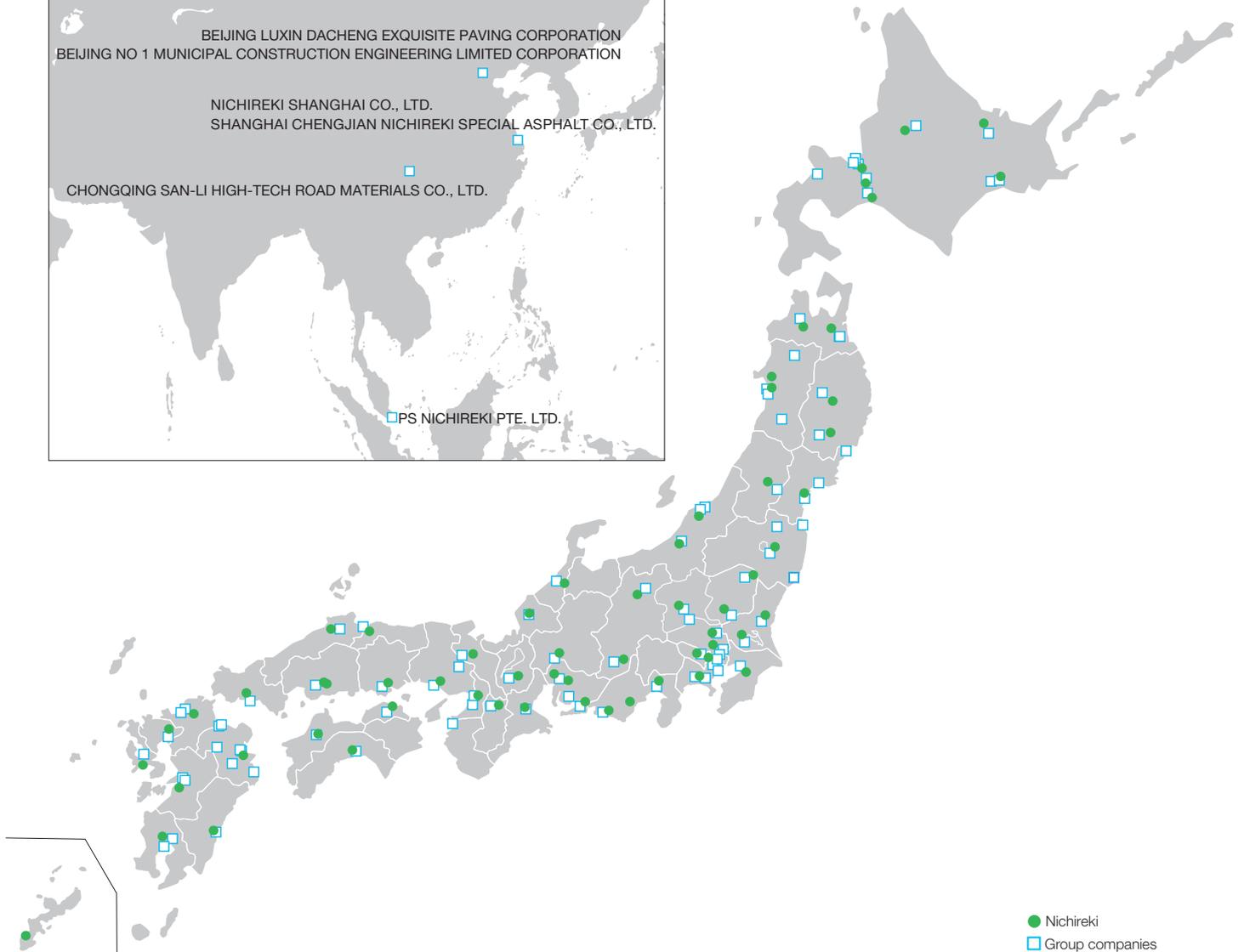
99 sites in Japan (44 out of 47 prefectures)

(non-consolidated: 64)

Branches: 11 sites Sales Branch: 37 sites Satellite Office: 12 sites

Plant: 19 sites Technical Research Center: 1 site

6 sites overseas



● Nichireki
□ Group companies

Group companies

HOKKAIDO NICHIREKI CONSTRUCTION CO., LTD.
DOREKI KOGYO CO., LTD.
TOHOKU NICHIREKI CONSTRUCTION CO., LTD.
AOMORI NICHIREKI CO., LTD.
IWATE NICHIREKI CO., LTD.
AKITA NICHIREKI CO., LTD.
FUKUSHIMA NICHIREKI CO., LTD.
NICHIREKI ROAD CO., LTD.
NAGANO NICHIREKI CO., LTD.

CHIBA NICHIREKI CO., LTD.
NICHIREKI SPECIAL CONSTRUCTION CO., LTD.
SAITAMA NICHIREKI CO., LTD.
CHUBU NICHIREKI CONSTRUCTION CO., LTD.
KINKI NICHIREKI CONSTRUCTION CO., LTD.
CHUGOKU NICHIREKI CONSTRUCTION CO., LTD.
SHIKOKU NICHIREKI CONSTRUCTION CO., LTD.
EHIME NICHIREKI CO., LTD.
AK TECHNOS CO., LTD.

KYUSHU NICHIREKI CONSTRUCTION CO., LTD.
NISHIKYUSHU NICHIREKI CO., LTD.
KUMAMOTO NICHIREKI CO., LTD.
KAGOSHIMA NICHIREKI CO., LTD.
LINEPHALT INDUSTRY CO., LTD.
HOKKAIDO LINEPHALT CO., LTD.
SHINWA KAKO CO., LTD.
HEAT ROCK INDUSTRY CO., LTD.



NICHIREKI CO., LTD.

<https://www.nichireki.co.jp/english/>

4-3-29, Kudan-kita, Chiyoda-ku, Tokyo, 102-8222, Japan

