

Nichireki Group
Integrated Report **2023**



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 provide 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)



Editorial Policy

The purpose of the Integrated Report is to assist the stakeholders 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, 2023
(April 1, 2022 to March 31, 2023)
(Information on or after April 1, 2023 is partially included)

Organizations Covered

NICHIREKI CO., LTD. and its subsidiaries and associates (consisting of 34 consolidated subsidiaries and 4 associates)

Month Published

October 2023

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.

Contents

About the Nichireki Group

Business of the Nichireki Group	3
Business Domain of the Nichireki Group	5
History of the Nichireki Group	7
Message from the President	9
Financial Highlights	13

About the Nichireki Group

Toward Sustainable Growth of the Nichireki Group

Value Creation Process	15
Strengths in Business Process	17
Vision for the 100th Anniversary of Our Foundation	19
Progress with Implementing the Medium-term Management Plan	21

Toward Sustainable Growth of the Nichireki Group

Foundation for Sustainable Growth (ESG Management)

Environmental

To Sustain Rich Global Environment	23
Responding to Climate Change	25
Eco-friendly Products and Construction Methods	27

Social

Toward a Rewarding Work Environment	37
Implementing Initiatives for Occupational Health and Safety	40
Enhancing the Supply Chain Management	43
Taking on Initiatives as an R&D-oriented Company	46
Communicating with Society	48

Governance

Corporate Governance	51
Internal Control and Compliance	55
Risk Management	60
Directors and Auditors	63

Environmental
Social
Governance
Foundation for Sustainable Growth (ESG Management)

Data Section

Financial and Non-financial Data	65
Company Information	71
Global Network	72

Data Section

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 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



Emulsion based cold mix bump repairing material
SUPER ROMEN PATCH

Road Paving Business

Contracting for road paving, bridge deck 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 waterproofing method
HQ HIBRANE AU construction method

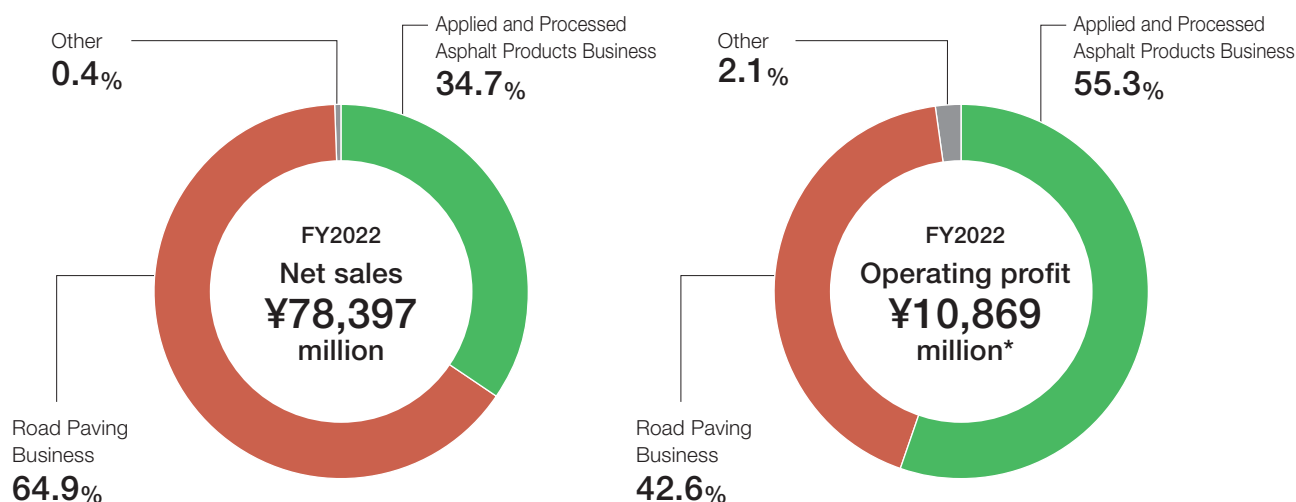


DX compatible road surface condition measuring vehicle
SMART ROMEN CATCHER LY Jr.

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

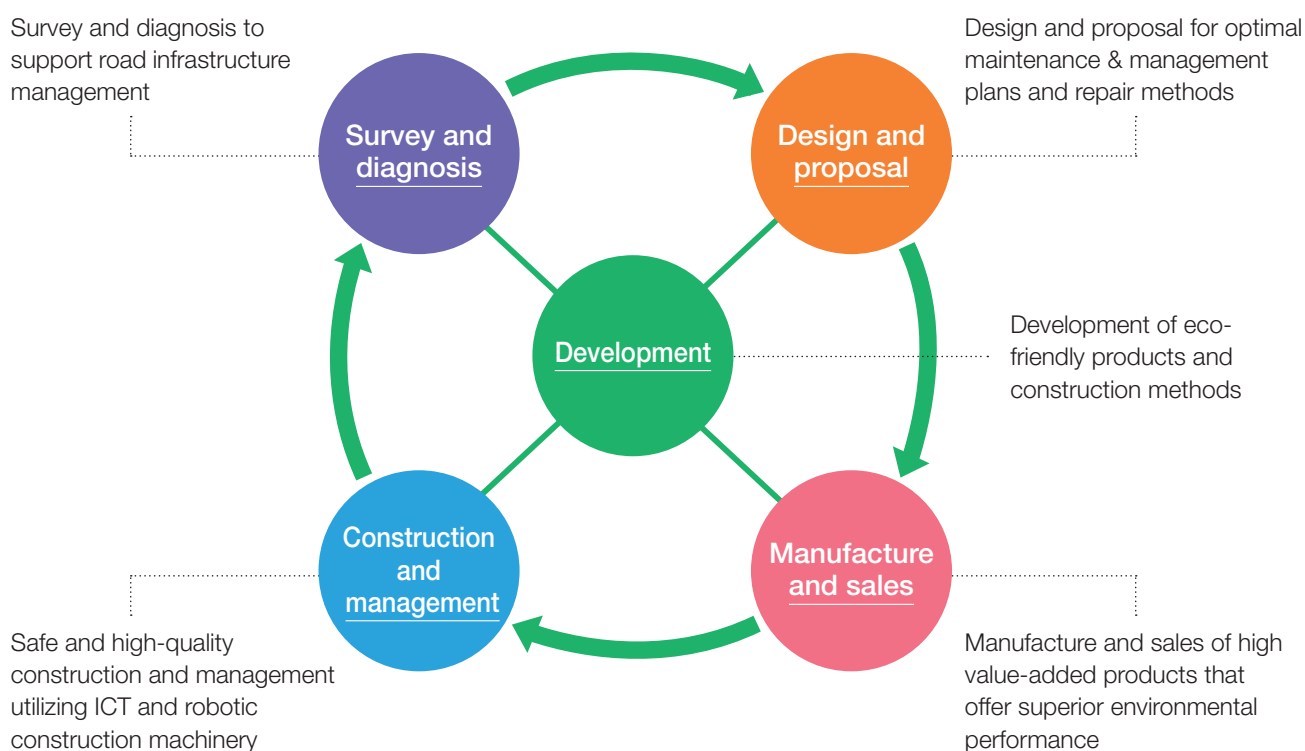


* Amount before adjustment of ¥3,303 million, which includes elimination of inter-segment transactions and corporate expenses

Business Model

The Nichireki Group's main strength lies in its R&D capabilities, which demonstrate creativity and uniqueness, while incorporating new technologies from other areas, to come up with new products and construction methods that satisfy customer requests and issues as well as market needs.

Another of the Group's unique points is its ability to consistently serve as all types of players involved in road pavement business 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.



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
waterproofing method)



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



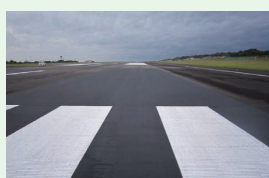
L-seal tape
(molded water cut-off material for
bridge ends)



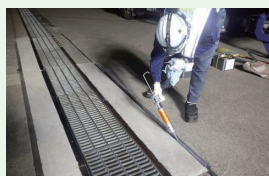
**SMART SHOBAN
CATCHER**
(DX compatible non-destructive
bridge deck survey vehicle)



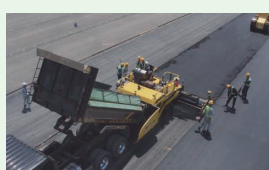
THERMOTEC construction
method
(heat-blocking paving)



POLYPHALT SS
(flow and wear resistant modified
asphalt)



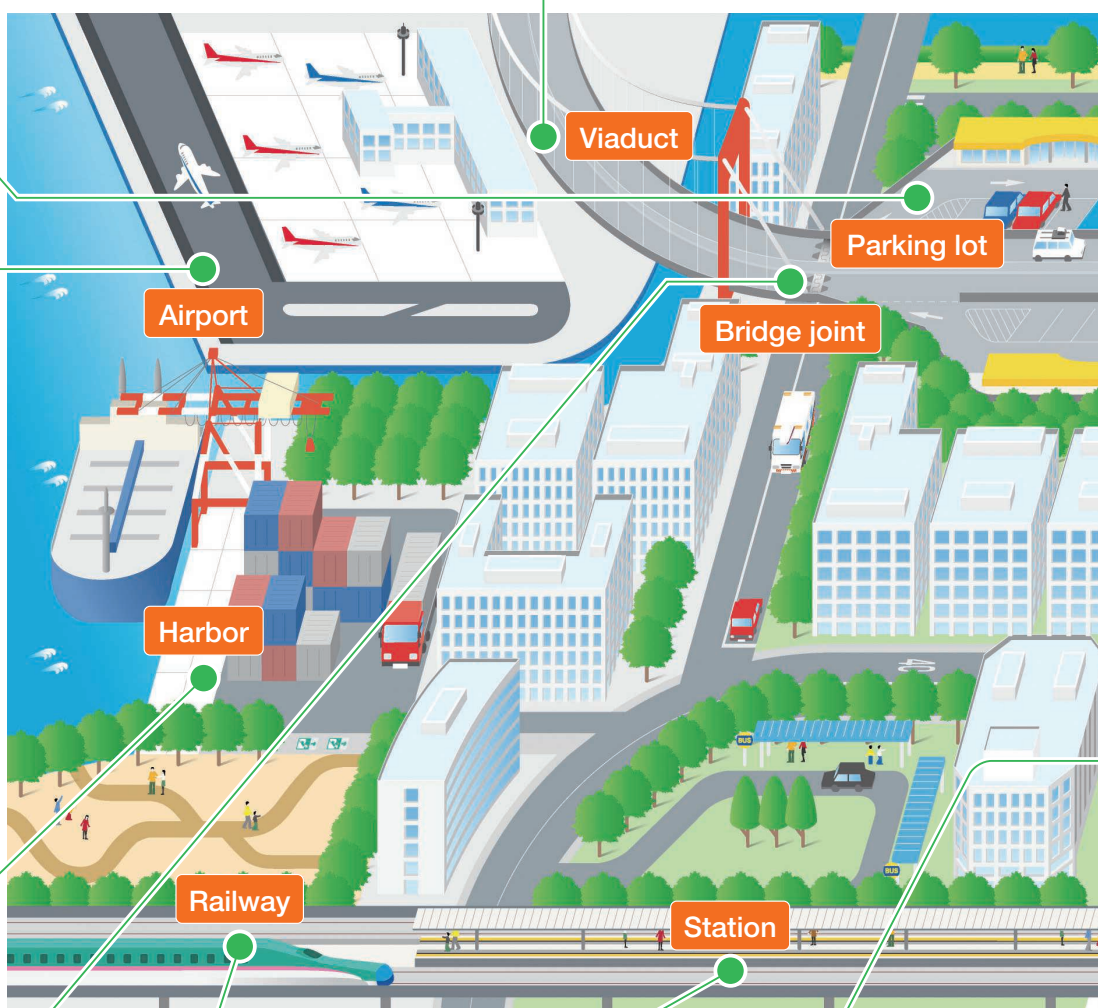
NEOTAIYU SEALCOLD
(oil-resistant joint sealant)



CONTAINERPHALT S
(modified asphalt for ultra heavy
loads)



Seamless joint
(embedded-type expansion joint)



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



SUPER ROMENPATCH
(emulsion based cold mix 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)



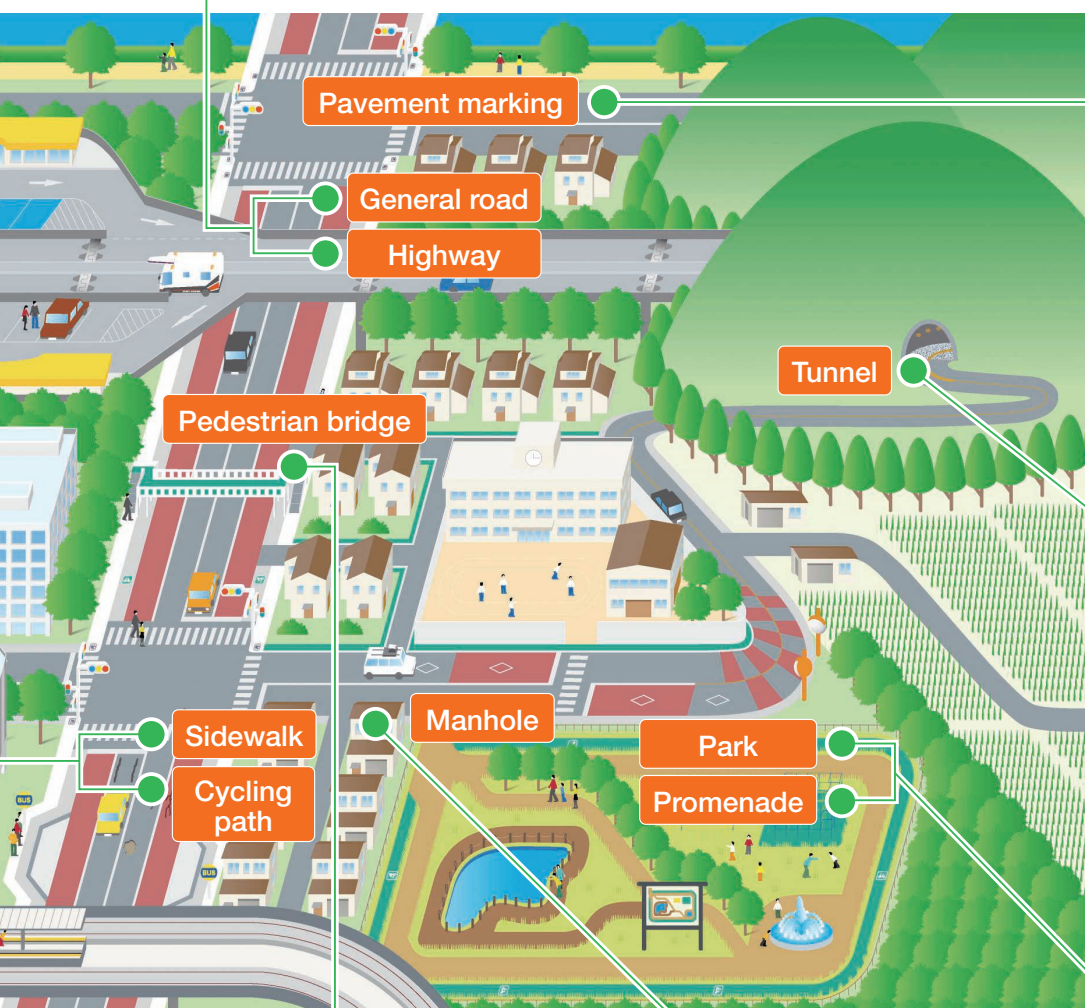
SUPER TACKZOL
(rapid breaking asphalt emulsion)



THERMOTEC construction
method
(heat-blocking paving)



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



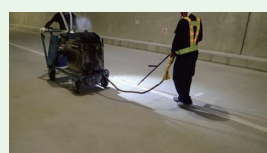
Lining



Road marking



COLORPHALT CLEAR
(colored paving)



SEROSEAL
(hot applied joint sealant for concrete joints)



ASWOOD paving
(wood chip paving)



COLORPHALT TO
construction method
(natural stone paving)



COLORPHALT KT method
(resin mortar based color paving)



MR² method
(manhole top repairing method)



SUPER ROMENPATCH
(emulsion based cold mix bump repairing material)

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 products and construction methods relating to road paving, including asphalt emulsion, modified asphalt, bridge deck waterproofing products 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 products

► 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

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

- Construction methods**
- On-site mixing method to enhance durability of gravel road **safety** ①

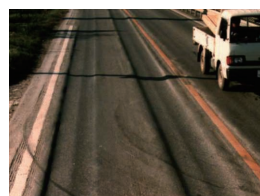
コンサルティング
(調査・診断技術)

- 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

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



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

Deliver peace of mind
to all stakeholders by
creating roads

and construction methods with reduced CO₂ emission, longer life, recyclability, and safety functions and performance, 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.

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 foundations and strengthens corporate governance

- 2006** The Company discloses basic policy for establishing internal control system
- 2008** The Group acquires ISO 9001
- 2012** The Group acquires ISO 14001
- 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
- 2023** The Company marks the 80th anniversary of foundation on October 26



- ROMENPATCH for reducing noise and vibration caused by bumps **safety**
- TOUGHPHALT SUPER for porous paving **safety** **4**
- AF PHALT for recycled mixture **recycling**

- ASWOOD paving utilizing timber obtained from forest-thinning operations **CO₂ emission reduction** **recycling** **5**
- EMULTEC construction method to extend the life of the paved road **CO₂ emission reduction** **long lasting**

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



4 TOUGHPHALT SUPER for controlling water splashing in the rain to increase visibility and safety



5 ASWOOD paving with recycled timber obtained from forest-thinning operations that are often burnt

- 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**
- SUPER SHINAYAKAPHALT for long-life pavement **CO₂ emission reduction** **long lasting**
- SUPER CONTAINERPHALT for paving roads with ultra heavy loads **CO₂ emission reduction** **long lasting**

- SUPER SURFTREAT construction method for road surface protection **CO₂ emission reduction** **long lasting**
- STABI-CEMENT RC construction method using ICT **CO₂ emission reduction** **recycling** **6**
- HQ PAVERANE construction method for high-durability water-proofing bridge deck **CO₂ emission reduction** **long lasting**

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



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



7 GLOCAL-EYEZ for inspecting roads with a smartphone

Introduction of paving with low-environmental burden and establishment of performance specifications

- 1991** Collapse of Japan's economic bubble
- 1995** The Great Hanshin-Awaji Earthquake
- 2001** Ministry of Land, Infrastructure, Transport and Tourism is established
Enactment of "Technical Standards and Commentaries for the Structure of Pavement"
→Establishment of performance specifications 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

Message from the President



Commit to strive for resilient

Manabu Obata

President and Representative Director

Address the surge in raw material costs through initiatives that embody our “spirit of sowing the seeds”

Nichireki has inherited a corporate culture based on the spirit of sowing the seeds, which has been in place ever since our foundation. Under a management philosophy of contributing to society by creating roads, we provide a wide range of products, technologies, and construction services connected with road paving.

In our business, where asphalt is the primary product, we've been deeply impacted by the recent spike in crude oil prices. During FY2022, the cost of raw materials rose to approximately 1.5 times that of the previous fiscal year when accounting for foreign exchange factors, placing us in an unprecedented situation. Amid this environment, we've done our utmost to absorb the rising costs while continuing to fulfill our social responsibility to provide road infrastructure, all the while being guided by the spirit of sowing the seeds, which is embedded into our corporate culture.

We continue to serve traditional needs through our provision of paving materials and construction methods. However, this year has been one of focused planning and action, as we reconsider what is needed to more broadly distribute the products and methods that Nichireki has independently developed —ones that bring greater social value. Such efforts, based on our spirit of sowing the seeds, have given us confidence in overcoming a challenging business environment and have consequently contributed to our market expansion.

In Japan, there is an ongoing “**Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience.**” Substantial budget allocations are anticipated for the development and maintenance of the nation's road networks, which are the “blood vessels” supporting both society and industry.

Mindful that the effective utilization of roads contributes to national strength, Nichireki is committed to making contributions to Japan's growth through our business activities. We will continue to develop and offer products and construction methods that ensure transportation safety and security, that are resilient

sustainability management and continuous growth through responses

and long-lasting, and that contribute to reducing environmental impact.

With regard to our mission of reducing environmental impact in particular, we need to consider how we can play our part given that we naturally cannot be involved in every road construction project. Our focus, therefore, lies in **reducing CO₂ emissions** with an aim toward **carbon neutrality**. Until now, we have generated demand by targeting CO₂ emission reduction through our individual products and construction methods. To respond to customer needs for further reductions in CO₂ emissions throughout the entirety of the construction process, we have introduced a new keyword — “*Tastainability*” since FY2022. This encapsulates additional features and functions such as longer service life, greater recyclability, and safety.

The notion of “*Tastainability*” is increasingly taking root within the company, after our spirit of sowing the seeds. We are also proactively disseminating this concept to the broader public through newspaper advertisements and other channels.

In April 2023, with the Center for Infrastructure Management Research, Tohoku University, we established a Joint Development Division of “*Tastainability*” for Infrastructure Management in the graduate school. Moving forward, we will be building a new road infrastructure management system utilizing data science, further expanding our efforts for “*Tastainability*.”

Eighty years of tackling social issues and crisis awareness as part of our mission

Thanks to the support of all our stakeholders, Nichireki will celebrate **its 80th anniversary** in October 2023. Reflecting on the past 80 years, throughout which we’ve continued to uphold our spirit of sowing the seeds, we can pinpoint several pivotal moments amid a landscape of change that have contributed to our business growth and development.

Originally established in 1943 as Nihon Rekisei Kagaku

Kogyosho, we initially focused on roof waterproofing construction for buildings. However, from 1946 we ventured into road paving, and soon after in 1950 began in-house production of asphalt emulsion, a material that we found suitable for paving. In 1961, we successfully developed Japan’s first cationic asphalt emulsion, CATIOZOL. This led to the rapid transition from gravel roads to asphalt paving. This contribution to the spread of paving in Japan can be considered the first major turning point for Nichireki.

In the midst of Japan’s rapid economic development, from 1966 onwards (dubbed the “beginning of era of private car ownership”), vehicular traffic in Japan increased dramatically. Particularly noticeable was rutting on road surfaces due to the use of large trucks.

The launch of a modified asphalt, POLYPHALT SS, to solve this issue was our next turning point. This enhanced Nichireki’s reputation as a paving materials manufacturer and facilitated our business expansion.

Another significant turning point that followed was the launch of our overseas operations. In 2002, we established a joint venture, Beijing Luxin Dacheng Exquisite Paving Co., Ltd., in Beijing, China as a bridgehead for entering the Chinese market. Our modified asphalt product SINOPHALT was recognized for its excellent durability as a suitable paving material for long-span bridges, enabling us to expand our market share in China.

On the other hand, we’ve been consistently engaged in consulting business, such as road surface survey, since the late 1970s. After the ceiling collapse in the Sasago Tunnel in 2012, the Ministry of Land, Infrastructure, Transport and Tourism of Japan designated 2013 as the “first year of social capital maintenance,” beginning full-scale anti-decrepitude measures. As a result, the demand for Nichireki’s accumulated survey technologies has heightened and remains strong today.

In this way, we’ve viewed various social challenges and crisis awareness as our mission to address, contributing to the solution through our road infrastructure maintenance business, which in turn has facilitated our business growth and development. For roughly the past decade, the foremost social issue has been the shift

toward **decarbonization** in response to climate change. Although many of Nichireki's products and construction methods have already exhibited environmentally friendly qualities, such as longer service life, greater recyclability, and lower construction temperatures, the growing social emphasis on achieving **the SDGs** in recent years has further increased the demand for minimizing environmental impact.

Moving forward, Nichireki is committed to becoming a corporate group that delivers peace of mind to all our stakeholders, including customers, shareholders, investors, suppliers, employees, and local communities by creating roads and affecting the lives of people. This commitment is guided by our **"Vision for the 100th Anniversary of Our Foundation,"** which sets out our goals as we head toward 2043.

As we look to the next 20 years, we anticipate society evolving more rapidly than ever. It's crucial that we take a panoramic view of the trends of these changing times and clearly define our business direction, including proactively investing in the safety and security of road infrastructure and accelerating our pace of development.

The cornerstone of these initiatives is the **"Tsukuba Big Ship,"** an eco-friendly production and distribution site we are constructing in Tsukubamirai City, Ibaraki Prefecture. By establishing a product supply hub just 40 minutes from the center of Tokyo, we are propelling our DX efforts while strengthening our organizational structure in terms of BCP (business continuity planning). Through manufacturing new high-value added products geared toward next-generation needs and enhancing logistics efficiency, we are taking progressive steps toward decarbonization. With these actions, we aim to deepen our role as a company committed to solving the challenges faced by our customers and broader society.

Steadily advancing priority measures in our Medium-term Management Plan to achieve financial targets over the next three years

As Nichireki strives to achieve our "Vision for the 100th Anniversary of Our Foundation," we are actively advancing our five-year Medium-term Management Plan (Shinayaka 2025) spanning from FY2021 to FY2025, in order to lay the foundations for sustainable management.

The second year of this plan, FY2022, as mentioned at the outset, presented a challenging business environment due to soaring crude oil prices, resulting in a decline in profits compared to the previous year. However, in line with our spirit of sowing the seeds, we have continued to

make steady progress in our initiatives as a development-oriented company. By promoting *"Tastainability,"* we have worked diligently to further strengthen the design and sales activities to receive orders for high-value added products and construction methods that contribute to the reduction of CO₂ emissions. In particular, our new products, including SUPER SHINAYAKAPHALT and SUPER CONTAINERPHALT, **have extended the lifespan of pavement** and been positively received by many local governments, instilling within us a strong sense of affirmation.

Turning our attention to the demand for pavement construction, Japan has more than 1.28 million kilometers of roads, many of which will require maintenance going forward. We anticipate that the need for longer-lasting roadways will remain high over the long term. According to the Ministry of Land, Infrastructure, Transport and Tourism's medium- to long-term vision: "2040 Vision for Roads in Japan," which was published in 2020, the cost of preventive road maintenance is projected to be ¥2.6 trillion in 2028 and ¥2.7 trillion in 2038.

In this context, in regard to **"Expand and cultivate our business markets, and penetrate markets,"** one of the priority measures of our Medium-term Management Plan, we believe our commitment to thoroughly diagnosing and repairing roads has gained considerable traction in the market over the past two years. Additionally, the development of highly durable, special modified asphalt has created promising new markets for us in the paving of airports and harbors.

In regard to **"Enhance R&D capabilities and improve productivity,"** we are particularly focused on accelerating our pace of development by expanding our organizational structure. We currently have approximately 40 individuals, which account for 10% of our workforce (non-consolidated), based within the R&D division, and we invested funds of ¥920 million in research and development for FY2022 (up ¥55 million year on year). Recent achievements have included the successful development of SUPER SHINAYAKAPHALT and SUPER CONTAINERPHALT. We also worked to improve productivity by promoting a range of DX measures primarily for logistics-related systems.

When it comes to **"Boosting environmental investments to contribute to realizing a decarbonized society,"** our main initiative is the construction of the Tsukuba Big Ship. We had postponed the commencement of construction in FY2022 due to a shortage of components, including semiconductors, required for the completion of the new production facilities. However, construction is now due to commence within FY2023.

In the third year of our Medium-term Management Plan, FY2023, we expect a continued strong flow of public works projects, along with stable demand for road paving

work. We envisage raw materials costs remaining at the levels seen in the first half of 2022. With that in mind, we are focused on enhancing our organizational resilience as well as on the development of higher value-added products and construction methods. We aim to secure demand through strategic expansion, facilitated by “*Tastainability*.”

Based on the above, we are forecasting our consolidated performance for FY2023 to be as follows: ¥80.0 billion in net sales (up 2.0% compared with FY2022), ¥8.2 billion in operating profit (up 8.4%), ¥8.4 billion in ordinary profit (up 3.6%), and ¥5.5 billion in profit attributable to owners of the parent company (down 12.5%).

Additionally, we will aim to achieve the financial targets set out in this Plan (Shinayaka 2025) over the remaining three years. These targets for consolidated performance in FY2025 are as follows: ¥86.0 billion in net sales, ¥10.0 billion in operating profit, ¥10.2 billion in ordinary profit, ROIC of 8.0% or more, and ROA of 6.0% or more.

Practicing management from an ESG perspective, to achieve sustainability and enhance organizational resilience

In line with its **sustainability** efforts, Nichireki has established ESG targets for FY2025 and FY2043, aiming to achieve them through the “Shinayaka 2025” plan and the “Vision for the 100th Anniversary of Our Foundation.”

Among our ESG targets, the “sales ratio of eco-friendly products and construction methods” (referring to products and methods that are more conscious of the environment than existing ones) increased from 21.2% in the previous fiscal year to 23.9% in FY2022. Additionally, we are making steady progress toward achieving our numerical ESG targets pertaining to workstyle reforms and work-life balance.

Furthermore, in FY2022, we also implemented human resource measures, including the introduction of a retirement age of 65, the appointment of female officers in our subsidiaries, and the provision of inflation allowances to employees. Through these measures, we have been striving to be a company where a diverse range of talent can thrive and work with full peace of mind. For FY2023, we are introducing a delegation-type executive officer system to encourage empowerment. This will enable swifter management decision-making, the expansion of operational functions, and enhanced inter-divisional collaboration, thus developing a more active organizational structure.

We will continue to practice management from an ESG perspective, to achieve sustainability and enhance organizational resilience.

As for distributing profits to shareholders, given the recent increase in our retained earnings, our profit distribution policy focuses on continuous purchases and cancellations of treasury shares, as well as increasing dividends in line with performance, to further enhance returns to shareholders. We plan to purchase up to 1.7 million treasury shares or spend up to ¥3.0 billion on share buybacks over the year, beginning on March 1, 2023. From FY2023, we are introducing an interim dividend system, enabling a more flexible capital policy that reflects our profit situation twice a year. For FY2023, the planned dividend per share is currently set at an interim dividend of ¥35 (including a commemorative dividend of ¥10 for the 80th anniversary of our foundation) and a year-end dividend of ¥35. The total annual dividend is projected to be ¥70, representing a ¥20 increase from the previous fiscal year.

Sustained passion, rooted in our foundational spirit of sowing the seeds, is vital for Nichireki’s value creation. If we don’t infuse this passion into our ongoing endeavors, including R&D, we simply cannot make a meaningful contribution to society. We will never lose sight of this passion, and continue to forge a path for ourselves into the future.



Manabu Obata

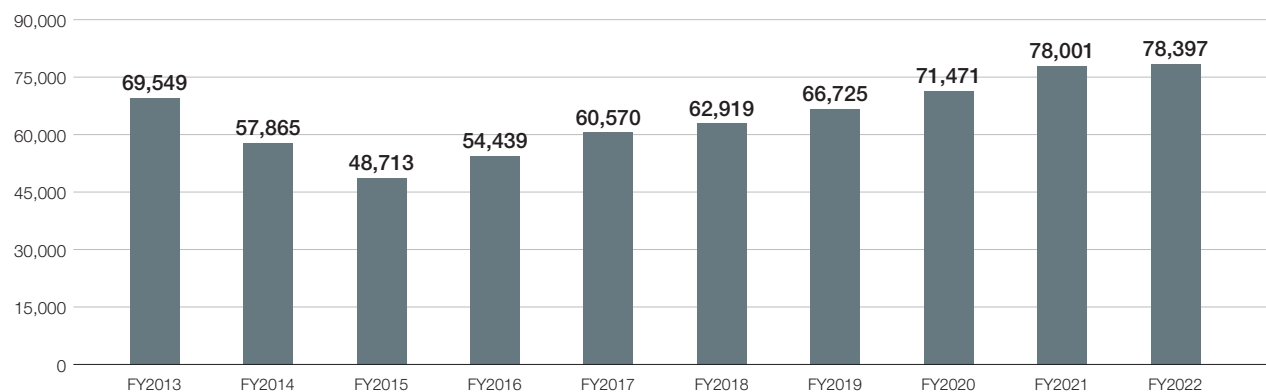
President and Representative Director

Financial Highlights

Consolidated basis

Net sales

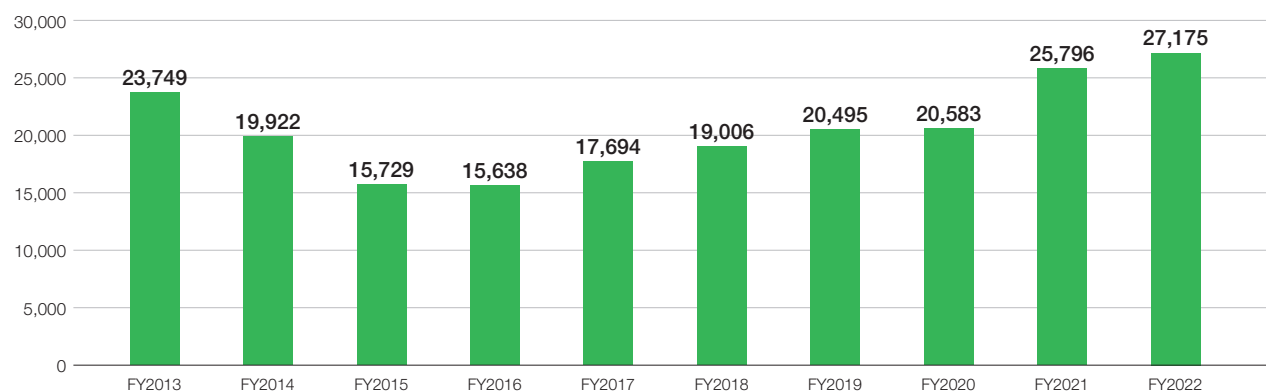
(Million yen)



Applied and Processed Asphalt Products Business

Net sales

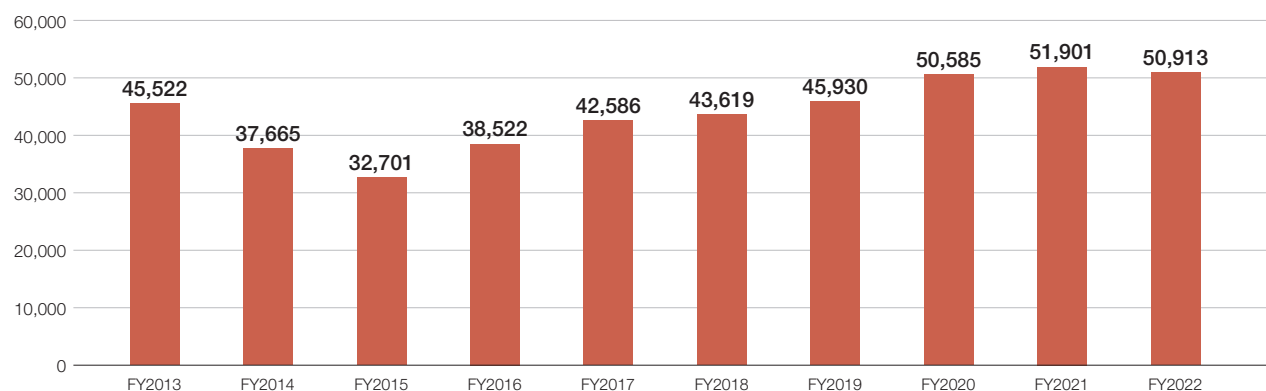
(Million yen)



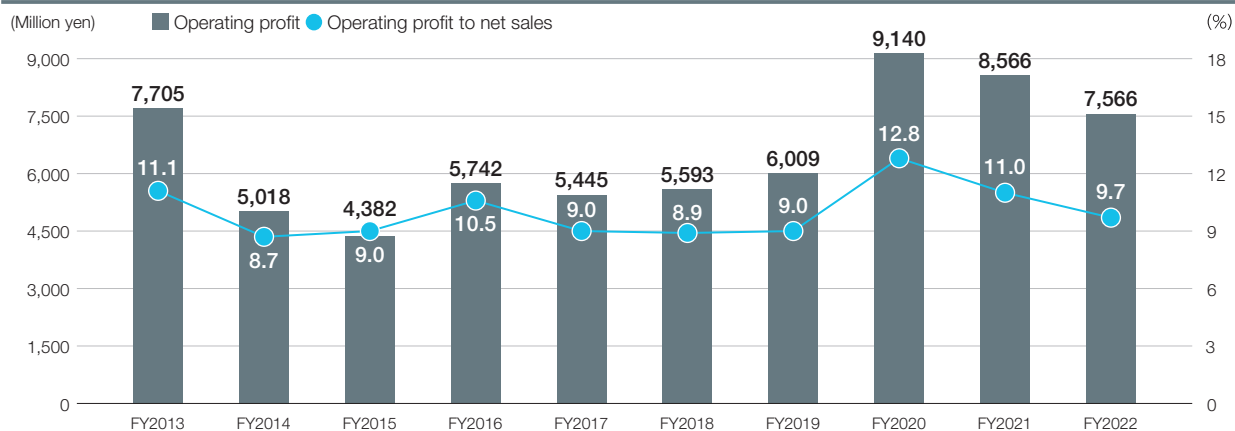
Road Paving Business

Net sales

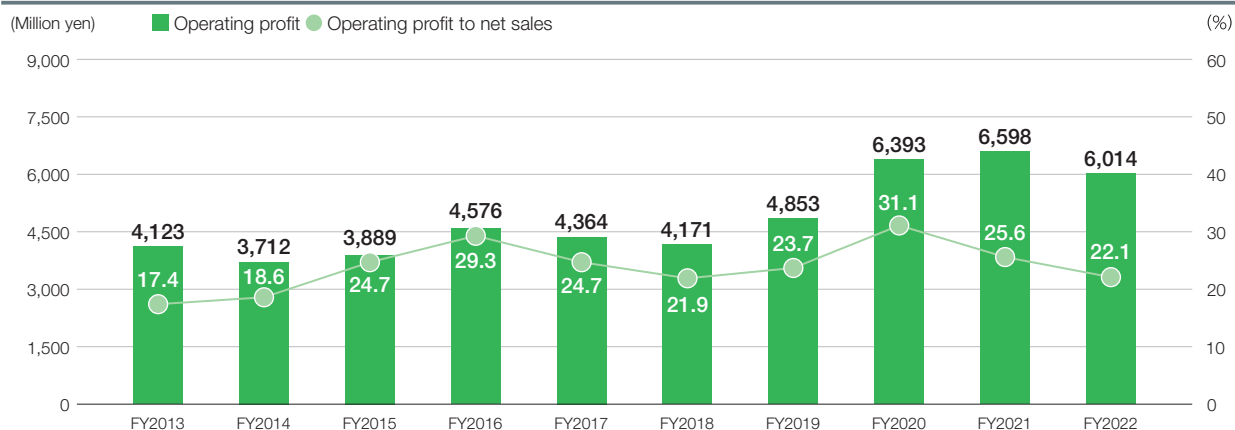
(Million yen)



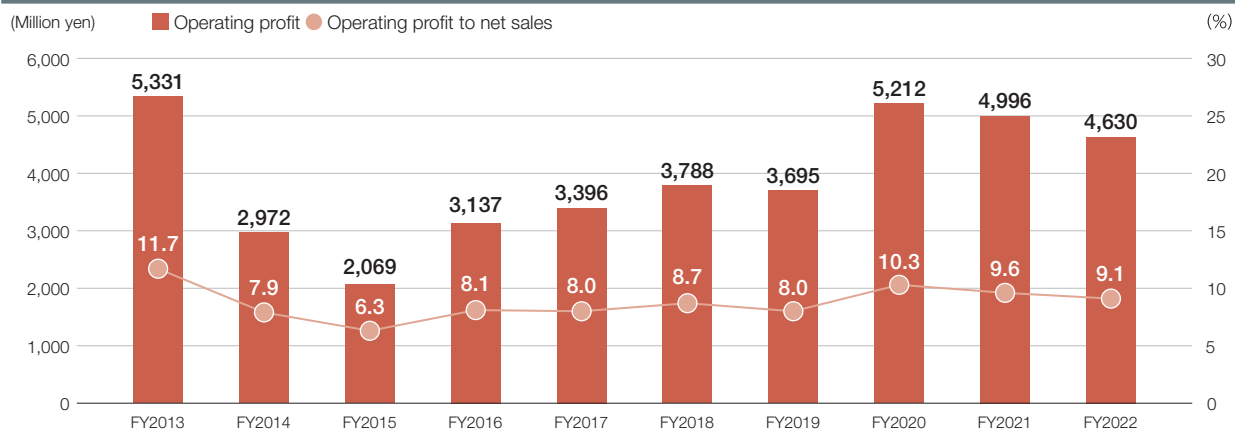
Operating profit and operating profit to net sales



Operating profit and operating profit to net sales

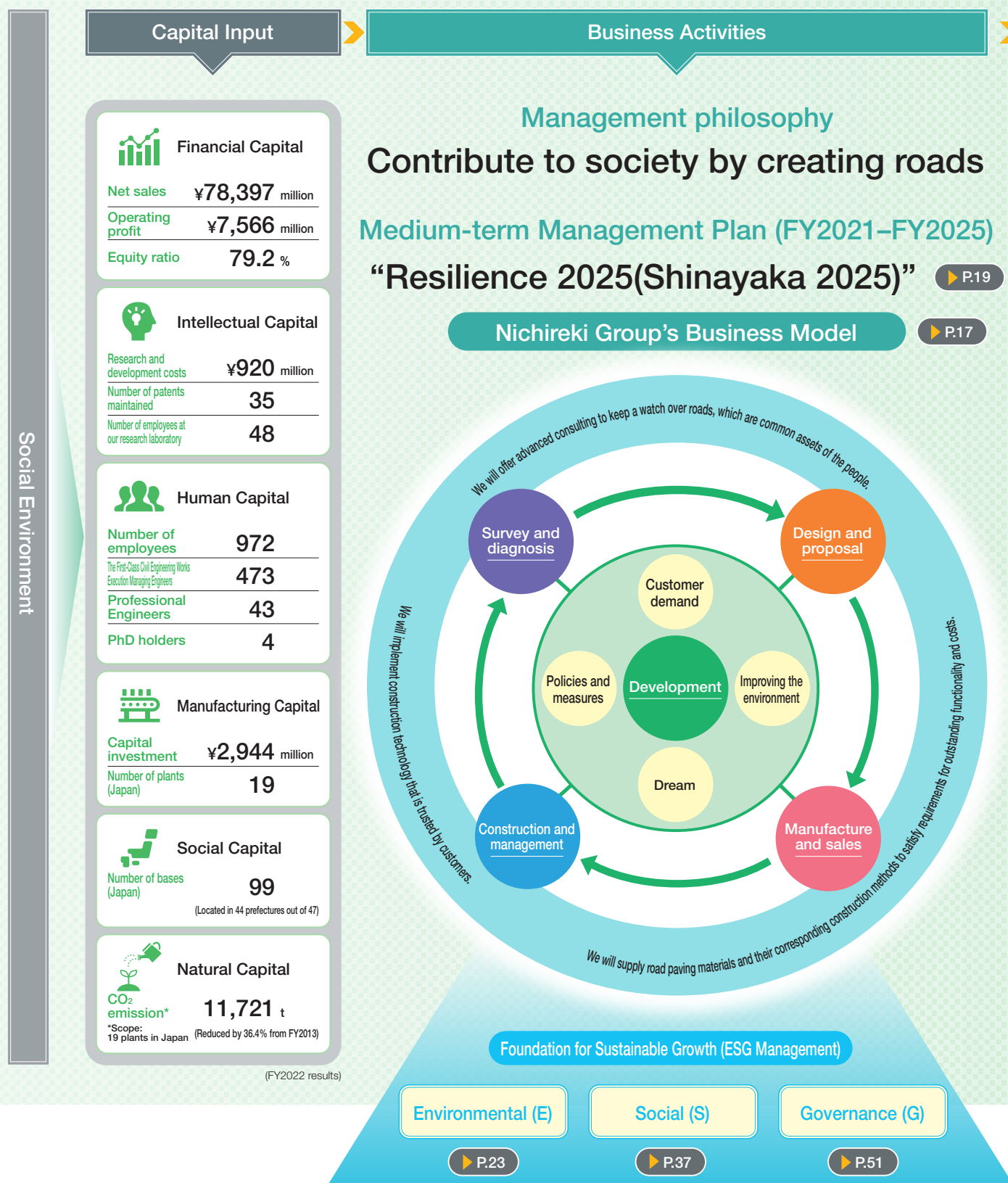


Operating profit and operating profit to net sales



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

▶ P.21

Vision for the 100th Anniversary of Our Foundation

▶ P.19

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%

ESG targets (FY2025)

Sales ratio of eco-friendly products and construction methods ^{*1}	30% or more
Number of newly developed (or improved) products and construction methods launched ^{*2}	10 or more
Number of internal compliance training workshops held	2
Number of products of joint research and development rolled out ^{*3}	2 or more
Percentage of suppliers evaluated	100%
Annual overtime ^{*4}	640 hours or less
Number of days of annual paid leave taken ^{*5}	50% or more of the number of paid vacation 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 newly developed (or improved) products and construction methods launched in FY2021 and later.

^{*3} The cumulative number of developed products launched in FY2021 or later as a result of joint R&D projects.

^{*4} Covers all Group employees.

^{*5} Covers employees who are granted 10 or more days of annual paid leave.

**Deliver peace of mind
to all stakeholders by
creating roads**

Customers

Ensure environment preservation, safety and quality in the processes of developing and improving products and construction methods, manufacturing, 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



Strengths in Business Process

● Research and development of eco-friendly products and construction methods

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 more than 10% of our consolidated operating profit in R&D. We have installed new performance evaluation testing machines in addition to our conventional testing equipment to promote R&D to align with the era of social infrastructure maintenance, such as service life extension and large-scale renovation of roads. The Technical Research Center also serves as a comprehensive R&D institution that contributes to developing the capabilities of employees through the provision of training.

● Survey and diagnosis to support road infrastructure management

Nichireki has also been working on the digital transformation (DX) of road inspections by leveraging ICT, IoT, and AI technology. For instance, we have developed SMART ROMEN CATCHER LY Jr. (road surface condition measuring vehicles), which inspects the damage of road paving; SMART 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 survey vehicle), which identifies the range and depth of damage locations on the top surfaces of concrete deck inside bridges. Furthermore, we offer GLOCAL-EYEZ (smartphone-based road inspection system), which allows anyone with a smartphone and a vehicle to inspect roads at low cost.



GLOCAL-EYEZ (smartphone-based road inspection system)



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

● Safe and high-quality construction and management utilizing ICT and robotic construction machinery

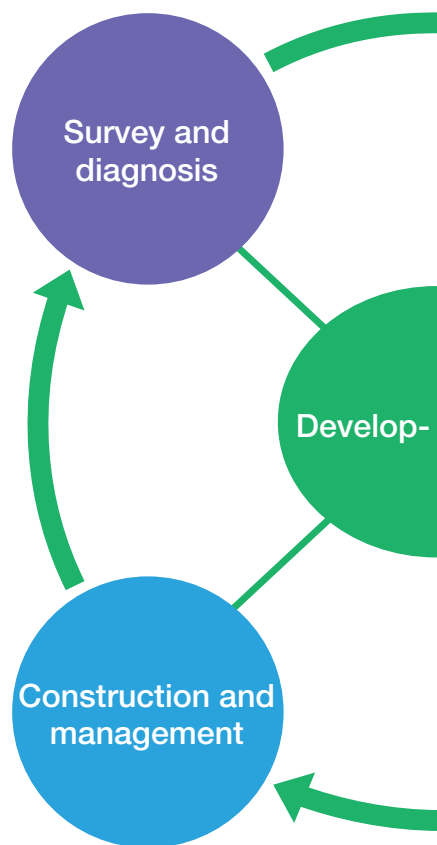
By promoting the digitalization and robotizing processes to ensure reliable construction and management, we seek not only to earn the trust of the customers who entrust us with construction work, etc., but also to make residents living along roads feel safe. To give an example, with the STABI-CEMENT 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 worked to improve productivity and precision in construction and quality control by utilizing the ICT that measures various data in real time.



STABI-CEMENT RC construction method using ICT



HQ HIBRANE AU construction method using a binder spraying robot





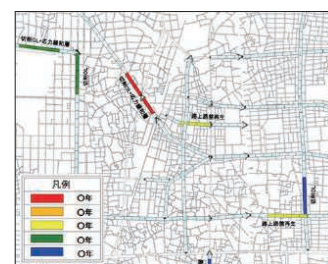
Technical Research Center



Laboratory building

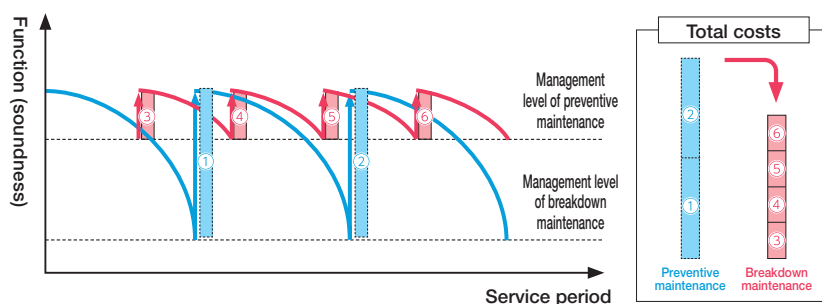
Design and proposal for optimal maintenance & management plans and repair methods

We assist in creating a pavement maintenance cycle to make road infrastructure last longer and help people have a safe and comfortable living environment. For medium- to long-term pavement maintenance and management planning, we calculate lifecycle costs using various combinations of repair methods, and then select the most economical pattern of methods from a preventive maintenance perspective. And based on this, we draw up repair plans for each fiscal year, and propose the optimal repair methods.



Repair plan diagrams

Illustration of breakdown maintenance and preventive maintenance cycles



Breakdown maintenance: Making repairs or taking measures to a facility after a malfunction in the function or performance of the facility occurs

Preventive maintenance: Making repairs or taking measures to a facility before a malfunction in the function or performance of the facility occurs

Source: Explanatory material titled "Actions to be Taken in Infrastructure Maintenance and Immediate Approaches to Implementing the Actions (Draft)" published by the Ministry of Land, Infrastructure, Transport and Tourism.

Manufacture and sale of high value-added products that offer superior environmental performance

Our eco-friendly plants manufacture high value-added products that help customers address their various challenges, such as CO₂ emission reduction, service life extension, and recycling. We have also implemented a logistics management system powered by ICT to create a sales system while staying mindful of convenience for customers.



Oyama Plant



Chiba Plant

Vision for the 100th Anniversary of Our Foundation

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

As we move forward toward realizing our Vision for the 100th Anniversary of Our Foundation under our management philosophy, we aim to successfully address the material issues and 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.

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 technology and DX
- Changes in business practices such as the advent of a decarbonized society
- Expansion of corporate social responsibilities such as ESG and SDGs.
- 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

Present

2020 Medium-term Management Plan Next 2020 New Growth

—Moving on to the next stage—

FY2016 to FY2020

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 costs
- Offer advanced consulting to keep a watch over roads, which are common assets of the people
- Implement construction technology that is trusted by customers

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













Develop and manage
business from more of an
ESG perspective

2043

Vision for the 100th Anniversary of Our Foundation

Deliver peace of mind to all stakeholders by creating roads

Flexibly adapt to various changes in the business climate

Material issues	Our approach to addressing the issues	KPIs	Relevant SDGs
Contribute to realizing a decarbonized society	Deliver a wide range of eco-friendly products and construction methods that bring about a number of benefits, such as reduced CO ₂ emissions, longer service life, and greater recyclability, to ultimately reduce greenhouse gas emissions across our value chain.	Sales ratio of eco-friendly products and construction methods	 
Provide safe, secure, and high-quality road infrastructure	Continue to develop products and construction methods that excel in performance and functionality, thereby contributing to improving safety and service life extension of pavement, to meet the needs of road administrators and society.	Number of newly developed (or improved) products and construction methods launched	   
Realize sustainable growth by strengthening the management foundation	Fulfill accountability through efforts, such as proactive information disclosure and deeper dialog, and realize the management while placing emphasis on financial soundness and compliance, in a bid to continuously enhance corporate value.	Ordinary profit margin Dividend payout ratio Number of internal compliance training workshops held	 
Maintain and strengthen good and strong partnerships	Aim to generate mutual synergies through collaboration with a range of external partners, including those in other industry sectors, while strengthening trusted relationships with partners through better communication and ensuring the safety of the entire supply chain.	Number of products of joint research and development rolled out Percentage of suppliers evaluated	 
Create a work environment in which each and every employee finds their job meaningful and feels worth living	Strive to improve the work-life balance of employees by improving productivity through the effective use of ICT-based systems, while establishing an internal system fitting with the times and the current legal frameworks from the perspectives of diversity and inclusion.	Annual overtime Number of days of annual paid leave taken	 

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–

Numerical targets

Financial targets

	FY2020 results	FY2021 results	FY2022 results	FY2025 targets
Consolidated net sales	¥71,471 million	¥78,001 million	¥78,397 million	¥86,000 million
Consolidated operating profit	¥9,140 million	¥8,566 million	¥7,566 million	¥10,000 million
Consolidated ordinary profit	¥9,574 million	¥9,311 million	¥8,104 million	¥10,200 million
Ordinary profit margin	13.4%	11.9%	10.3%	11.9% or more
ROIC	11.2%	9.3%	7.6%	8.0% or more
ROA	8.2%	8.0%	7.0%	6.0% or more
Dividend payout ratio	17.3%	18.8%	24.3%	Approx. 25%

ESG targets

	FY2020 results	FY2021 results	FY2022 results	FY2025 targets	FY2043 targets
Sales ratio of eco-friendly products and construction methods*1	12.6%	21.2%	23.9%	30% or more	80% or more
Number of newly developed (or improved) products and construction methods launched*2	10	1	4	10 or more	40 or more
Number of internal compliance training workshops held	2	2	2	2	2
Number of products of joint research and development rolled out*3	2	1	1	2 or more	10 or more
Percentage of suppliers evaluated	100%	100%	100%	100%	100%
Annual overtime*4	640 hours or less 77.8%	640 hours or less 87.2%	640 hours or less 89.9%	640 hours or less 100%	360 hours or less 100%
Number of 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 69.1%	50% or more of number of days granted 100%	90% or more of number of days granted 100%

*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 newly developed (or improved) products and construction methods launched in FY2021 and later. *The figures of FY2020 results represent the cumulative total from FY2016 to FY2020.

*3 The cumulative number of developed products launched in FY2021 or later as a result of joint R&D projects. *The figures of FY2020 results represent the cumulative total from FY2016 to FY2020.

*4 Covers all Group employees.

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

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 functions, such as longer service life, greater recyclability, CO₂ reduction, and safety.

▶ P.27

Progress in FY2022

- We strived to expand sales of *Tastainability*[®] series of products and construction methods, which offer additional performance and functionality such as long-lasting, recycling, in addition to reduction of CO₂ emissions. As a result, the consolidated net sales ratio of eco-friendly products and construction methods increased to 23.9% from 21.2% of the previous fiscal year.
- We also pushed forward with the STABI-CEMENT RC construction method, a construction method contributing to disaster prevention, disaster mitigation, and building national resilience, which helps mitigate destruction and liquefaction damage in the wake of earthquakes, to firmly establish its presence in the market.

▶ P.33

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 FY2022

- We have newly developed SUPER SHINAYAKAPHALT and SUPER CONTAINERPHALT, which help extend the service life of pavement as well as reduce CO₂ emissions. Moreover, we have added new functions, including a function to evaluate rutting, worn road markings, etc., to GLOCAL-EYEZ, a smartphone-based road inspection system developed in FY2021.
- We have worked to improve productivity by promoting a range of DX measures primarily for logistics-related systems.

▶ P.46

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 FY2022

- We have enhanced the quality and quantity of disclosure information, including disclosure based on the TCFD recommendations and disclosure in English, in response to the sophistication of corporate governance.
- We have started operating a new HR system since April 2022 in a bid to strengthen the Group's management foundation, achieve sustainable growth, and enhance its corporate value over the medium- to long-term.
- With a view to responding to what is called the "2024 Problem" in the construction industry (caused by setting the overtime cap), we have worked to increase operational efficiency and productivity by migrating our groupware and business operating systems into the cloud, expanding the use of mobile PCs, and making better use of online conferencing.

▶ P.39

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 FY2022

- We have decided to restart the Tsukuba Big Ship project by around the end of FY2023, which was postponed due to factors, such as the soaring prices of steel and other building materials amid the Russia-Ukraine crisis and the shortage of semiconductors for manufacturing equipment.
- We continued to renovate existing buildings and facilities to reduce energy consumption and replace the Group-owned vehicles with hybrid vehicles.

Environmental

To Sustain Rich Global Environment

Basic approach

In recent years, with the increasing momentum of ESG, SDGs and carbon neutrality, companies are required to make a higher level of effort than ever before to address global climate change. The Nichireki Group aims to both solve environmental issues, which include realizing a decarbonized and recycling-oriented society and conserving biodiversity, and achieve a high level of sustainable development of its business. 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.

Environmental policy and our environmental management system

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, 2023

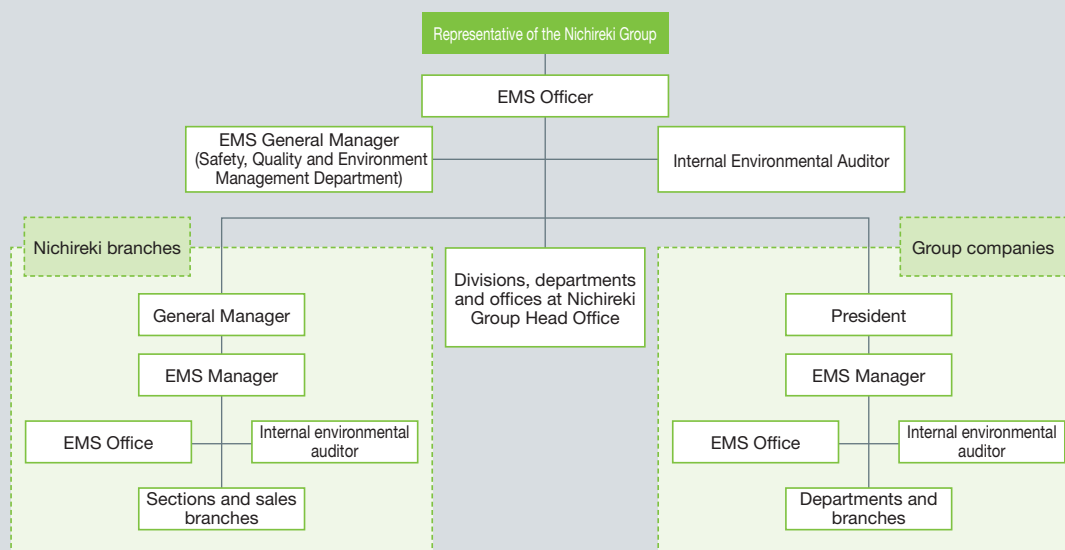
Manabu Obata, Representative, Nichireki Group

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)



Realization of a decarbonized and recycling-oriented society

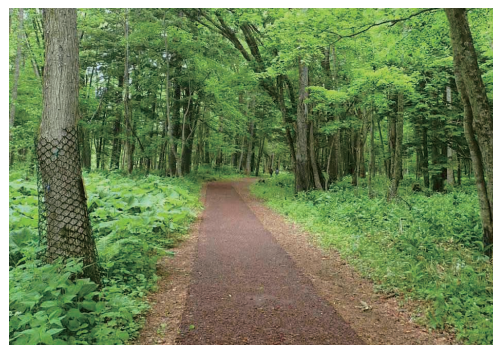
The Nichireki Group has been working to reduce CO₂ emissions to contribute to the realization of a decarbonized society through its efforts such as development and supply of products and construction methods that contribute to longer life and recycling of pavements, in addition to cold pavement using asphalt emulsion and reduction of the temperature of mixture production using modified asphalt for warm mix. ▶ P.27

Furthermore, we are also working to facilitate the reuse of resources by thoroughly separating recyclables from other garbage at offices as well as to promote green power. We will further accelerate our efforts toward the realization of carbon neutrality (eliminating net emissions of greenhouse gases including CO₂) by 2050.

Conservation of biodiversity

Forest thinning is an effort that contributes to the conservation of biodiversity. Felling trees at appropriate intervals in a dense forest allows enough sunlight to reach the trees to form a healthy forest, which enables to protect the habitats of diverse living organisms living in the forest. Timber from forest thinning is used in various ways; however, there are also cases where unused forest-thinning materials are combusted for disposal. Nichireki uses such forest-thinning materials for the pavement of promenades in parks as ASWOOD paving by crushing the materials and mixing them with asphalt emulsion, thereby promoting the use of forest-thinning materials. ▶ P.34

Moreover, we have also been contributing to the conservation of ecosystems from a perspective of community contribution activities by, for example, proactively participating in various activities, including cleaning and greening of roads and rivers in the communities where our offices are located.



ASWOOD paving

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.

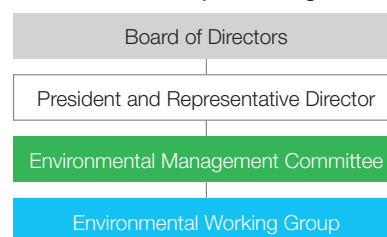
We clarify the impact on our business of the risks and opportunities brought about by climate change and take measures, thereby enhancing social sustainability and our corporate value while improving our business continuity.



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 policy responses 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.



Beyond 2°C scenario

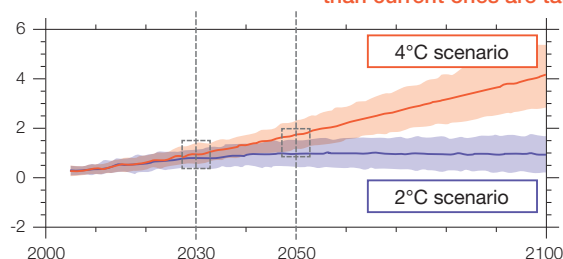
A scenario assuming that countries around the world will have stricter regulations and policies toward decarbonization and accordingly take stricter measures against climate change, and that the increase in the global average temperature will be limited to below 2°C above pre-industrial levels.

4°C scenario

A scenario assuming that countries around the world will neither introduce any additional regulations or policies nor take sufficient measures against climate change and that the increase in the global average temperature will be 4°C above pre-industrial levels.

■ Projected global average surface temperature change (relative to the average of 1986 to 2005 period)

Temperature will rise by 2.6°C to 4.8°C above pre-industrial levels unless measures more rigorous than current ones are taken



While 2°C and 4°C scenarios show a nearly identical change in temperature up until 2030, the gap between the two scenarios widens after 2030

Temperature will rise by 0.3°C to 1.7°C above pre-industrial levels if strict measures are taken

Sources: AR5 SYR Figure SPM.6, IEA, "ETP 2017," UNEP, "The Emission Gap Report 2015" on the Website of the Ministry of Foreign Affairs of Japan; Website of the Ministry of the Environment

The Nichireki Group's risks and opportunities expected, financial and business impact levels assessed, and countermeasures based on the aforementioned 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 (at 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 	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
		<ul style="list-style-type: none"> Increase in waste disposal cost 	High	Medium	<ul style="list-style-type: none"> Promote recycling
Physical risks	Reputation	<ul style="list-style-type: none"> Changes in reputation of our efforts to address climate change among investors and consumers 	High	Medium	<ul style="list-style-type: none"> Put more effort into making propositions of low-carbon products and construction methods and developing them
	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
Opportunities	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
	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
Opportunities	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 (at the Tsukuba Big Ship and other sites)

Metrics and Targets

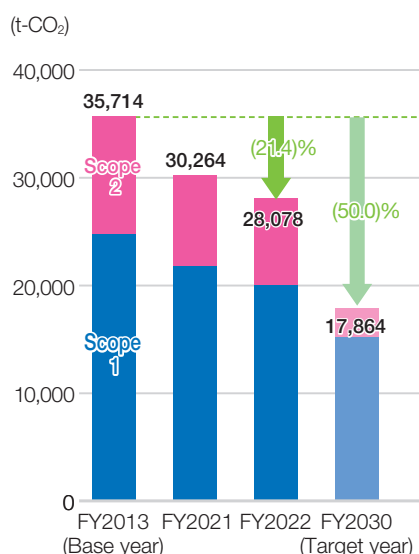
The Nichireki Group has set the long-term target of achieving net-zero greenhouse gas emissions across its value chain by 2050. Taking fully into account the goal set by the government of “aiming to reduce greenhouse gas emissions by 46% from FY2013 by 2030,” the Nichireki Group has also set the medium-term 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.

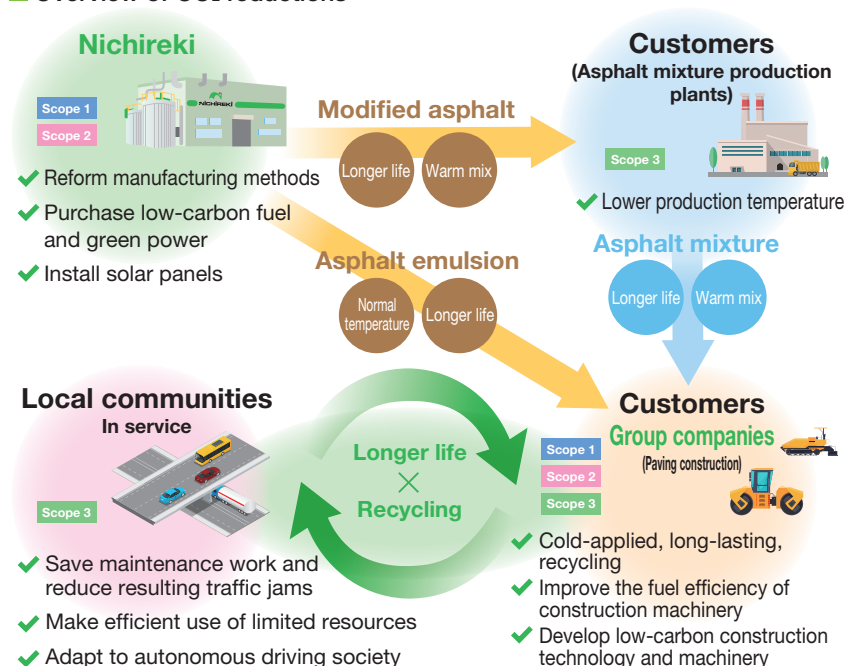
As for Scope 3, we will first quantify the amount of CO₂ emissions for each category, and then consider specific reduction measures together with those for Scope 1 and 2.

* **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

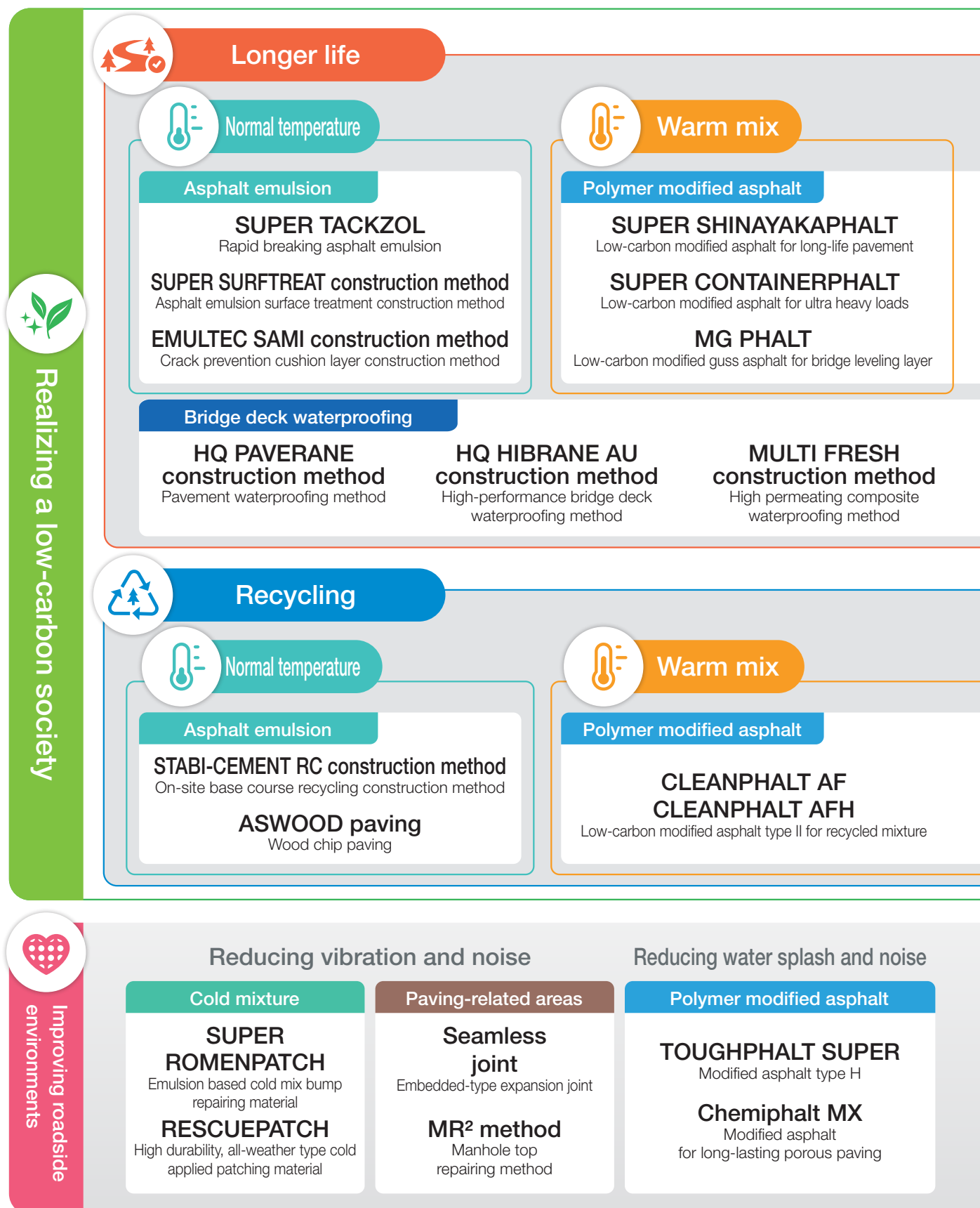


Overview of CO₂ reductions



Eco-friendly Products and Construction Methods

The Nichireki Group responds to CO₂ emissions reduction needs of its customers and other stakeholders. We have always worked to create eco-friendly roads using asphalt emulsion and other products and construction methods that can be handled at normal temperatures. Besides that, we will respond to further CO₂ emissions reduction needs through the supply of “*Tastainability*®” products and construction methods by adding new performance and functionality, such as longer life and recyclability. We will also



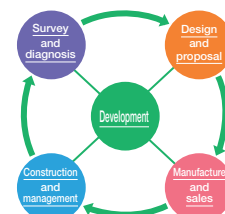
work to improve roadside environments, including reducing vibration and noise, ensuring traffic safety, and lowering road surface temperatures, thus contributing to creating sustainable roads. The chart below shows Nichireki’s leading eco-friendly product and construction method groups.



Realizing a low-carbon society Longer life

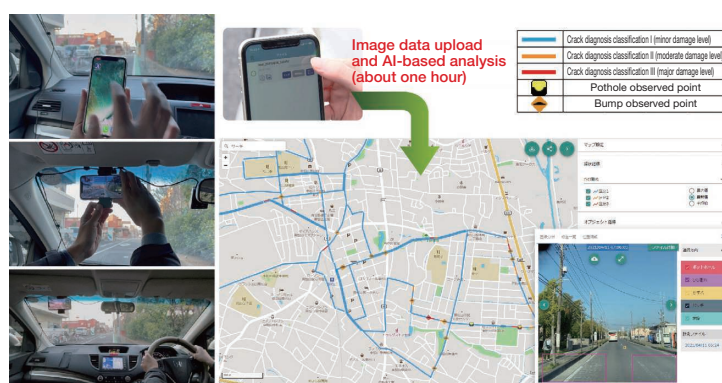


Shifting from merely providing survey and diagnostic technologies to designing and proposing *Tastainability*® products and construction methods

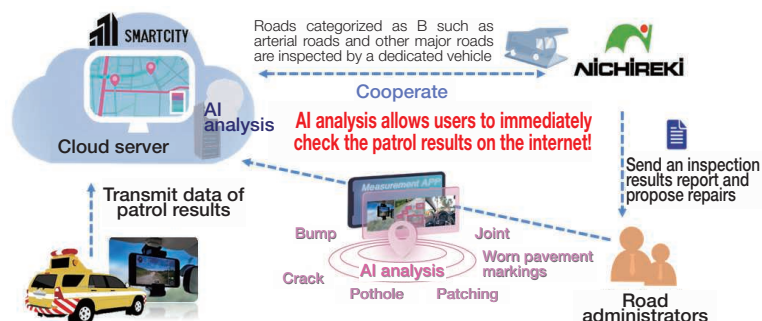


GLOCAL-EYEZ

GLOCAL-EYEZ allows users to inspect the road surface conditions, such as cracks and rutting, anytime anywhere by shooting the paved road with a smartphone mounted on an ordinary car.



Sample images of processes from inspection to analysis



Example of the utilization of inspection results

With these features, GLOCAL-EYEZ can support road administrators in processes from daily road management to selection of stretches that need repair work.

SMART ROMEN CATCHER FWD



ROMEN CATCHER FWD applies an impact load to the road surface selected as in need of repair work to measure the deflection amount that occurs as a result. This enables non-destructive diagnosis of the structural soundness of the road pavement by identifying which layer is damaged as well as proposal of an appropriate repair method depending on the damage state.



SMART ROMEN CATCHER FWD



Measurement of deflection amount

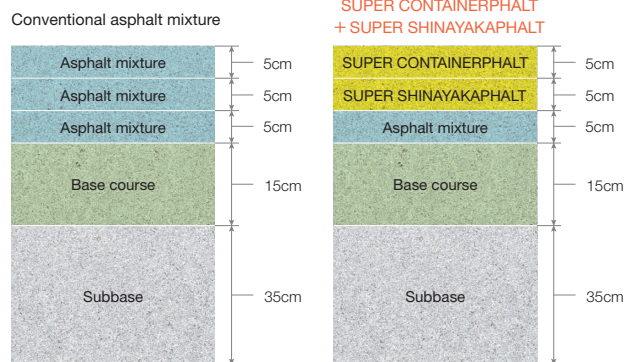
48% reduction in CO₂ emissions

An example of **long-life pavement** combining Nichireki's *Tastainability*® products

SUPER CONTAINERPHALT

SUPER SHINAYAKAPHALT

The combination of long-lasting asphalt mixtures SUPER CONTAINERPHALT and SUPER SHINAYAKAPHALT for road pavement enables longer-life paving than ever. This results in **reducing CO₂ emissions by approximately 48%** in a 50-year pavement life cycle.



Comparison of design repair cross sections

SUPER CONTAINERPHALT

SUPER CONTAINERPHALT is a modified asphalt for ultra heavy traffic applications with extremely high plastic deformation resistance.



SUPER CONTAINERPHALT demonstrates high durability even in locations where heavy-duty vehicles operate, such as harbors and airports, contributing to extending the life of pavement.



SUPER CONTAINERPHALT



Conventional asphalt mixture



The temperature of mixture production can be lowered by 30°C from 185°C to 155°C compared to our conventional CONTAINERPHALT S. This enables a reduction in fuel consumption during mixture production, **cutting CO₂ emissions by approximately 13%**.

SUPER SHINAYAKAPHALT

SUPER SHINAYAKAPHALT is a special modified asphalt that is flexible enough to be bent by hands and tough enough to withstand traffic loads.



SUPER SHINAYAKAPHALT with 1.7 times greater performance than conventional asphalt mixture helps extend the life of pavement.



SUPER SHINAYAKAPHALT



Conventional asphalt mixture



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

Realizing a low-carbon society

Longer life (bridges)



Shifting from merely providing survey and diagnostic technologies to designing and proposing *Tastainability*[®] products and construction methods

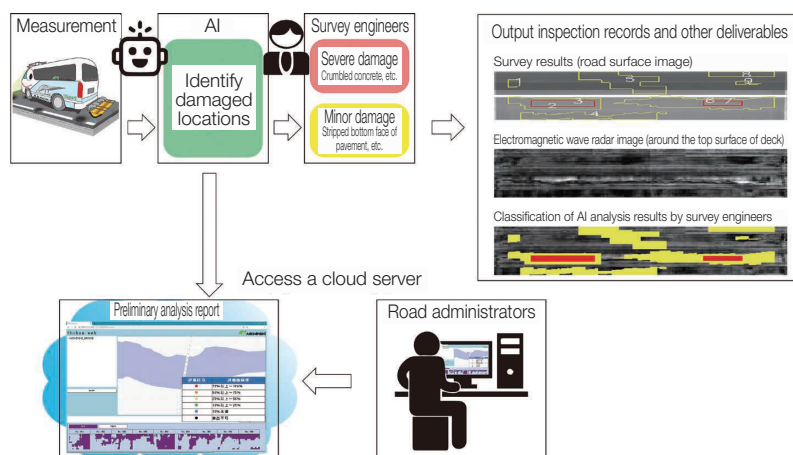


SMART SHOBAN CATCHER

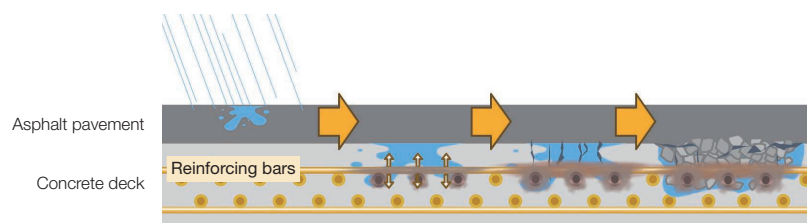
SMART SHOBAN CATCHER allows users to survey the state of damage on the top surface of concrete bridge deck without removing the asphalt pavement by using an electromagnetic wave technology.



SMART SHOBAN CATCHER



Sample images of processes from inspection to analysis



Progress in deterioration of bridge deck

When water seeps into a concrete deck, which supports the pavement of the bridge, reinforcing bars inside the deck corrode and expand, resulting in cracks on the deck. The propagation of cracks results in crumbling of concrete and other severe damage; therefore, it is necessary to construct a highly durable bridge deck waterproofing layer.

Nichireki proposes a highly durable bridge deck waterproofing method appropriate to the situation and conditions of each individual construction site.

50% to 75% reduction in CO₂ emissions

An example of **long-life bridge pavement** using Nichireki's *Tastainability*[®] construction methods



Highly durable bridge deck waterproofing methods



A bridge is an important lifeline that connects people, transportation, and economy. Therefore, it must be durable enough not to disrupt daily lives. Increasing the durability of bridges enables a reduction in repair frequency, **reducing CO₂ emissions by approximately 50% to 75%** in a 50-year pavement life cycle. Highly durable bridge deck waterproofing methods Nichireki offers are as follows.

HQ PAVERANE construction method

75% reduction in CO₂ emissions

This construction method provides outstanding shear fatigue resistance, which has passed a load test that applies a crack opening/closing load equivalent to 30 years of use. As this is a high-performance pavement waterproofing method, which protects deck from de-icing agents and airborne salts, it contributes to extending the life of pavement.

HQ HIBRANE AU construction method

75% reduction in CO₂ emissions

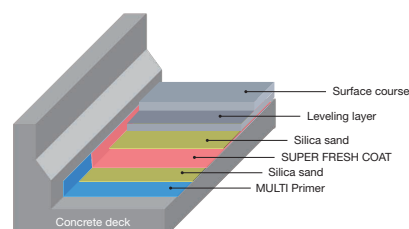
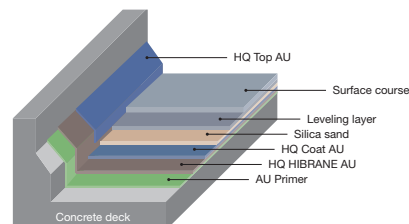
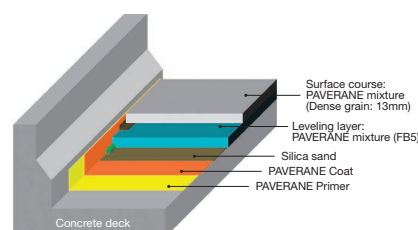
This is a highly durable asphalt-urethane membrane-type waterproofing method for bridge deck, which has passed the performance standards that apply a load equivalent to 30 years of use.

MULTI FRESH construction method

50% reduction in CO₂ emissions

This is a composite waterproofing method applying a primer that permeates into cracks on the top surface of concrete deck and a highly durable hot-applied asphalt membrane-type waterproofing material. This method would improve the stiffness and fatigue resistance of deck, contributing to extending the life of pavement.

Construction cross sections (examples)



	Durability (approximate useful lives*)	Workability	Lifecycle cost
HQ PAVERANE construction method	◎ (20 to 30 years)	◎	◎
HQ HIBRANE AU construction method	◎ (20 to 30 years)	○	◎
MULTI FRESH construction method	○ (10 to 20 years)	○	○
Conventional waterproofing	△ (5 to 10 years)	○	△

* This may vary depending on the on-site conditions.

Comparison of highly durable bridge deck waterproofing methods

If either of HQ HIBRANE AU construction method or MULTI FRESH construction method is selected, a further extension of pavement life can be expected by laying a long-lasting asphalt mixture (REKIPHALT SUPER) on the waterproofing layer.

REKIPHALT SUPER

REKIPHALT SUPER is a polymer modified asphalt with outstanding workability and resistance to stripping. It enables to obtain mixtures with a high degree of compaction, regardless of the timing of construction, resulting in longer life pavement.



Realizing a low-carbon society

Longer life

+

Recycling

49% reduction in CO₂ emissions

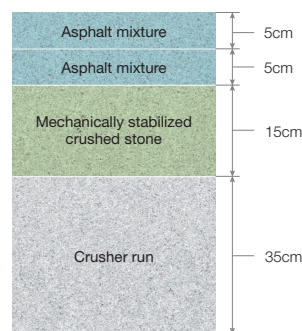
SUPER SHINAYAKAPHALT



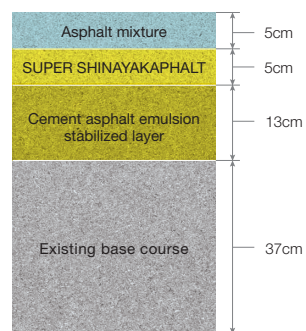
STABI-CEMENT RC construction method

We recycle the existing pavement whose damage has become more severe and widespread, and construct new pavement at present location (STABICEMENT RC construction method). We then use a long-lasting asphalt mixture (SUPER SHINAYAKAPHALT) on the reconstructed pavement. This hybrid method enables longer-life paving than ever, **reducing CO₂ emissions by approximately 49%** in a 50-year pavement life cycle.

Full layer reconstruction



SUPER SHINAYAKAPHALT + STABI-CEMENT RC construction method



Basic pavement cross section



SUPER SHINAYAKAPHALT

▶ P.30



STABI-CEMENT RC construction method



We crush the existing pavement whose damage has become more severe and widespread at present location, and, at the same time, mix it with asphalt emulsion (cold) and cement to construct new pavement.



Damaged road pavement



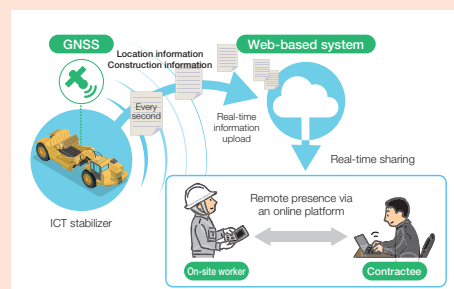
Construction with a road stabilizer



Most of the existing pavement is used as it is on-site, reducing the frequency of carrying in and out of materials. This contributes to energy conservation, effective use of resources, and reduction in CO₂ emissions. Particularly, this enables an approximately 80% reduction in pavement debris from the site per construction work.



We started to implement i-Construction (an initiative to promote the use of ICT at construction sites) in a STABI-CEMENT RC construction method. This enables real-time monitoring of construction data even from a remote location, contributing to productivity improvement at construction sites. This also enables construction of higher-quality base course by enhancing construction accuracy, extending the life of pavement.





34% reduction in CO₂ emissions



ASWOOD paving

This is wood-based (wood chip) paving using a rubber modified asphalt emulsion ASWOOD Emulsion, which has outstanding flexibility, and wood chips.

As it is possible to carry out mixture production to construction at normal temperature, this method is friendly to the environment and **reduces CO₂ emissions by approximately 34%**, compared to the typical pavement using hot mix.



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 1,000 m² of pavement with 4 cm in thickness using the ASWOOD paving method, we can fix approximately 18 t of CO₂, which is equivalent to the amount absorbed by 1,300 Japanese cedar trees per year. This method also enables the utilization of trees damaged by pine weevils and Japanese oak wilt disease as well as bamboos from an abandoned bamboo forest.



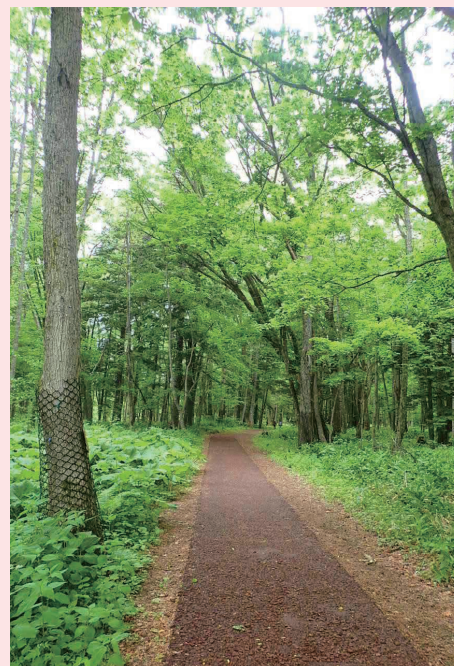
Self-propelled conveyable wood timber crusher



Nichireki supports the purpose of "Wood Change" promoted by the Forestry Agency as activities to change to a sustainable society through the use of wood and is actively driving efforts to promote wood utilization.



ASWOOD paving has outstanding water permeability and cushioning properties, making it easy on the feet of walkers and runners and preventing the formation of puddles. Further, its gentle texture that blends in with the surrounding natural scenery brings comfort and relaxation to people.



ASWOOD paving



Basic pavement cross section

Improving roadside environments



SUPER ROMENPATCH

Reducing vibration and noise

SUPER ROMENPATCH is a cold applied asphalt emulsion mixture with outstanding wear resistance used for repair of bumps on roads.



This is an eco-friendly material as it enables construction at normal temperature.

As construction does not require machinery, the work can be easily done.



SUPER ROMENPATCH



After construction

RESCUEPATCH

Reducing vibration and noise

RESCUEPATCH is a cold applied mixture (patching material) with outstanding durability used for repair of potholes on roads.



This is an eco-friendly material as it enables construction at normal temperature.

This also enables construction even when the construction surface is wet by rain or snow.



RESCUEPATCH



After construction

Chemiphalt MX

Reducing water splash and noise

Chemiphalt MX is porous paving that prevents water from being accumulated on the road surface in rainy weather. This paving prevents slipping, water splash, and deterioration of visibility during driving, reducing traffic accidents. This also reduces noise from the road surface caused by driving.



Chemiphalt MX has outstanding aggregate scattering resistance and demonstrates high durability, contributing to extending the life of pavement.



Conventional paving



Porous paving

MR² method

Reducing vibration and noise

MR² method is a construction method to repair bumps between manholes and pavement with less vibration and noise. The material cures quickly, enabling construction in a short time.



As a cold-applied mixture is used for construction around manholes, this method is friendly to the environment, and does not cause lack of compaction due to a decrease in temperature, contributing to extending the life of pavement.



During construction (removal of a manhole)



After construction

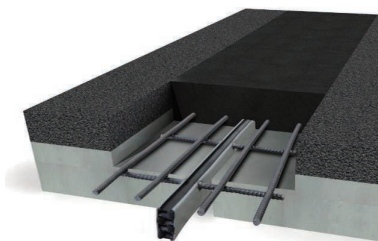
Seamless joint

Reducing vibration and noise

Seamless joint is an embedded-type expansion joint used to embed bridge joints. As steel and rubber parts are not exposed on the road surface, this enables smooth driving of vehicles.



Seamless joint has outstanding water shut-off performance and quality stability, which allow it to be used over a long period, contributing to extending the life of bridges.



Seamless joint

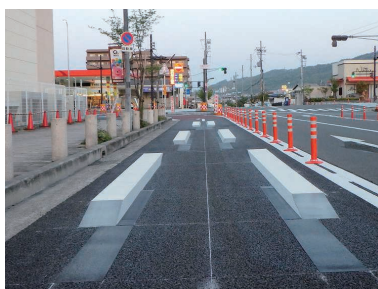


After construction

Road marking

Ensuring traffic safety

Using road markings that appear to be three-dimensional and color paving visually alerts drivers to reduce driving speed and prevents them from accidentally entering the wrong lane, thereby contributing to ensuring traffic safety.



Road markings that appear to be three-dimensional



Dedicated ETC lane marking on the Metropolitan Expressway

Social

Toward a Rewarding Work Environment

Workstyle reforms

The Nichireki Group is working to improve employees' work-life balance by reducing long working hours and encouraging them to take paid leave so as to establish a system where employees can choose to work in diverse and flexible ways depending on their own circumstances.



As a measure to reduce long working hours, we have appropriate labor management in place by introducing an online attendance management system so that managers can keep track on the employees' clock-in and clock-out, working hours, overtime, and night and holiday work. In addition, we are working to improve productivity by using cloud-based groupware, online conference, and the like to promote operational efficiency. In response to the commencement of the application of the work style reform law to the construction industry in April 2024, we are striving to reduce overtime hours by encouraging employees to go straight home from construction sites through the introduction of a system that allows them to upload data including photos immediately after they are taken at construction sites to a cloud server so that employees in the office can prepare construction documents.

Meanwhile, we encourage employees to take more days of paid leave than legally required in a planned manner by having them set dates on which they plan to take paid leave in advance at the beginning of each fiscal year. In particular, we encourage employees to take long vacations during the year-end and New Year season and summer season to improve their work-life balance. Furthermore, as part of the initiative to offer more options of working, we have introduced mobile PCs to introduce and promote remote working, allowing for location-independent way of working.

We will continue to promote the development of a work environment where every employee can keep growing and deliver their full potential.

Item	FY2021 results		FY2022 results	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Average monthly overtime	30.6 hours	17.1 hours	21.6 hours	13.6 hours
Average annual overtime	367.2 hours	205.2 hours	259.5 hours	162.8 hours
Rate of paid leave taken	61.7%	63.4%	68.3%	69.3%
Average number of days of annual paid leave taken	10.8 days	10.9 days	11.9 days	12.1 days

Medium- to long-term targets

Item	FY2020 results	FY2021 results	FY2022 results	FY2025	FY2043	SDGs mapping
Annual overtime*1	640 hours or less 77.8%	640 hours or less 87.2%	640 hours or less 89.9%	640 hours or less 100%	360 hours or less 100%	 
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 69.1%	50% or more of number of days granted 100%	90% or more of number of days granted 100%	

*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 encourage employees to take parental leave so that they can raise their children with peace of mind. We explain how the parental leave system works and its follow-up system to each and every eligible employee to eliminate their anxiety over taking parental leave. Furthermore, in addition to encouraging the use of remote working, we are working to create a working environment where employees can proactively utilize the short working hour system, childcare break and other systems so that they can return to work and work with peace of mind after the end of the leave period. Recently, in response to the enforcement of the revised childcare and family care leave act in October 2022, we have striven to promote the understanding of employees, including supervisors, colleagues, and other people around eligible employees about the parental leave system, by making the system known to them.

	FY2021 results	FY2022 results
Item	Consolidated	
Number of female engineers (Technical Research Center)	8 out of 35 (22.9%)	7 out of 38 (18.4%)
Number of female employees	83 out of 958 (8.7%)	87 out of 972 (9.0%)
Number of employees who took parental leave	9 (2 men and 7 women)	7 (2 men and 5 women)
Number of employees who returned to work after taking parental leave	8 (Return to work rate: 100% [one remains on parental leave])	5 (Return to work rate: 100% [two remain on parental leave])

The data of three diversity metrics based on the Act on the Promotion of Women's Active Engagement in Professional Life, etc. for FY2022 are as follows.

■ Percentage of female workers in management positions, rate of male workers taking parental leave, and difference in wages between male and female workers

FY2022				
Percentage of female workers in management positions*3	Rate of male workers taking parental leave*4	Difference in wages between male and female workers		
		All workers	Regularly employed workers	Part-time and fixed-time workers
1.1%	50.0%	46.6%	53.4%	53.2%

*3 The percentage is calculated in accordance with the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015).

*4 The percentage of workers taking parental leave stipulated in Article 71-4, Item 1 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of 1991) is calculated in accordance with the provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).

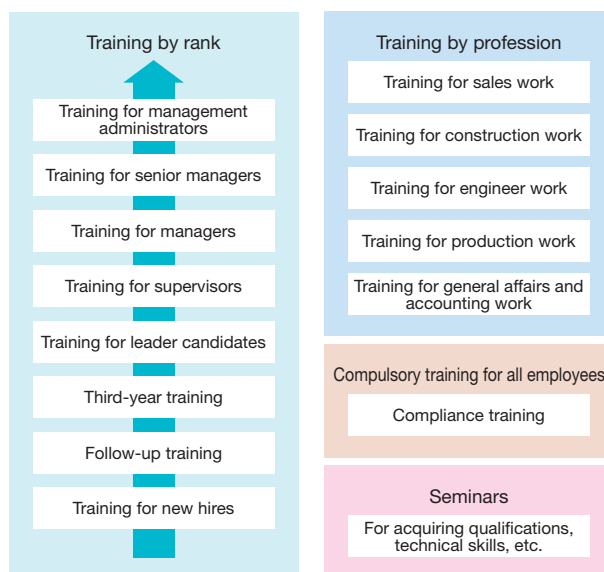
Training programs for talent development

The Nichireki Group has put its efforts into training for employees at each stage of their careers from entry and thereafter so that they can deliver their full individual potential.

The two-month training for new hires not only provides them with business manner but also incorporates many opportunities in its curriculum to allow them to learn from actual experience at the Technical Research Center, production plants, and construction sites, regardless of whether they majored in liberal arts or sciences. Furthermore, after they are assigned, we provide guidance through practice at the workplace as OJT under the supervision of senior employees.

We also provide training by rank and profession so that employees can not only extend their existing knowledge but also learn new areas of knowledge. Besides that, we encourage employees to actively attend internal and external seminars to promote and support the acquisition of official qualifications.

■ Group training programs



Training for senior managers



Third-year training



Training for new hires

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. With an age 65 retirement system in place, we have built a work environment where older people can thrive and established a role-based payroll system, allowing us to appoint talented young employees to higher positions. We aim to further increase the vitality of the entire Nichireki Group by promoting the active participation of all employees regardless of their age.

We have also newly established specialist positions (technical professional positions) and put in place a system to evaluate employees specialized in engineering and other individuals' skills, seeking to place the right person in the right position so that they can deliver their own full potential. In particular, we provide aid for employees who support our R&D and technological capabilities to acquire PhDs as part of their career development.

Initiatives for mental and physical health management

We have carried out an annual stress check 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.

To promote the health of employees, we carry out a medical check-up for all employees and subsidize the costs of influenza vaccination.

Implementing Initiatives for Occupational Health and Safety

Policy on health and safety

The Nichireki Group has systematically organized its occupational health and safety management system in the Health and Safety Management Rule Book, to eliminate accidents and disasters and prevent incidents caused by a third party, under the Health and Safety Management Policy.

To further promote safety initiatives under the initiative of its Head Office's Safety, Quality and Environment Management Department, the Nichireki Group has 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.

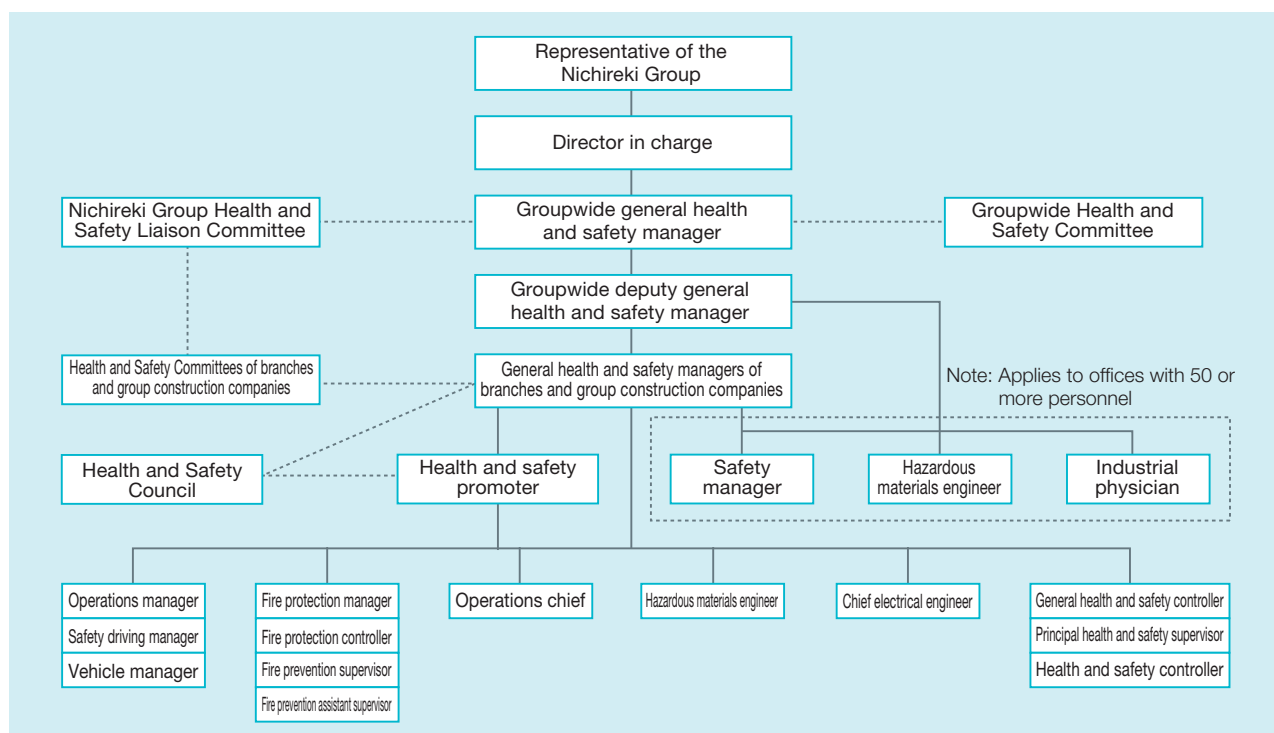
April 1, 2023

Manabu Obata, Representative, Nichireki Group

Initiatives for health and safety management

1. We will comply with laws, regulations, ordinances, and internal rules on occupational health and safety.
2. We will improve the effectiveness of the Health and Safety Management Rule Book, and establish safety behavior.
3. We will strengthen health and safety patrols to raise awareness of safety and promote safety behavior.
4. We will improve Kiken Yochi (hazard prediction; "KY") activity incorporating risk assessment to prevent hazards and improve safety.
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).

Health and safety management system



Initiatives in FY2022

At the Nichireki Group, employees and subcontractors make concerted efforts to eliminate accidents, aiming to achieve the goal of zero accidents. Specific initiatives in FY2022 are as follows:

Implement and revise the Health and Safety Management Rule Book

We have worked to make sure that the Group's employees comply with the prescribed work procedures and perform basic practices such as finger pointing and calling in accordance with the Health and Safety Management Rule Book that systematically organizes safety rules they must comply with. We also revised the rule book in March 2023 in accordance with relevant laws and regulations, as well as in response to the health and safety issues within the Group which has become clearer. In preparation for implementing the revised rules in April 2023, we held briefings for all offices nationwide to ensure that all employees are aware of the related laws and regulations and internal rules to increase their awareness.

Digitalization of vehicle body inspection checklists, etc.

We have promoted various steps to achieve DX starting from the digitalization of a vehicle body inspection checklist for asphalt emulsion distributors to ensure that daily inspections and vehicle maintenance are implemented without fail, aiming for comprehensive safety management without overlooking any hazards.

Promote safety patrols nationwide

We have identified sites with potential dangers through the safety patrols conducted by the Safety, Quality and Environment Management Department at all offices. Based on the patrol results, we have pushed forward with measures for improvement to develop a safer and more comfortable work environment on site and at all offices.

Operation of AI-powered dashboard cameras

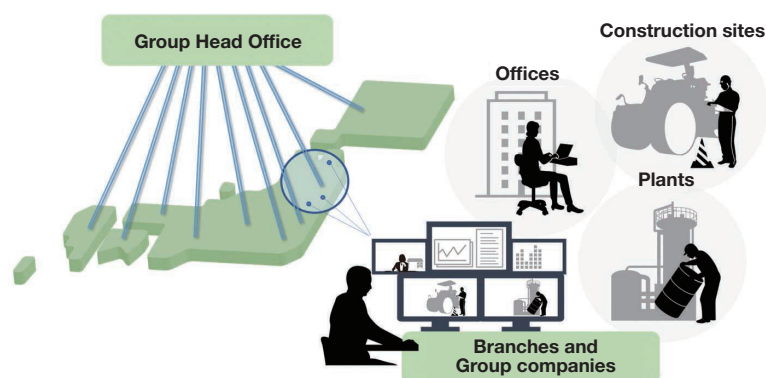
We have started the operation of AI-powered dashboard cameras installed onto all asphalt emulsion distributors, tank lorries and road surface measuring vehicles. The device analyzes the driving situation in front and inside of the vehicle and alerts the driver of anticipated dangers.



Online group-wide health and safety meeting



On-site safety patrol



Online safety patrol using a wearable camera

Outcome of the initiatives in FY2022

As shown in the table below, the total number of accidents during FY2022 decreased by eight from FY2021 to 16 as a result of the aforementioned initiatives. Looking at the breakdown of these accidents, the number of accidents involving damage to the public decreased by seven to three partially due to the effect of the standardization of the vehicle body inspection procedures we have taken since FY2021. The number of car accidents also decreased by two from FY2021 to three. In particular, the installation of AI-powered dashboard cameras showed a prominent effect and the vehicles with those cameras had no accidents in FY2022.

■ Number of accidents

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Accidents involving damage to the public	5	15	13	15	10	3
Equipment-related accidents	8	5	4	5	3	4
Car accidents*1	5	0	2	5	5	3
Workplace injuries*2	2	2	3	5	6	6
Total number of accidents	20	22	22	30	24	16

*1 Work accidents resulting in injury

*2 Injuries resulting in four or more lost workdays

Future initiatives

Going forward, the Nichireki Group will carry out the following activities 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 thoroughly 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 ensuring the performance of basic practices, including hazard prediction activity, compliance with work procedures, and appropriate allocation of 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 continue to conduct nationwide safety patrols by the Safety, Quality and Environment Management Department.

Improve health and safety management level

We will make efforts to increase safety awareness and prevent the reoccurrence of similar accidents by taking such measures as online safety patrols using wearable cameras and safety education on site.

Enhancing the Supply Chain Management

Policy for ensuring quality

Under the following 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 ISO 9001.

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, 2023

Manabu Obata, Representative, Nichireki Group

Efforts in compliance with ISO 9001

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 Registration Center)

Cooperation with suppliers in procurement

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

We make sure to 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 share issues to be addressed with suppliers for which some room for improvement has been identified. We also carry out two-way communication activities on an ongoing basis to deepen our relationships of trust with suppliers.

Medium- to long-term targets

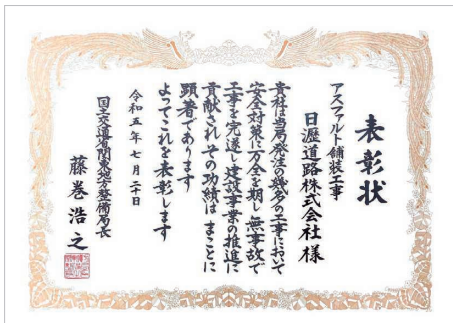
Item	FY2020 results	FY2021 results	FY2022 results	FY2025	FY2043	SDGs mapping
Percentage of suppliers evaluated	100%	100%	100%	100%	100%	 

Projects commended

Received an award for constructors with excellent safety management system and a certification for companies with outstanding construction performance from the Kanto Regional Development Bureau, MLIT

NICHIREKI ROAD CO., LTD. of the Nichireki Group received an award for constructors with excellent safety management system for FY2022 from the Director-General of the Kanto Regional Development Bureau, the Ministry of Land, Infrastructure, Transport and Tourism ("MLIT") in recognition of its achievement of zero accidents in the past three fiscal years.

The company also received a certification for companies with outstanding construction performance for FY2023 from the Director-General of the Kanto Regional Development Bureau as one of the companies that achieved the average evaluation score of 80 points or higher for construction projects completed in the past two fiscal years and those appropriate to be certified for outstanding construction performance.



Testimonial for the award for constructors with excellent safety management system



Certification for companies with outstanding construction performance

Received the Excellent Construction Work Award and the Excellent Construction Engineer Award from the Kanto Regional Development Bureau, MLIT

Project name: Common-Use Cable Tunnel Construction Work Under National Route 50 in Azami District, 2021–2022
Construction period: November 1, 2021 to October 23, 2022

NICHIREKI ROAD CO., LTD. was awarded for the construction work of a common-use cable tunnel* in Midori City, Gunma Prefecture and received the Excellent Construction Work Award and the Excellent Construction Engineer Award from the Director-General of the Kanto Regional Development Bureau, MLIT. This project was to construct a common-use cable tunnel under the general National Route 50 in Azami district, Kasakake-cho, Midori City and repair the road pavement in the surrounding area.

The company completed this project without any traffic disturbance or complaints, or any delays of the construction period as a result of facilitating smooth coordination with companies possessing the cables and other parties concerned, giving detailed explanations to relevant authorities in advance, and distributing flyers to carefully inform the public about the project. The company was recognized also for finding the possibility of reducing the lifecycle costs for the pavement repair work, which normally requires pavement replacement judging from the extent of the damage, by proposing a pavement work method using longer-life modified asphalt SHINAYAKAPHALT. The company received a favorable review for running a workshop on pavement technologies for young engineers from the MLIT at the Nichireki's Technical Research Center when making the proposal on the work method.



Testimonial for the Excellent Construction Work Award



After construction



Workshop at the Nichireki's Technical Research Center

* A facility to put power and communication cables above or higher off the ground into an underground space. The facility is intended to secure a comfortable pedestrian space and improve the landscape by housing infrastructure underground.

Projects commended

Received the Excellent Construction Work Award and the Excellent Construction Engineer Award from the Hitachi River National Highway Office, the Kanto Regional Development Bureau, MLIT

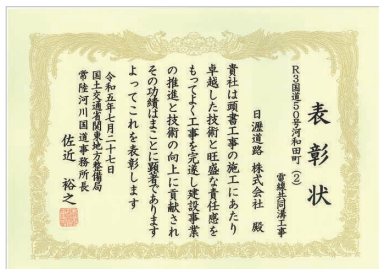
Project name: Common-Use Cable Tunnel Construction Work #2 Under National Route 50 in Kawawada-cho, 2021
Construction period: November 1, 2021 to July 29, 2022

NICHIREKI ROAD CO., LTD. was awarded for the construction work of a common-use cable tunnel* in Mito City, Ibaraki Prefecture and received the Excellent Construction Work Award and the Excellent Construction Engineer Award from the director of the Hitachi River National Highway Office, Kanto Regional Development Bureau, MLIT.

This project was to construct a common-use cable tunnel under the general National Route 50 (inbound lane) in Kawawada district, Mito City.

There are commercial facilities that stay open until late at night and 24-hour convenience stores and restaurants located around the construction site, having relatively many private vehicles coming in and going out of the private land. For that reason, we managed to complete the work within the planned period without any accident by delivering excellent construction management, such as proactively following up the construction process and making proposals on construction methods and building materials that contribute to reducing the number of construction lane closure days.

The construction site is located on a straight stretch of the route with good visibility, resulting in faster driving speed. Therefore, we had close consultation with the local police and used LED traffic control vehicles and safety lights that are highly visible from a long distance. The company was also recognized for these efforts to prevent traffic accidents.



Testimonial for the Excellent Construction Work Award



After construction

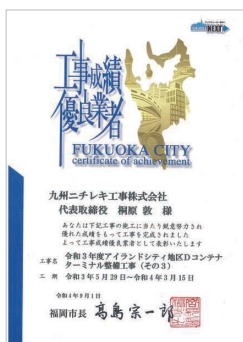
* A facility to put power and communication cables above or higher off the ground into an underground space. The facility is intended to secure a comfortable pedestrian space and improve the landscape by housing infrastructure underground.

Received an award for constructors with outstanding construction performance from Fukuoka City

Project name: Development Work #3 for Container Terminal D in Island City District, FY2021
Construction period: May 29, 2021 to March 15, 2022

KYUSHU NICHIREKI CONSTRUCTION CO., LTD. of the Nichireki Group was selected as one of the constructors with outstanding construction performance in Fukuoka City for the Development Work #3 for the Container Terminal D in the Island City District, Higashi-ku, Fukuoka City and received the award from the mayor of Fukuoka City.

This project was to carry out pavement work to accommodate larger container vessels and meet increasing demand for container cargo in the Island City District (IC District) of Hakata Port. We closely coordinated the work process with companies involved in many relevant construction projects to facilitate the smooth progress of the project. As a result, we were able to complete the work with two days off per week. The company was also recognized for carrying out safe construction without any accident as well as for improving the workability of the project by devising the construction method to ensure high quality of work even under difficult construction site conditions.



Testimonial for the award for constructors with outstanding construction performance



After construction

Taking on Initiatives as an R&D-oriented Company

Development of new products and construction methods

As the global climate change problems require solutions now, companies are required to practice more eco-friendly and sustainable business activities. To achieve the long-term goal of “net zero greenhouse gas emissions across the entire value chain by 2050,” 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.

As a result of these efforts, we have developed and launched new products in FY2022: SUPER SHINAYAKAPHALT, special modified asphalt that is flexible enough to be bent by hand and tough enough to withstand traffic loads; and SUPER CONTAINERPHALT, special modified asphalt with extremely high plastic deformation resistance, suitable for use in harsh environments requiring heavy-duty applications, such as harbors and airports. As the temperature of asphalt mixture production for these products is lower than our conventional products, and the pavement needs less frequent repair work thanks to the extended lifespan, the new products contribute to reduction of CO₂ emissions caused by construction work and traffic jams. Both products were proposed to and adopted by the Ministry of Land, Infrastructure, Transport and Tourism through its open call for proposals of “selected technologies related to longer-life pavement technology tailored to ultra-heavy traffic.” Accordingly, their test construction was carried out during “Pavement Work for New National Route 4 in Koga District, 2022” in October 2022, succeeding in securing good quality of work completed under appropriate construction management.

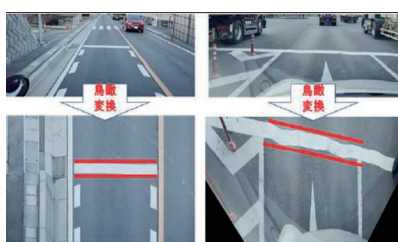


During construction



After construction

We have also made improvements in FY2022 to GLOCAL-EYEZ, a smartphone-based road inspection system jointly researched and developed in FY2021 with the University of Tokyo and SmartCity Research Institute, to implement new functions to evaluate rutting, worn road markings, and damages on guardrails and road signs.



No rutting found

Rutting found

Sample images of rutting analysis



Worn road markings



Damage to a guardrail

Medium-to long-term targets

Item	FY2020 results	FY2021 results	FY2022 results	FY2025	FY2043	SDGs mapping
Sales ratio of eco-friendly products and construction methods*1	12.6%	21.2%	23.9%	30% or more	80% or more	
Number of newly developed (or improved) products and construction methods launched*2	10 (cumulative total from FY2016)	1	4	10 or more	40 or more	

*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 (or improved) products and construction methods launched in FY2021 and later.

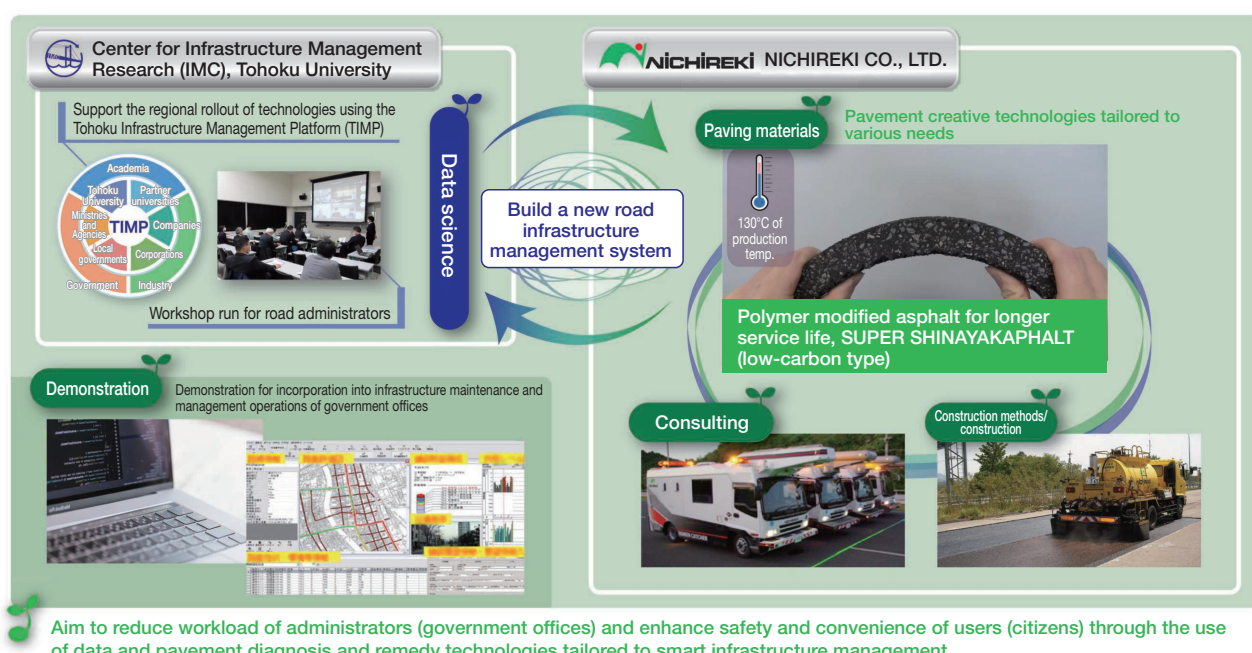
Joint research and development with external partners

In April 2023, with the Center for Infrastructure Management Research (IMC), Tohoku University, Nichireki established a Joint Research Department of “*Tastainability*®”^{*1} for Infrastructure Management in the graduate school.



The joint research department will build a new road infrastructure management system based on both of IMC’s information processing technologies centered on data science and Nichireki’s pavement creative technologies, such as those of paving material development and road diagnosis. Moreover, the department will conduct a demonstration for incorporating the built system into infrastructure maintenance and management operations of road administrators and brush up the system to make it more effective. The Tohoku Infrastructure Management Platform (TIMP)^{*2} developed by IMC will be used in the demonstration for incorporating the system into road management practices. The research findings and progress will be publicized, as needed, on the websites of Nichireki and IMC, academic papers, and other media.

^{*1} *Tastainability*® is a word for Nichireki’s own sustainability, which is achieved by adding greater performance and functionality such as longer service life and greater recyclability.

^{*2} TIMP is a platform intended to create a network that links industry, academia, and government to share and improve knowledge and technologies covered in research and development on infrastructure maintenance in order to promote the social implementation of such knowledge and technologies. The platform aims to circulate each other’s resources among industry, academia, and government to revitalize local communities. It is a gateway that combines knowledge, needs, opportunities, and human resources of each organization, enabling one-stop activities.



■ Medium-to long-term targets

Item	FY2020 results	FY2021 results	FY2022 results	FY2025	FY2043	SDGs mapping
Number of products of joint research and development rolled out*	2 (cumulative total from FY2016)	1	1	2 or more	10 or more	 

* The cumulative number of developed products launched in FY2021 or later as a result of joint R&D projects.

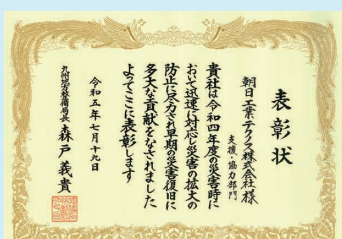
Communicating with Society

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.

• AK TECHNOS CO., LTD.

The company contributed to early securing of road safety by removing earth and sand and restoring a slope on the National Route 210 after the slope collapsed due to the Typhoon Nanmadol (2214) in September 2022. The company received a testimonial from the Director-General of Kyushu Regional Development Bureau.



• CHUGOKU NICHIREKI CONSTRUCTION CO., LTD.

The company was engaged in volunteer work as a certified organization for the Adopt Program of Hiroshima Prefecture that carries out beautification activities, such as cleaning and greening of roads and rivers in Hiroshima Prefecture.



• HOKKAIDO NICHIREKI CONSTRUCTION CO., LTD.

The company volunteered to clean Kikusui Maizuru Park for the 11th year.



• Chubu Branch/CHUBU NICHIREKI CONSTRUCTION CO., LTD.

The branch and the company cosponsored a participatory music video creation project designed to revitalize local communities in the Chita Peninsula, Aichi Prefecture.



• IWATE NICHIREKI CO., LTD.

The company visited Isawa Junior High School, Oshu City to give a lesson. The company introduced examples of its construction work and gave an experiential lecture using an actual asphalt mixture.



• AKITA NICHIREKI CO., LTD.

The company offers internships for students of Akita Technical High School. The internships include classroom lectures as well as practical training of land survey, road surface repairs, etc.



Topics

We won the Grand Award in the Producer Goods and Industrial Category of the 71st Nikkei Advertising Awards

Our series of double-page spread advertisements placed on the Nikkei (morning edition) over two weeks, on July 26 and August 1, 2022, received the Grand Award in the Producer Goods and Industrial Category of the 71st Nikkei Advertising Awards hosted by Nikkei Inc. Nichireki won the same award last year, and won the Nikkei Advertising Award for the third consecutive year in a row since 2020, when we were awarded the Environment Minister's Award/Grand Award in the Environment Category.

Using the catchphrase "*Tastainability*®" (means "plus sustainable feature"), we expressed our stance toward achieving the SDGs and carbon neutrality through introducing products and construction methods that contribute to reducing CO₂.



Advertisement placed on July 26, 2022



Advertisement placed on August 1, 2022

We attended the Highway Techno Fair 2022 and the Social Infrastructure Tech 2022

Nichireki attended the Highway Techno Fair 2022, a trade show organized by the Express Highway Research Foundation of Japan, held on November 24 and 25, 2022 with its Group company HEAT ROCK INDUSTRY CO., LTD. We introduced the Nichireki Group's pavement technologies with a focus on products, construction methods, and road inspection DX system that contribute to longer life of highways and bridges, as well as the catchphrase "*Tastainability*®."

We also attended the Social Infrastructure Tech 2022, a trade show organized by Nikkei Inc., the National Council for Infrastructure Maintenance, and Nikkei Business Publications, Inc., held from December 7 to 9, 2022. The trade show is an exhibition on the theme of SDGs for the prevention and maintenance of aging social infrastructure. On December 7, Minister of Land, Infrastructure, Transport and Tourism Tetsuo Saito visited the Nichireki's booth and experienced the performance of SUPER SHINAYAKAPHALT and other products.



Highway Techno Fair 2022



Social Infrastructure Tech 2022

We concluded a sponsorship agreement with Utsunomiya Brex

In July 2022, Nichireki signed an official sponsorship agreement with Utsunomiya Brex of the B.LEAGUE, the men's professional basketball league. Based in Utsunomiya City, Tochigi Prefecture, Utsunomiya Brex holds "being a team that is closely tied to the local community and helps bring excitement to and invigorate Tochigi Prefecture" as one of its visions and works with great care for its fans and local community.

The Company also has its main production site Oyama Plant and core R&D institution Technical Research Center in Tochigi Prefecture and is working to create roads with a close tie to the local community. Utsunomiya Brex has a team concept of "Break Through" to always take on new challenges and find some way out of a difficulty it faces, no matter how hard it is. We have decided to support the team's activities as this concept has something in common with our basic philosophy "Spirit of sowing the seeds."



Inside the stadium during an Utsunomiya Brex game



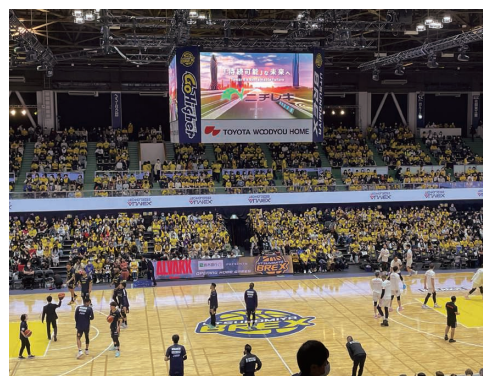
We created a corporate introduction video

We have created a corporate introduction video to help a wide range of stakeholders further understand Nichireki's activities. We expressed our stance of developing and supplying eco-friendly products and construction methods to keep contributing to the realization of a sustainable future as a dynamic basketball game.

This video has been shown at Utsunomiya Brex's home game stadium.



Corporate introduction video



Video shown on a screen at the stadium



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.

To disclose information based on the principles of the Corporate Governance Code, we submit a Corporate Governance Report to the Tokyo Stock Exchange. The preparation guidelines for the report were amended following the requests of "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" and "Better Dialogue with Shareholders and Related Disclosure" made and announced by the Listing Department of Tokyo Stock Exchange, Inc. on March 31, 2023. Accordingly, we added the descriptions of "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" and "Dialogue with Shareholders" in the report to update and submitted it again.

Action to Implement Management that is Conscious of Cost of Capital and Stock Price

We set numerical management targets in the Medium-term Management Plan (Shinayaka 2025) to maintain considerably high capital efficiency. Specifically, we set 8.0% or more of ROIC and 6.0% or more of ROA. We set these numerical targets by calculating cost of shareholders' equity using the capital asset pricing model (CAPM) and other related models and by considering the weighted average cost of capital (WACC) to be cost of capital while referring to the responses of various types of questionnaires of investors. During the period of the plan, the Investment Strategy Office periodically recalculates cost of capital and checks if it needs to change the targets.

Dialogue with Shareholders

Nichireki strives to enhance dialogue with shareholders and investors. Specifically, we answer individual inquiries and requests as appropriate, hold financial results briefing sessions for analysts and institutional investors as an opportunity to provide information, hold online seminars for individual investors, and make videos and documents available on our website and one operated by an IR support company.

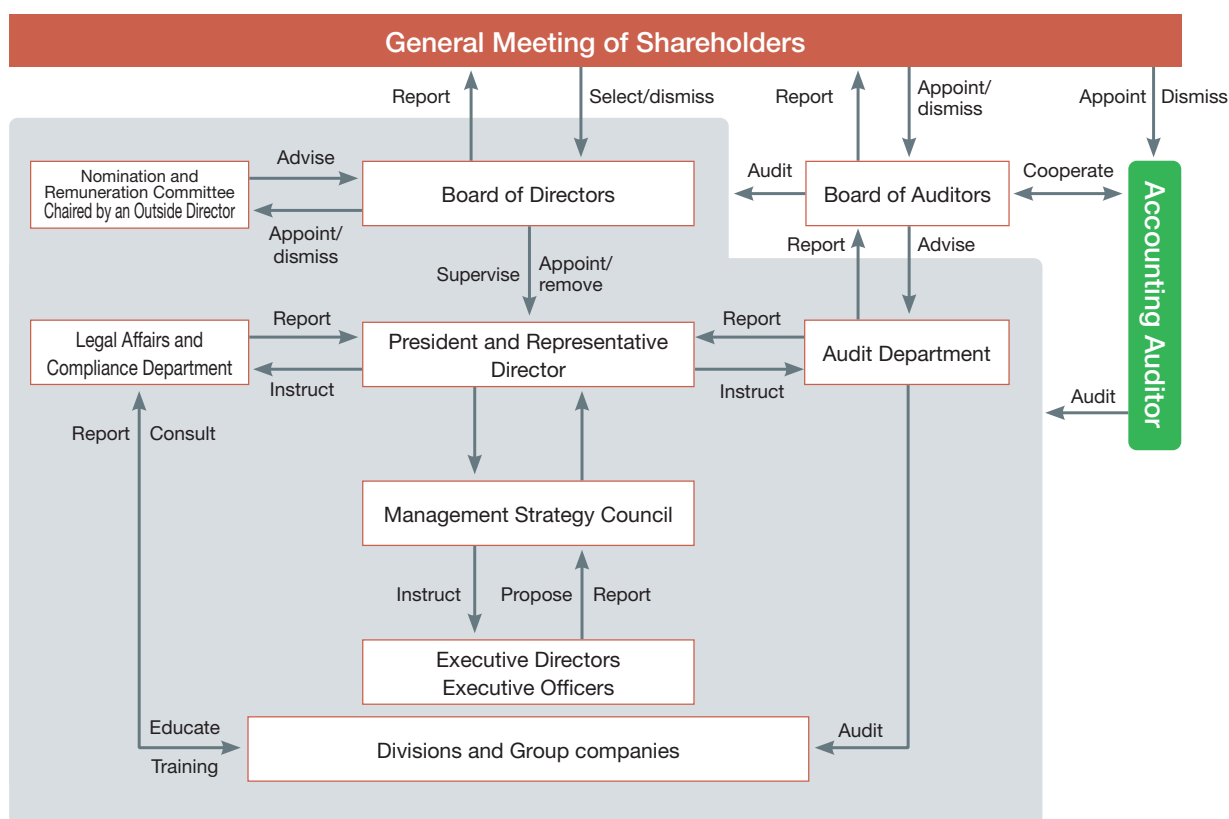
Corporate governance system

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 10 members: six 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.

Our corporate governance system is as shown below.



Board of Directors

The members of Nichireki's Board of Directors are six 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 six Executive Directors and six Corporate Executive Officers 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 and name		Reasons for appointment	Attendance at meetings (FY2022)	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.	13/13 Board of Directors meetings (100%)	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.	13/13 Board of Directors meetings (100%)	Outside Director of TAMURA CORPORATION
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.	13/13 Board of Directors meetings (100%)	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.	13/13 Board of Directors meetings (100%)	
Auditor	Tsutomu Kanitani	As a certified tax accountant, he has expertise and abundant experience in corporate management including tax affairs.	13/13 Board of Directors meetings (100%) 19/19 Board of Auditors meetings (100%)	
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.	13/13 Board of Directors meetings (100%) 19/19 Board of Auditors meetings (100%)	Outside Director of Ichigo Inc. Outside Corporate Auditor of Sumitomo Bakelite Co., Ltd.

Internal Control and Compliance

Internal control

To ensure efficient execution of duties by directors, Nichireki has set the Board of Directors Rules 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 the Group's 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 the Group's 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 give approval for any material matter regarding Group companies after receiving and carefully examining the results of discussions and reports from 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 reviews 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 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.

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

- ① 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.
- ② The Head of Compliance, who is appointed from among Nichireki's directors, shall promote compliance throughout the Nichireki Group.
- ③ 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 and Representative Director 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 and Representative Director also appoints General Managers 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.

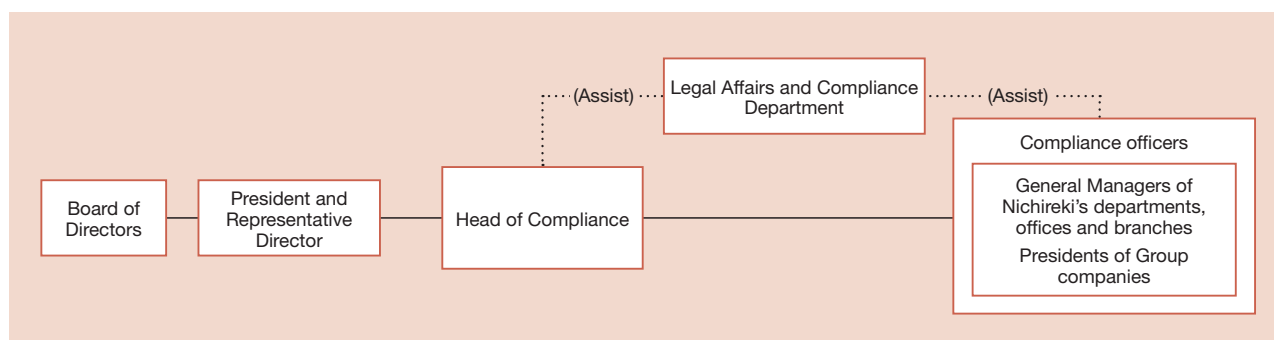
Under the direction of the Head of Compliance, the Legal Affairs and Compliance Department is responsible for work to promote compliance across the Nichireki Group. Specifically, the Legal Affairs and Compliance Department is responsible for planning and providing compliance training for the Nichireki 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.

To make the whistleblowing system more accessible to the Nichireki Group's officers and employees, Nichireki is working to further improve the system by, for example, entrusting an external expert subject to confidentiality obligations to serve as a point of contact from August 2023.

(4) Compliance training

At the Nichireki Group, the Legal Affairs and Compliance Department plans and provides hands-on compliance training, which also introduces 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.

■ Medium- to long-term targets

Item	FY2020 results	FY2021 results	FY2022 results	FY2025	FY2043	SDGs mapping
Number of internal compliance training workshops held	2	2	2	2	2	

Risk Management

Risk management

We consider it necessary to be aware that risk management is one of our key managerial challenges; to constantly update material risks; and to 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 and Representative Director 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 Representative Director 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).

To strengthen the management system that addresses various types of risks the Nichireki Group may face, we set up a Business Risk Management Committee based on a resolution of the Board of Directors meeting held in March 2023.

(3) Major business risks

Shown below are major business risks that may affect the Nichireki Group's operating results and financial position, and responses to the risks. By identifying and analyzing major business risks and having an in-depth review of responses to the risks, the Nichireki Group seeks to minimize the risks and curb the effects of them on its management and finance.

■ Major business risks and responses

① 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 council 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.

② 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.

③ 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.

④ 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.

5 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.

6 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 information management system diagram on the next page for the Nichireki Group's information security system.

7 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 Head of the Business Risk Management Committee compiles information, and depending on the situation, we set up a disaster response office led by the President and Representative Director to take action.

8 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

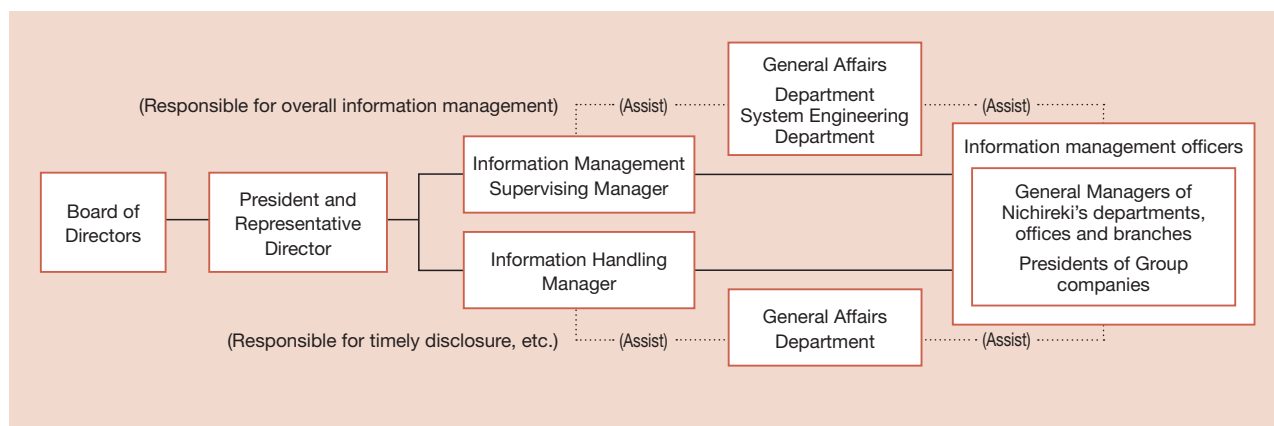
The Practical Guidelines for Corporate Governance Systems (CGS Guidelines) revised by the Ministry of Economy, Trade and Industry on July 19, 2022 state that "business becomes integrated with and indivisible from IT in many areas, and more business owners and shareholders use digital solutions and tools 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 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, 2023)

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
- June 2020 Senior Managing Director, Tokyo/Kanto Supervising Manager, and Tokyo Area 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)



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, General Manager, Technology Development Division, and General Manager, Technical Department of the Company (to present)



Hiroyuki Totsuka

Managing Director
General Manager, Business Division

- April 1985 Joined the Company
- April 2013 General Manager, Tohoku Branch of the Company
- April 2014 Executive Officer, Tohoku Area Manager, and General Manager, Tohoku Branch of the Company
- April 2017 Senior Executive Officer, Tohoku Area Manager, and General Manager, Tohoku Branch of the Company
- April 2018 Senior Executive Officer, Tohoku/Hokkaido Supervising Manager, Tohoku Area Manager, and General Manager, Tohoku Branch of the Company
- April 2021 Senior Executive Officer, North Japan Supervising Manager, Tohoku Area Manager, and General Manager, Tohoku Branch of the Company
- April 2023 Senior Executive Officer and Vice General Manager, Business Division of the Company
- June 2023 Managing Director, General Manager, Business Division, and General Manager, Overseas Business Department 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)

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



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 position:
 Outside Director of TAMURA CORPORATION

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 position:
 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)

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

Financial and Non-financial Data

Key Financial Data (Consolidated)

		FY2013	FY2014	FY2015	FY2016	FY2017
Financial Results						
Net sales	(Million yen)	69,549	57,865	48,713	54,439	60,570
Operating profit	(Million yen)	7,705	5,018	4,382	5,742	5,445
Ordinary profit	(Million yen)	7,853	5,155	4,474	5,872	5,628
Profit attributable to owners of the parent company	(Million yen)	3,398	10,698	2,671	3,762	3,882
Comprehensive income	(Million yen)	5,154	11,297	1,919	4,365	4,702
Financial Position						
Net assets	(Million yen)	38,967	42,035	42,977	46,768	50,811
Total assets	(Million yen)	62,238	60,141	59,144	65,406	69,838
Cash Flows						
Cash flows from operating activities	(Million yen)	4,989	6,973	5,447	5,640	4,645
Cash flows from investing activities	(Million yen)	(2,213)	(3,612)	(2,790)	(2,607)	(3,604)
Cash flows from financing activities	(Million yen)	(484)	(1,143)	(1,020)	(611)	(1,151)
Cash and cash equivalents at end of period	(Million yen)	13,070	15,293	16,887	19,289	19,195
Per Share Information						
Basic earnings per share	(Yen)	116.84	367.92	92.34	131.24	135.42
Net assets per share	(Yen)	1,066.85	1,445.65	1,498.89	1,613.15	1,772.17
Dividends per share	(Yen)	20.00	20.00	20.00	23.00	27.00
Management Indicators						
Equity ratio	(%)	49.9	69.9	72.7	71.5	72.8
Ordinary profit to total assets	(%)	13.5	8.4	7.5	9.4	8.3
Rate of return on equity	(%)	11.6	29.2	6.3	8.4	8.0
Operating profit to net sales	(%)	11.1	8.7	9.0	10.5	9.0
Ordinary profit to net sales	(%)	11.3	8.9	9.2	10.8	9.3
ROIC	(%)	18.8	10.0	7.4	9.1	7.8
ROA	(%)	5.9	17.5	4.5	6.0	5.7
Dividend payout ratio	(%)	17.1	5.4	21.7	17.5	19.9

Non-financial Data (Consolidated)

Number of employees	(persons)	709	714	728	742	797
Research and development costs	(Million yen)	548	479	464	706	711
Number of patents maintained	(patents)	47	47	48	45	39
Capital investment	(Million yen)	3,222	2,705	2,780	2,511	2,858
Energy use (oil equivalent)*	(kl)	8,019	7,380	7,289	6,976	7,173
CO ₂ emission*	(t-CO ₂)	18,431	16,458	16,835	15,300	16,270

*Scope: 19 plants in Japan

	FY2018	FY2019	FY2020	FY2021	FY2022	
						Financial Results
	62,919	66,725	71,471	78,001	78,397	Net sales (Million yen)
	5,593	6,009	9,140	8,566	7,566	Operating profit (Million yen)
	5,731	6,225	9,574	9,311	8,104	Ordinary profit (Million yen)
	3,589	1,821	6,357	6,811	6,284	Profit attributable to owners of the parent company (Million yen)
	2,837	856	7,787	6,800	6,144	Comprehensive income (Million yen)
						Financial Position
	52,889	52,827	62,010	68,075	72,470	Net assets (Million yen)
	70,297	71,487	82,732	88,425	91,474	Total assets (Million yen)
						Cash Flows
	5,417	3,203	9,098	7,737	6,556	Cash flows from operating activities (Million yen)
	(5,482)	(3,352)	(5,694)	(2,361)	(5,834)	Cash flows from investing activities (Million yen)
	(845)	(1,027)	2,512	(1,430)	(3,115)	Cash flows from financing activities (Million yen)
	18,367	17,181	23,110	27,091	24,709	Cash and cash equivalents at end of period (Million yen)
						Per Share Information
	125.18	63.53	219.72	222.91	205.73	Basic earnings per share (Yen)
	1,844.66	1,842.51	2,048.05	2,226.97	2,394.76	Net assets per share (Yen)
	32.00	34.00	38.00	42.00	50.00	Dividends per share (Yen)
						Management Indicators
	75.2	73.9	74.9	77.0	79.2	Equity ratio (%)
	8.2	8.8	12.4	10.9	9.0	Ordinary profit to total assets (%)
	6.9	3.4	11.1	10.5	8.9	Rate of return on equity (%)
	8.9	9.0	12.8	11.0	9.7	Operating profit to net sales (%)
	9.1	9.3	13.4	11.9	10.3	Ordinary profit to net sales (%)
	7.5	8.0	11.2	9.3	7.6	ROIC (%)
	5.1	2.6	8.2	8.0	7.0	ROA (%)
	25.6	53.5	17.3	18.8	24.3	Dividend payout ratio (%)
	831	917	924	958	972	Number of employees (persons)
	653	709	787	865	920	Research and development costs (Million yen)
	39	30	29	31	35	Number of patents maintained (patents)
	2,866	1,700	7,539	3,352	2,944	Capital investment (Million yen)
	6,228	5,705	6,523	6,238	5,488	Energy use (oil equivalent)* (kl)
	13,624	13,378	12,355	12,362	11,721	CO ₂ emission* (t-CO ₂)

Consolidated Balance Sheets

(Million yen)

	FY2021	FY2022
Assets		
Current assets		
Cash and deposits	29,001	27,319
Notes and accounts receivable - trade, and contract assets	20,797	20,218
Electronically recorded monetary claims - operating	2,225	2,696
Merchandise and finished goods	1,420	1,139
Costs on construction contracts in progress	256	238
Raw materials and supplies	1,198	1,335
Current portion of long-term loans receivable from subsidiaries and associates	167	—
Derivatives	956	175
Other	595	1,803
Allowance for doubtful accounts	(59)	(58)
Total current assets	56,561	54,867
Non-current assets		
Property, plant and equipment		
Buildings and structures	15,281	15,869
Accumulated depreciation	(8,549)	(8,887)
Buildings and structures, net	6,732	6,981
Machinery, equipment and vehicles	25,012	25,305
Accumulated depreciation	(21,674)	(22,146)
Machinery, equipment and vehicles, net	3,338	3,159
Land	10,846	10,859
Leased assets	670	707
Accumulated depreciation	(396)	(491)
Leased assets, net	274	215
Construction in progress	601	1,250
Other	2,963	3,071
Accumulated depreciation	(2,372)	(2,461)
Other, net	591	610
Total property, plant and equipment	22,384	23,077
Intangible assets		
Other	685	704
Total intangible assets	685	704
Investments and other assets		
Investment securities	4,476	5,990
Investments in capital of subsidiaries and associates	715	794
Long-term loans receivable from subsidiaries and associates	390	—
Retirement benefit asset	—	1,492
Deferred tax assets	335	128
Long-term time deposits	2,620	3,720
Other	700	752
Allowance for doubtful accounts	(444)	(54)
Total investments and other assets	8,794	12,823
Total non-current assets	31,864	36,606
Total assets	88,425	91,474

(Million yen)

	FY2021	FY2022
Liabilities		
Current liabilities		
Accounts payable - trade	10,077	9,460
Electronically recorded obligations - operating	1,787	1,501
Short-term borrowings	1,300	1,300
Lease liabilities	105	102
Accounts payable - other	1,469	1,278
Income taxes payable	1,985	1,250
Contract liabilities	211	305
Provision for bonuses	1,081	959
Provision for bonuses for directors (and other officers)	142	117
Other provisions	63	62
Other	1,216	1,311
Total current liabilities	19,441	17,650
Non-current liabilities		
Long-term accounts payable - other	5	0
Lease liabilities	193	130
Long-term deposits received	48	48
Deferred tax liabilities	517	1,039
Retirement benefit liability	4	—
Asset retirement obligations	138	134
Total non-current liabilities	908	1,353
Total liabilities	20,349	19,003
Net assets		
Shareholders' equity		
Share capital	2,919	2,919
Capital surplus	3,681	3,681
Retained earnings	59,235	64,236
Treasury shares	(659)	(1,124)
Total shareholders' equity	65,177	69,713
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,889	2,127
Deferred gains or losses on hedges	332	66
Foreign currency translation adjustment	109	152
Remeasurements of defined benefit plans	566	409
Total accumulated other comprehensive income	2,897	2,756
Total net assets	68,075	72,470
Total liabilities and net assets	88,425	91,474

Consolidated Statements of Income

(Million yen)

	FY2021	FY2022
Net sales	78,001	78,397
Cost of sales	59,681	60,935
Gross profit	18,320	17,462
Selling, general and administrative expenses	9,754	9,896
Operating profit	8,566	7,566
Non-operating income		
Interest income	11	9
Dividend income	152	124
Share of profit of entities accounted for using equity method	—	45
Derivative income	45	625
Gain on valuation of derivatives	477	—
Other	100	158
Total non-operating income	786	962
Non-operating expenses		
Interest expenses	10	11
Share of loss of entities accounted for using equity method	18	—
Loss on valuation of derivatives	—	397
Other	13	15
Total non-operating expenses	41	424
Ordinary profit	9,311	8,104
Extraordinary income		
Gain on sale of non-current assets	14	26
Gain on sale of investment securities	407	—
Gain on sale of investment in affiliated companies	—	27
Insurance claim income	135	19
Compensation income	119	18
Gain on revision of retirement benefit plan	—	1,202
Other	47	89
Total extraordinary income	724	1,383
Extraordinary losses		
Loss on retirement of non-current assets	17	218
Special repairs expenses	119	—
Other	32	30
Total extraordinary losses	168	249
Profit before income taxes	9,867	9,238
Income taxes - current	2,964	2,137
Income taxes - deferred	90	816
Total income taxes	3,055	2,954
Profit	6,811	6,284
Profit attributable to owners of the parent company	6,811	6,284

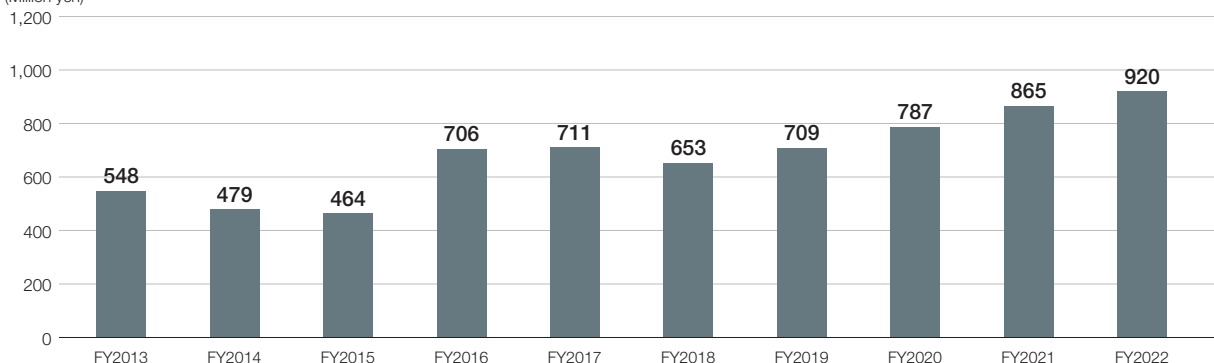
Consolidated Statements of Cash Flows

(Million yen)

	FY2021	FY2022
Cash flows from operating activities		
Profit before income taxes	9,867	9,238
Depreciation	2,070	2,157
Increase (decrease) in allowance for doubtful accounts	(130)	(390)
Increase (decrease) in retirement benefit liability	(439)	(1,455)
Increase (decrease) in other provisions	(158)	(148)
Interest and dividend income	(164)	(134)
Loss (gain) on valuation of derivatives	(477)	397
Interest expenses	10	11
Insurance claim income	(135)	(19)
Loss (gain) on sale of non-current assets	(11)	(26)
Loss (gain) on sale of investment securities	(407)	0
Compensation income	(119)	(18)
Special repairs expenses	119	—
Loss on retirement of non-current assets	17	218
Subsidy income	(6)	(4)
Decrease (increase) in trade receivables	41	125
Decrease (increase) in other current assets	(640)	(657)
Decrease (increase) in inventories	(714)	164
Increase (decrease) in trade payables	1,756	(1,046)
Increase (decrease) in other current liabilities	80	(74)
Increase (decrease) in accrued consumption taxes	(395)	62
Share of loss (profit) of entities accounted for using equity method	18	(45)
Loss on disaster	15	25
Other, net	270	1,069
Subtotal	10,582	9,451
Interest and dividends received	159	134
Subsidies received	6	4
Proceeds from insurance income	135	19
Proceeds from compensation	137	18
Interest paid	(10)	(11)
Income taxes paid	(3,134)	(3,034)
Payments provision for special repairs	(125)	—
Payments associated with disaster loss	(13)	(24)
Net cash provided by (used in) operating activities	7,737	6,556
Cash flows from investing activities		
Payments into time deposits	(2,610)	(3,710)
Proceeds from withdrawal of time deposits	2,810	1,910
Purchase of property, plant and equipment	(3,226)	(2,567)
Proceeds from sale of property, plant and equipment	11	25
Payments for retirement of property, plant and equipment	(15)	(203)
Purchase of intangible assets	(134)	(401)
Purchase of investment securities	(3)	(1,307)
Proceeds from sale of investment securities	772	137
Loan advances	(6)	(3)
Proceeds from collection of loans receivable	8	266
Other, net	32	18
Net cash provided by (used in) investing activities	(2,361)	(5,834)
Cash flows from financing activities		
Proceeds from short-term borrowings	3,500	3,000
Repayments of short-term borrowings	(4,100)	(3,000)
Repayments of lease liabilities	(97)	(112)
Purchase of treasury shares	(0)	(465)
Decrease (increase) in deposits for purchase of treasury shares	—	(1,331)
Proceeds from disposal of treasury shares from exercise of share acquisition rights	424	—
Dividends paid	(1,147)	(1,207)
Other, net	(10)	—
Net cash provided by (used in) financing activities	(1,430)	(3,115)
Effect of exchange rate change on cash and cash equivalents	35	11
Net increase (decrease) in cash and cash equivalents	3,980	(2,382)
Cash and cash equivalents at beginning of period	23,110	27,091
Cash and cash equivalents at end of period	27,091	24,709

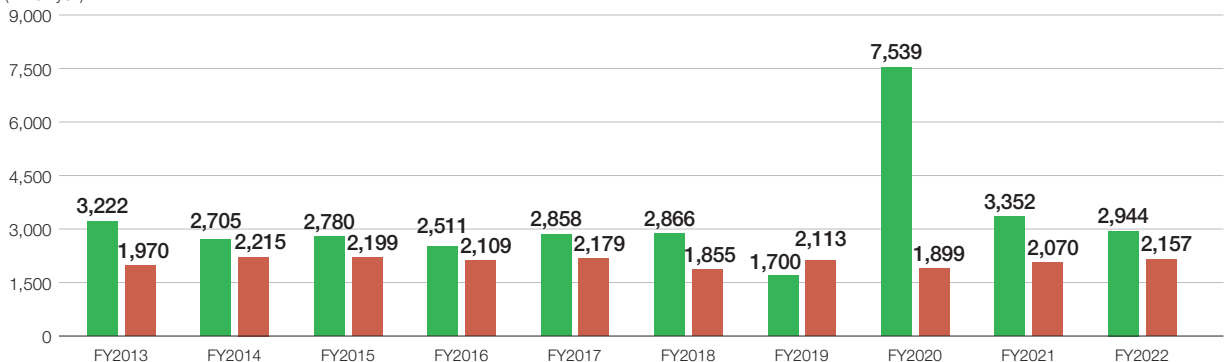
Research and Development Costs

(Million yen)



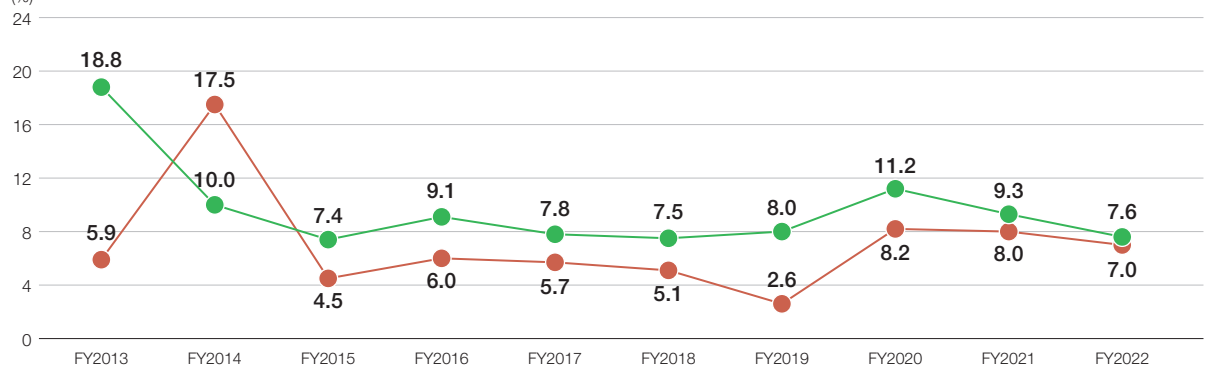
Capital Investment/Depreciation

(Million yen)



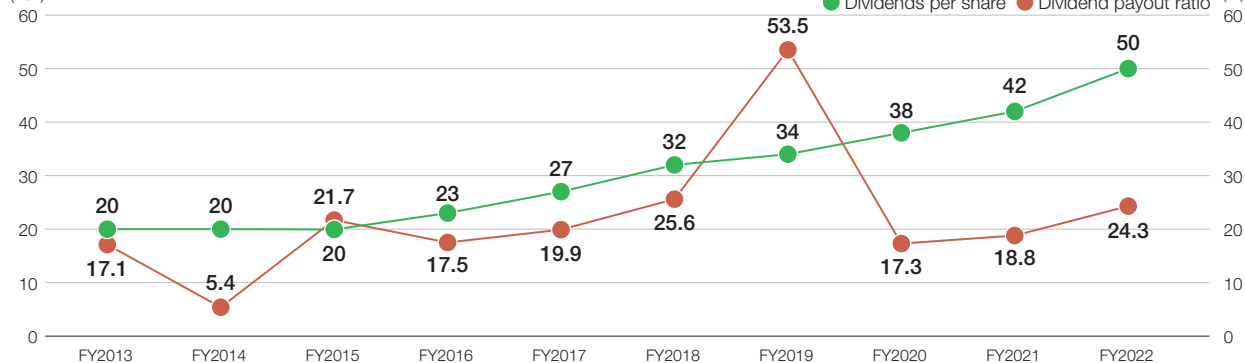
ROIC/ROA

(%)



Dividends Per Share/Dividend Payout Ratio

(Yen)



Company Information (As of March 31, 2023)

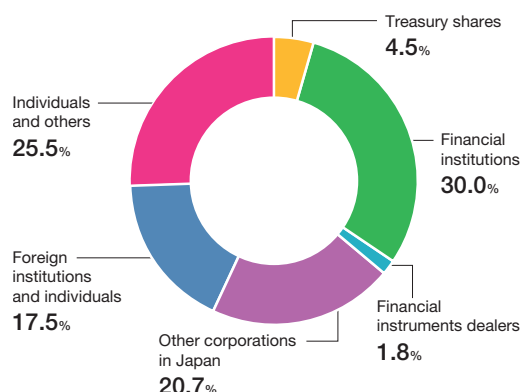
Company profile

Name	NICHIREKI CO.,LTD.	Established	September 1949
Head office location	4-3-29, Kudan-kita, Chiyoda-ku, Tokyo, Japan	Share capital	¥2,919 million
Founded	October 1943	Number of employees	972 (consolidated) 442 (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	30,262,048 shares *Excluding 1,423,907 treasury shares
Number of shareholders	9,826

Shareholder distribution



Note: The number of shares and composition percentages above do not include shares less than one trading unit (61,955 shares).

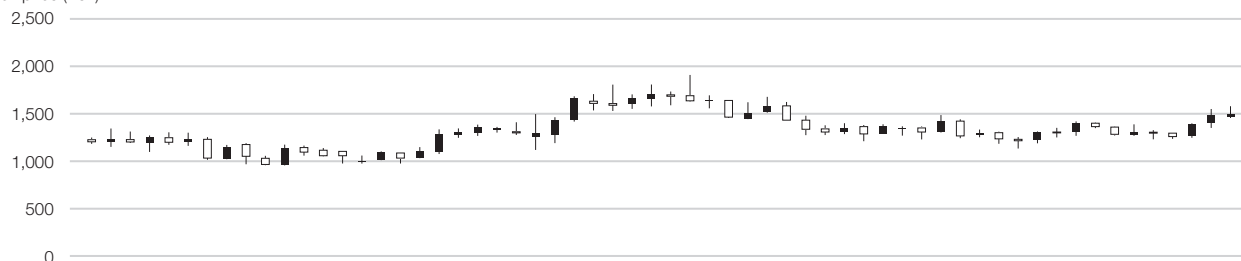
Major shareholders

	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,381	11.17
Hikari Tsushin K.K.	1,681	5.56
Custody Bank of Japan, Ltd. (Trust Account)	1,184	3.91
Mizuho Bank, Ltd.	1,108	3.66
Nichireki Business Partners Shareholding Association	1,108	3.66
Sumitomo Mitsui Trust Bank, Limited	1,100	3.63
MSIP Client Securities	636	2.10
Ikedo Museum of 20th Century Art	630	2.08
DFA International Small Cap Value Portfolio	557	1.84
Nichireki Employees Shareholding Association	531	1.76

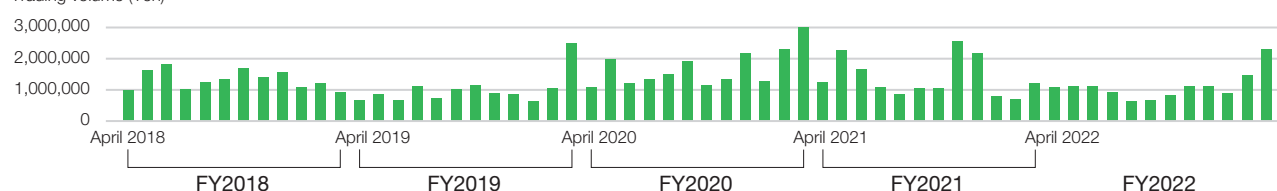
Note:
*1,423,907 treasury shares were excluded from the table above. The treasury shares were excluded from the calculation of shareholding ratio.

Stock price trends

Stock price (Yen)



Trading volume (Yen)

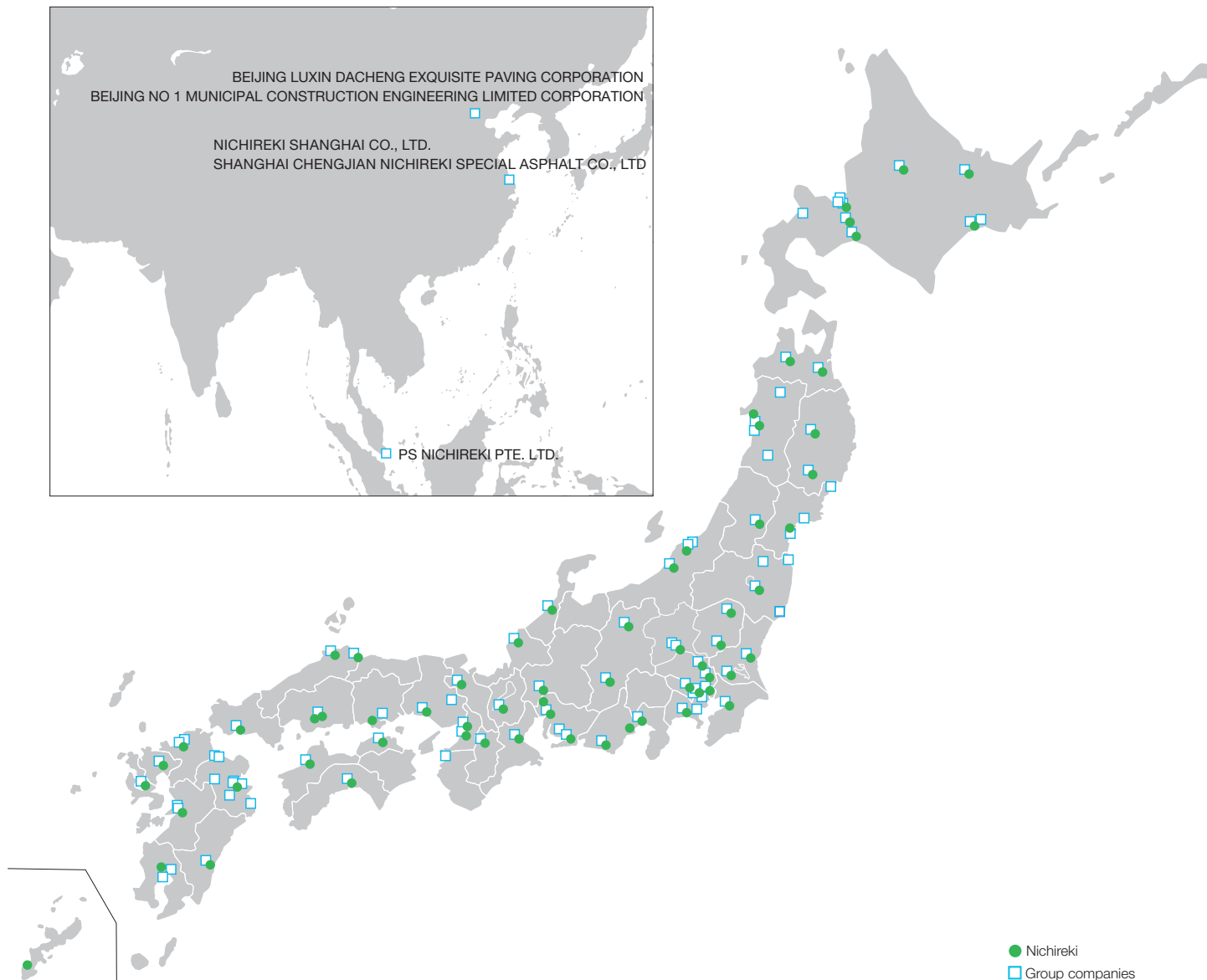


Global Network (As of August 31, 2023)

99 sites in Japan (44 out of 47 prefectures)
(Non-consolidated: 65)

5 sites overseas

Branch: 11 sites Sales Branch: 38 sites Satellite Office: 12 sites
Plant: 19 sites Technical Research Center: 1 site



● 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/>

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