

NIKKON

Integrated Report 2023

Basic Philosophy

We will contribute to the prosperity of our customers, shareholders, employees, and society by leading the way in creating joy, value, and an environment that can be shared through business logistics based on a global perspective.

Code of Conduct

NIKKON Holdings Co., Ltd. and its subsidiaries adhere to the NIKKON Holdings Group Basic Philosophy and follow sound business practices to fulfill our corporate responsibilities to customers, shareholders, and local communities, contributing to the development of society.

To this end, the Company and its subsidiaries have established the following NIKKON Holdings Group Code of Conduct, which all employees collectively uphold.

1. We place the highest priority on safety and aim for zero accidents and zero occupational injuries.
2. We comply with laws and regulations, social rules, and internal rules, and conduct business activities with the aim of being a company trusted by society.
3. We proactively address environmental issues and aim to be a company that is friendly to the global environment.
4. We actively disclose information about the Company to shareholders, customers, and local communities in an impartial manner.
5. We strive to properly manage and protect personal information and customer data.
6. We strive to contribute to society by providing services that benefit society.
7. We engage in fair, transparent, and free competition, and aim to be a company that employees and their families can be proud of.
8. We stand firm against antisocial forces and groups that threaten social order and safety.
9. Should a situation arise that violates the spirit of this Code, we will take swift and strict action to resolve the problem and prevent its recurrence.

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Editorial policy

The NIKKON Group has compiled this report to provide various internal and external stakeholders with an understanding of the value creation process through which we contribute to national and local communities in which we operate. The report summarizes key points about our trajectory of growth from our establishment to the present, what sets us apart from other companies, and our growth strategy for the future. In addition to this report, more detailed information is also available on our website.

Cautionary note regarding forward-looking statements

This report contains forecasts and forward-looking statements regarding NIKKON Holdings Co., Ltd.'s future plans, strategies, and performance. These statements are based on the information available at the time this report was prepared. They involve many risks and uncertainties, including those related to economic conditions, exchange rates, tax and other regulatory systems. For this reason, actual results may differ from our forecasts.

Companies covered by this report

NIKKON Holdings Co., Ltd., its 70 subsidiaries, and four affiliated companies
Total: 75 companies

Period of this report

FY2022 (April 1, 2022 – March 31, 2023)
Some information from outside of the above period is included in the report.

Referenced guidelines

The International Integrated Reporting Council's (IIRC, now part of IFRS Foundation) "International Integrated Reporting Framework"
The Japan Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation

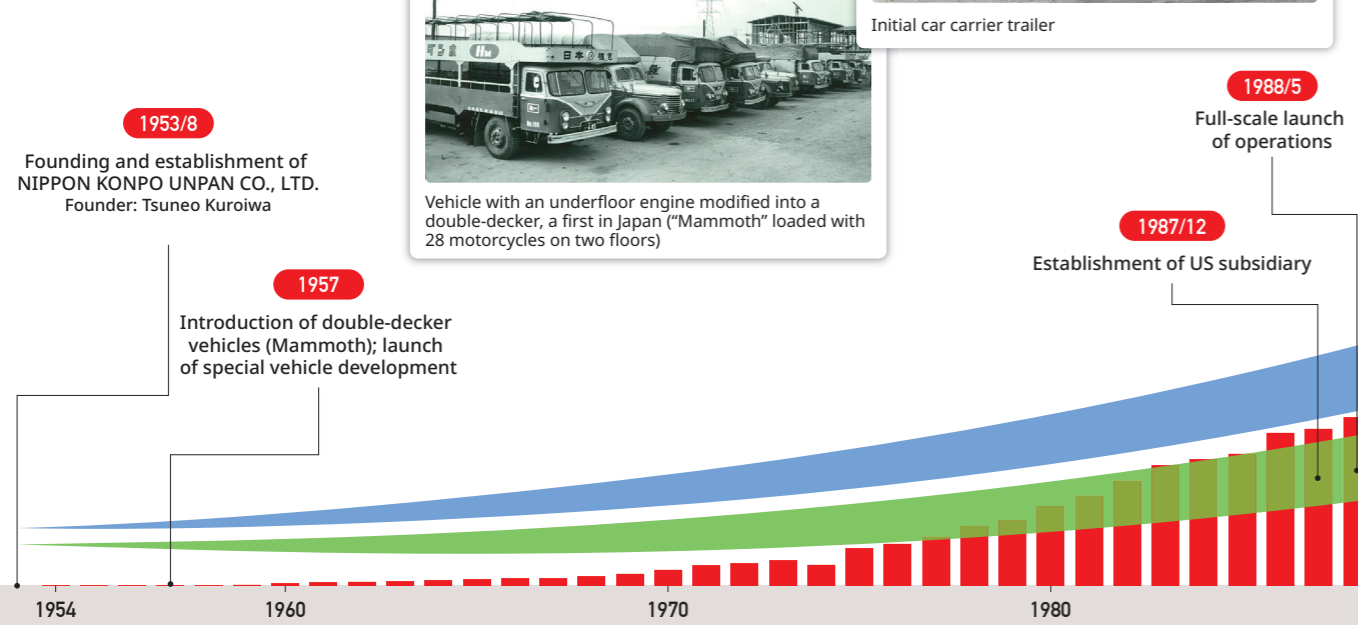


Value Creation Journey and Current Status

Our Value Creation Journey

Consolidated Net Sales of NIPPON KONPO UNYU SOKO CO., LTD.

■ NIPPON KONPO UNYU SOKO CO., LTD.
 ■ Other Group companies



Since our establishment in 1953, the NIKKON Group has evolved to meet the needs of our customers and the times by developing a variety of special vehicles and providing services. We will continue to create new value together with our customers and society while promoting sustainability management, including environmental action.



The NIKKON Group in Numbers (Group characteristics developed over our history)

Operating profit ratio
 Our operating profit ratio is one of the highest in the industry due to our thorough cost management.

Approx. **9.2%**

70 years since founding
 Our main client, an automobile manufacturer, has been our business partner for 70 years since the company was founded. Our relationship dates back to the chaotic postwar period when motorcycles were wrapped in straw and transported in bicycle-drawn carts.

Number of domestic sales offices
 Overseas affiliates

288 offices / 9 countries

We have our own employees, vehicles, and warehouses which we operate in Japan and overseas.

Over 20.0 billion yen in growth investments

We generate a stable cash flow and continue to invest more than 20.0 billion yen annually in growth.

While expanding globally, we have established a business foundation centered on the domestic market through strong ties with blue chip clients across Japan.

Domestic sales ratio
 Approx. **85%**

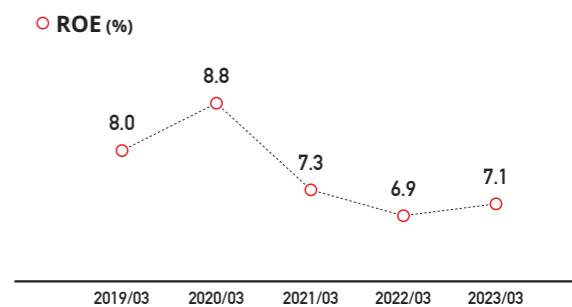
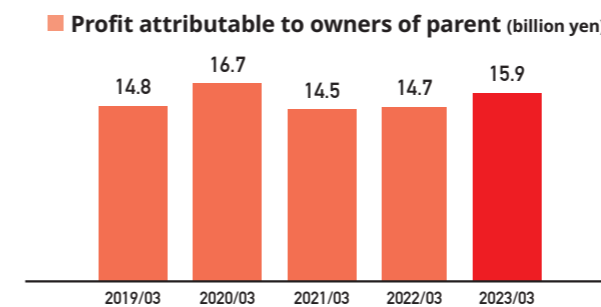
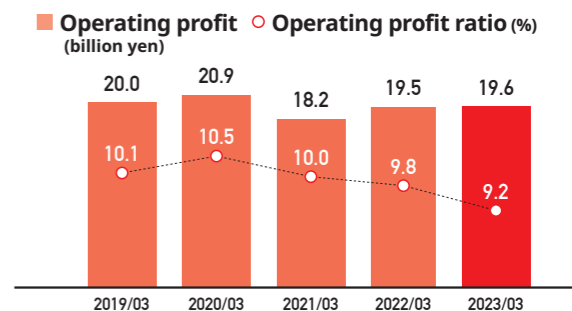
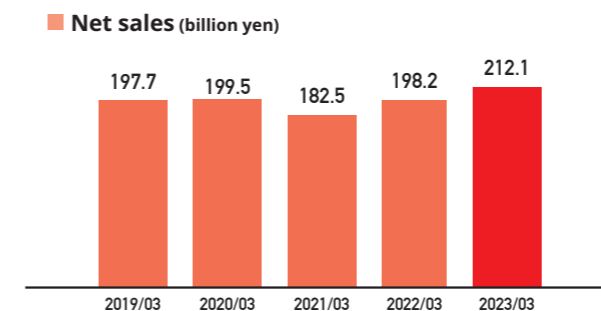


Car carrier trailers
 Double trailer trucks

769 / 104

(577 in Japan, 192 overseas)
 Number of car carrier trailers for transporting cars / 21m and 23m double-trailer trucks introduced in 2014

Consolidated Financial Highlights



Value Creation Process

Backed by a solid customer base, the NIKKON Group plays a role in developing the Japanese economy as a pioneer in integrated logistics centered on packaging, transportation, and warehousing. We provide a one-stop service for all logistics-related needs: from auto parts testing to automotive maintenance, import/export customs clearance, real estate, insurance agency, and consulting services.

Input (Management Resources)

Capital invested in our businesses

Human resources	Number of employees	20,243
Network	Japan:	45 companies, 288 sales offices
	Overseas:	29 companies in 9 countries
Business vehicles		4,549
Warehouse area	Group-owned warehouses	2,500,000m ²
	Equity ratio	63.4%
Finances	Long-term credit rating	A

What sets us apart

Providing one-stop logistics services

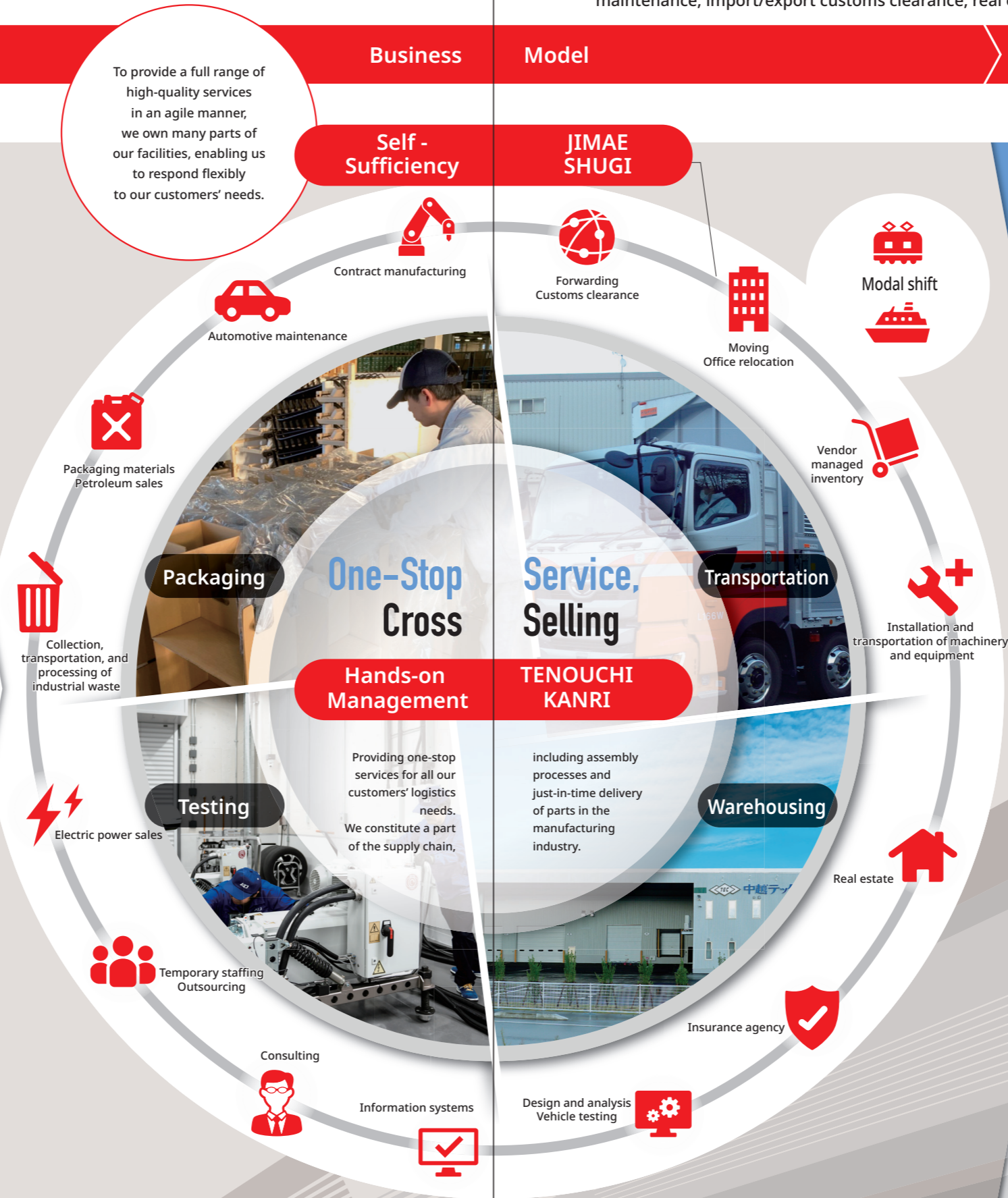
- We are a comprehensive logistics provider that can offer our customers a one-stop shop for all logistics-related services, including packaging, transportation, warehousing, customs clearance, testing, vehicle maintenance, factory/office relocation (equipment installation), consulting, insurance, real estate, and systems.
- We deliver Japanese quality overseas through our global network.

Strong capabilities in the field

- A culture of "try to do everything yourself, rather than leaving it to others" permeates the company, and our business strategies and initiatives are backed by diverse ideas and experiences.
- We respond swiftly and flexibly to our customers according to circumstances by thoroughly practicing a field-oriented approach that leaves a great deal of authority to sales office leaders.
- We accept personnel from a variety of work backgrounds, including automotive manufacturers, general trading companies, megabanks, and the Japan Self-Defense Forces, to augment Group management.

Self-Sufficiency and Hands-on Management

- We have special/dedicated vehicles and warehousing facilities to fulfill our customers' needs according to their products.
- We own our own facilities and strive to recover swiftly and flexibly in the event of problems such as bad weather.
- We own our own vehicles and warehouses, eliminating issues such as wait times and the need for drivers to spend long hours loading and unloading.
- By carefully maintaining and using fully depreciated fixed assets, we are able to achieve a higher cost efficiency than leasing.



Business Model

Output

Our economic value

Consolidated net sales	212.071 billion yen
Operating profit	19.580 billion yen
Operating profit ratio	9.2%
ROE	7.1%
CDP score	C
MSCI rating	BBB

(Year ended March 31, 2023)

Value we provide

- To Customers**
 - Safe transport, quality control
 - Providing new value in response to societal changes
- To Employees**
 - Employee health and happiness
 - Fulfilling workplaces where diverse human resources can contribute actively in various ways
 - Human resource development which utilizes the characteristics and strengths of each employee
- To Society**
 - Working together with local communities in Japan, for production areas to consumption areas, so as to not interrupt the flow of the supply chain
 - Contributing to circular logistics and carbon neutrality
 - Creating diverse jobs in Japan and nine overseas countries

Message from the President

We will move forward together with the Group and its employees, aiming to be a “company that is useful to the world.”

[Value we provide and our vision] Our value lies in how we are appreciated by our customers

Since our founding, we have engaged in business activities with the aim of contributing to the nation, especially to local communities, through logistics services. The logistics industry is a service industry, which means that we perform work on behalf of our customers. In other words, we provide time. Logistics quality, i.e., faster and more reliable delivery, is our added value.

On top of that, we aim to be appreciated by our customers. This means that providing benefits to our customers is everything. It is the customer who evaluates us; metrics such as sales volume or how we fare against competitors are irrelevant. Expanding our sales is only a means to an end. Ultimately, we must follow our own path in our own unique field.

[Our businesses and strengths] Increasing customer satisfaction through “self-sufficiency and hands-on management”

Warehousing, packaging, and other such operations account for half of our sales. We also do distribution processing, contract manufacturing, export packaging, and forwarding; logistics is just one of our customer services. Logistics is not all we do. What sets us apart from other companies is that we do whatever we can on behalf of our customers. Providing time is the essence of what we do. Integrated logistics, one-stop service.

The Group performs a variety of highly specialized functions such as moving, IT, and consulting. Our purpose is to do what only we can do. Part of this involves things like conducting test projects that other companies will not attempt and owning many special vehicles. If a customer consults with us, we will offer a variety of services and proposals. This synergy has resulted in increased customer satisfaction.

We say that we are “self-sufficient,” but self-sufficiency is merely the means, while “hands-on management” is our actual goal. By working independently, we are able to see both good and bad information, and understand where the problems are so that we can take countermeasures. It is not about owning or not owning assets, but about what is best for the customer.

[Market conditions] Staying ahead of changes in the world

The automotive industry, our core sector, is undergoing a once-in-a-century transformation as it shifts away from fossil fuels. Our business model will have to change due to the development of technologies such as EVs and hydrogen, the issue of their cost, as well as many social issues. We believe that continuing to do new things is a way of adapting to these changes. In our 70-year history, we initially transported freight in bicycle-drawn carts, then in three-wheelers, and then as trucks became larger and larger, we developed double-decker trucks. I believe that keeping ahead of the times means thinking in-depth about what is troubling the world and anticipating what

President and Representative Director Masakatsu Kuroiwa



troubles the world will have to deal with in the future.

The labor shortage is an unending issue for our company. We have consistently been short of people since Japan's period of high economic growth after WWII. For this reason, we have been working on automation and labor-saving measures since long ago.

Looking to the future, the transportation industry will be transformed as we move into an age of automated driving and AI, and our value to society will change. If humans no longer work and all tasks are performed by robots, there will be no appreciation of labor, no need to react. Instead, the work will be easy and there will be no more “dirty, dangerous, and demanding” workplaces. A kind of social revolution will occur. I want to move ahead while constantly

thinking about what the value of our company will be in such an era.

[For sustainable growth] Investing in human capital is the key to growth

The key to further growth at our company is improving the quality of our people. The only way to do this is employee education. We have always placed an emphasis on education since our founding. Many things our employees do that are taken for granted here, such as truck dispatching, independent accounting at each sales office, and cost management, are not prevalent among employees at other



companies.

Some people are under the illusion that working more overtime means they are making more money, but doing eight-hour job in ten hours is not profitable at all. We need to teach our employees and let them think about what they can do to get the same job done in six hours.

M&A is another means of growth. In the past, private logistics companies had to be approved by each municipality in Japan, and there were hearings at the prefectural level that prevented companies from entering if local transportation companies objected. So, we had no choice but to acquire local companies. Nowadays, M&A is more about buying time than licensing issues. It takes five or even ten years to get off the ground when starting from scratch, but buying an existing company can shorten that time by three or four years. This is the kind of M&A we are looking for.

[Recap of the previous Medium-Term Plan and overview of the new Medium-Term Plan] Promoting the “deepening of existing businesses” and “development of new businesses”

Although we saw record profits during the fiscal year ended March 31, 2023, upon reflection, there are many things we should have done differently at the time. In a project that we ended up losing, we misjudged what the customer valued in terms of price, ESG-based evaluation, and other factors. Our proposals will be compared with those of our

competitors, but we must not forget that while the shipper can choose their carrier, we can also choose our shipper. Sometimes there are companies that are unsure about the criteria used to choose a carrier.

The 12th Medium-Term Business Plan was a three-year plan that ultimately took four years due to the COVID-19 pandemic, but logistics kept moving during this period, and the trend was steady growth.

For the 13th Medium-Term Business Plan, we want to do something different from what we have been doing until now. There will be no natural increase if we keep doing what we have done in the past, so we will do new things in order to increase sales and profits.

In our existing operations, each Group company has a different area of expertise, and depending on the customer, there are services that we do not yet offer, as well as geographically complementary areas. There is plenty of potential to increase synergy by doing all kinds of cross selling as a one-stop service.

Our new initiatives include circular logistics, the food sector (out of “food, clothing, and shelter”), and overseas businesses. In circular logistics, we will leverage our strength in automotive logistics to pioneer resource recycling solutions for a recycling-oriented society, build a logistics network for reuse and recycling, and provide support for everything from procurement to sales, collection, and recycling. As for food, there are many yet-untapped areas besides the existing areas of drinking water, snacks, and rice. The number of food product factories in Japan is expected to increase even as the population declines, creating opportunities for expansion in refrigerated and frozen products, as well as in temperature-controlled warehouses. Overseas businesses, mainly in the United States and Asia, account for about 15% of our total sales. We would like to broaden our network of bases to support our customers’ supply chains and expand local businesses.

[ESG-based management] Capturing market confidence through ESG-based management

We have always been highly conscious of our con-

tribution to society, and I believe that sustainability management is our company's essential role and mission. We have also been reducing CO₂ emissions for many years by increasing load capacity through the use of double trailer trucks and other vehicles. I believe that the value of our company's existence is to contribute to society by giving due consideration to safety and environmental conservation.

As for safety, we have our own specialized department for it, but beyond that, each and every one of us must be safety-conscious. We provide thorough safety training from the time each new employee joins the company, and continue awareness-raising activities and education thereafter. The Group also holds a safe driving competition every year.

[Talent strategy] Employees are the source of all value created

Although most of our employees are men, we do not make gender-based distinctions when it comes to hiring and advancement. People often talk about women's participation and advancement, yet we have many truck drivers and forklift operators who are women. While others make a fuss about “women this, women that,” as a company, we operate in a gender-neutral manner and have never said anything about women not being allowed here. Since we are short on people to begin with, women are more than welcome to join us, and we accept all who come to us. This is because people are the basis of our self-sufficiency policy. Since our workers are our own employees, we have the ability to manage them in a hands-on manner and train them to a high standard. That said, there are busy and slow periods, and we must also seek outside help to prepare to handle these peaks.

Personnel transfers are determined by communicating company policy while respecting the wishes of employees. I also firmly believe that communication must be a two-way street, not a one-way street. Therefore, listening is important. The best way to motivate employees is to make the work fun and cheerful, and if doing that makes money, even better. However, we cannot be cheerful all the time, nor is

everything about money. Having a sense of purpose will also boost motivation. We instill within the company that the value of our existence is to contribute to local communities, and that we will be appreciated for our contributions. I think we are extremely fortunate to be able to make money from being appreciated by our customers.

[Aiming to improve corporate value] Seeing risks as opportunities, and taking a steady growth path

People ask how we can achieve a price-to-book ratio (PBR) of 1, but it just so happens that the share price is not keeping up with the value of the company. They have it backwards. Running the company in a self-sufficient manner means that we have our own equipment, which inevitably increases our equity. That said, I have no intention of lowering this target. I do not think that corporate value is determined solely by the share price or PBR, but if that were the sole criterion for judging corporate value, I would consider various measures to improve the share price, such as share buybacks. I simply do not think that raising the share price is the right purpose for buying back shares.

Sustainable growth is like a bicycle: you have to pedal it or it will fall over, so you just keep pedaling as hard as you can. That is also what makes it fun. But we must always reassess whether what we are doing is contributing to the world. If expansion itself becomes our objective, we are doing something wrong. I am one of our shareholders, and all the employees are also shareholders, so the company and its employees share the same fate. Companies whose shares you hold over the long term are good companies. Likewise, companies where employees work for a long time are good, too. We manage the company to ensure that it can continue to contribute to society over the long term, so if you are a shareholder who agrees with that, we welcome you. I want the company to be appreciative of all the stakeholders around it, and at the same time, I want it to be a company that is appreciated by all of them.

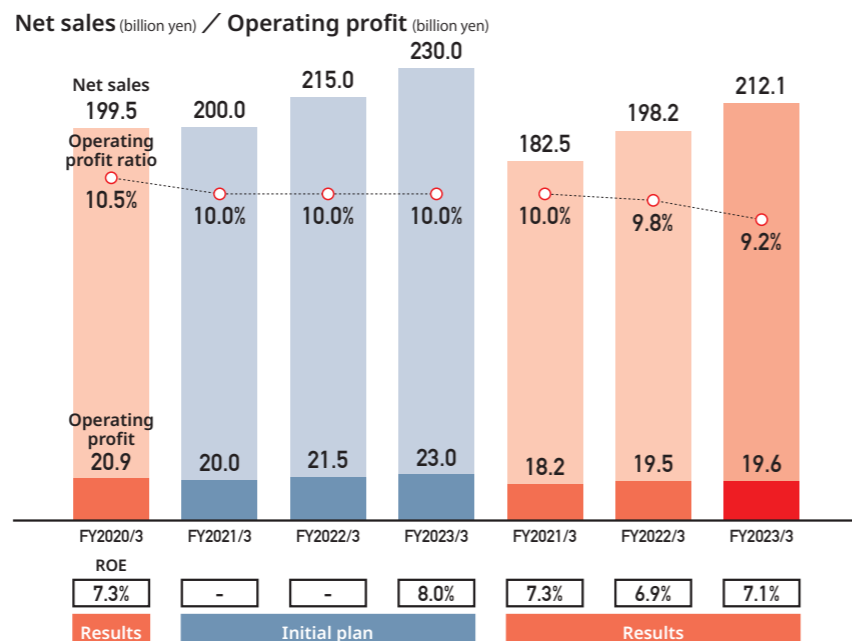
New Medium-Term Business Plan (13th Medium-Term Business Plan)

Review of the 12th Medium-Term Business Plan

The previous Medium-Term Business Plan was set back almost a year by factors such as the market slump induced by the COVID-19 pandemic and the slowdown in freight demand due to the shortage of parts supply, including semiconductors. Furthermore, during the fiscal year ended March 31, 2023, our profit ratio fell as a result of higher fuel costs due to the situation in Ukraine and the sharp depreciation of the yen, as well as higher labor costs and other price hikes. To accommodate the future business plans of our major customers, we have made preparations for the post-pandemic market recovery by making 78.8 billion yen in capital investments over three years and establishing six new sales offices and 22 new warehouses with a total floor space of 245,000 m² across the Group.

In addition to expanding our business resources, our efforts to develop new customers have enabled us to gradually recover sales and profit during the period of the Medium-Term Business Plan, despite the impact of the pandemic.

On the other hand, operating profit was affected by the time lag in passing on higher fuel costs to customers, as well as a mismatch between the extreme fluctuations in our major shippers' production plans and our human resources, which resulted in higher costs and lower profit ratio. Now that production has stabilized, however, these issues are being resolved.



Framework of the 13th Medium-Term Business Plan

Challenge 13

“Contribute through our business activities to the realization and sustainable growth of a prosperous society that enables people to feel truly happy”

- ▶ Streamlining and review of existing businesses / Improvement of profitability
- ▶ Enhancement of corporate value through ESG-oriented management / Continuation of efforts to remain a company needed by society
- ▶ Establishment of growth drivers / Expansion of businesses while simultaneously creating the next core businesses
- ▶ Establishment of human resource foundations / Development and securing of next-generation human resources to ensure sustainable growth



Medium-Term Business Plan Financial Targets

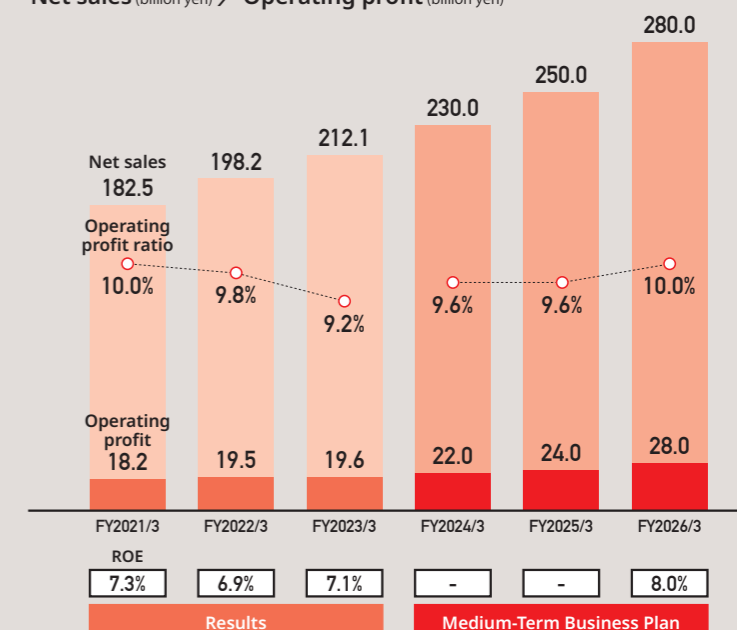
Our plan for net sales is to continue stable growth through new customer development and constant capital investment, aiming for a CAGR of 9.7%, or 280.0 billion yen.

Given the uncertainty of future cost conditions, such as rising fuel and labor costs, as well as the cost of addressing social issues, we intend to aggressively reduce costs and pass on costs to customers as necessary to achieve a profit ratio of 10.0%.

In addition, we aim to achieve a target return on equity (ROE) of 8.0% or higher, based on a profit plan and capital policy consistent with our basic strategy of “self-sufficiency and hands-on management.”

FY2026/3	
Net sales	280.0 billion yen
Operating profit	28.0 billion yen
Operating profit ratio	10.0%
ROE	8.00%

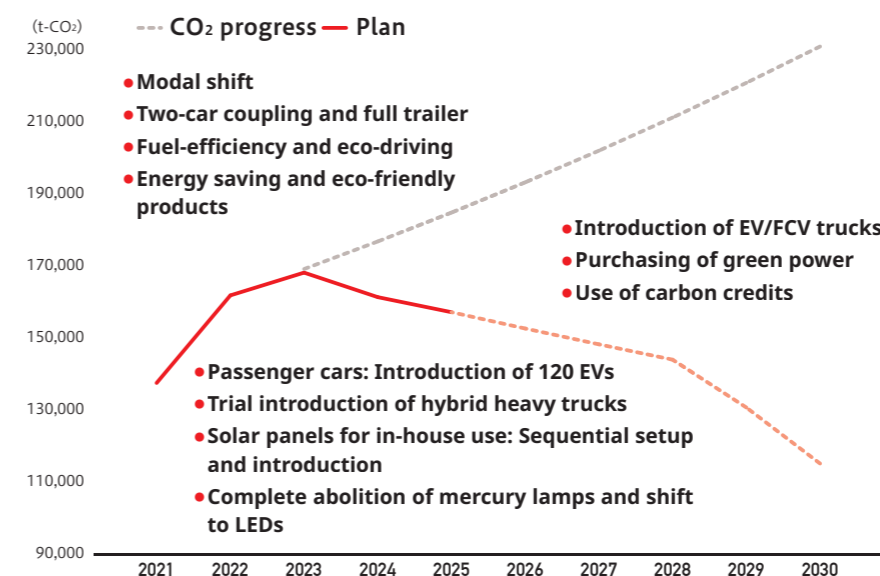
Net sales (billion yen) / Operating profit (billion yen)



13th Medium-Term Business Plan (ESG-based KPIs)

	FY2022	FY2025	FY2030	FY2050
CO ₂ emissions reduction targets	-	-3%	-30%	-100%
CO ₂ emissions (t)	160,000	155,200	112,000	0

	FY2022	FY2025
Percentage of all employees that are women	24%	30%



In order to achieve carbon neutrality by 2050, we have set an emissions reduction target of 3% below the FY2022 level in our next Medium-Term Business Plan. We will continue to challenge ourselves to further reduce emissions, and have set a target of -30% for FY2030, when various technological developments—including the shift to heavy-duty electric trucks—are expected to take place. As for women's advancement, we have set the percentage of all Group employees who are women at 30%. First, we will increase the number of new female graduates hired. Then we will steadily lay the groundwork for appointing women to management positions by providing training and motivation, as well as creating infrastructure and an environment in which women can feel comfortable working.

Growth Strategy

Development and Structure of Three Growth Drivers

We will establish a new structure in the holdings business departments and promote the expansion of growth drivers.

▼

Circulation businesses

- Realize circulation businesses -

- Expand into the recycling business, in which we process the materials ourselves
- Partner with recycling and emissions companies
- Area of contribution to existing logistics lines

▼

Businesses related to food, clothing, and shelter

- Pursue logistics more closely related to daily life -

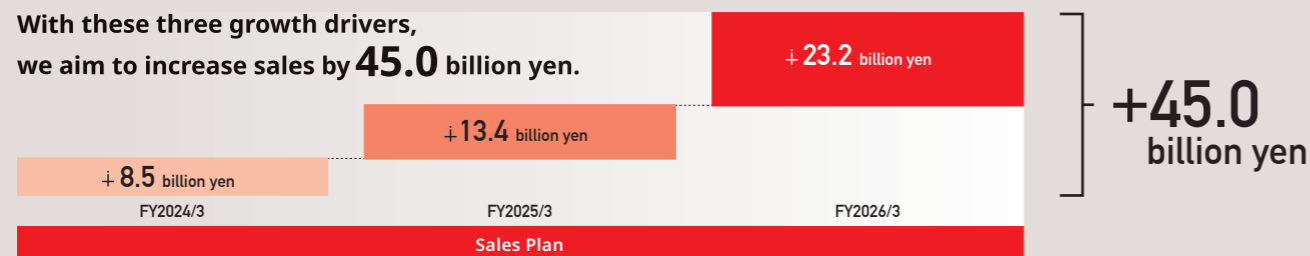
- Participate in the three-temperature-zone logistics business
- Build a sensitive logistics operation system
- Expand into the Kanto, Chubu, and Kansai regions

▼

Overseas businesses

- Expand overseas businesses -

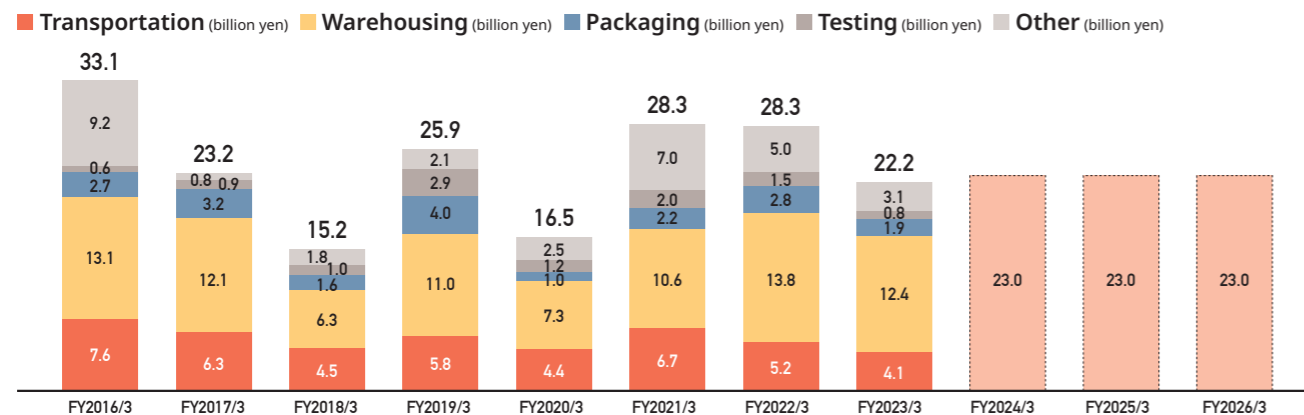
- Develop local businesses overseas
- Enter new overseas business areas



Expand Existing Businesses

1. Customer-Oriented Marketing

We will provide high value-added services in line with the long-term growth strategies of our major customers. We plan to make stable capital investments with an annual target of 23.0 billion yen, while monitoring cash flow. We will operate with sufficient financial reserves to flexibly invest in ESG measures, such as human resources and digital transformation (DX), as well as in future uncertainties, in response to societal needs and management conditions.



2. Cross Selling Strategies

Leveraging the advantages of "self-sufficiency and hands-on management," we will develop cross selling strategies based on three axes: services, Group companies, and local communities, and steadily reinforce our sales base through down-to-earth sales activities.

3. Business Model Transformation

We will further accelerate our existing strategies: consolidated freight/N-Logi; circular logistics/3R: Recycle, Repair, Return; real estate business; and M&A.

Initiatives to Improve Efficiency

[Labor saving and automation initiatives]

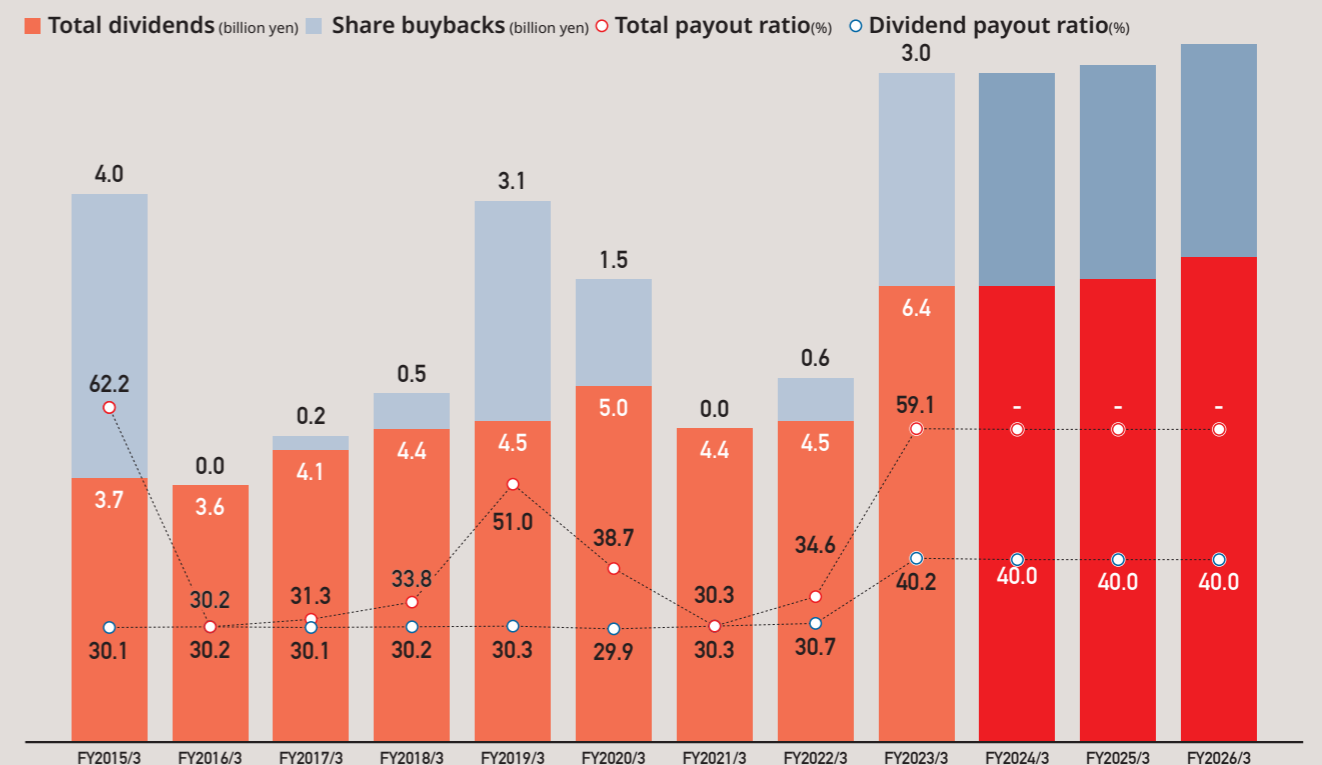
With regard to labor saving and automation, in the warehousing business, we will increase work efficiency by introducing vertical conveyors, warehouse robotics, mobile racks, and other equipment, while working to ensure worker safety and reduce workloads, resulting in more efficient use of warehouse space. We will also consider introducing autonomous forklifts and automated guided vehicles for the future. In the transportation business, we will introduce and expand our fleet of double trailer trucks, which can reduce crew numbers by 50% compared to regular heavy-duty trucks.

[Systemization initiatives (building a digital platform)]

With regard to systems-related initiatives, we will build a proprietary development environment and self-develop a totally optimized platform to have our own in-house business management system. During the period of the previous Medium-Term Business Plan, we developed a new inventory management system, WMS, and began using it. In the 13th Medium-Term Business Plan, we plan to develop a transportation and delivery management system, TMS, and a data analysis system, LMS.

Shareholder Return (Dividend Payout Ratio/Share Buybacks)

- We announced that we will increase our dividend payout ratio from the previous "around 30%" to "around 40%," starting with the dividend for FY2022. We plan to maintain this policy for the time being.
- We announced our policy to continuously buy back shares in the amount of 10.0 billion yen over three years starting in the fiscal year ended March 31, 2023. By October 13, 2022, we had bought back 1,352,000 shares amounting to 2,999 million yen.
- In addition, on May 31, 2022, we retired 2,500,000 treasury shares. We intend to retire any unnecessary treasury shares while looking to utilize newly acquired treasury shares for stock options, stock-based remuneration, and M&A.



Message from the CFO

Director and
Managing Executive Officer
Yasunori Matsuda

Aiming to maintain our financial health so as to be able to invest flexibly in the face of future uncertainties.

[Approach to financial strategy] An optimal portfolio that considers both debt and equity

In our financial strategy, our main source of financing is basically corporate bonds, but we also have bank loans. Since we have an "A" credit rating from R&I, we have been able to keep our financing costs relatively low, and I believe our financing capacity is sufficient for the time being. At the same time, returning profits to shareholders is also important, so we are managing our operations while striking a balance between debt and equity.

By adopting a "self-sufficient" approach, the Group makes capital investments in a planned and strategic manner. Since many of our assets are self-owned, we make use of the balance sheet to some extent in our business model. Although capital investments depreciate over time following the initial investment, in reality, with careful maintenance, our equipment continues to be operational for quite a long time after depreciation ends, making the total cost advantage greater than that of leasing. In addition, since we manage these assets ourselves, we are able to use them efficiently in terms of both time and operations. I believe this is what has led to our industry-leading operating profit ratio.

At the same time, however, because we are asset-heavy, our asset efficiency, such as total asset turnover, tends to be lower than that of other companies. To address this, we are working to improve asset efficiency by liquidating accounts receivable.

[Management indicators] We target an operating profit ratio of 10% and ROE of 8%

As for our management indicators, the 13th Medium-Term Business Plan targets an operating profit ratio of 10% and ROE of 8%, in addition to net sales of 280.0 billion yen. ROE

was in the 8% range prior to the COVID-19 pandemic, but it fell to 7.1% in the fiscal year ended March 31, 2023. We intend to bring this back up to its former level. Our basic strategy is to improve ROE by expanding the business and increasing net income. However, since equity has grown considerably due to the accumulation of past profits, we need to utilize debt effectively and promote investment while watching the balance of debt and equity. We also need to take a closer look at this in relation to cash flow.

We are often asked why the Group's operating profit ratio is so high. The answer is that in addition to our transportation business, we are also engaged in the warehousing and packaging businesses, which have relatively high profit ratios. We also have a segment called "testing," which is quite different from other companies. In the warehousing business, self-owned warehouses account for about 60% of the total area used, which is yet another source of profit for the Group.

We have not previously disclosed figures such as the cost of shareholders' equity or weighted average cost of capital (WACC) to the public. In our businesses, while return on invested capital (ROIC) is important, operating profit is an equally important management indicator because of the high percentage of warehouse operations and services, such as product receiving and shipping and assembly work in our warehouses. The equity ratio is not a financial target per se, but rather a means of achieving the optimal balance between capital and debt while monitoring shareholder expectations and future interest rate conditions.

As for PBR, we naturally do not consider a PBR less than one to be desirable. If our shares are undervalued, we are more likely to become the target of a corporate takeover. Hence, a higher share price is better. The most important thing is to raise our corporate value from the business side. Even so, I feel it is necessary to clearly articulate the direction of our capital policy, including shareholder returns, and we

should consider this issue within the company.

[Investment areas and criteria] Circular logistics, expanding the range of food products, and expanding overseas businesses as our growth drivers

As for our market environment, adapting to the automotive industry's shift to electric vehicles (EVs) is an urgent issue, and we are working to adapt to structural changes in the automotive industry, such as changes in parts suppliers. Meanwhile, the Group intends to focus its efforts on the growth drivers in the Medium-Term Business Plan that started this past April: circular logistics, particularly batteries and other automotive parts; expanding overseas businesses, which currently account for about 15% of total sales; and food as a component of "food, clothing, and shelter." We have been involved in beverages and rice in the past, but some areas remain untapped, and we believe it is important to strengthen our efforts in these areas. In order to expand in these new business areas, M&A is one of the most effective means of acquiring business expertise.

That said, we have not previously pursued M&A with the primary aim of expanding the scale of our business; rather, our focus has been on filling in regions where our network is weak or augmenting our logistics functions. At the same time, since our target is an operating profit ratio of 10%, it is not easy to find acquisition targets that meet this criterion. Even if the acquired company's profit ratio is on the lower side initially, we are looking to raise the profit ratio through post-acquisition synergies, such as increasing freight volume, improving load efficiency, and other efficiency-related gains.

[Contribution to the New Medium-Term Business Plan] Continuing to invest in growth that aligns with customer needs

Our basic approach to investments in the 13th Medium-Term Business Plan is to look closely at the profitability of our investments, as there is no point in making investments with lower returns than the cost of capital. We state that our investments will amount to 23.0 billion yen each year for a total of 69.0 billion yen over three years, based on our cash flow. In reality, however, we are making investments according to the needs of our customers, so there may be cases where our investments exceed the plan. We would like to be flexible in this regard, and consider investments together with financing.

At the same time, we are conscious of slimming down our balance sheet and began liquidating accounts receivable

in the first half of last year. While we have been continuously reducing cross-shareholdings, we have announced that we will not divest shares in our strategic partner Honda Motor Co., Ltd. Excluding these, we hold shares in 15 companies, mainly our customers. Our stance is to sell them when our customers request us to do so, but the market valuation of all these investments combined is not particularly large.

We will actively promote ESG-based investments that are desired by society, such as investments in human capital and CO₂ reductions. Since heavy-duty electric trucks have not yet arrived on the market, we will focus on what we can do, such as replacing light-duty trucks and passenger cars with EVs and installing solar panels for in-house use.

[Shareholder return policy] Continuing share buybacks and a 40% dividend payout ratio for the time being

With a view to enhancing shareholder returns, we raised the dividend for the fiscal year ended March 31, 2022, from a payout ratio of about 30% to about 40%, and we plan to maintain this policy for now. Likewise, we announced our policy to continuously buy back our own shares over a three-year period starting in the fiscal year ended March 31, 2023, with a target of 10.0 billion yen. By October 2022, we had bought back 3.0 billion yen of treasury shares, and our plan states that we will continue to buy back an additional 7.0 billion yen by the fiscal year ending March 31, 2025. We anticipate using some of the treasury shares repurchased from the market to provide stock-based remuneration to directors, but we will basically retire any other unnecessary shares.

Going forward, we will aim to enhance our corporate value while continuing to pursue a capital policy and financial strategy that satisfies our various stakeholders, including shareholders and investors, as much as possible.



System for Promoting Sustainability Management

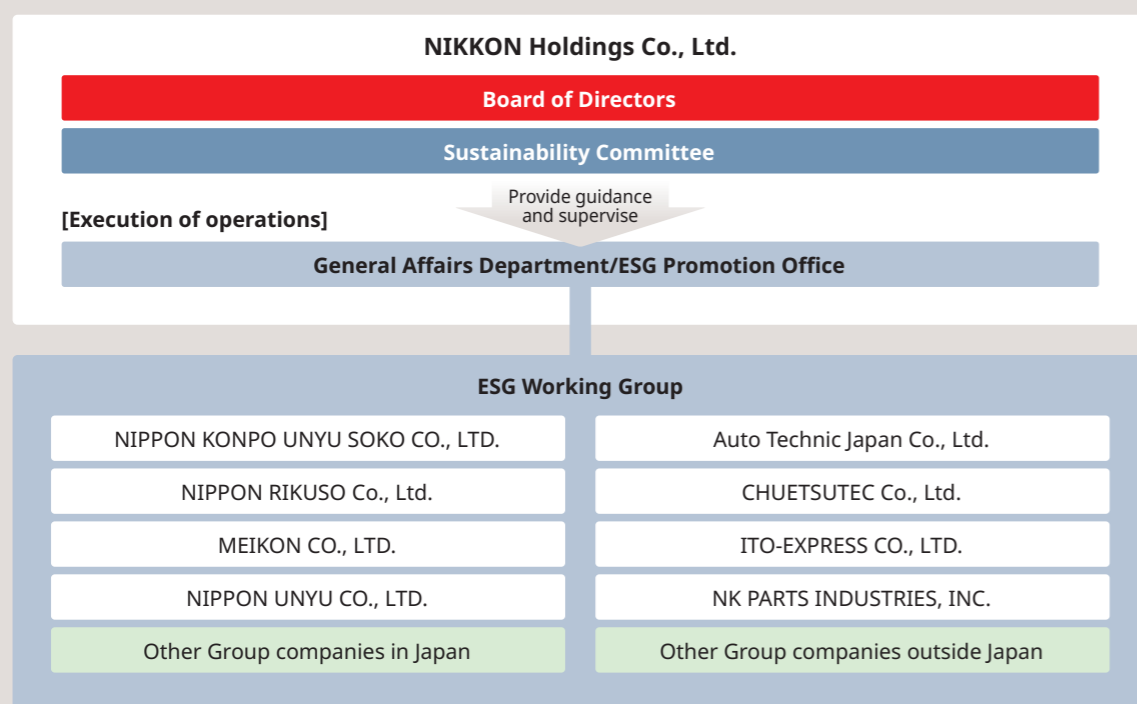
Basic Approach to Sustainability

Society is undergoing rapid changes, as exemplified by environmental issues, the declining birthrate and aging population, and human rights issues. In the midst of these changes, we at the NIKKON Group are determined to contribute to national and local communities by squarely facing the issues at hand and creating new value with all stakeholders through our logistics business, thereby realizing a sustainable society and enhancing our corporate value.

System for Promoting Sustainability Management

The NIKKON Group believes that enhancing systematic measures regarding its environmental, social, and governance (ESG) criteria is one of management's most important tasks. To achieve this, we have established a system in which directors directly supervise ESG activities and quickly formulate policies and provide guidance, so as to promote highly effective ESG activities. In July 2021, we established the ESG Promotion Office within NIKKON Holdings to execute the Group's ESG activities. The office conducts Group-wide, cross-sectional activities led by a working group of members from eight core companies. In addition, the Sustainability Committee we established in October 2021 effectively functions as an organization that oversees ESG activities and reports directly to the directors. The Sustainability Committee is chaired by a female independent outside director who, under the direction of the President and Representative Director, oversees and provides guidance on the execution of all ESG-related matters, including diversity and environmental action, from the perspective of shareholders and other stakeholders.

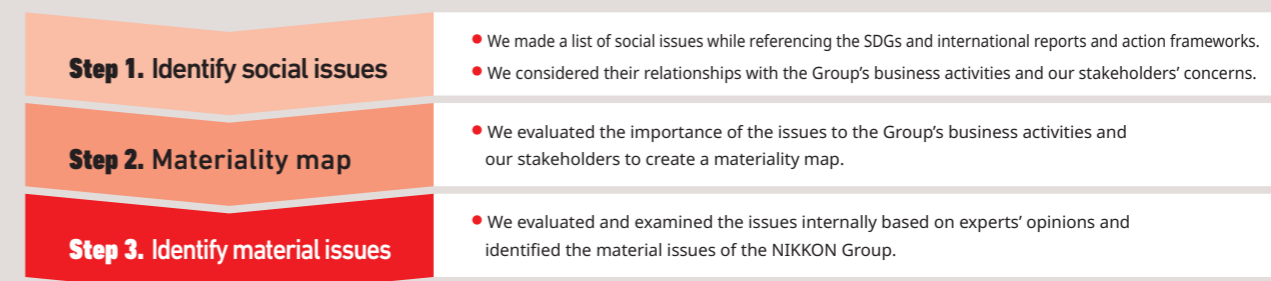
Nikkon Group's organizational framework for sustainability



Material Issues

Material Issue Identification Process

The ESG Promotion Office created a list of social issues, identified their relevance to the Group's business activities and stakeholders' expectations, and ordered them by priority.



[Step 2: Outline of the materiality map]



Priority Themes and Main Initiatives & Targets Based on Material Issues

Material Issues	Priority themes	Main initiatives	13th Medium-Term Business Plan FY2025 targets	Related SDGs
Improvement of safety and quality	Traffic safety	<ul style="list-style-type: none"> Providing education and training on transportation safety 	-	3 GOOD HEALTH AND WELL-BEING
	Occupational safety and health	<ul style="list-style-type: none"> Improving the workplace environment Strengthening health and safety training Early detection and prevention of diseases 		
	Provision of high-quality services	<ul style="list-style-type: none"> Improving safety and quality through small-group activities 		
Promotion of diversity	Realization of diverse workstyles	<ul style="list-style-type: none"> Creating comfortable infrastructure and work environments Fostering next-generation human resources Promoting the active participation of women by formulating career and education plans Providing training to transform awareness Revising the personnel system Employing more people with disabilities 	<ul style="list-style-type: none"> Percentage of all employees that are women: 30% Fulfilling the legally mandated percentage of employees with disabilities at all applicable sales offices 	5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH
Action on climate change	Achieving carbon neutrality	<ul style="list-style-type: none"> Improving transportation efficiency Promoting modal shift Switching to renewable energy Introducing environmentally friendly equipment 	<ul style="list-style-type: none"> CO₂ emissions reduction target: -3% (Compared to FY2022: 160,000 t) CO₂ emissions (t): 155,200 t 	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION, 15 LIFE ON LAND
Strengthening compliance	Ensuring stakeholders' trust	<ul style="list-style-type: none"> Increasing the compliance awareness of Group employees through education Establishing a hotline and strengthening the system for receiving reports Fostering mutual trust through fair deals 	-	16 PEACE, JUSTICE AND STRONG INSTITUTIONS, 17 PARTNERSHIPS FOR THE GOALS

Improvement of Safety and Quality



Safety & Quality Philosophy

The NIKKON Holdings Group understands that safety is the most important issue in our business operations. Based on this understanding, we make Group-wide efforts to ensure workplace safety, prevent traffic accidents, and provide high-quality services in actual business operations. We ensure the safety and healthy lifestyles of our employees (including the implementation of infection control measures), and engage in activities to earn the confidence of our customers and society.

Safety & Quality Policies

1. Understand that ensuring safety is a social mission in the management of the Group, ensure that all employees understand its importance, and take action together.
2. Respect human life, place the highest priority on safety, and ensure that every employee has a sense of ownership and takes the initiative in preventing accidents.
3. Comply with relevant laws, regulations, and other rules and act in accordance with the Three Actuals Principle (the actual place, the actual situation, and the actual thing).
4. Build a safe and secure business environment through the proactive management of occupational health at workplaces and by striving to improve the workplace environment and promote the good health of employees.
5. Improve employees' driving skills and other skills through driving skills competitions to prevent accidents and contribute to society in terms of safety.
6. Ensure safety and maintain stable quality through small group activities, improvement activities, and other initiatives and introduce advanced ideas and technologies to provide reliable, high-quality services to fulfill the expectations of all stakeholders.
7. Encourage Group companies to share information and technologies with each other to improve safety and quality.
8. Establish strong disaster control measures and BCP measures to prepare for major natural disasters.

[ANS Committee Activities]

We have established the All Nikkon Safety (ANS) Committee, consisting of 12 operating companies in Japan, to share advanced knowledge and information on incidents and system technologies with the aim of increasing safety awareness and preventing traffic accidents. Led by our core operating company NIPPON KONPO UNYU SOKO CO., LTD., the members meet regularly to share information on their efforts to prevent traffic, product, and work-related accidents and to improve the overall level of their efforts.

All Nikkon Safety (ANS) Driving Skills Competition

We hold the ANS Driving Skills Competition, which is a high-level driving skill and knowledge competition, to increase safety awareness and promote traffic accident prevention activities across the NIKKON Holdings Group. The competition is an opportunity to showcase the day-to-day efforts of each Group company and the professional skills of employees who have worked hard to hone their abilities in the truck, forklift, and passenger vehicle loading and unloading categories. At the same time, it is one of the most important activities for all members of the Group, whose highest priority is safety, to think about "safety and security." The eighth competition held in FY2023 focused on safety technology and saw the participation of a total of 130 contestants, including the winners of preliminary competitions held with 320 contestants from across Japan, and 10 contestants from overseas subsidiaries (China, India, Vietnam, and Thailand) who were able to participate for the first time in four years.



Diverse Education and Training Programs

We provide a variety of crew member training (including training for some subsidiaries and affiliates) at the core operating company's Safe Driving Training Centers (two locations in Saitama and Mie), including special instructional training for beginner drivers at all offices nationwide, training for full-time drivers after five months of employment, training for drivers 60 years and older, and 21 m full-trailer truck training.

AHK Group Convention

The NIKKON Holdings Group holds the AHK Group Convention as a forum for showcasing the results of AHK Circle activities. Each year, about 15 teams from Japan and overseas are selected to participate through preliminary competitions held by each company. By holding the event on a global scale, we aim to energize these activities and enhance the Group's sense of unity and awareness of improvement activities. We will continue to hold these small-group improvement activities with the aim of improving safety (*Anzen*), quality (*Hinshitsu*), and efficiency and the environment (*Koritsu + Kankyo*).



Initiatives to Prevent Accidents (Japan)

Safety education through original videos

Our core operating company's quality and safety department creates original videos using safety education illustrations and actual dashcam footage, and has built a system that allows the videos to be viewed online, which helps to bring safety education up to the same level at all sales offices. In addition, Auto Technic Japan Co., Ltd. (a company that supports the research and development of automobiles and mobility) conducts a variety of safe driving manager activities, including classroom lectures and distance learning, based on the idea that driving, the company's product, must never injure people or cause damage. As development of advanced driver-assistance systems (ADAS) and autonomous driving (AD) enters the phase of test driving on public roads, we are conducting our own tests to certify our drivers' safe driving skills and knowledge of on-the-road driving based on clear criteria, in order to ensure the safety of our employees and operations.

Initiatives to Prevent Accidents (Outside Japan)

We also conduct safety-related education outside of Japan, including new driver training, safety lectures, and on-the-job training for driving and operations; face-to-face training of new drivers under Japanese standards, including face-to-face roll call and training using digital tachograph data; and lectures to improve understanding of truck performance and design taught by external lecturers. In addition, we have introduced various tools and systems to prevent accidents, including stickers to alert truck drivers to maintain a distance from other vehicles, digital tachographs, dashcams, talking back-up alarms, a system that prevents drowsy driving, a GPS monitoring system, and safety lights and rear lights on forklifts.

In the United States, we provide education on accident prevention measures from an ergonomics perspective, and first aid and AED training. We have also introduced the Omnitrac fleet management system (GPS, dashcams, a traffic sign recognition feature, and driving route optimization).



Compliance with Statutory Speed Limits and Introduction of Advanced Safety Equipment

Compliance with Statutory Speed Limits

Our core operating company has strictly complied with statutory speed limits stipulated by the Road Traffic Act. Although the installation of speed limiters is now mandatory in Japan, over 30 years ago it was common for commercial trucks to travel on expressways at the same speed as passenger cars. Because we complied with the speed limit even then, people often joked that the trucks at the head of a traffic jam were red and white (the livery of NIPPON KONPO UNYU SOKO CO., LTD.). This is how safety-conscious we are in our business operations.

Introduction of Advanced Safety Equipment

Our core operating company introduced digital tachographs and rear/side cameras on all of its commercial trucks about 20 years ago (since 2004). We also implement advanced safety measures in terms of hardware. We are upgrading our digital tachometers to next-generation models and adding new features, such as real-time driver notifications about speeding, lane drift, and swerving based on road surface recognition, contributing to further safety improvements.

Material Issues

Promotion of Diversity



The NIKKON Group's policies for human resource development and improving the internal environment, which includes ensuring diversity, are centered on the establishment of next-generation logistics. In December 2022, we established the Human Resource (HR) Management Department under the direct control of the President, creating a structure to manage human capital across the entire Group. Japan's logistics industry is facing the "2024 problem," an expected shortage of truck drivers once overtime hours are capped in 2024, and is in the process of transitioning from the existing system to a new type of logistics. To keep up with this transformation, we must invest in highly-skilled logistics personnel. Against this backdrop, we have established the following policies for human resource development and improving the internal environment, which includes ensuring diversity in the NIKKON Group.

- 1. Safety first**
Logistics is an essential function that underpins all the basic necessities of life: food, shelter, and clothing. Providing sustainable logistics services in a stable manner is our mission. "Safety," which is the foundation of logistics services, is the most important theme in our mission to society, and all Group companies place the highest priority on it.
- 2. Building next-generation logistics**
We are also focusing our efforts on the development of next-generation logistics and conveying the importance of logistics to younger generations. Since 2021, we have held endowed lectures on logistics management at Hitotsubashi University. Through these lectures and visits to our sales offices, we aim to help foster the next generation of human resources who will lead the development of the logistics industry and the future of logistics. We also second our employees to an external logistics research institute to study the latest developments in logistics.
- 3. Strengthening efforts for employees' continuous growth**
The NIKKON Group is committed to creating policies and environments that support growth, in which everyone has access to programs that help them balance work and private life events, and in which they receive equal education, training, and evaluations that develop their abilities. We accept diverse human resources regardless of gender and nationality and plan to create a sustainable system for developing human resources from a concrete, medium- to long-term perspective by promoting the acquisition of various national certifications in order to create an environment conducive to such diversity.

Female Empowerment and Related Initiatives

There are many operations in the transportation and warehouse logistics industries that conventionally demand physical strength, such as cargo handling work that involves heavy labor. These requirements have limited the number of operations in which women can play an active role. However, in our 13th Medium-Term Business Plan, we set a target of increasing the percentage of all employees that are women from 24% in FY2022 to 30% in FY2025, the final year of the plan. Going forward, we will increase the number of new graduate hires who are women and focus on developing female executives by creating a more friendly environment and infrastructure and formulating career and education plans that encourage women's active participation, which will enable them to see the appeal and potential of the logistics industry. Rather than simply having women take on jobs traditionally handled by men, we will create workplaces where women can leverage their abilities to play active roles safely.

In FY2022, we brought in advisors from the Ministry of Health, Labour and Welfare to promote women's participation and advancement at 10 Group companies in Japan, and they assessed the status of women's participation and analyzed related issues. Since FY2023, we have been implementing initiatives aimed at achieving "Eruboshi (L-Star)" Certification. We also encourage the active disclosure of information and sharing of initiatives within the Group.



Overseas Trainee Program

We launched the trainee program in 2010 with the aim of expanding the overseas businesses of the NIKKON Holdings Group. This year marked the 12th year of the program. (The program was cancelled during the pandemic in 2020 and 2021.) Ambitious young employees who have been selected based on a report and interview with the president are assigned to a Group company outside of Japan, where they work in overseas operations for about one year. In addition to helping trainees acquire operational expertise, this program aims to develop human resources capable of becoming future managers by equipping them with cross-cultural communication skills, a broad perspective, and diverse values through real-life experience overseas.

So far, 44 men and eight women have participated in the program in the United States, Thailand, Vietnam, and Indonesia. The average age of trainees at the time of participating is 30.6 years old.



Endowed Lectures at Hitotsubashi University

NIKKON Holdings Corporation has endowed lectures on logistics management at the Faculty of Commerce and Management, Hitotsubashi University. Through these lectures and joint research with the university, we aim to help foster the next generation of human resources who will lead the development of the logistics industry and the future of logistics. In these lectures, we introduced trends in logistics that have been identified through our research to date. We also discussed issues surrounding logistics based on specific examples and explained (1) the current status and issues surrounding logistics management, (2) recent debates in logistics management, with a focus on the relationship between logistics management and digital transformation (DX) due to the recent advancement of information and communication technologies (ICT), as well as the response to environmental problems, and (3) specific issues and solutions related to the government's comprehensive logistics policy framework and future policies.

Employment and Participation of People with Disabilities

We are working to promptly fulfill the legally mandated percentage of employees with disabilities at all sales offices that meet the criteria of the Act to Facilitate the Employment of Persons with Disabilities, as well as the minimum percentage scheduled to increase in the future. We will create a comfortable work environment that enables all employees, including those with disabilities, to work enthusiastically without any discrimination.



In October 2022, two members of Auto Technic Japan Co., Ltd. participated in the National Sports Festival for People with a Disability, Japan's largest sports tournament for people with disabilities, which is held to promote the participation of people with disabilities in society, and each won a medal.



Top Partner Agreement with Cerezo Osaka Co., Ltd.

On February 4, 2022, NIKKON Holdings signed a top partner agreement with Cerezo Osaka Co., Ltd. We renewed this agreement in 2023.

We aim to enhance our social contribution activities by supporting the J.League club team, which will increase our visibility in Osaka and other areas in the Kansai region and strengthen workforce recruitment. We will contribute to the creation of a sustainable society together with the supporters of Cerezo Osaka and local communities.



Contributing to Local Communities Through Soccer

As part of our local contribution activities, we held a soccer class for elementary school children at Yodoko Sakura Stadium in Osaka City, as well as another class overseas at Ayutthaya Stadium in Thailand. By providing children, the next generation of leaders, with the opportunity to receive high-quality soccer instruction from professional coaches at stadiums used by professional soccer players, we enable them to experience the fun and joy of playing sports and contribute to their sound physical and mental development.



Material Issues

Action on Climate Change



Environmental Philosophy

The NIKKON Holdings Group believes that it has a social responsibility to protect and maintain the global environment through sound business activities. We continuously engage in activities to improve the environment in order to realize a society which coexists in harmony with the environment.

Policy on the Environment

1. Seek to achieve carbon neutrality by 2050 by consolidating the knowledge and technology of the entire Group and working to reduce our environmental impact, thus fulfilling our social responsibility.
2. Abide by environment-related laws and regulations, and formulate and continuously promote voluntary improvement plans aimed at, for example, improved transportation efficiency, shifting to renewable energy, and the use of environment-conscious facilities.
3. Contribute to national and local communities by cooperating with stakeholders toward the achievement of a sustainable, recycling-oriented society.
4. The Group will set quantitative targets and specific reduction measures to reduce CO₂ emissions, and proactively disclose its efforts to achieve these targets to stakeholders.



Modal Shift (JR)

Our core operating company has been using container transport since 1967. In 1989, it developed 31-foot containers for the transport of motorcycles by rail and began rail transport between Fukuoka and Tokyo. We have developed unique containers based on customer needs, such as a double-decker container with a hydraulic upper deck and roof for easy loading and unloading of motorcycles, and a semi-cylindrical container for passenger cars designed to match the shape of tunnels while maximizing loading efficiency. Since early on, we have been working to reduce our environmental impact (CO₂ emissions from rail transportation are 1/10 those of truck transportation) while helping to address the shortage of truck drivers by easing road congestion and reducing working hours. These efforts not only reduce our environmental impact and energy consumption, but also help us to realize “people-friendly” logistics that benefits workers.



Modal Shift: Introduction of Environmentally Friendly 21-meter Full-Trailer Trucks (Domestic Shipping)



Our 21-meter double-trailer trucks (21-meter full-trailer trucks) are environmentally friendly trucks that have double the load capacity of heavy-duty trucks and emit 37% less CO₂ than current heavy-duty vehicles. In addition, one driver is able to move twice as much freight, which saves labor and improves efficiency. We will continue to expand the use of these “next-generation, environmentally friendly” full-trailer trucks, which significantly improve transportation efficiency and reduce environmental impact, for charter and consolidation transport, as well as for transfer and long-haul transport that reduces driver workload. In June 2020, NIPPON KONPO UNYU SOKO CO., LTD. received the Logistics Environmental Conservation Activity Award at the 21st Logistics Environment Awards in recognition of its modal shift during the transport of rain gutters and sewer covers between Gunma and Saga prefectures. In this instance, 21-meter full-trailer trucks were transported by ferry, then used in the truck transportation section to transport freight equivalent to two heavy-duty trucks with a single driver, which reduced CO₂ emissions and improved transportation efficiency.

Eco-driving

Eco-driving is an important mission for the transportation industry. At the NIKKON Holdings Group, we have been promoting fuel-efficient and safe driving since 2004 by introducing digital tachographs across the board, checking our operations, and conducting eco-driving seminars, especially at our core operating company NIPPON KONPO UNYU SOKO CO., LTD. Our drivers are mindful of gradual acceleration, gradual braking, the distance between vehicles, the engine RPM, and using the idling stop system. We are also striving to achieve fuel-efficient and safe operations that are friendly to both people and the planet by building on actions we can take now, such as using environmentally-friendly eco-tires and fuel-economy oil.

Solar Power

Aiming to realize a decarbonized society, the NIKKON Holdings Group has long been helping to prevent global warming by supplying clean renewable energy through the installation of solar power generation facilities at 15 Group locations in Japan. In addition, our core operating company NIPPON KONPO UNYU SOKO CO., LTD. installed solar panels for in-house use at its Utsunomiya Sales Office in October 2015 and at its Kikuyo Sales Office in March 2023 with the aim of reducing its CO₂ emissions. These efforts have reduced the amount of fossil fuel-derived electricity used at each location. Furthermore, the Kashiwabara Sales Office warehouse in Saitama, the Inzai Sales Office in Chiba, and the Suzuka Center Sales Office in Mie plan to begin generating their own electricity from solar panels for in-house use in October 2023. We are working to introduce a wheeling service for in-house use, and in the future we envision being able to use the surplus power generated to provide electricity to the head office during the daytime. We will continue to promote similar initiatives whenever possible to lower the consumption of fossil fuel-derived electricity across the Group and reduce our CO₂ emissions.



Circular Logistics

- Realize circulation businesses -

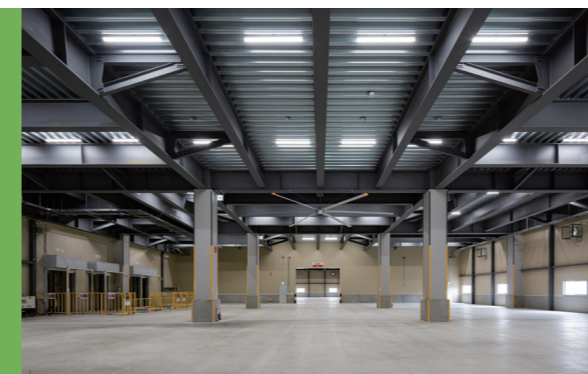
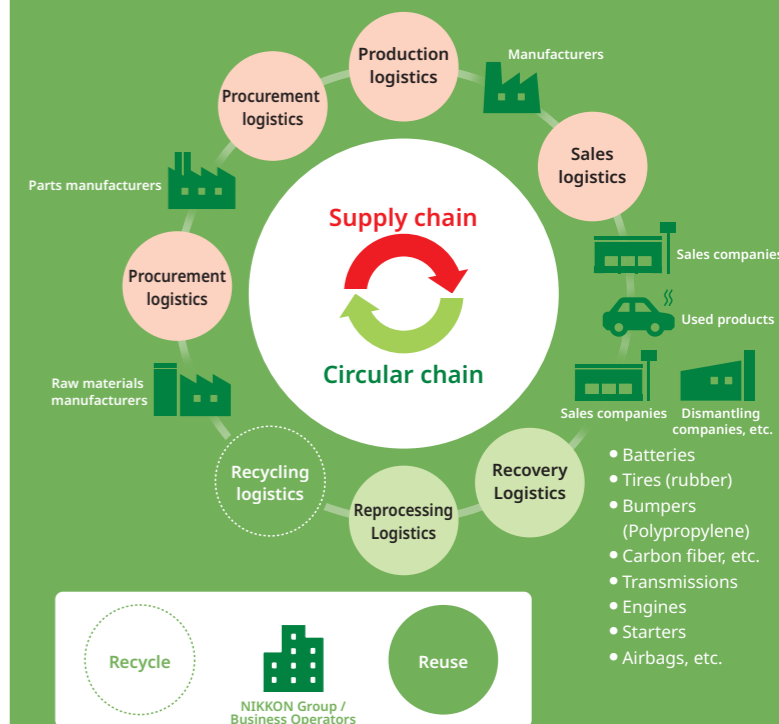
Recovery Logistics

As part of our peripheral logistics services to customers, we also focus on collecting used parts and products from consumers and sales companies. We are leveraging our extensive network that can serve a wide variety of customers to expand business volume.

Reprocessing Logistics

In order to fulfill our responsibility as a company involved in the social infrastructure of logistics, and as part of our efforts toward the realization of a recycling-oriented society, we will expand our operations into the areas of “Reuse, Rebuild, and Remanufacture” with the aim of supporting recycling logistics and ultimately becoming an intermediate processing business for recovered auto parts, etc., to promote the realization of circulation businesses.

NIKKON Holdings Group's Overall Vision of Circular Business



Switching from Mercury and Fluorescent Lights to LEDs

The NIKKON Holdings Group is actively promoting the replacement of fluorescent and mercury lights in our warehouses and offices with LED lighting, which emits less CO₂. Our core operating company NIPPON KONPO UNYU SOKO CO., LTD. has been using LEDs for lighting in all warehouses completed since 2013, and will replace 94% of its mercury and fluorescent lights with LEDs by the end of FY2023. All 74 Group companies are working toward the goal of eliminating mercury lights across the Group according to our 13th Medium-Term Business Plan.

Material Issues

Strengthening Compliance



Compliance Philosophy

The NIKKON Holdings Group engages in business activities by maintaining a compliance system with a strong sense of ethics to respect human rights and increase our value to society.

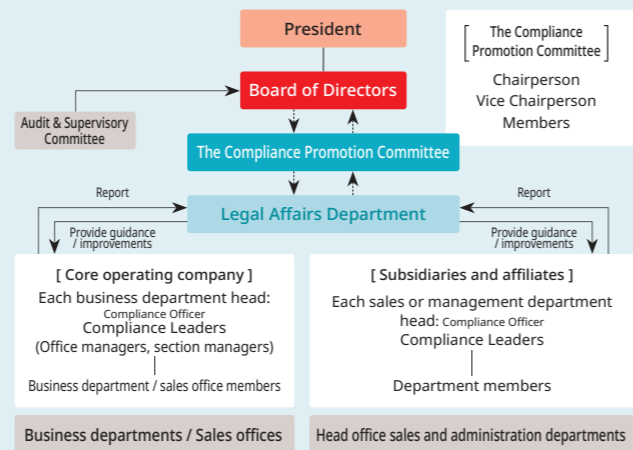
Compliance Policies

1. Develop a compliance structure and promote compliance by positioning compliance as the top management priority, and strive to maintain and improve the effectiveness of the structure used by our corporate group.
2. Fulfill our duties as a member of society by instilling compliance in our workforce and practicing compliance within the operating companies, and carry out business activities aiming to be trusted by all stakeholders.
3. Engage in corporate activities by respecting the human rights of individuals and without infringing on human rights through acts such as unequal or discriminatory treatment.
4. Create a structure for transactions that enables mutual trust to be developed through every transaction and which ensures fair, unrestricted transactions.
5. Do not engage with antisocial forces which threaten the safety of civil society, such as organized crime groups, and do not have any relationships with them.

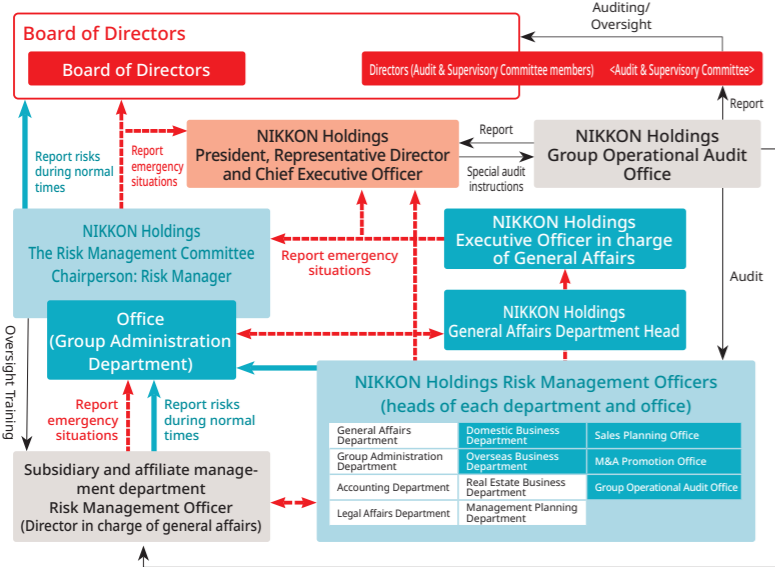
The Compliance Promotion Committee

To implement the NIKKON Holdings Group Code of Conduct and other standards of conduct, including compliance-related guidelines and policies, the Compliance Promotion Committee plays a central role in developing our internal compliance structure and providing the Group with education to ensure that all employees are aware of and comply with laws, regulations, and the Group's internal rules. The committee reports on its activities to the Board of Directors four times a year and functions as an advisory body to the Board of Directors. Not only does the committee assign compliance officers and compliance leaders to all NIKKON Holdings Group companies, it also distributes compliance handbooks to all employees to familiarize them with our compliance policies (Code of Conduct) and raise their level of awareness.

[Compliance Organization Chart]



[Risk Management Structure]



The Risk Management Committee

NIKKON Holdings positions risk management as a top management priority and has established risk management rules to ensure sound and appropriate business operations throughout the Group. The Risk Management Committee, chaired by a director, analyzes and evaluates potential disaster, accident, management, financial, information, and social risks for each Group company in accordance with our internal Risk Management Rules. The committee also takes necessary countermeasures in line with management strategies, reports the status of risks to the Board of Directors every three months for oversight purposes, and establishes systems to prepare for future risks.

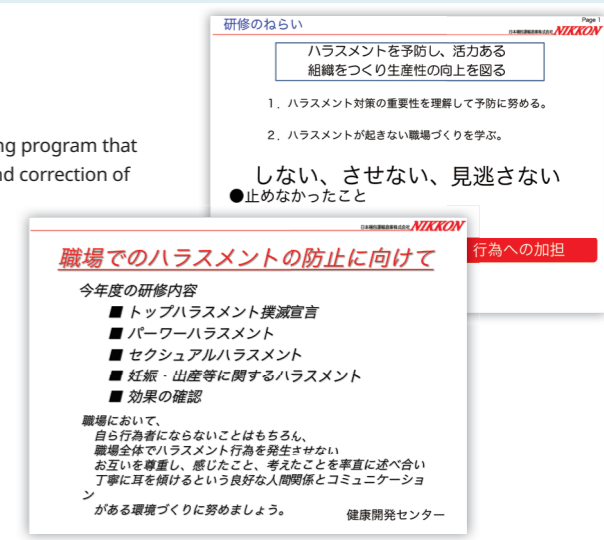


Compliance Education

At NIKKON Holdings, the Compliance Promotion Committee takes the lead in defining the laws, regulations, and internal rules that each and every employee and director of the Group must comply with when performing corporate activities. Specific examples of our compliance education activities include preparing and distributing compliance handbooks and displaying posters to raise awareness of compliance issues, as well as devoting a large amount of time to compliance training as the most important topic in our training for new employees, newly appointed managers, and newly appointed directors. In addition, we provide individualized training on specific themes, such as training to prevent insider trading. These are a part of the system we have established to ensure that our employees live up to the trust and expectations of society.

Harassment

In order to prevent harassment in the workplace, we have introduced a training program that makes use of e-learning and other methods with the aim of early detection and correction of illegal or inappropriate behaviors. We also have an internal reporting system (hotline), and we regularly report the number and content of these hotline cases to the Board of Directors. In addition, we conduct an annual harassment prevention training program for all employees, including part-time workers, to ensure that each and every employee has a thorough understanding of harassment. Thus, the entire Group works together to eliminate harassment. Some of our subsidiaries have launched initiatives in which harassment counselors serve as a consultation resource for employees and help to resolve issues.



Information Security

We regard information leaks and cybersecurity as important risks, and have established an information security policy and conduct annual training for employees to raise the level of awareness of each and every employee. In addition to preventing unauthorized access to information assets and information leaks, we are especially focused on strengthening data governance to prevent insider trading, protect personal information, and back up system data in case of system failures. We also take precautions against cyber attacks through measures such as installing the latest anti-virus software and reducing communication with external networks to the minimum extent necessary.



Business Continuity Plan (BCP) Measures

When replacing the AS400 system, our core operating company migrated data from the head office annex (Saitama Prefecture) and its backup location at a Group operating company (Mie Prefecture) to dedicated data centers in Saitama and Osaka that are available 24/7, strengthening our preparedness for large-scale disasters and prolonged power outages. We also share sales office hazard map lists and details within our groupware. Most importantly, regarding our employees' response, we register all employees in a safety confirmation system and conduct periodic disaster drills to prepare for unforeseen circumstances. We provide managers with training on the safety confirmation system via e-learning, covering the necessity of safety confirmation, the basic process, system overview, and operation methods. This helps managers confirm the safety of employees, quickly restore business operations, raise disaster awareness, and utilize the system from the perspective of business continuity planning.

Corporate Governance

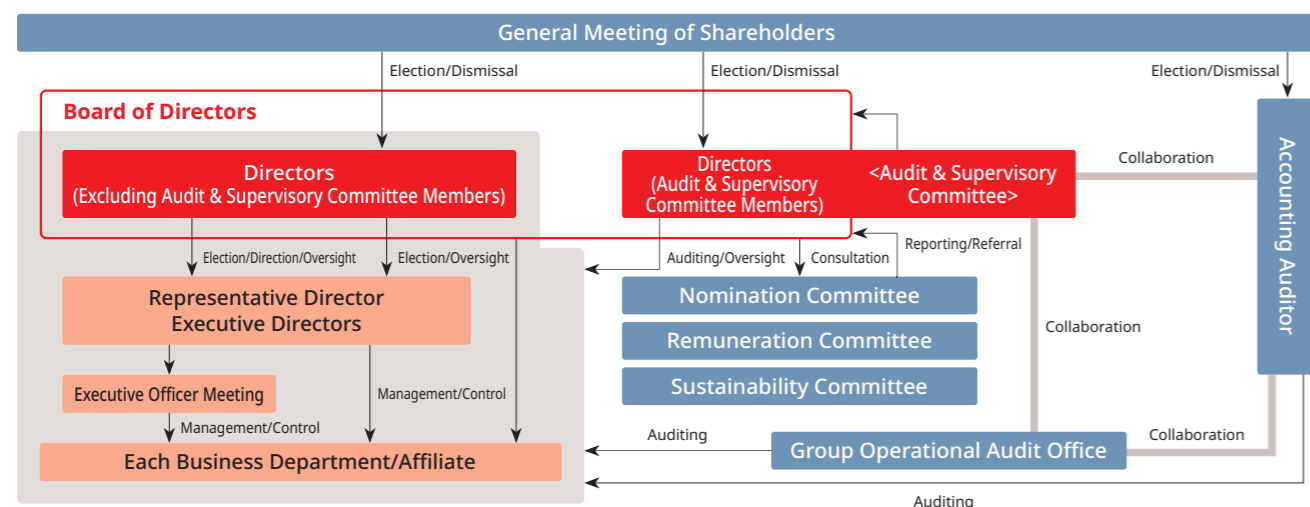
Basic Approach to Corporate Governance

As a holding company that oversees the business of the Group, we believe that it is important to be constantly aware of the soundness, lawfulness and speed of management, to maintain growth and enhance corporate value in the long term through the efficient utilization of management resources and appropriate risk management, and to build relationships of trust with all stakeholders including shareholders, based on our Management Philosophy.

Accordingly, to develop the environment for a framework governing corporate activities (corporate governance) and to ensure that this framework functions effectively, we are developing and strengthening our organizational structure and striving to ensure the transparency of corporate activities.

As for our internal control system, we have established a Code of Conduct and have developed a compliance system and risk management system as measures to protect the soundness of our business. By engaging in such business activities, we intend to fulfill our corporate responsibilities to all stakeholders, including customers and shareholders, and contribute to the development of society.

Corporate Governance Structure Chart



Directors and Board of Directors

The Board of Directors is composed of 10 Directors (including four Independent Outside Directors). We hold monthly ordinary Board of Directors' meetings to approve material matters, monthly Management Strategy Council meetings to speed up material decision-making, and monthly Executive Officer meetings mainly for the purpose of reporting and exchanging information. This structure enables us to strengthen the oversight function, expand the scope of matters deliberated on and reported, and make flexible decisions.

Committees

We have established a Compliance Promotion Committee, Risk Management Committee, and Sustainability Committee to deal with material management issues, thereby building a structure for increasing expertise and flexibility. As a rule, each committee convenes regularly once a quarter, and additionally as necessary. Committees report and make proposals to the Board of Directors and also provide guidance to each division.

Audit & Supervisory Committee and Its Members

The Audit & Supervisory Committee is composed of three Audit &

Supervisory Board Members (including two Independent Outside Directors). We hold Audit & Supervisory Committee meetings and meetings of Audit & Supervisory Committee Members and seek to strengthen their independence and functions by adopting an audit structure in accordance with the Audit & Supervisory Committee Rules, the Audit & Supervisory Committee Audit Standards, and the Audit & Supervisory Committee Auditing Standards for Internal Control System.

We have also adopted a structure which allows Audit & Supervisory Committee Members to adequately monitor Directors' performance of duties through attendance at Board of Directors' meetings and other important meetings; individual interviews with Directors, division managers, and other relevant persons; and business audits and reports on business locations in Japan and overseas.

Voluntary Nomination Committee and Remuneration Committee

We have established a voluntary Nomination Committee and Remuneration Committee, the majority of which comprises Independent Outside Directors, to serve as advisory bodies to the Board of Directors. These committees enhance the objectivity and transparency of the decision-making processes concerning the personnel matters of senior management, who play a role in the company's sustainable growth and in building trust, and directors' remuneration, further enhancing and strengthening the management and governance structure.

Evaluating the Effectiveness of the Board of Directors

Each fiscal year, we conduct an evaluation of the effectiveness of the Board of Directors as a whole, aiming to confirm how the Board currently functions and improve its effectiveness. For the fiscal year ended March 31, 2023, the directors conducted a self-evaluation in the form of a questionnaire with 29 questions on a five-point scale and a free response section. In addition, to ensure the objectivity of the evaluation process, a third-party organization was used to analyze the results of their responses.

Evaluation Results

Based on a comprehensive analysis and assessment of the results of the evaluation of the effectiveness of the Board of Directors for the fiscal year ended March 31, 2023, we were able to confirm that, overall, the Board of Directors is generally effective. The results showed that the Independent Outside Directors function effectively, that internal control and risk management systems have been appropriately established, and that the Independent Outside Directors are

appropriately involved in the evaluation and remuneration of senior management. On the other hand, the results revealed that in order to further improve the Board's effectiveness, further work was needed concerning the provision of information to the Board of Directors, the enhancement of deliberations on medium- to long-term strategies (allocation of digital management resources, human resource development, and sustainability), and discussions on succession planning.

Issues identified in the evaluation results	Directions for improvement
Pre-distribution and briefings of materials Information-sharing between outside and inside directors	<ul style="list-style-type: none"> Discuss at Board of Directors' meetings the appropriateness of the current distribution of materials and the timing and content of advance briefings, etc. (Give consideration to the circumstances of the resources handling the distribution and briefings.)
Officer training	<ul style="list-style-type: none"> Provide ongoing training opportunities for internal officers to improve their knowledge and reform their awareness of a wide range of corporate management and governance issues, and for outside officers to supplement their industry-specific knowledge.
Allocation of digital management resources	<ul style="list-style-type: none"> Hold discussions on company-wide management strategies based on the internal and external environment to ensure the appropriate allocation of digital management resources (e.g., incorporate management strategy themes into agenda plans, secure time for deliberation, etc.). On the executive side, consider allocating digital management resources based on management strategies and promote systematic initiatives. Consider appropriate KPIs that contribute to the monitoring of progress on the executive side.
Enhancement of corporate value by addressing sustainability issues	<ul style="list-style-type: none"> Share perspectives on sustainability-related issues and their importance between oversight (directors) and execution (executive officers). (Example initiative: Enhance explanations from the executive side on issues and policies for addressing them, etc.) Hold discussions on ESG topics that stakeholders are interested in. (Example initiative: Confirm and provide advice on the appropriateness of the Board of Directors from a stakeholder perspective, etc.) Monitor achievements and progress in light of how they align with the management philosophy, long-term vision, etc.
Senior management succession planning	<ul style="list-style-type: none"> Discuss among Nomination Committee members how discussions regarding succession planning should take place in the committee and the process for objective and transparent deliberation. Regularly communicate information to the Board of Directors regarding the status of deliberations in the Nomination Committee and reach a shared awareness among members of the Board of Directors on the vision for the committee (ideal scope and depth).
Monitoring of strategies with respect to management indicators	<ul style="list-style-type: none"> Regularly monitor the status of business execution using appropriate management indicators as a basis for discussions on the cost of capital. Reach a shared understanding of the management indicators necessary for monitoring business execution. Incorporate business execution reports that utilize the indicators into agenda plans and report regularly to the Board of Directors.
Human resource development and improving the internal environment	<ul style="list-style-type: none"> Consider necessary human investments and appropriate monitoring indicators by backcasting from the medium-term strategic goals. Link initiatives to the Medium-Term Business Plan, visualize the overall picture, further invigorate discussions at Board of Directors' meetings, and strengthen monitoring. Compare and contrast the current situation with the three perspectives and five common elements raised in the "Ito Report 2.0 for Human Capital Management" and appropriately oversee the PDCA cycle to narrow the gap. Conduct discussions with Outside Directors in relation to business portfolio management.

Corporate Governance

Directors and Officers

 President and Representative Director Chief Executive Officer Masakatsu Kuroiwa	 Representative Director Senior Executive Officer Seiji Ooka	 Director Managing Executive Officer Yasunori Matsuda	 Director Executive Officer Hidehiro Motohashi	 Director Executive Officer Kioi Yamada
 Director Aiko Koma	 Director Ryutaro Ozeki	 Director (Audit & Supervisory Committee member) Hideki Miyata	 Director (Full-time Audit & Supervisory Committee member) Hiroshi Sakairi	 Director (Audit & Supervisory Committee member) Tetsuya Okuda

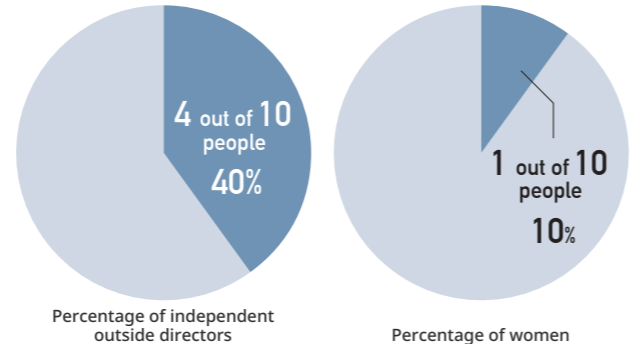
Officers (as of June 29, 2023)

President, Representative Director and Chief Executive Officer Masakatsu Kuroiwa	Director Ryutaro Ozeki	Executive Officer Takashi Abe	Executive Officer Takashi Shibayama
Representative Director and Senior Executive Officer Seiji Ooka	Director (Audit & Supervisory Committee member) Hideki Miyata	Executive Officer Masahiko Masui	Executive Officer Toshihisa Nishimura
Director and Managing Executive Officer Yasunori Matsuda	Director (Full-time Audit & Supervisory Committee member) Hiroshi Sakairi	Executive Officer Yasuyuki Mizumachi	Executive Officer Sakyo Horii
Director and Executive Officer Hidehiro Motohashi	Director (Audit & Supervisory Committee member) Tetsuya Okuda	Executive Officer Takayuki Matsushima	Executive Officer Sumito Hashimoto
Director and Executive Officer Kioi Yamada		Executive Officer Katsuya Unno	Executive Officer Satoshi Mizukami
Director Aiko Koma		Executive Officer Atsushi Kayamoto	

(Notes) 1. Directors Aiko Koma, Ryutaro Ozeki, Hideki Miyata, and Tetsuya Okuda are Outside Directors as defined in Article 2, item (xv) of Japan's Companies Act.
2. Directors Aiko Koma, Ryutaro Ozeki, Hideki Miyata, and Tetsuya Okuda are independent directors as prescribed by the rules of the Tokyo Stock Exchange (TSE), and notifications of their appointment as such have been submitted to TSE.

Composition of the Board of Directors

The Board of Directors must be composed of directors who possess the necessary insight and high standards of ethics, fairness, and integrity, and who possess diverse expertise and experience. The number of directors must be sufficient to enable the Board of Directors to function effectively and efficiently. In addition, to ensure highly transparent and objective oversight, a significant percentage of the Board of Directors must be Independent Outside Directors. Four out of 10 of our directors (40%) are Independent Outside Directors (including one female director). In principle, we limit the total number of years that an Outside Director may serve on the Board to eight years or less.



Director Skill Matrix

In light of our medium- to long-term management direction and business strategy, we identified the skills that our Board of Directors should possess in order to properly fulfill its decision-making and management oversight responsibilities. The following skill matrix shows the composition of the Board of Directors and the skills each director and Audit & Supervisory Committee member possesses. Directors are appointed in consideration of diversity, including gender and international experience, with the aim of making objective judgments on management issues from diverse and independent perspectives. In addition, as a packaging, transportation, and warehousing business, we consider traffic safety and the improvement of the working environment to be among our top priority issues. For this reason, we have added knowledge and expertise in safety management to the skills directors should possess. For Audit & Supervisory Committee members, the committee has established separate requirements for candidates and appoints members accordingly. Our approach to each skill and expertise area is as follows. Please note that these are the skills and areas of expertise that we specifically expect from each director, and the following matrix does not necessarily represent all of the skills and expertise areas each director possesses.

No	Name	Position	Committees	Independent Outside	Insight, Expertise, Experience							Gender
					Corporate Management	Legal Affairs	Finance Accounting	Safety	Internationality	Personal Affairs Human Resources Development	IT Digital	
1	Masakatsu Kuroiwa	President and Representative Director Chief Executive Officer	Nomination Committee member Remuneration Committee member		●	●	●	●	●	●	●	Male
2	Seiji Ooka	Representative Director Senior Executive Officer	Risk Management Committee Chairperson		●	●	●	●	●	●	●	Male
3	Yasunori Matsuda	Director Managing Executive Officer	Compliance Promotion Committee Sustainability Committee member		●	●	●		●		●	Male
4	Hidehiro Motohashi	Director Executive Officer	Risk Management Committee Vice Chairperson		●		●	●		●	●	Male
5	Kioi Yamada	Director Executive Officer	Risk Management Committee member		●	●	●		●			Male
6	Aiko Koma	Outside Director	Remuneration Committee Chairperson Sustainability Committee Chairperson	●		●						Female
7	Ryutaro Ozeki	Outside Director	Nomination Committee Chairperson	●	●							Male
8	Hideki Miyata	Outside Director Audit & Supervisory Committee member	Audit & Supervisory Committee Chairperson Remuneration Committee member	●			●					Male
9	Hiroshi Sakairi	Director Full-time Audit & Supervisory Committee member Selected Audit & Supervisory Committee member			●	●	●	●	●			Male
10	Tetsuya Okuda	Outside Director Audit & Supervisory Committee member	Nomination Committee member	●				●	●			Male

Comment from an Outside Director

We will improve the quality of governance and provide insight on human resource development and environmental measures.

Outside Director / Sustainability Committee Chairperson
Aiko Koma
Outside Directors serve various roles. In order to meet the challenge of continuously increasing corporate value for our shareholders, however, I feel that it is important for the Board of Directors not only to provide their opinions from the perspective of financial corporate growth, but also from the perspective of our contribution to society and how we can enhance the value of our human capital. In addition, in order to invigorate the Board of Directors, we have entrusted a third-party organization with evaluating the effectiveness of the Board

of Directors. We will continue to take steps to improve the issues they have identified with the aim of deepening corporate governance. We oversee management through the Nomination and Remuneration committees, which are advisory bodies to the Board of Directors. In addition, through the Sustainability Committee, which I chair, we monitor the execution of ESG-related matters and make recommendations on how the company can reduce CO₂ emissions and create a platform for women's empowerment, which is the first step in promoting diversity, equity, and inclusion (DE&I). In order for human capital management, which is essential for enhancing long-term corporate value, to take root, it is important to raise the level of awareness within the company. The entire Group must share the belief that the happiness of each employee truly makes the company grow. I hope the NIKKON Group will continue to instill this belief and address social issues, so that it can continue to be a company capable of contributing to society.

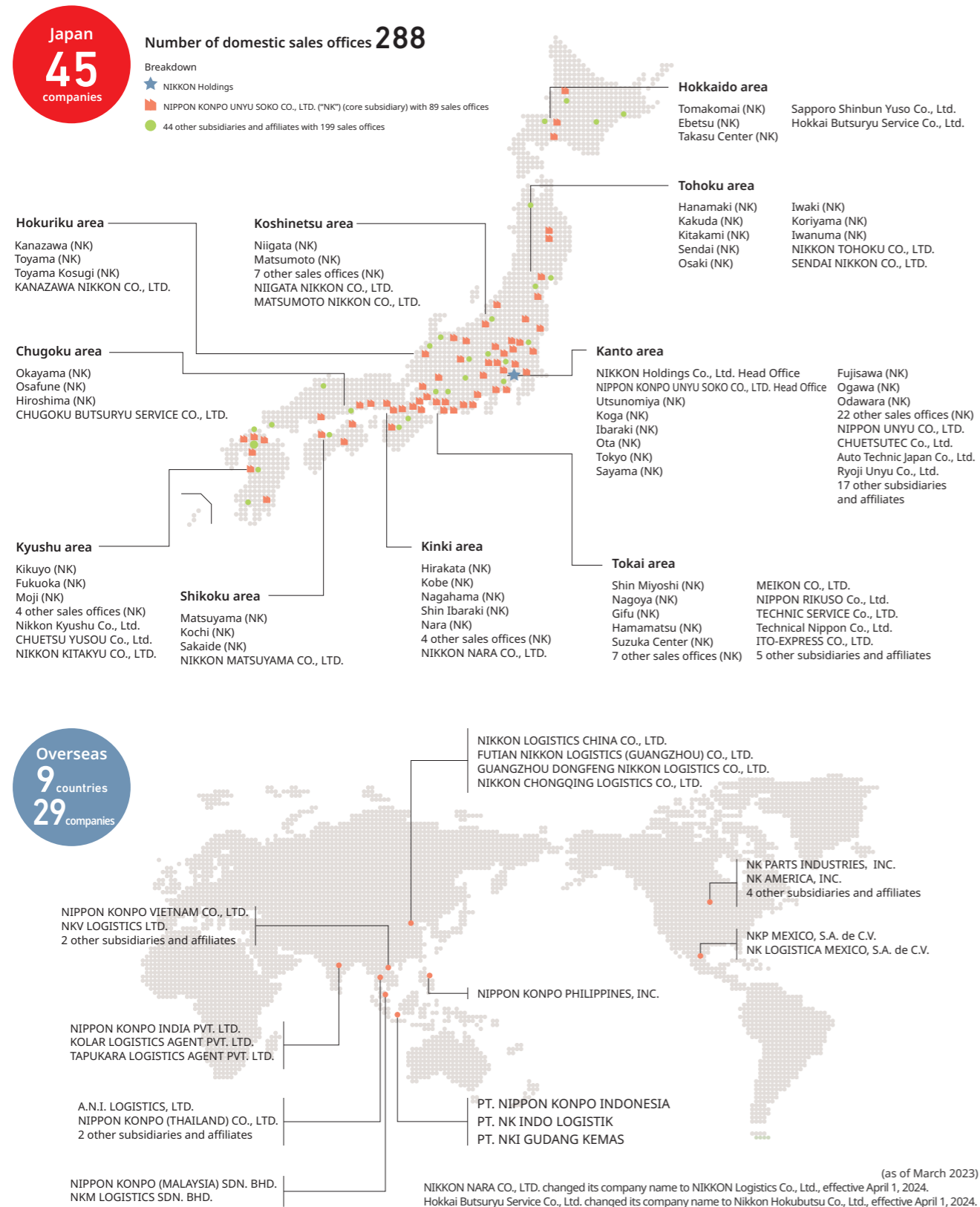
Financial and Non-financial Highlights

Fiscal year ended March 31, 2014 – Fiscal year ended March 31, 2023

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Financial data										
Net sales (million yen)	165,205	170,076	174,031	179,312	187,819	197,693	199,512	182,536	198,159	212,071
Operating profit (million yen)	14,878	15,200	17,511	18,130	19,009	20,028	20,890	18,191	19,512	19,580
Profit before income taxes (million yen)	18,762	18,484	18,247	20,027	21,259	21,730	24,401	21,397	21,637	22,776
Profit attributable to owners of parent (million yen)	11,578	12,312	11,875	13,468	14,545	14,768	16,721	14,544	14,741	15,913
Total assets (million yen)	234,476	243,457	254,298	280,079	286,559	294,213	297,489	322,139	339,475	360,748
Equity (million yen)	146,480	155,842	159,179	170,910	182,101	186,338	192,780	207,747	218,478	228,873
Depreciation expense (million yen)	5,333	7,044	8,216	9,351	9,461	9,712	10,413	10,630	11,237	12,307
Total capital investment (million yen)	16,001	18,984	33,087	23,216	15,213	25,914	16,548	28,344	28,280	22,226
Cash flows from operating activities (million yen)	15,187	17,994	19,111	22,757	24,309	25,337	25,901	23,229	28,985	32,547
Cash flows from investing activities (million yen)	-22,051	-5,430	-28,334	-20,984	-22,884	-16,892	-19,867	-25,402	-31,567	-22,548
Cash flows from financing activities (million yen)	11,906	-3,296	1,621	6,987	-8,330	-11,659	-584	1,473	759	-208
Equity ratio (%)	62.5	64.0	62.6	61.0	63.5	63.3	64.8	64.5	64.4	63.4
Operating profit ratio (%)	9.0	8.9	10.1	10.1	10.1	10.1	10.5	10.0	9.8	9.2
ROA (%)	5.4	5.2	4.8	5.0	5.1	5.1	5.7	4.7	4.5	4.5
ROE (%)	8.2	8.1	7.5	8.2	8.2	8.0	8.8	7.3	6.9	7.1
Annual dividend per share (yen)	50	54	53	60	65	67	76	67	69	99
Earnings per share (EPS) (yen)	166.20	179.67	175.73	199.22	215.30	221.03	254.01	221.26	224.41	246.61
Book value per share (BPS) (yen)	2,100	2,306	2,355	2,529	2,702	2,810	2,932	3,160	3,334	3,566
Dividend payout ratio (%)	30.1	30.1	30.2	30.1	30.2	30.3	29.9	30.3	30.7	40.1
Non-financial data										
Number of employees	-	-	18,373	19,965	20,163	20,333	20,465	20,205	20,582	20,243
Male										
Japan	-	-	9,143	9,322	9,425	9,645	9,605	9,493	9,498	9,511
Overseas	-	-	5,355	6,299	6,033	5,781	5,944	5,865	6,085	5,760
Female										
Japan	-	-	1,593	1,714	1,805	1,936	2,017	2,057	2,132	2,187
Overseas	-	-	2,282	2,630	2,900	2,971	2,899	2,790	2,867	2,785
Number of vehicles										
Japan	-	-	3,575	3,630	3,658	3,661	3,695	3,750	3,858	3,789
Overseas	-	-	758	703	688	782	757	756	773	760
Warehouse area (m ²)										
Japan	-	-	1,524,592.12	1,661,321.89	1,654,463.78	1,775,386.65	1,810,474.18	1,877,006.74	1,940,010.60	2,012,078.22
Overseas	-	-	320,924.00	373,859.00	395,482.65	432,690.25	469,169.90	474,877.34	492,840.74	492,840.74
Reduction in CO ₂ emissions (t-CO ₂) due to modal shift (use of rail)	-	-	-	-	-	-	-	-	21,861	23,331
Reduction in CO ₂ emissions (t-CO ₂) due to modal shift (use of ships)	-	-	-	-	-	-	-	-	10,616	11,790

Group Companies

Japan and Overseas Business Locations



Company Profile and Stock Information

Company Profile (as of March 31, 2023)

Company name NIKKON Holdings Co., Ltd.
Established August 27, 1953
Capital stock 11,316 million yen
Website <https://www.nikkon-hd.co.jp>
Number of Group companies 74 (70 subsidiaries and 4 affiliates)



Stock Information (as of March 31, 2023)

Shares Status

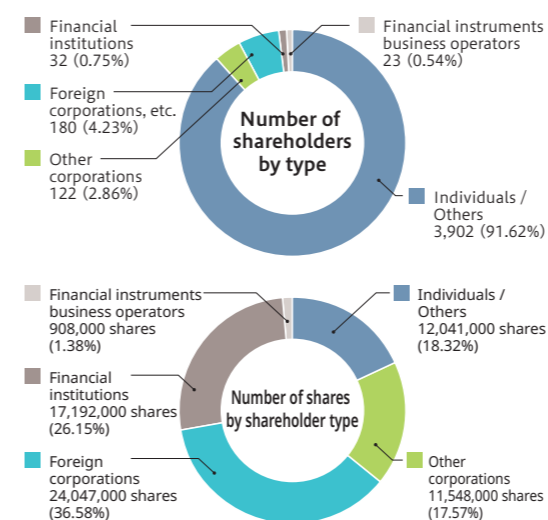
- Total number of authorized shares **152,000,000**
- Total number of issued shares **65,739,892**
- Trading unit **100**
- Number of shareholders **4,259**

Major Shareholders

Shareholder	No. of shares held (thousand)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	8,506	13.25
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL VALUE EQUITY TRUST	5,887	9.17
Custody Bank of Japan, Ltd. (trust account)	2,872	4.47
General Incorporated Association Kuroiwa-kai	2,560	3.98
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	2,557	3.98
Honda Motor Co., Ltd.	2,449	3.81
NORTHERN TRUST CO. (AVFC) RE NON TREATY CLIENTS ACCOUNT	2,078	3.23
Isuzu Motors Limited	1,692	2.63
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	1,504	2.34
Hino Motors, Ltd.	1,494	2.32

(Notes) 1. NIKKON Holdings Co., Ltd. holds 1,536,691 treasury shares. However, it is excluded from the major shareholders.
 2. The treasury shares are excluded from the calculation of shareholding ratios.
 3. NIKKON Holdings Co., Ltd. implements a stock remuneration program. The treasury shares do not include 26,900 shares of NIKKON Holdings held by the Custody Bank of Japan, Ltd. (trust account) as assets in trust for this program.

Distribution of Shareholders



(Note) The treasury shares are included in the category "Individuals and others."

Share Prices Chart

