

Company Profile

Nippon Koei Co., Ltd., established in 1946, specializes in engineering consulting and electric power engineering. Since its foundation, the Company has adhered to a policy of contributing to society through technology.

Our engineering consulting services, provided by the Consulting Administration Group, draws on the technical expertise of specialists in diverse fields. Since our first overseas venture, a hydroelectric power project in Myanmar in 1954, we have participated in a broad variety of sophisticated development projects worldwide.

The Engineering Administration Group spearheads the Company's electric power engineering business. Here, we provide a complete engineering package, from surveys and designs to the installation of a wide range of equipment, including power stations and substations, transmission lines, and end-user equipment. We are active both in Japan and overseas.

Committed to responsible corporate citizenship, Nippon Koei and its employees dedicate their efforts to creating comfortable living environments for people around the world.

Contents

01	Consolidated Financial Highlights
02	Consolidated Business Report for Fiscal 1999
06	Consolidated Balance Sheets
08	Consolidated Statements of Income
09	Consolidated Statements of Changes in Stockholders' Equity
10	Consolidated Statements of Cash Flows
12	Notes to Consolidated Financial Statements
18	Report of Independent Public Accountants on Consolidated Financial Statements
19	Major Nippon Koei Group Companies
20	Corporate Information

Notes:

1: This annual report is based on Nippon Koei's fiscal 1999 Yukashoken-Hokoku-sho (Business Report).

2: Amounts less than ¥1 million have been eliminated. Percentages have been rounded.

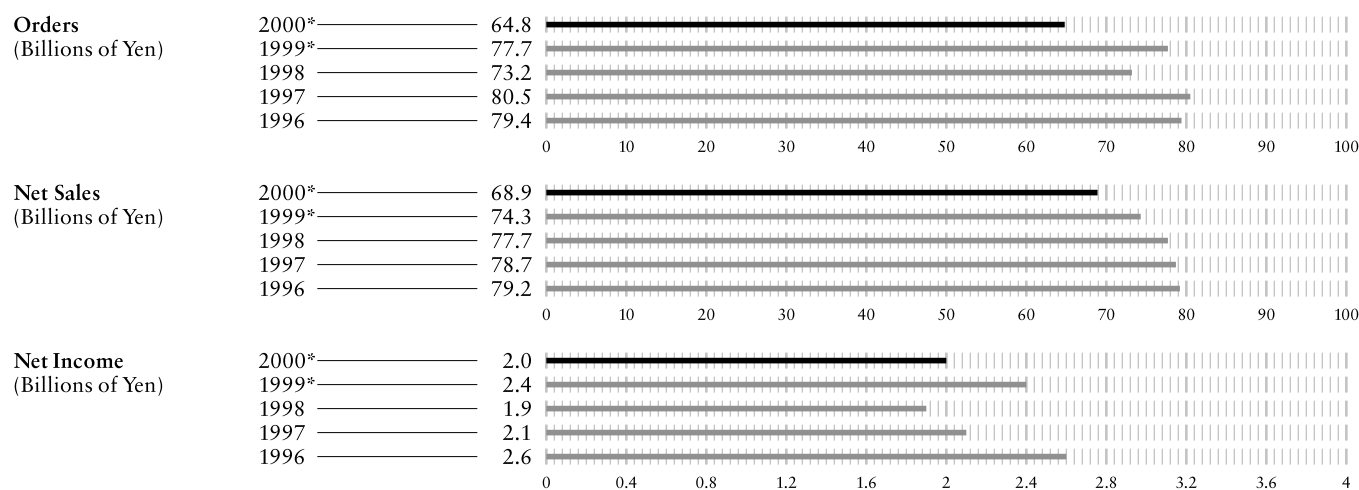
Consolidated Financial Highlights

Nippon Koei Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31,	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2000	1999	2000
Net sales	¥68,863	¥74,345	\$648,733
Net income	2,016	2,358	18,992
Net income per share (Yen/Dollars)(Note 1)	¥ 21.62	¥ 24.58	\$ 0.20
As of March 31,			
Total assets	¥88,941	¥87,706	\$837,880
Stockholders' equity	49,205	47,710	463,542

Notes:

1. Per share amounts are based on the weighted average number of shares outstanding during each period.
2. All Dollar figures herein refer to U.S. currency unless otherwise specified. The Dollar amounts in this report represent translations of Yen, for convenience only, at the rate of ¥106.15 = US\$ 1, prevailing on March 31, 2000.



Notes: (*)

Figures for fiscal years ended March 31, 2000 and 1999, are consolidated. Prior-year figures are non-consolidated.

In April 1998, the Company's Yokohama Works became a separate subsidiary, Nippon Koei Yokohama Works Co., Ltd.

Consolidated Business Report for Fiscal 1999

Operating Environment

In fiscal 1999, ended March 31, 2000, the Japanese economy was adversely affected by sluggish personal consumption and private sector capital investments, difficult employment conditions, and other factors. Despite economic stimulus measures adopted by the government, the economy failed to recover, remaining largely unchanged from the previous fiscal year.

Nippon Koei Co., Ltd., and its consolidated subsidiaries (Nippon Koei Group) worked hard to meet the challenges of the severe operating environment. The Company's domestic consulting business experienced major difficulties as public works projects were affected by the grave financial problems of local government entities, despite economic stimulus measures adopted by the national government.

Although the nation's official development assistance (ODA) budget was slim, our overseas consulting business performed favorably. We generated increased revenues as public and private funds were directed to supporting various countries in Southeast Asia.

The Company's Engineering Administration divisions experience very difficult conditions. Competition for orders intensified as electric power companies, faced with liberalization of the electric power retail market, reduced capital investments and lowered all-round costs.

Business Performance

Against this background, the Nippon Koei Group implemented proactive management initiatives and promoted reforms of its earnings structure. At the same time, we beefed up our sales systems, reinforced our technical edge, and undertook comprehensive cost-cutting measures. In these ways, we worked hard to secure stable orders and strengthen our corporate foundation.

On a consolidated basis, orders received in fiscal 1999 amounted to ¥64,791 million (\$610.4 million), down 16.6% from fiscal 1998. This decline stemmed from a drop in electric power-related orders for equipment and facilities, as well as for engineering services. Net sales were down 7.4%, to ¥68,863 million (\$648.7 million), and net income fell 14.5%, to ¥2,016 million (\$19.0 million).

Consulting Administration

The Domestic Consulting Division endeavored to secure new orders by rejuvenating personnel resources, reforming systems, and reinforcing its sales structure. However, orders declined for projects related to roads, dams, waterways, and environmental

assessment. Sales of the Division slipped 2.1%, to ¥30,235 million (\$284.8 million), and operating income was down 8.0%, to ¥520 million (\$4.9 million).

In fiscal 1999, the Overseas Consulting Division strove to expand orders in a number of ways. During the year, we opened an office in Yangon, Myanmar, and commenced full-scale business development in that nation. We also cultivated new markets in Central and South America and entered new fields related to environmental protection. As a result, we received increased orders for projects related to urban development and the environment, as well as for waterway rehabilitation and other water resource development projects. Total orders received, therefore, were up. Divisional sales jumped 17.4%, to ¥15,049 million (\$141.8 million), and operating income rocketed 101.8%, to ¥1,143 million (\$10.8 million).

Engineering Administration

The Manufacturing Division worked hard to procure orders by attracting new customers, entering new fields, and setting up operations in regional areas. The Division also reinforced its earnings structure by adopting management by objectives (MBO) and other techniques to reduce cost of sales. Total orders received, however, declined year-on-year due to a drop in orders for computer-based control systems, including mainstay transformer facility control systems, as well as for cooling towers and other substation equipment. Orders were also down for civil engineering-related measuring systems, which incorporate original technologies. Divisional sales fell 19.5%, to ¥17,152 million (\$161.6 million), and operating income dropped 35.8%, to ¥1,842 million (\$17.4 million).

The Engineering Division reported a decline in orders received, stemming from fewer orders for mainstay transformer construction services, as well as for repair and maintenance of power station and substation facilities. Orders for civil engineering services pertaining to installation of equipment were also down. Sales of the Division fell 36.0%, to ¥5,617 million (\$52.9 million), and operating income declined 29.8%, to ¥481 million (\$4.5 million).

Sales from real estate rental brokerage services and other operations jumped 43.1%, to ¥807 million (\$7.6 million), and operating income climbed 22.0%, to ¥480 million (\$4.5 million).

Consolidated Cash Flows

In fiscal 1999, net cash provided by operating activities amounted to ¥3,685 million (\$34.7 million), due to increases in income before income taxes, depreciation and amortization, and other adjustments.

Net cash used in investing activities was ¥1,417 million (\$13.3 million), stemming

mainly from acquisition of marketable securities.

Net cash used in financing activities totaled ¥534 million (\$5.0 million), due principally to payment of dividends.

After deducting ¥534 million (\$5.0 million) in funds used for increased loans to consolidated subsidiaries, cash and cash equivalents at end of year amounted to ¥1,424 million (\$13.4 million).

Since fiscal 1999 is the first year for reporting consolidated cash flows, there are no year-on-year comparisons for net cash provided by or used in operating, investment, or financing activities.

Corporate Outlook

Fully aware that the difficult business environment will continue, the Nippon Koei Group will redouble its efforts to reform its earnings structure. We will focus particular attention on our Domestic Consulting Division, which has shown significant profitability declines in recent years. Here, we will undertake full-scale reassessments of our organization and personnel systems with a view to improving profitability. We will also upgrade our sales capabilities, reinforce cost competitiveness, and rebuild our technological quality control system.

In the Overseas Consulting Division, we will reinforce our staff of technical experts to cope with expanded business stemming from healthy orders received in recent years. We will also concentrate on fortifying our safety management and technology management systems. In these ways, we will seek to maintain our distinguished reputation as an international technical consulting firm, and harness our entire resources to win against global competition.

The Engineering Division, previously beset by a severe environment for generating orders, spun off its Yokohama plant into a separate subsidiary, Nippon Koei Yokohama Works Co., Ltd. in April 1998. As a result, the Division seems to have overcome its most difficult period. In the future, we will expand the scope of our engineering business, moving away from our current heavy dependence on capital investments by electric power companies. In cultivating new markets, we must build further on our solid track record in surveys for independent power producers (IPPs). We will also participate in

environmental protection projects while providing services for existing power facilities and utilizing our information technology expertise to reduce energy consumption in power plant operating systems.

In April 2000, the Company set up the Business Development Division to spearhead medium-and long-term business diversification initiatives. Through the Division, we will seek to build new businesses, which require major investment outlays, into full-scale operations. We will also establish a dedicated “market cultivation reserve” to fund such initiatives.

Nippon Koei’s Research and Development Center has developed original information system technologies that are already being utilized by the Domestic Consulting Division. Instead of limiting its work to research in response to internal and external requests, the Center will place higher emphasis on research aimed at making the Company itself more profit-oriented.

On the financial front, we will introduce international accounting systems in the current fiscal year and reassess the viability of conventional systems and customs.

We have already obtained ISO9001 certification for quality control and assurance systems at all of our business divisions. Consolidated subsidiaries Nippon Koei Yokohama Works Co., Ltd., and KRI International Corporation are also certified. In environmental management, one facility has acquired ISO14001 certification, and we will work to have others certified in the future.

We look forward to the continued support of our stockholders as we strive to meet the challenges of the future.



Toshinori Churei
President

Consolidated Balance Sheets

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
March 31, 2000 and 1999

Assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Current assets:			
Cash on hand and in banks	¥ 8,951	¥ 5,966	\$ 84,324
Specified money in trust	1,222	1,333	11,512
Notes and accounts receivable — trade	27,336	29,793	257,522
Marketable securities	15,813	15,387	148,968
Work in process	7,683	7,113	72,379
Deferred tax assets	527	505	4,965
Other current assets	845	890	7,960
Allowance for doubtful accounts	(96)	(128)	(904)
Total current assets	62,284	60,861	586,755
Property, plant and equipment			
Buildings and equipment	14,823	14,537	139,642
Machinery and equipment	4,169	4,260	39,275
Land	7,997	6,434	75,337
Construction in progress	210	1	1,978
Less accumulated depreciation	(9,543)	(8,677)	(89,901)
Net property, plant and equipment	17,656	16,556	166,331
Intangible assets	648	1,257	6,105
Investments and long-term loans:			
Investment securities	4,828	4,755	45,483
Long-term loans receivable	1,296	1,333	12,209
Long-term deferred tax assets	236	197	2,223
Other investments	1,994	2,751	18,785
Allowance for doubtful receivables	(5)	(6)	(47)
Total investments and long-term loans	8,350	9,031	78,662
Total assets	¥88,941	¥87,706	\$837,880

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Current liabilities:			
Trade notes and accounts payable	¥ 9,858	¥11,996	\$ 92,869
Short-term loans payable	1,900	1,300	17,899
Convertible bonds redeemable within a year	9,736	—	91,719
Income taxes payable	1,341	2,322	12,633
Advances received	5,089	4,146	47,942
Reserve for employees' bonus payment	1,762	1,991	16,599
Other current liabilities	3,474	2,523	32,727
Total current liabilities	33,162	24,281	312,407
Long-term liabilities:			
Convertible bonds	—	9,736	—
Employees' severance indemnities	2,541	2,913	23,938
Directors' retirement bonuses	361	560	3,401
Other long-term liabilities	2,443	2,504	23,015
Total long-term liabilities	5,346	15,714	50,363
Contingent liabilities and minority interests	1,227	—	11,559
Stockholders' equity:			
Common stock, par value ¥50 per share:			
Authorized 196,176,000 shares			
Issued 91,692,510 shares and 93,567,510 shares			
at March 31, 2000 and 1999	7,393	7,393	69,647
Additional paid-in capital	6,071	6,071	57,193
Retained earnings	36,023	34,246	339,359
Parent company's stock held by subsidiaries	(282)	(—)	(2,657)
Total stockholders' equity	49,205	47,710	463,542
Total liabilities and stockholders' equity	¥88,941	¥87,706	\$837,880

Consolidated Statements of Income

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Net sales	¥68,863	¥74,345	\$648,733
Cost of sales	52,579	57,885	495,327
Gross profit	16,283	16,459	153,396
Selling, general and administrative expenses	12,668	11,882	119,341
Operating income	3,615	4,576	34,056
Other income (expenses):			
Interest and dividend income, other income	946	806	8,912
Interest expenses, foreign exchange loss, other expenses	(882)	(758)	(8,309)
Other, net	(83)	(139)	(782)
Income before income taxes	3,596	4,486	33,877
Provision for income taxes:			
Current	1,542	2,310	14,527
Deferred	(28)	(183)	(264)
Minority interests	66	—	622
Net income	¥ 2,016	¥ 2,358	\$ 18,992
Per share (in Yen and U.S. Dollars):			
Net income	¥ 21.62	¥ 24.58	\$ 0.20

See accompanying notes.

Consolidated Statements of Changes in Stockholders' Equity

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2000, 1999 and 1998

	Number of shares of common stock	Thousands of Yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance as of March 31, 1998	97,076,510	¥7,393,338	¥6,071,749	¥31,885,998
Net income	—	—	—	2,358,911
Cash dividends paid (¥7.50 per share)	—	—	—	(728,055)
Bonuses to directors	—	—	—	(60,000)
Legal reserve	—	—	—	1,223,000
Tax benefit defrayed from previous period	—	—	—	519,540
Retirement of treasury stocks	(3,509,000)	—	—	(953,262)
Balance as of March 31, 1999	93,567,510	¥7,393,338	¥6,071,749	¥34,246,133
Net income	—	—	—	2,016,415
Increasing in earnings arising				
from inclusion of consolidated subsidiaries	—	—	—	879,875
Cash dividends paid (¥7.50 per share)	—	—	—	697,733
Bonuses to directors	—	—	—	(60,000)
Retirement of treasury stocks	(1,875,000)	—	—	361,554
Balance as of March 31, 2000	91,692,510	¥7,393,338	¥6,071,749	¥36,023,136

	Number of shares of common stock	Thousands of U.S. Dollars (Note 1)		
		Common stock	Additional paid-in capital	Retained earnings
Balance as of March 31, 1999	93,567,510	\$69,650	\$57,200	\$322,620
Net income	—	—	—	18,996
Increasing in earnings arising				
from inclusion of consolidated subsidiaries	—	—	—	8,289
Cash dividends paid (\$0.07 per share)	—	—	—	(6,573)
Bonuses to directors	—	—	—	(565)
Retirement of treasury stocks	(1,875,000)	—	—	(3,406)
Balance as of March 31, 2000	91,692,510	\$69,650	\$57,200	\$339,361

Consolidated Statements of Cash Flows

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2000

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2000	2000
Cash Flows from Operating Activities:		
Income before income taxes	¥ 3,596	\$ 33,877
Adjustments to:		
Depreciation and amortization	1,317	12,407
Gain on sale of marketable securities	(74)	(697)
Loss on revaluation of marketable and investment securities	574	5,407
Gain on sale of investment securities	(525)	(4,946)
Loss on disposal of property, plant and equipment	74	697
Loss on sale of property, plant and equipment	23	217
Decrease in doubtful accounts	(39)	(367)
Decrease in employees' severance indemnities	(630)	(5,935)
Decrease in employees' bonus payments	(385)	(3,627)
Interest and dividend income	(689)	(6,491)
Interest expenses	421	3,966
Foreign exchange losses	336	3,165
Decrease in notes and accounts receivable	2,680	25,247
Increase in inventories	(421)	(3,966)
Decrease in other assets	46	433
Decrease in notes and accounts payable	(1,882)	(17,730)
Decrease in consumption tax payable	(149)	(1,404)
Bonuses to directors and statutory auditors	(60)	(565)
Other	1,840	17,334
Subtotal	6,053	57,023
Interest and dividends received	689	6,491
Interest payments	(421)	(3,966)
Income tax payments	(2,635)	(24,823)
Net cash provided by operating activities	¥ 3,685	\$ 34,715

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
(cont'd)	2000	2000
Cash flows from investing activities		
Proceeds of time deposits	¥ (100)	\$ (942)
Purchases of marketable securities	(9,463)	(89,147)
Proceeds from sale of marketable securities	8,241	77,635
Purchases of property, plant and equipment	(480)	(4,522)
Proceeds from sale of property, plant and equipment	15	141
Purchases of intangible assets	(114)	(1,074)
Purchases of investment securities	(1,403)	(13,217)
Proceeds from sale of investment securities	1,666	15,695
Proceeds from lending	(33)	(311)
Proceeds from collection of loans	163	1,536
Other	92	867
Net cash used in investing activities	(1,417)	(13,349)
Cash flows from financing activities		
Increase in short-term loans	600	5,652
Proceeds from retirement of treasury stocks	(361)	(3,401)
Purchases of treasury stock	(62)	(584)
Cash dividends paid	(709)	(6,679)
Net cash used in financing activities	(534)	(5,031)
Effect of exchange rate changes on cash and cash equivalents	(310)	(2,920)
Net increase in cash and cash equivalents	1,424	13,415
Cash and cash equivalents at beginning of the year	12,838	120,942
Cash and cash equivalents at end of the year	¥14,262	\$134,357

Notes to Consolidated Financial Statements

1. Basis of Presenting Financial Statements

Nippon Koei Co., Ltd. (the “Company”) and its consolidated subsidiaries maintain their accounting records and prepare their financial Statements in accordance with accounting principles and practices generally accepted in Japan.

The accompanying consolidated financial statements have been prepared from the financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. Accordingly, the accompanying financial statements are not intended to present the consolidated financial positions, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

Effective the year ended March 31, 2000, under revised disclosure requirements, consolidated statements of cash flows have been adopted as a component of the basic financial statements. The Company has made certain reclassifications to the consolidated statements of cash flows for the years ended March 31, 2000 to conform these to the 2000 presentation.

The accompanying consolidated financial statements are stated in Yen, the currency of the country in which the Company is incorporated and operates. The translation of Yen amounts into U.S. Dollar amounts has been included solely for the convenience of readers outside Japan. The translation has been made at the rate of ¥106.15 = U.S.\$1.00, prevailing on March 31, 2000. This translation should not be construed as a representation that yen could be converted into U.S. Dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Scope of Consolidation

The accompanying consolidated financial statements include the accounts of Nippon Koei Co., Ltd. and one subsidiary for the year ended March 31, 1999 and six subsidiaries for the year ended March 31, 2000. Five of those six subsidiaries were newly included in the scope of consolidation for the year under review. Following an amendment to regulations covering financial statements, those five subsidiaries were deemed to be under the Company’s control, and their importance to the Company’s operations had grown. As a result, they were included in the scope of consolidation.

Other companies not included in the scope of consolidation — such as Air Seal Cell Co., Ltd., and Koei Elders Co., Ltd. — are small companies, and their combined total assets, net sales, net income, and retained earnings would have a minimal effect on the Company’s consolidated financial statements.

(b) Application of the Equity Method of Accounting

In the year under review and the previous year, there were no companies applicable under the equity method. However, the Company had other non-consolidated subsidiaries (such as Air Seal Cell Co., Ltd., and Koei Elders Co., Ltd.) and one affiliated company (Philkoei International, Inc.). The equity method did not apply to any of those companies. Those companies have been excluded from the scope of application under the equity method because they were deemed to have minimal effect on the Company’s consolidated financial statements and were not regarded as being important in the Company’s operations.

(c) Fiscal Periods of Consolidated Subsidiaries

The fiscal periods of all six consolidated subsidiaries are the same as that of the parent company.

(d) Specified Money in Trust, and Marketable and Other Securities

Specified money in trust, and marketable and other securities, are stated at cost determined by the moving average method.

(e) Work in Process

Work in process is valued at cost on an individual basis.

(f) Inventories

Inventories are valued at cost on a first-in, first-out basis.

(g) Property, Plant and Equipment

Property, plant and equipment are valued according to the declining balance method as prescribed in the Corporation Tax Law. However, the straight-line method is used for rented buildings and equipment related to the Higashi-Matsuyama store, as well as for buildings acquired after April 1, 1998.

(h) Intangible Assets

Intangible assets are valued according to the straight-line method, based on the same standards and those used for depreciation, as prescribed in the Corporation Tax Law. With respect to software for in-house use, however, the straight-line method is used, based on the useful life of such software (5 years).

(i) Allowance for Doubtful Accounts

As a provision for losses due to default on payments, the Company has set aside a reserve equivalent to the limit stipulated by provisions in corporation tax laws.

(j) Reserve for Employees' Bonus Payment

The reserve for employees' bonuses has been set aside based on the estimated amount necessary to cover bonus payments.

(k) Employees' Severance Indemnities

In fiscal 1998, the Company switched to a funded noncontributory pension plan for all employees. In accordance with corporation income tax laws, the Company will amortize employees' severance indemnities uniformly over a 7-year period from fiscal 1999.

(l) Reserve for Directors' Retirement Benefits

As provision for directors' retirements benefits, the Company has appropriated certain amounts according to provisions related to reserves for directors' retirement benefits.

(m) Financing and Leasing Transactions

With regard to financing and leasing transactions other than those involving the transfer of proprietary rights under leasing contracts to borrowers, transactions are based on generally acceptable accounting principles regarding normal leasing transactions.

(n) Recognition of Revenues and Related Costs

Revenues from and related costs of construction contracts are stated using the completed-construction basis.

Revenues of construction projects in progress that exceed one year in duration and exceed ¥300 million, for which orders were received until and including fiscal 1997, and of construction projects in progress that exceed two years in duration and exceed ¥1.0 billion, for which orders were received after April 1, 1998, are determined by the progressing method.

According to the percentage of completion method for long-term contracts, the value of completed projects in fiscal 1999 was ¥712 million. The cost of such completed projects was ¥382 million.

(o) Employees' Severance Indemnities and Pension Plans

Since November 1966, the Company had funded noncontributory pension plans for retiring employees over the age of 55. However, as of March 1, 1999, the Company switched exclusively to a funded noncontributory pension plan. The net assets of the Company's funded noncontributory pension plan amounted to ¥9,416 million as of March 31, 2000. Past service costs applied to four years and six months from March 1999.

(p) Consumption Tax

All figures in this annual report are calculated exclusive of consumption tax.

3. Valuation of the Assets and Liabilities of Consolidated Subsidiaries

All of the assets and liabilities of consolidated subsidiaries are valued at market price.

4. Appropriation of Earnings

The Consolidated Statements of Retained Earnings have been prepared with the assumption that figures for appropriations of earnings of consolidated group companies were determined during the consolidated financial term.

5. Amortization of consolidated adjustment account

The consolidated adjustment account is amortized uniformly over a 5-year period.

6. Consolidated Cash Flows

Amounts listed in the Consolidated Statements of Cash Flows pertain to cash and deposits that can be withdrawn or easily converted to cash at short notice, all of which carry no risk. These include, for example, time deposits and short-term investments redeemable within three months.

7. Computer Software

Software for in-house use, which was accounted for as a long-term prepaid expense under investments and other until fiscal 1998, is now treated as accrued, pursuant to "Policies for Accounting for R&D Expenses and Software" (12th report of the Accounting System Committee,

Association of Japanese Certified Public Accountants, released on March 31, 1999). As a result, previous accounting methods will continue to apply.

According to aforementioned report, however, the Company's software for in-house use (¥462 million in fiscal 1999 and included as a long-term prepaid expense) has been shifted and included under intangible assets in the Balance Sheets. This amount will be amortized according to the declining balance method over the estimated useful life of such software (5 years).

8. Market value information of securities

The book value, fair value and unrealized gain of the marketable securities at March 31, 2000 is as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Book value	Fair value	Unrealized gain (loss)	Book value	Fair value	Unrealized gain (loss)
At March 31, 2000						
Stocks	¥3,719	¥3,896	¥ 177	\$35,035	\$36,703	\$ 1,667
Bonds	2,252	2,044	(207)	21,215	19,256	(1,950)
Other	1,653	1,272	(380)	15,572	11,983	(3,580)
Total	¥7,625	¥7,214	¥(411)	\$71,832	\$67,960	\$(3,872)

10. Segment Information

9. Deferred taxes

The significant components of deferred tax assets and liabilities at March 31, 2000 and 1999, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Deferred tax assets:			
Reserve for employees' bonus payment	¥ 225	¥134	\$2,120
Accrued income tax payable	109	191	1,027
Unrealized loss of marketable securities	80	130	754
Reserve for directors' retirement benefits	149	229	1,404
Long-term prepaid expenses	120	128	1,130
Reserve for employees' severance indemnities	111	—	1,046
Other	205	53	1,931
Total deferred tax assets	¥1,002	868	9,439
Deferred tax liabilities:			
Advanced depreciation of premises and equipment	(157)	(165)	(1,479)
Other	(81)	—	(763)
Total deferred tax liabilities	(238)	(165)	(2,242)
Net deferred tax assets (liabilities)	¥ 763	¥703	\$7,188

(a) By Business Category

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2000 and 1999 is summarized as follows:

Millions of Yen								
Year ended March 31, 2000	Domestic	Overseas	Manufacturing	Engineering	Other	Total	Elimi-	Companies Consolidated
	Consulting Business	Consulting Business						
I. Sales and operating income (loss)								
Sales to external customers	¥30,235	¥15,049	¥17,152	¥5,617	¥ 807	¥68,863	¥ —	¥68,863
Intersegment sales or transfers	220	0	210	1,336	949	2,746	(2,746)	—
Total	30,445	15,049	17,362	6,984	1,757	71,610	(2,746)	68,863
Operating expenses	29,935	13,906	15,520	6,502	1,276	67,142	(1,894)	65,248
Operating income	520	1,143	1,842	481	480	4,468	(852)	3,615
II. Asset, depreciation and capital expenditures								
Assets	18,117	6,679	11,038	3,694	4,176	43,706	45,235	88,941
Depreciation	104	26	477	98	103	809	508	1,317
Capital expenditures	52	239	206	31	6	535	58	594

Thousands of U.S. Dollars								
Year ended March 31, 2000	Domestic	Overseas	Manufacturing	Engineering	Other	Total	Elimi-	Companies Consolidated
	Consulting Business	Consulting Business						
I. Sales and operating income (loss)								
Sales to external customers	\$284,833	\$141,771	\$161,583	\$52,916	\$ 7,602	\$648,733	\$ —	\$648,733
Intersegment sales or transfers	2,073	0	1,978	12,586	8,940	25,869	(25,869)	—
Total	286,811	141,771	163,561	65,794	16,552	674,611	(25,869)	648,733
Operating expenses	282,007	131,003	146,208	61,253	12,021	632,520	(17,843)	614,677
Operating income	4,899	10,768	17,353	4,531	4,522	42,091	(8,026)	34,055
II. Asset, depreciation and capital expenditures								
Assets	170,674	62,920	103,985	34,800	39,341	411,738	426,142	837,880
Depreciation	980	245	4,494	923	970	7,621	4,786	12,407
Capital expenditures	490	2,252	1,941	292	57	5,040	546	5,596

Millions of Yen

Year ended March 31, 1999	Domestic		Overseas			Total	Elimi- nations/ Companies	Consolidated
	Consulting Business	Consulting Business	Manufacturing Business	Engineering Business	Other			
I. Sales and operating income (loss)								
Sales to external customers	¥30,879	¥12,818	¥21,306	¥8,776	¥ 564	¥74,345	¥ —	¥74,345
Intersegment sales or transfers	101	0	275	1,077	276	1,730	(1,730)	—
Total	30,980	12,818	21,581	9,853	840	76,075	(1,730)	74,345
Operating expenses	30,414	12,252	18,713	9,167	446	70,995	(1,227)	69,768
Operating income	565	566	2,867	686	394	5,080	(503)	4,576
II. Asset, depreciation and capital expenditures								
Assets	18,488	6,269	18,642	3,819	2,318	49,538	38,168	87,706
Depreciation	76	21	240	108	94	541	529	1,070
Capital expenditures	76	12	181	34	0	305	223	528

(b) Overseas Sales

Year ended March 31, 2000	Millions of Yen						Total
	Asia	Middle East	Africa	Central and South America	Other		
Overseas sales	¥11,498	¥741	¥1,420	¥925	¥463	¥15,049	
Consolidated net sales						68,863	
Shave of overseas sales in consolidated net sales (%)	16.7	1.1	2.1	1.3	0.7	21.9	

Year ended March 31, 1999	Millions of Yen						Total
	Asia	Middle East	Africa	Central and South America	Other		
Overseas sales	¥10,025	¥616	¥1,114	¥418	¥693	¥12,868	
Consolidated net sales						74,345	
Shave of overseas sales in consolidated net sales (%)	13.5	0.8	1.5	0.6	0.9	17.3	

Year ended March 31, 2000	Thousands of U.S. Dollars						Total
	Asia	Middle East	Africa	Central and South America	Other		
Overseas sales	\$108,318	\$6,981	\$13,377	\$8,714	\$4,362	\$141,771	
Consolidated net sales						648,733	
Shave of overseas sales in consolidated net sales (%)	16.7	1.1	2.1	1.3	0.7	21.9	

Report of Independent Public Accountants on Consolidated Financial Statements

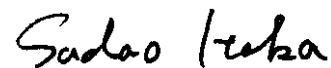
To the Board of Directors of
Nippon Koei Co., Ltd.

We have examined the accompanying consolidated balance sheets of Nippon Koei Co., Ltd. and Consolidated Subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements expressed in yen, present fairly the consolidated financial position of Nippon Koei Co., Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations for each of the years then ended, March 31, 2000 and 1999, and the cash flow for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 29, 2000



Itaka Certified Public Accountants

See Note 1 to the consolidated financial statements which explains the basis of preparation of consolidated financial statements of Nippon Koei Co., Ltd. under Japanese accounting principles and practices.

Major Nippon Koei Group Companies

While mainly focused on technical consulting, electric power engineering and power generation, the Nippon Koei Group is also active in a wide range of related fields. The various activities generated as business peripheral to the activities of Nippon Koei, the main company in the group, are taken on by the various subsidiaries and affiliates located both at home and abroad.

It is this group of related companies that together with the principle corporation make up the Nippon Koei Group. The various firms maintain close cooperation based on relationships of interdependence that enhance the strength and cohesion of the Group as a whole.

As of March 2000, the total number of personnel employed at Group companies based in Japan came to 2,300, of which approximately 380 are engineers. The Group truly has a wealth of highly skilled technical experts.

Nippon Koei Yokohama Works Co., Ltd.

In charge of power generation for the Group, this company manufactures power generation equipment and systems and electronic equipment and devices. A wholly owned subsidiary and the largest in the Group, it works in close partnership with Nippon Koei on business projects.

Koei Systems Inc.

This company develops software programs used in computer control, dispatches personnel, and provides support and software development for office automation systems on a consignment basis.

KRI International Corporation

Established to enhance the think tank function required for the Nippon Koei Group's activities, KRI is responsible for providing survey, research and consulting work for clients, both within and outside the group on a contract basis. The company is also responsible for education, training and publishing activities.

NEPCO Ltd.

This company is responsible for geological and disaster prevention activities, which include landslide prediction, prevention surveys and the planning and construction of protective formations. It also manufactures, sells, services and installs various types of measuring equipment used in landslide prevention.

Koei Tech Co., Ltd.

Specializes in construction and installation work for electric power equipment, facilities and automatic control systems, as well as in management of construction and maintenance services. Drawing on extensive experience and expertise, the company works in close partnership with Nippon Koei to provide various keys services.

Nikki Corporation

This company is responsible for real-estate management, leasing and insurance services for Nippon Koei and other Group companies. It also sells, imports and exports electrical power equipment, and rents and leases various goods.

Corporate Information

As of March 31, 2000

Board of Directors and Corporate Auditors

President:

Toshinori Churei*

Senior Managing Directors:

Katsuyoshi Wada

Tetsuo Mizobe*

Michito Kato

Keisuke Sumikawa*

Tadahiko Yamamoto*

Managing Directors:

Masakuni Kawamata

Hisashi Sakai

Yoshinobu Takizawa

Yusaku Toya

Osamu Takahashi

Directors:

Minoru Kamijo

Toshiaki Arima

Kunio Shimizu

Yuichi Tsujimoto

Isao Suzuki

Munenori Kumasu

Yoshihiko Tsunoda

Noriaki Hirose

Corporate Auditors:

Nobuyoshi Kagoshima

Kenji Yoshida

Masao Iwaki

*Executive Director

Stock Information

Shares authorized	196,176,000
Shares issued	91,692,510
Stockholders of minimum tradable stock unit	9,243

Major Stockholders

	Share owned (thousands)	Percentage of total owned
The Fuji Bank, Ltd.	4,513	4.92%
The Bank of Tokyo-Mitsubishi, Ltd.	3,809	4.15
Meiji Life Insurance Company	2,685	2.93
The Chuo Trust & Banking Corporation (Trustee)	2,590	2.82
Mitsui Mutual Life Insurance Company	2,358	2.57
The Koei Employees' Stockholders Association	2,199	2.40
Nippon Life Insurance Company	2,142	2.34
The Mitsubishi Trust & Banking Corporation (Trustee)	2,138	2.33
The Sanwa Bank, Ltd.	1,957	2.13
The Yasuda Trust & Banking Co., Ltd.	1,879	2.05

Major Offices and Facilities

Head Office

4 Kojimachi 5-chome, Chiyoda-ku,
Tokyo 102-8539, Japan

Hanzomon Office

5 Kojimachi 2-chome, Chiyoda-ku,
Tokyo 102-0083, Japan

Azabu Office

2-11, Minami-Azabu, Minato-ku,
Tokyo 106-0047, Japan

Branches

Sapporo, Sendai, Kanto (Omiya), Nagoya, Osaka,
Hiroshima, Fukuoka

Research Facility

Research and Development Center in Tsukuba Science City,
Ibaraki

Overseas Office

Jakarta, Kathmandu, Bangkok, Manila, Nairobi, Hanoi,
Colombo, Yangon

Note:

Owing to the transfer of manufacturing of electric power generating equipment and related operations to Nippon Koei Yokohama Works Co., Ltd., the Yokohama Plant, where these operations were previously based, has been excluded from the list of major offices and facilities.

Major Businesses

Consulting Administration

Field of activity

- Water resources
- Dams
- Groundwater
- Electric power
- Agriculture
- River and sabo (sediment and debris-flow control) engineering
- Highway and bridges
- Airports
- Ports and coastal engineering
- Urban and regional development
- Water supply and urban sanitation
- Landslide protection
- Natural and social environment

Services

- Preliminary investigations
- Planning
- Feasibility studies
- Assessment
- Detailed design
- Construction supervision
- Operation and maintenance

Engineering Administration

Field of activity

- Electrical and civil works for electric power facilities (generation, transmission, substation, distribution schemes and wiring of buildings)
- Electric power utilities (turbines, generators, transformers, control devices and communications equipment)
- Electric equipment and devices
- Safety equipment
- Sector-mode heaters
- Factory automation equipment

Services

- Surveys, studies, planning, design, construction, installation and sale



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