

# **Supplementary Materials for the Summary of Financial Reports 1Q, FYE June 30, 2018**

**November 13, 2017**

**Nippon Koei Co., Ltd.**

This presentation is provided for informational purposes only and is not intended to solicit any action. Presentation in the materials (including forecasts of financial Results) is based on credible information available at the time of publication and certain assumptions Nippon Koei believes to be reasonable. Various factors may cause actual results to differ from the projected numbers or other expectations implied or expressed in this presentation.

# 1Q Results for FYE June 30, 2018

(Millions of yen)	FYE17/6 1Q Results	FYE18/6 1Q Results	YoY Change		Reference Values FYE18/6 1Q*	YoY Change	
			Amount	%		Amount	%
Orders	35,915	26,713	- 9,202	74.4%	-	-	-
Net sales	12,282	14,168	1,886	115.4%	12,094	- 188	98.5%
Gross profit	3,903	4,470	566	114.5%	3,897	- 6	99.8%
Operating Income	- 1,663	- 1,557	106	-	- 2,130	- 466	-
Ordinary Income	- 1,569	- 1,189	380	-	- 1,762	- 192	-
Profit attributable to owners of parent	- 1,208	8	1,216	-	- 564	643	-

- The amount of orders fell short of last year's result, which included the receipt of big-project orders by International Consulting.
- As a whole, the sales amount, when excluding the effect of a change in the revenue recognition method, is at a level nearly equivalent to the previous year due to a decrease in carried-forward orders of Power Engineering, in spite of an increase in the sales of Domestic and International Consulting.
- Operating income and ordinary income exceeded the results for the previous year; however, when excluding the effect of the change in the revenue recognition method, they fell short of the previous year.  
Gain on sales of real estate contributed to the substantial growth of quarterly net income.

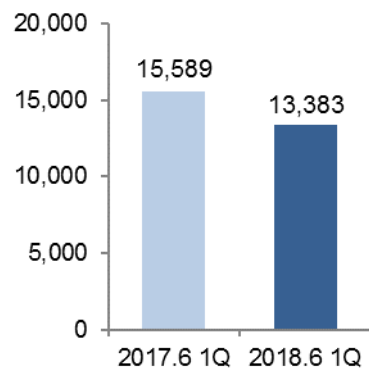
\* Starting FYE June 30, 2018, the Group has changed the primary method of revenue recognition from the completed-contract method to the percentage of completion method. For this reason, the results for the 1st quarter of FYE June 2018, which were calculated using the former method (method used until FYE June 2017), are presented for reference purposes.

# Results by Business Segment (Orders)

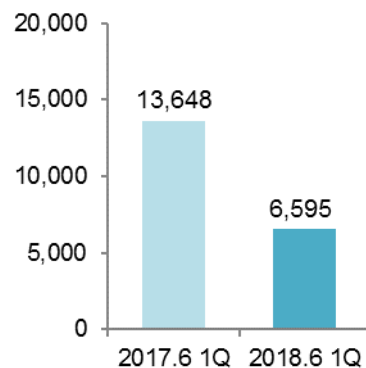
(Millions of yen)	FYE17/6 1Q Results	FYE18/6 1Q Results	YoY Change	
			Amount	%
<b>Orders</b>	35,915	26,713	- 9,202	74.4%
Domestic Consulting	15,589	13,383	- 2,205	85.9%
International Consulting	13,648	6,595	- 7,052	48.3%
Power Engineering	3,866	4,069	202	105.2%
Urban & Spatial Development	2,806	2,660	- 145	94.8%
Others	4	4	0	88.9%

\* Starting FYE June 30, 2018, the Group has changed the primary method of revenue recognition from the completed-contract method to the percentage of completion method. However, orders received are not affected by this change.

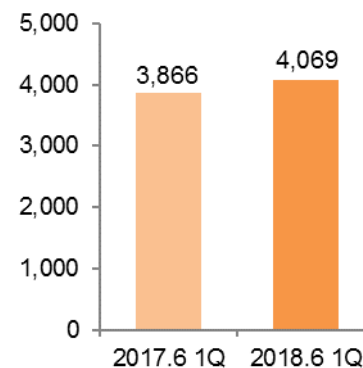
■ Domestic Consulting



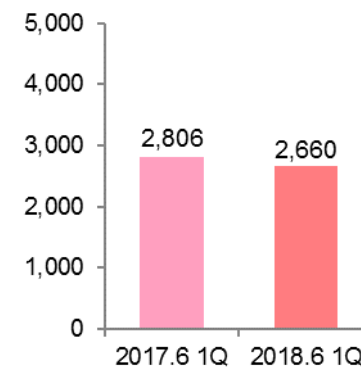
■ International Consulting



■ Power Engineering



■ Urban & Spatial Development

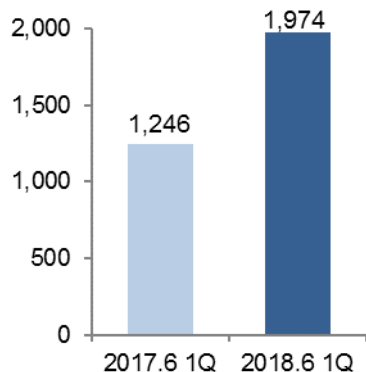


# Results by Business Segment (Net sales)

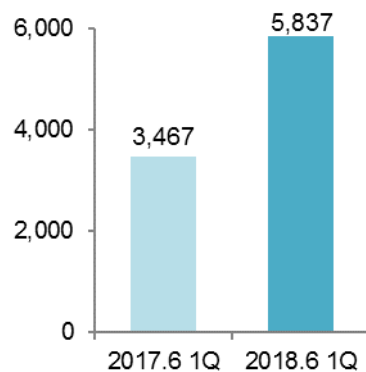
(Millions of yen)	FYE17/6 1Q Results	FYE18/6 1Q Results	YoY Change		Reference Values FYE18/6 1Q*	YoY Change	
			Amount	%		Amount	%
<b>Net sales</b>	12,282	<b>14,168</b>	1,886	115.4%	12,094	- 188	98.5%
Domestic Consulting	1,246	1,974	728	158.4%	1,566	319	125.7%
International Consulting	3,467	5,837	2,370	168.3%	4,286	818	123.6%
Power Engineering	4,134	3,103	- 1,031	75.1%	3,013	- 1,121	72.9%
Urban & Spatial Development	3,260	3,104	- 156	95.2%	3,104	- 156	95.2%
Real Estate Leasing	116	113	- 3	96.7%	113	- 3	96.7%
Others	55	35	- 20	63.5%	11	- 44	20.1%

\* Starting FYE June 30, 2018, the Group has changed the primary method of revenue recognition from the completed-contract method to the percentage of completion method. For this reason, the results for the 1<sup>st</sup> quarter of FYE June 2018, which were calculated using the former method (method used until FYE June 2017), are presented for reference purposes.

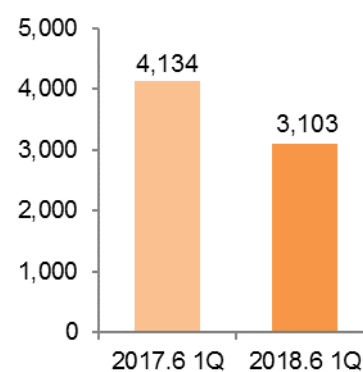
■ Domestic Consulting



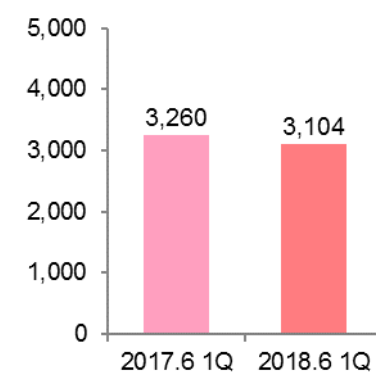
■ International Consulting



■ Power Engineering



■ Urban & Spatial Development

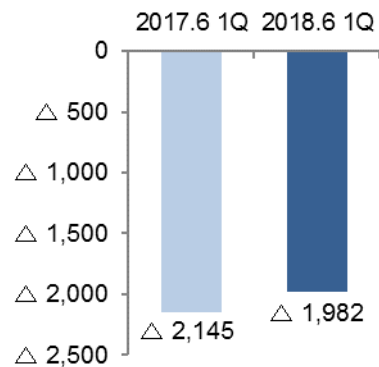


# Results by Business Segment (Operating income)

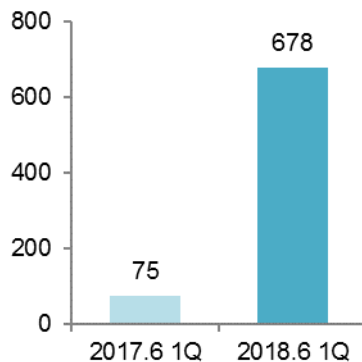
(Millions of yen)	FYE17/6 1Q Results	FYE18/6 1Q Results	YoY Change		Reference Values FYE18/6 1Q*	YoY Change	
			Amount	%		Amount	%
<b>Operating Income</b>	- 1,663	- 1,557	106	-	- 2,130	- 466	-
Domestic Consulting	- 2,145	- 1,982	163	-	- 2,057	87	-
International Consulting	75	678	603	902.4%	202	127	269.9%
Power Engineering	806	240	- 565	29.8%	220	- 585	27.4%
Urban & Spatial Development	76	41	- 35	54.0%	41	- 35	54.0%
Real Estate Leasing	91	105	13	114.5%	105	13	114.5%
Others/Reconciliations	- 568	- 641	- 72	-	- 642	- 74	-

\* Starting FYE June 30, 2018, the Group has changed the primary method of revenue recognition from the completed-contract method to the percentage of completion method. For this reason, the results for the 1<sup>st</sup> quarter of FYE June 2018, which were calculated using the former method (method used until FYE June 2017), are presented for reference purposes.

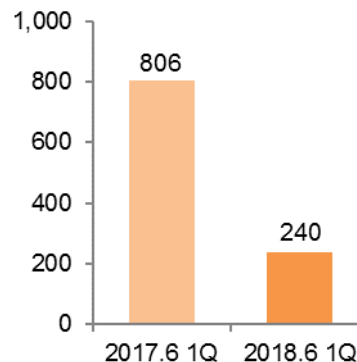
■ Domestic Consulting



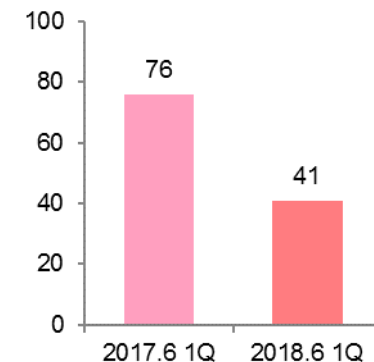
■ International Consulting



■ Power Engineering



■ Urban & Spatial Development



# Overview of Performance by Business Segment

## Domestic Consulting

- The amount of orders fell short of last year's result, which included by big-project orders of the Group company.
- The sales amount increased due to an increase in orders carried forward from the previous year.
- Operating income, when excluding the impact of the change in the revenue recognition method, is at a level nearly equivalent to the previous year due to a revenue increase and cost reduction efforts.

## International Consulting

- The amount of orders fell short of last year's result, which included big-project orders, while the business environment continues to be favorable.
- The sales amount increased due to an abundance of orders received and the Group company's steady business.
- Operating income margin improved owing to the efforts toward profitability improvement, such as project risk management.

## Power Engineering

- The amount of orders exceeded the result for the previous period, with an increase in small hydroelectric-related orders and the receipt of orders delayed from the previous year end.
- The sales amount fell short of the previous year's result for the same period, in which there were a number of projects carried forward from the year before.
- Operating income decreased due to a drop in revenue and increase in expenses related to establishment of a new business unit and personnel increase.

## Urban & Spatial Development

- Both orders and sales are at a level nearly equivalent to the previous year, when excluding the effect of exchange rates.
- Operating income decreased due to an increase in selling, general and administrative expenses.

\* The fixed exchange rate applied to the results for the 1<sup>st</sup> quarter of FYE June 30, 2016: 1 GBP = 146.26 JPY (the rate used in the plan for FYE June 30, 2018 was 1 GBP = 139.56 JPY)

\* The amount of amortization expense of Urban & Spatial Development business for FYE June 30, 2018 is approx. 1 billion JPY (goodwill: approx. 400 million JPY; other intangible fixed assets: approx. 500 million JPY).

\* The results of BDP's transactions from April to June 2016 are consolidated into the results of Urban & Spatial Development for the 1<sup>st</sup> quarter of FYE June 30, 2017.

\* BDP has already used the percentage of completion method in its accounting, and therefore, the results of Urban & Spatial Development business are not affected by the change in the revenue recognition method.

# FYE June 2018 Forecast

No changes have been made to the forecast for the entire FYE June 2018 period.

(Millions of yen)	FYE18/6 Forecast	FYE17/6 Results	YoY Change		FYE18/6 Reference*
			Amount	%	
Orders	<b>103,000</b>	117,442	- 14,442	87.7%	103,000
Net sales	<b>114,000</b>	101,338	12,662	112.4%	104,000
Domestic Consulting	47,200	43,516	3,684	108.4%	43,000
International Consulting	31,800	24,491	7,309	129.8%	28,200
Power Engineering	21,200	17,577	3,623	120.6%	19,100
Urban & Spatial Development	12,000	14,347	- 2,347	83.6%	12,000
Energy/Real Estate/Others	1,800	1,405	395	128.1%	1,700
Operating Income	<b>7,700</b>	5,464	2,236	140.9%	5,800
Domestic Consulting	3,500	3,298	202	106.1%	2,700
International Consulting	2,400	1,887	513	127.1%	2,000
Power Engineering	3,500	2,683	817	130.4%	2,800
Urban & Spatial Development	50	81	- 31	61.7%	50
Energy/Real Estate/Others	- 1,750	- 2,485	735	-	- 1,750
Ordinary Income	<b>7,800</b>	5,958	1,842	130.9%	6,000
Profit attributable to owners of parent	<b>4,900</b>	3,288	1,612	149.0%	3,600
Operating margin (%)	<b>6.8</b>	5.4	* Estimated budget target June 2018, based upon previous standard (completed-contract method)		
ROE (%)	<b>8.7</b>	6.2			

\* Starting FYE June 30, 2018, the method of revenue recognition has been changed. See p.10 of this document for details.

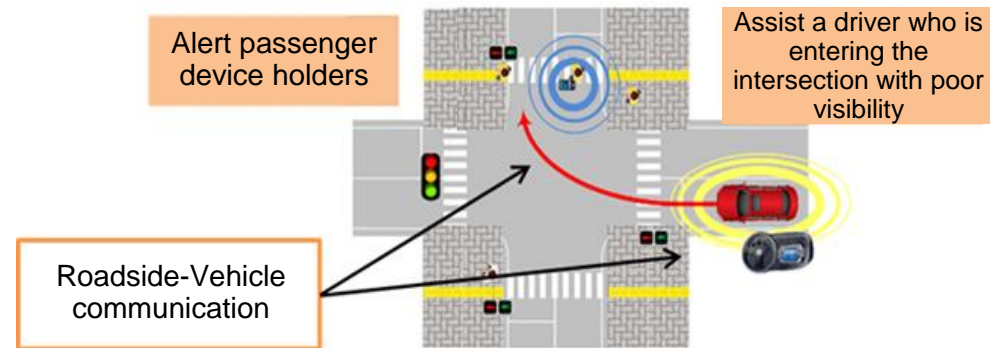
# Project Highlights

## Domestic Consulting: Participated in a demonstration experiment of an automated driving system

Participated in the “Automated driving system/large-scale demonstration experiment of Strategic Innovation Promotion Program (SIP)” promoted by the Government.

Nippon Koei accepted an order for the demonstration experiment, focusing on “the reduction of pedestrian-car accidents” and “cultivation of social acceptability”.

Will start implementing technical validation on a public road from 2018.



## International Consulting: Expansion of Dhaka International Airport, Bangladesh

Four companies including Nippon Koei jointly received an order for the design and construction management of the expansion of Shahjalal International Airport in Bangladesh.

A passenger terminal and cargo terminal will be newly constructed to be in place by 2022. The project aims to increase the airport’s capacity by up to 12 million passengers per year (a 50% increase from the current level).





# Project Highlights

## International Consulting: Phase II of Reconstruction of Hartha Thermal Power Plant of Iraq

Accepted an order for a reconstruction project concerning the 1<sup>st</sup> equipment of Hartha Thermal Power Plant in Basra Governorate, Iraq.

Provides the Iraq Ministry of Electricity with technical and project management support, conducts construction management of the EPC contractor, and monitors the implementation of initiatives that are environmentally and socially conscious.

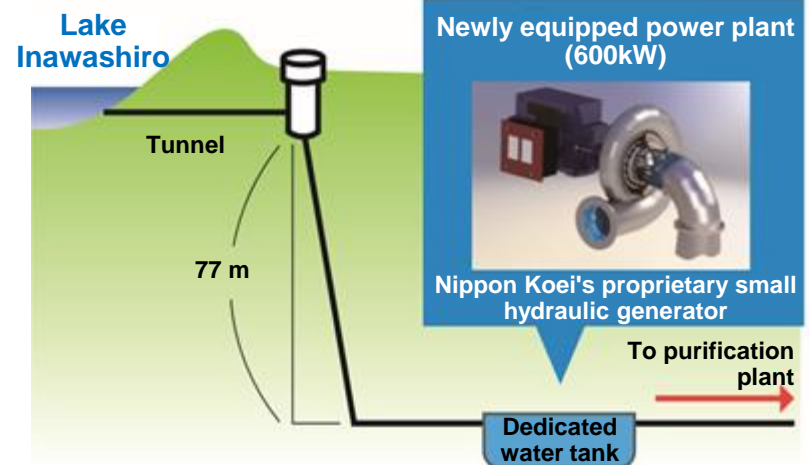
The second project following the reconstruction of the 4<sup>th</sup> equipment.



## Power Engineering: Construction work for a power plant utilizing a water-system, mountain height and hydraulic energy

Construction of a small hydraulic power facility at an energy dissipating tank located upstream of the Horiguchi purification plant managed by the Water and Sewerage Bureau of Koriyama City in Fukushima Prefecture.

Entered the first public-private partnership-led electric power selling business in Koriyama City by leveraging the FIT Act and taking advantage of unused energy generated by the height difference between Lake Inawashiro (source) and the energy dissipator. Part of the profit will be returned to the Bureau as a waterworks facility usage fee.



# Project Highlights

## Urban & Spatial Development: Great Ormond Street Hospital (GOSH)

Accepted an order for a reconstruction project concerning a children's hospital in the UK.

Reconstruction of the entire facility and new development of a clinical area including examination rooms and patient rooms, training rooms for doctors, a school, an area for teenage patients and a roof-top garden.



## Urban & Spatial Development: Palace of Westminster Refurbishment Project

Won a contract for refurbishment of the Palace of Westminster in July 2017.

BDP was awarded the contract due to its performance record and Europe's top-level BIM technology, which enables higher productivity among the global competitors.



# (Reference) On changes in calculation standards for Sales (from June 2018)

- \* Effective from the Fiscal Year Ending June 30, 2018, the Group has changed the primary method of revenue recognition from the completed-contract method to the percentage of completion method.

## Calculation by “Percentage of Completion Method”

(Sales Amount) = (Estimated Total Revenue) x Progression Rate - (Cumulative Sales by the End of Previous Period)

$$\text{Progression Rate} = \frac{\text{Costs occurred (labor cost, subcontract cost, costs, etc.)}}{\text{Total Estimated Costs}}$$

## Sales Recording by “Percentage of Completion Method”

Case: Project of 3-year contract period, JPY 30-million value

**Former** Project carried forward from the previous year  
Sales amount is booked at the end of the Project

**New** Project started in current year  
Sales amount is booked in proportion to the progress

	1st year Progression Rate: 25%	2nd year Progression Rate: 70%	3rd year Completion	Total
Completed-contract method	0	0	3,000	3,000
% of completion method	<b>750</b>	<b>1,350</b>	<b>900</b>	<b>3,000</b>
	3,000 x 25%	3,000 x 70% - 750	3,000 x 100% - 750 - 1,350	

\* For projects that were awarded or started before FYE June 30, 2017, the completed-contract method is used.

\* For the amount of effect, see “Changes in accounting policies” on p.9 of the Summary of Financial Reports .