

# Consolidated Financial Results for the Three Months Ended September 30, 2017 [Japanese GAAP]



November 13, 2017

**Company name: Nippon Koei Co., Ltd.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 1954

URL: <https://www.n-koei.co.jp/english>

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Scheduled date of filing quarterly securities report: November 13, 2017

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: None

(Amounts of less than one million yen are rounded down.)

## 1. Consolidated Financial Results for the Three Months Ended September 30, 2017 (July 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

|                                       | Net sales   |      | Operating income |   | Ordinary income |   | Profit attributable to owners of parent |   |
|---------------------------------------|-------------|------|------------------|---|-----------------|---|---|---|
|                                       | Million yen | %    | Million yen      | % | Million yen     | % | Million yen                             | % |
| Three months ended September 30, 2017 | 14,168      | 15.4 | (1,557)          | - | (1,189)         | - | 8                                       | - |
| September 30, 2016                    | 12,282      | 39.4 | (1,663)          | - | (1,569)         | - | (1,208)                                 | - |

(Note) Comprehensive income: Three months ended September 30, 2017: ¥849 million [ - %]

Three months ended September 30, 2016: ¥(3,503) million [ - %]

|                                       | Net income per share | Diluted net income per share |
|---------------------------------------|----------------------|------------------------------|
|                                       | Yen                  | Yen                          |
| Three months ended September 30, 2017 | 0.55                 | -                            |
| September 30, 2016                    | (78.54)              | -                            |

(Note) The Company conducted a share consolidation at a rate of one share for every five shares on January 1, 2017. The figures for "Net income per share" are amounts on the assumption that the Company conducts the share consolidation on the beginning of previous fiscal year.

## (2) Consolidated Financial Position

|                    | Total assets | Net assets  | Equity ratio |
|--------------------|--------------|-------------|--------------|
| As of              | Million yen  | Million yen | %            |
| September 30, 2017 | 116,013      | 54,595      | 46.7         |
| June 30, 2017      | 113,865      | 54,874      | 47.9         |

(Reference) Equity: As of September 30, 2017 : ¥54,234 million

As of June 30, 2017 : ¥54,508 million

## 2. Dividends

|   | Annual dividends |                 |                 |          |       |
|---|------------------|-----------------|-----------------|----------|-------|
|   | 1st quarter-end  | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
|   | Yen              | Yen             | Yen             | Yen      | Yen   |
| Fiscal year ended June 30, 2017             | -                | -               | -               | 75.00    | 75.00 |
| Fiscal year ending June 30, 2018            | -                | -               | -               | 75.00    | 75.00 |
| Fiscal year ending June 30, 2018 (Forecast) | -                | -               | -               | 75.00    | 75.00 |

(Note)

(1) Revision to the forecast for dividends announced most recently: None

(2) The Company conducted a share consolidation at a rate of one share for every five shares on January 1, 2017.

### 3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2018 (July 1, 2017 to June 30, 2018)

(% indicates changes from the previous corresponding period.)

|           | Net sales   |      | Operating income |      | Ordinary income |      | Profit attributable to owners of parent |      | Net income per share |
|-----------|-------------|------|------------------|------|-----------------|------|---|------|----------------------|
|           | Million yen | %    | Million yen      | %    | Million yen     | %    | Million yen                             | %    | Yen                  |
| Full year | 114,000     | 12.5 | 7,700            | 40.9 | 7,800           | 30.9 | 4,900                                   | 49.0 | 317.12               |

(Note) Revision to the financial results forecast announced most recently: None

**\* Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: Yes

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the period (including treasury stock):

As of September 30, 2017 : 15,894,571 shares

As of June 30, 2017 : 17,331,302 shares

2) Total number of treasury stock at the end of the period:

As of September 30, 2017 : 432,218 shares

As of June 30, 2017 : 1,891,831 shares

3) Average number of shares during the period:

Three months ended September 30, 2017 : 15,451,565 shares

Three months ended September 30, 2016 : 15,384,463 shares

(Note) The Company conducted a share consolidation at a rate of one share for every five shares on January 1, 2017. The figures for "Total number of issued shares at the end of the period", "Total number of treasury stock at the end of the period" and "Average number of shares during the period" are amounts on the assumption that the Company conducts the share consolidation on the beginning of previous fiscal year.

\* These Consolidated Financial Results are not subject to quarterly review procedures.

\* Explanation of the proper use of financial results forecast and other notes

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

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of Operating Results

During the three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017), Japan's economy continued on a moderate recovery path with signs of private consumption picking up against the background of steady improvements in employment and income. On the other hand, while recovering, the outlook for overseas economies continued to be uncertain, with a growing sense of the risk of economic downturns in the emerging markets of China and other Asian countries, as well as uncertainty about the economic policies of the United States and Europe.

The business environment of Nippon Koei Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") continued to be stable, and each business segment saw steady demand. The Group undertook measures for disaster prevention and mitigation, and measures to prevent deterioration of infrastructure for public works projects in the Domestic Consulting Operations, promoted strategic exporting of infrastructure systems in the International Consulting Operations, renewed power distribution equipment in the Power Engineering Operations and newly built and renovated architectural installation in the UK in the Urban & Spatial Development Operations.

Under these circumstances, based on the Medium-Term Management Plan "NK-AIM" (from July 2015 to June 2018), with the fundamental principles of "Sustainable growth of three core businesses," "Generation and expansion of new businesses," and "Autonomy and collaboration," the Group tackled the three focus themes of "Further advance of global expansion," "Further expansion of business fields and improvement of profitability by intensifying existing core businesses," and "Demonstrating the true merits of aggregated technologies for establishment of new business domains." Moreover, as companywide measures to realize these goals, the Group actively advanced "Development of next-generation core technologies and further improvement of technical strengths and productivity," "Strengthening of human resource recruitment and training," and "Promotion of collaboration and enhancement of corporate governance."

In terms of Group performance, as a result of the above, orders received decreased 25.6% year on year to ¥26,713 million for the three months ended September 30, 2017. This was due to the acceptance of orders relating to multiple large projects mainly in the transportation business area for the previous fiscal year. Net sales were up 15.4% year on year to ¥14,168 million, operating loss decreased 6.4% year on year to ¥1,557 million, ordinary loss decreased 24.2% year on year to ¥1,189 million, and profit attributable to owners of parent was ¥8 million (loss attributable to owners of parent for the three months ended September 30, 2016: ¥1,208 million) due to the recording of a gain on sales of non-current assets.

Net sales for the three months ended September 30, 2017 were ¥14,168 million, an achievement rate of 12.4% against the net sales forecast of ¥114,000 million for the fiscal year ending June 30, 2018 (three months ended September 30, 2016: 12.1%). This is attributable to seasonal fluctuations in the Group's net sales where a significant percentage of its business commonly tends to increase its percentage of achievement in the second half of the fiscal year. In addition, because expenses such as selling, general and administrative expenses were generated fairly evenly throughout the year, the Group recorded both an operating loss and an ordinary loss for the three months ended September 30, 2017.

The Group's accounting method for net sales has been changed from the completed-contract method to the percentage-of-completion method from the three months ended September 30, 2017. For each quarter of the previous fiscal year and the previous consolidated fiscal year, the previous completed-contract method has been applied to the quarterly consolidated financial statements and the consolidated financial statements. Details are as stated in Change in Accounting Policies.

Business results for each segment are as follows:

#### [Domestic Consulting Operations]

The Domestic Consulting Operations worked to increase its business areas and market shares by specifying

significant businesses, improving quality of service and profitability by restructuring work procedures, and effectively entering into alliances.

As a result, orders received for the three months ended September 30, 2017, decreased 14.1% year on year to ¥13,383 million. Net sales increased 58.4% year on year to ¥1,974 million, operating loss decreased 7.6% year on year to ¥1,982 million and ordinary loss decreased 8.3% year on year to ¥1,959 million.

#### [International Consulting Operations]

International Consulting Operations worked to improve operation strategy functions focusing on regional officers, strengthen the production system, develop a management foundation to respond to risks, and strengthen the capabilities of and cooperation with Group companies.

As a result, orders received for the three months ended September 30, 2017, decreased 51.7% year on year to ¥6,595 million. Net sales increased 68.3% year on year to ¥5,837 million, operating income increased 802.4% year on year to ¥678 million and ordinary income increased 1,732.3% year on year to ¥667 million.

#### [Power Engineering Operations]

In the Power Engineering Operations, we worked to increase cost competitiveness through strict cost reductions, strengthen sales and marketing capabilities through proposing cost reduction plans, enhance fusion and cooperation among the business areas of consulting, products, and construction, promote the development of products and technology, and reinforce and expand the mechanical and electromechanical consulting division. The level of orders received at the end of the previous fiscal year, however, was lower compared with previous years, thus affecting the net sales.

As a result, orders received for the three months ended September 30, 2017, increased 5.2% year on year to ¥4,069 million. Net sales decreased 24.9% year on year to ¥3,103 million, operating income decreased 70.2% year on year to ¥240 million and ordinary income decreased 51.3% year on year to ¥390 million.

#### [Urban & Spatial Development Operations]

The Urban & Spatial Development Operations strove to expand the scope of business in the urban development and architectural design area by growing businesses within the UK through BDP and collaborating as a group in the Asian region.

As a result, orders received for the three months ended September 30, 2017, decreased 5.2% year on year to ¥2,660 million. Net sales decreased 4.8% year on year to ¥3,104 million, operating income decreased 46.0% year on year to ¥41 million and ordinary income decreased 40.1% year on year to ¥69 million.

#### [Real Estate Leasing Operations]

Net sales for the three months ended September 30, 2017, decreased 3.3% year on year to ¥113 million. Both operating income and ordinary income increased 14.5% year on year to ¥105 million.

## (2) Explanation of Financial Position

Total assets as of the end of the current first quarter amounted to ¥116,013 million, up ¥2,147 million from the end of the previous fiscal year.

In the Assets section, current assets were ¥56,823 million, an increase of ¥2,024 million from the end of the previous fiscal year. This is mainly due to a ¥2,564 million decrease in cash and deposits, and a ¥5,227 million increase in work in process.

Non-current assets were ¥59,190 million, an increase of ¥123 million from the end of the previous fiscal year. This is mainly due to a ¥1,050 million decrease in land, and a ¥399 million increase in investment securities and a ¥876 million increase in long-term loans receivable included in other items of investments and other assets.

In the Liabilities section, current liabilities were ¥32,419 million, an increase of ¥2,078 million from the end of the previous fiscal year. This is mainly due to a ¥2,633 million increase in advances received.

Non-current liabilities were ¥28,998 million, an increase of ¥348 million from the end of the previous fiscal year. This is mainly due to a ¥504 million increase in long-term deferred tax liabilities included in other items of non-current liabilities.

Net assets were ¥54,595 million, a decrease of ¥278 million from the end of the previous fiscal year. The primary factors behind this decrease were a profit of ¥8 attributable to owners of parent, ¥1,192 million in cash dividends paid, a ¥274 million increase in valuation difference on available-for-sale securities and a ¥581 million increase in foreign currency translation adjustments.

Consequently, the shareholders' equity ratio decreased 1.2 percentage points from the end of the previous fiscal year to 46.7%.

## (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Statements

The consolidated financial results forecast for the fiscal year ending June 30, 2018 have not changed from the forecast announced in the Consolidated Financial Results for the Fiscal Year Ended June 30, 2017 dated August 14, 2017.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

|  | (Millions of yen)                             |   |
|--|---|---|
|  | Previous fiscal year<br>(As of June 30, 2017) | Current first quarter<br>(As of September 30, 2017) |
| <b>Assets</b>                              |   |   |
| <b>Current assets</b>                      |   |   |
| Cash and deposits                          | 19,593  | 17,029  |
| Notes and accounts receivable - trade      | 18,090  | 16,246  |
| Work in process                            | 11,727  | 16,955  |
| Other                                      | 5,392   | 6,619   |
| Allowance for doubtful accounts            | (6)   | (28)  |
| <b>Total current assets</b>                | <b>54,798</b>                                 | <b>56,823</b>                                       |
| <b>Non-current assets</b>                  |   |   |
| <b>Property, plant and equipment</b>       |   |   |
| Buildings and structures, net              | 5,591   | 5,508   |
| Land                                       | 17,648  | 16,598  |
| Other, net                                 | 1,295   | 1,247   |
| <b>Total property, plant and equipment</b> | <b>24,535</b>                                 | <b>23,354</b>                                       |
| <b>Intangible assets</b>                   |   |   |
| Goodwill                                   | 8,685   | 8,916   |
| Other                                      | 5,214   | 5,270   |
| <b>Total intangible assets</b>             | <b>13,900</b>                                 | <b>14,186</b>                                       |
| <b>Investments and other assets</b>        |   |   |
| Other                                      | 20,799  | 21,821  |
| Allowance for doubtful accounts            | (168)   | (172)   |
| <b>Total investments and other assets</b>  | <b>20,630</b>                                 | <b>21,649</b>                                       |
| <b>Total non-current assets</b>            | <b>59,067</b>                                 | <b>59,190</b>                                       |
| <b>Total assets</b>                        | <b>113,865</b>                                | <b>116,013</b>                                      |

(Millions of yen)

|   | Previous fiscal year<br>(As of June 30, 2017) | Current first quarter<br>(As of September 30, 2017) |
|---|---|---|
| <b>Liabilities</b>                                    |   |   |
| Current liabilities                                   |   |   |
| Notes and accounts payable - trade                    | 4,012   | 3,566   |
| Current portion of long-term loans payable            | 1,760   | 1,760   |
| Income taxes payable                                  | 1,049   | 260   |
| Advances received                                     | 10,797  | 13,431  |
| Provision for bonuses                                 | 1,365   | 2,599   |
| Provision for directors' bonuses                      | 88  | 88  |
| Provision for loss on construction contracts          | 54  | 108   |
| Other   | 11,211  | 10,603  |
| <b>Total current liabilities</b>                      | <b>30,341</b>                                 | <b>32,419</b>                                       |
| Non-current liabilities                               |   |   |
| Long-term loans payable                               | 21,413  | 21,306  |
| Provision for directors' retirement benefits          | 45  | 32  |
| Provision for environmental measures                  | 34  | 34  |
| Liability for retirement benefits                     | 3,963   | 3,939   |
| Other   | 3,193   | 3,686   |
| <b>Total non-current liabilities</b>                  | <b>28,650</b>                                 | <b>28,998</b>                                       |
| <b>Total liabilities</b>                              | <b>58,991</b>                                 | <b>61,417</b>                                       |
| <b>Net assets</b>                                     |   |   |
| Shareholders' equity                                  |   |   |
| Capital stock   | 7,393   | 7,393   |
| Capital surplus                                       | 7,240   | 6,405   |
| Retained earnings                                     | 43,450  | 40,943  |
| Treasury stock  | (3,607)                                       | (1,383)   |
| <b>Total shareholders' equity</b>                     | <b>54,477</b>                                 | <b>53,358</b>                                       |
| Accumulated other comprehensive income                |   |   |
| Valuation difference on available-for-sale securities | 1,016   | 1,291   |
| Foreign currency translation adjustments              | (1,813)                                       | (1,232)   |
| Defined retirement benefit plans                      | 828   | 817   |
| <b>Total accumulated other comprehensive income</b>   | <b>30</b>                                     | <b>876</b>  |
| Non-controlling interests                             | 365   | 360   |
| <b>Total net assets</b>                               | <b>54,874</b>                                 | <b>54,595</b>                                       |
| <b>Total liabilities and net assets</b>               | <b>113,865</b>                                | <b>116,013</b>                                      |



## (2) Quarterly Consolidated Statements of Operating and Comprehensive Income

For the Three Months Ended September 30, 2017 and 2016

(Millions of yen)

|   | For the three months<br>ended September 30, 2016<br>(From July 1, 2016<br>to September 30, 2016) | For the three months<br>ended September 30, 2017<br>(From July 1, 2017<br>to September 30, 2017) |
|---|--|--|
| Net sales   | 12,282   | 14,168   |
| Cost of sales   | 8,378  | 9,698  |
| Gross profit  | 3,903  | 4,470  |
| Selling, general and administrative expenses                          | 5,567  | 6,027  |
| Operating income (loss)   | (1,663)  | (1,557)  |
| Non-operating income  |  |  |
| Interest income   | 36   | 38   |
| Dividend income   | 45   | 63   |
| Gain on sales of investment securities                                | -  | 158  |
| Other   | 41   | 161  |
| Total non-operating income  | 123  | 422  |
| Non-operating expenses  |  |  |
| Interest expenses   | 26   | 47   |
| Other   | 2  | 6  |
| Total non-operating expenses  | 29   | 54   |
| Ordinary income (loss)  | (1,569)  | (1,189)  |
| Extraordinary income  |  |  |
| Gain on sales of property, plant and equipment                        | -  | 1,276  |
| Total extraordinary income  | -  | 1,276  |
| Extraordinary losses  |  |  |
| Head office transfer cost   | 105  | -  |
| Total extraordinary losses  | 105  | -  |
| Profit (loss) before income taxes                                     | (1,675)  | 86   |
| Income taxes – current  | 200  | 306  |
| Income taxes – deferred   | (658)  | (225)  |
| Total income taxes  | (457)  | 80   |
| Profit (loss)   | (1,217)  | 6  |
| Profit (loss) attributable to   |  |  |
| Profit (loss) attributable to owners of parent                        | (1,208)  | 8  |
| Profit (loss) attributable to non-controlling interests               | (9)  | (2)  |
| Other comprehensive income (loss)                                     |  |  |
| Valuation difference on available-for-sale securities                 | 89   | 274  |
| Foreign currency translation adjustments                              | (2,372)  | 580  |
| Defined retirement benefit plans                                      | (2)  | (10)   |
| Total other comprehensive income (loss)                               | (2,286)  | 843  |
| Comprehensive income (loss)   | (3,503)  | 849  |
| Comprehensive income (loss) attributable to                           |  |  |
| Comprehensive income (loss) attributable to owners of parent          | (3,489)  | 853  |
| Comprehensive income (loss) attributable to non-controlling interests | (14)   | (4)  |

## (3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

|   | For the three months<br>ended September 30, 2016<br>(From July 1, 2016<br>to September 30, 2016) | For the three months<br>ended September 30, 2017<br>(From July 1, 2017<br>to September 30, 2017) |
|---|--|--|
| <b>Cash flows from operating activities</b>                         |  |  |
| Profit (loss) before income taxes                                   | (1,675)  | 86   |
| Depreciation  | 389  | 381  |
| Amortization of goodwill  | 123  | 116  |
| Loss (gain) on sales of investment securities                       | -  | (158)  |
| Loss (gain) on sales of property, plant and equipment               | (0)  | (1,277)  |
| Increase (decrease) in allowance for doubtful accounts              | (1)  | 25   |
| Increase (decrease) in provision for bonuses                        | 1,381  | 1,215  |
| Increase (decrease) in provision for loss on construction contracts | 45   | 54   |
| Interest and dividend income  | (82)   | (102)  |
| Decrease (increase) in notes and accounts receivable - trade        | 3,217  | 1,977  |
| Decrease (increase) in inventories                                  | (6,290)  | (5,203)  |
| Increase (decrease) in notes and accounts payable - trade           | (483)  | (456)  |
| Increase (decrease) in accounts payable - other                     | (239)  | 218  |
| Increase (decrease) in advances received                            | 3,560  | 2,633  |
| Decrease (increase) in consumption taxes refund receivable          | (443)  | (1,185)  |
| Other, net  | (918)  | (750)  |
| Subtotal  | (1,417)  | (2,425)  |
| Interest and dividend income received                               | 42   | 53   |
| Interest expenses paid  | (17)   | (7)  |
| Head office transfer cost paid                                      | (18)   | -  |
| Income taxes paid   | (726)  | (978)  |
| Net cash provided by (used in) operating activities                 | (2,136)  | (3,358)  |
| <b>Cash flows from investing activities</b>                         |  |  |
| Net decrease (increase) in time deposits                            | (110)  | 686  |
| Purchase of property, plant and equipment                           | (413)  | (158)  |
| Proceeds from sales of property, plant and equipment                | 0  | 2,327  |
| Purchase of investment securities                                   | (220)  | (167)  |
| Proceeds from sales of investment securities                        | -  | 172  |
| Payments of loans receivable  | (710)  | (312)  |
| Collection of loans receivable                                      | 228  | 57   |
| Other, net  | (36)   | (75)   |
| Net cash provided by (used in) investing activities                 | (1,261)  | 2,530  |
| <b>Cash flows from financing activities</b>                         |  |  |
| Net increase (decrease) in short-term loans payable                 | (10,000)   | -  |
| Proceeds from long-term loans payable                               | 16,121   | -  |
| Repayments of long-term loans payable                               | (99)   | (109)  |
| Proceeds from sales of treasury shares                              | 55   | 78   |
| Purchase of treasury shares   | (12)   | (14)   |
| Cash dividends paid   | (760)  | (1,178)  |
| Other, net  | (10)   | (14)   |
| Net cash provided by (used in) financing activities                 | 5,294  | (1,237)  |
| Effect of exchange rate change on cash and cash equivalents         | (510)  | 84   |
| Net increase (decrease) in cash and cash equivalents                | 1,386  | (1,982)  |
| Cash and cash equivalents at beginning of period                    | 9,400  | 17,083   |
| Cash and cash equivalents at end of period                          | 10,787   | 15,101   |

#### (4) Notes to Quarterly Consolidated Financial Statements

##### (Notes on Going Concern Assumption)

There is no relevant information.

##### (Notes on Significant Changes in Shareholders' Equity)

Based on the resolution made at the Board of Directors' meeting held on August 14, 2017, the Company cancelled 1,436,731 shares of treasury stock on August 31, 2017, resulting in decreases of ¥835 million in capital surplus, ¥1,323 million in retained earnings and ¥2,158 million in treasury stock in the first three-month period of the consolidated fiscal year under review. Consequently, capital surplus, retained earnings and treasury stock were ¥6,405 million, ¥40,943 million and 1,383 ¥million, respectively, as of the end of the first three-month period of the consolidated fiscal year ending June 30, 2018.

##### (Accounting Policies Adopted Specially for the Preparation of Quarterly Consolidated Financial Statements)

###### (Deferral of cost variance)

Cost variance caused by seasonal changes in operation rates, etc. is expected to be almost completely eliminated by the end of the cost accounting period, which is, therefore, deferred as other current assets.

##### (Changes in Accounting Policies)

The Company and domestic subsidiaries previously had been applying the completed-contract method (including partial completed-contract method) in principle when recording net sales of business contracts relating to Domestic Consulting Operations, International Consulting Operations, and Power Engineering Operations. From business contracts effective from the current first quarter, the method has been changed to the percentage-of-completion method (estimate of the degree of completion is mainly based on the cost to cost method). The previous revenue recognition standard was reviewed again. We considered the increasing opportunities to receive large project orders under the government-led strategic exporting of infrastructure systems and the expansion of the Company's international operations including the acquisition of an architectural firm in the UK. As a result, the Company judged that the percentage-of-completion method would be more appropriate to present its operating results and financial conditions. Relating systems were developed, and taking this as an opportunity, the Company has decided to make such change.

As this change was made possible with the introduction of a new accounting system, using the percentage-of-completion method to calculate retroactively is practically impossible.

Furthermore, since the cumulative impact at the beginning of the current first quarter cannot be calculated in the case where the system is applied retrospectively, the outstanding balance at the end of the previous fiscal year is treated as the outstanding balance at the beginning of the current first quarter. As for business contracts relating to work in process included at the end of the previous fiscal year, the completed-contract method will be applied in principle, and net sales will be recorded in the financial quarter in which the completion date of each business falls.

As a result, compared with the previous accounting method, net sales were ¥2,074 million, and gross profit, operating income, ordinary income, and profit before income taxes all increased by ¥572 million for the three months ended September 30, 2017.

Impacts on segment information and others are stated in the relevant section.

(Segment Information)

For the three months ended September 30, 2016 (from July 1, 2016 to September 30, 2016)

1) Net sales and segment profit or loss by reportable segment

(Millions of yen)

|                                    | Reportable Segments                  |   |                                    |   |                                      |          | Others<br>(Note) | Total   |
|------------------------------------|--------------------------------------|---|------------------------------------|---|--------------------------------------|----------|------------------|---------|
|                                    | Domestic<br>Consulting<br>Operations | International<br>Consulting<br>Operations | Power<br>Engineering<br>Operations | Urban &<br>Spatial<br>Development<br>Operations | Real Estate<br>Leasing<br>Operations | Subtotal |                  |         |
| Net sales                          |                                      |   |                                    |   |                                      |          |                  |         |
| Net sales to external<br>customers | 1,246                                | 3,467                                     | 4,134                              | 3,260   | 116                                  | 12,226   | 55               | 12,282  |
| Intersegment sales or<br>transfers | 98                                   | 4   | 46                                 | 1   | 31                                   | 181      | 0                | 182     |
| Total                              | 1,345                                | 3,472                                     | 4,180                              | 3,262   | 148                                  | 12,408   | 56               | 12,464  |
| Segment profit (loss)              | (2,135)                              | 36  | 801                                | 116   | 91                                   | (1,089)  | (494)            | (1,584) |

(Note) "Others" refers to a group of operations from which no profits are gained or that produce only incidental gains.

2) Differences between the total amount of profit or loss of reportable segments and the amounts in quarterly consolidated statement of operating and comprehensive income, and major breakdown of such differences (reconciliation)

(Millions of yen)

| Income  | Amount  |
|---|---------|
| Reportable segment total  | (1,089) |
| Loss of "others" category   | (494)   |
| Elimination of inter-segment transactions   | 14      |
| Ordinary Income (loss) in the quarterly consolidated<br>statement of operating and comprehensive income | (1,569) |

For the three months ended September 30, 2017 (from July 1, 2017 to September 30, 2017)

1) Net sales and segment profit or loss by reportable segment

(Millions of yen)

|                                    | Reportable Segments                  |   |                                    |   |                                      |          | Others<br>(Note) | Total   |
|------------------------------------|--------------------------------------|---|------------------------------------|---|--------------------------------------|----------|------------------|---------|
|                                    | Domestic<br>Consulting<br>Operations | International<br>Consulting<br>Operations | Power<br>Engineering<br>Operations | Urban &<br>Spatial<br>Development<br>Operations | Real Estate<br>Leasing<br>Operations | Subtotal |                  |         |
| Net sales                          |                                      |   |                                    |   |                                      |          |                  |         |
| Net sales to external<br>customers | 1,974                                | 5,837                                     | 3,103                              | 3,104   | 113                                  | 14,133   | 35               | 14,168  |
| Intersegment sales or<br>transfers | 113                                  | 3   | 49                                 | 6   | 39                                   | 211      | 0                | 211     |
| Total                              | 2,088                                | 5,840                                     | 3,152                              | 3,110   | 152                                  | 14,344   | 36               | 14,380  |
| Segment profit (loss)              | (1,959)                              | 667                                       | 390                                | 69  | 105                                  | (726)    | (496)            | (1,222) |

(Note) "Others" refers to a group of operations from which no profits are gained or that produce only incidental gains.

2) Differences between the total amount of profit or loss of reportable segments and the amounts in quarterly consolidated statement of operating and comprehensive income, and major breakdown of such differences (reconciliation)

(Millions of yen)

| Income  | Amount  |
|---|---------|
| Reportable segment total  | (726)   |
| Loss of "others" category   | (496)   |
| Elimination of inter-segment transactions   | 33      |
| Ordinary Income (loss) in the quarterly consolidated<br>statement of operating and comprehensive income | (1,189) |

3) Information concerning changes to reporting segments, etc.

As stated in Changes in Accounting Policies, the accounting policy for business contracts effective from the current first quarter was changed to the percentage-of-completion method (estimate of degree of completion is mainly based on the cost to cost method). As a result of this change, compared with the previous accounting method, net sales and segment profit increased by ¥408 million and ¥75 million for Domestic Consulting Operations, ¥1,551 million and ¥475 million for International Consulting Operations, ¥90 million and ¥19 million for Power Engineering Operations, and ¥24 million and ¥1 million for Others, respectively, for the three months ended September 30, 2017.

(Significant Subsequent Events)

(Issuance of new shares as restricted stock compensation)

The Company decided to issue new stocks as restricted stock compensation at the Board of Directors held on October 12, 2017 as follows:

1. Purpose and reason for issuance

We aim to have the Directors (not including Outside Directors; hereinafter referred to as “Eligible Directors”) share benefits and risks of stock price fluctuations with shareholders and further enhance their willingness to contribute to improving stock prices and enhancing corporate value. Therefore, the Company decided, at the Board of Directors held on August 14, 2017, to introduce a restricted stock compensation system (the “System”) which will issue restricted stock to Eligible Directors.

Furthermore, the 73rd Annual General Meeting of Shareholders held on September 28, 2017 approved, under the System, setting the total amount of monetary compensation claims payable to the Eligible Directors as compensation related to restricted stock at a level where it does “not exceed an annual amount of ¥60 million.” In addition, the total number of 50,000 shares which are restricted stock to be allotted to Eligible Directors will be the upper limit of the number of restricted shares to be allotted in each fiscal year, and the transfer restriction period of restricted stock will be between one to five years, determined by the Board of Directors.

2. Outline of the Issuance

|   |   |
|---|---|
| (1) Payment date  | November 10, 2017   |
| (2) Class and number of shares to be issued                       | 10,478 shares of common stock of the Company  |
| (3) Issue price   | ¥4,190 per share  |
| (4) Total issue price of shares to be issued                      | ¥43,902,820   |
| (5) Capitalization amount   | ¥2,095 per share  |
| (6) Total capitalization amount                                   | ¥21,951,410   |
| (7) Method of offer or allotment                                  | Allotment of specified restricted stocks  |
| (8) Method of contribution  | In-kind contribution of monetary compensation claims  |
| (9) Allottees, number thereof and number of shares to be allotted | 10,478 shares to nine Directors of the Company (excluding Outside Directors)  |
| (10) Transfer restriction period                                  | November 10, 2017 to November 9, 2018   |
| (11) Other  | Issue of new shares to be allotted is conditioned on the securities registration statement taking effect in accordance with the Financial Instruments and Exchange Act. |

### 3. Other Information

#### (1) Status of Orders and Sales

| By period<br>Category/Operations |                             | For the three months ended<br>September 30, 2016 |           | For the three months ended<br>September 30, 2017 |           | For the fiscal year ended<br>June 30, 2017 |           |
|----------------------------------|-----------------------------|--|-----------|--|-----------|--|-----------|
|                                  |                             | Amount<br>(Millions of yen)                      | Ratio (%) | Amount<br>(Millions of yen)                      | Ratio (%) | Amount<br>(Millions of yen)                | Ratio (%) |
| Orders received                  | Domestic Consulting         | 15,589   | 43.4      | 13,383   | 50.1      | 48,265                                     | 41.1      |
|                                  | International Consulting    | 13,648   | 38.0      | 6,595  | 24.7      | (Note 1) 41,573                            | 35.4      |
|                                  | Power Engineering           | 3,866  | 10.8      | 4,069  | 15.2      | 14,087                                     | 12.0      |
|                                  | Urban & Spatial Development | 2,806  | 7.8       | 2,660  | 10.0      | 13,460                                     | 11.5      |
|                                  | Real Estate Leasing         | -  | -         | -  | -         | -  | -         |
|                                  | Others                      | 4  | 0.0       | 4  | 0.0       | 55   | 0.0       |
|                                  | Total                       | 35,915   | 100.0     | 26,713   | 100.0     | 117,442                                    | 100.0     |
| Net sales 1                      | Domestic Consulting         | 1,289  | 10.5      | 2,016  | 14.2      | 45,470                                     | 44.9      |
|                                  | International Consulting    | 3,895  | 31.7      | 6,189  | 43.7      | 26,384                                     | 26.0      |
|                                  | Power Engineering           | 3,719  | 30.3      | 2,745  | 19.4      | 14,583                                     | 14.4      |
|                                  | Urban & Spatial Development | 3,260  | 26.5      | 3,104  | 21.9      | 14,344                                     | 14.1      |
|                                  | Real Estate Leasing         | 116  | 1.0       | 113  | 0.8       | 473  | 0.5       |
|                                  | Others                      | 0  | 0.0       | 0  | 0.0       | 81   | 0.1       |
|                                  | Total                       | 12,282   | 100.0     | 14,168   | 100.0     | 101,338                                    | 100.0     |
| Net sales 2                      | Domestic Consulting         | 1,246  | 10.1      | 1,974  | 13.9      | 43,516                                     | 42.9      |
|                                  | International Consulting    | 3,467  | 28.2      | 5,837  | 41.2      | 24,491                                     | 24.2      |
|                                  | Power Engineering           | 4,134  | 33.7      | 3,103  | 21.9      | 17,577                                     | 17.3      |
|                                  | Urban & Spatial Development | 3,260  | 26.5      | 3,104  | 21.9      | 14,347                                     | 14.2      |
|                                  | Real Estate Leasing         | 116  | 1.0       | 113  | 0.8       | 473  | 0.5       |
|                                  | Others                      | 55   | 0.5       | 35   | 0.3       | 931  | 0.9       |
|                                  | Total                       | 12,282   | 100.0     | 14,168   | 100.0     | 101,338                                    | 100.0     |

| By period<br>Category/Operations           |                             | As of September 30, 2016    |           | As of September 30, 2017    |           | As of June 30, 2017         |           |
|--|-----------------------------|-----------------------------|-----------|-----------------------------|-----------|-----------------------------|-----------|
|  |                             | Amount<br>(Millions of yen) | Ratio (%) | Amount<br>(Millions of yen) | Ratio (%) | Amount<br>(Millions of yen) | Ratio (%) |
| Impact of foreign<br>exchange fluctuations | Domestic Consulting         | -                           |           | -                           |           | -                           |           |
|  | International Consulting    | (251)                       |           | (74)                        |           | 2,177                       |           |
|  | Power Engineering           | -                           |           | -                           |           | -                           |           |
|  | Urban & Spatial Development | (2,326)                     |           | 538                         |           | (1,678)                     |           |
|  | Real Estate Leasing         | -                           |           | -                           |           | -                           |           |
|  | Others                      | -                           |           | -                           |           | -                           |           |
|  | Total                       | (2,577)                     |           | 463                         |           | 498                         |           |
| Outstanding Orders                         | Domestic Consulting         | 42,838                      | 32.9      | 42,700                      | 30.7      | 31,333                      | 24.8      |
|  | International Consulting    | 63,503                      | 48.8      | 71,699                      | 51.5      | 71,368                      | 56.6      |
|  | Power Engineering           | 10,350                      | 8.0       | 11,030                      | 7.9       | 9,707                       | 7.7       |
|  | Urban & Spatial Development | 13,470                      | 10.3      | 13,783                      | 9.9       | 13,688                      | 10.9      |
|  | Real Estate Leasing         | -                           | -         | -                           | -         | -                           | -         |
|  | Others                      | 54                          | 0.0       | 29                          | 0.0       | 24                          | 0.0       |
|  | Total                       | 130,217                     | 100.0     | 139,243                     | 100.0     | 126,122                     | 100.0     |

(Notes) 1. System Science Consultants Inc. became a consolidated subsidiary during the previous fiscal year, and orders received at the time of its consolidation are included. System Science Consultants Inc. merged with Koei Research Institute International Corp. (consolidated subsidiary) as of July 1, 2017, and the company name changed to Koei Research & Consulting Inc.

2. The above amounts are exclusive of consumption taxes.

3. The above amounts are for external customers.

4. Net sales 1 is by segment which received orders. Net sales 2 is by segment which provided services.