

Fiscal Year 2018 (Ending March 31, 2019) 3Q Financial Results Briefing Session Materials

February 15, 2019

Nikko Co., Ltd.

(Tokyo Stock Exchange Code: 6306)

**Hiroshi Fujii,
Managing Director and General Manager of the Finance Dept.**

Business Climate in FY 2018 3Q

FY 2018 3Q Results

3Q (Apr–Dec)	Results	YoY Change
• Net sales	20,418 mil. yen	(3,726) mil. yen / (15.4)%
• Operating income	307 mil. yen	(893) mil. yen / (74.4)%
• Net income	562 mil. yen	(489) mil. yen / (46.5)%

Domestic product sales in both AP and BP were below that of the previous year. Maintenance service sales were up YoY for both AP and BP. China was down 13.7% YoY, exports to ASEAN countries and Russia were down 54.8%. Orders in both AP and BP declined.

Business climate and operation policy

AP-related business

FY 2018 3Q (Apr-Dec)	<u>Asphalt mixture production volume</u>	<u>28.44 mil. tons</u>	<u>(down 2.4% year on year)</u>
	<u>Virgin mixture</u>	<u>6.89 mil. tons</u>	<u>(down 2.1% year on year)</u>
	<u>Recycled mixture</u>	<u>21.54 mil. tons</u>	<u>(down 2.5% year on year)</u>
	<u>*Recycled mixture ratio: 75.7%</u>		

Source: Japan Asphalt Mixture Association

BP-related business

FY 2018 3Q (Apr-Dec)	<u>Ready-mixed concrete shipment volume</u> was <u>65.39 mil. m³</u> <u>(up 1.7% year on year)</u>
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Source: National Federation of Ready-Mixed Concrete Industrial Associations and National Federation of Ready-Mixed Concrete Cooperatives Association

Public works expenditure (initial budget on a general account basis) for FY 2019 is expected to increase as much as 20% for key infrastructure repair.

Inquiries after NIKKO Messe have been strong and we plan to improve business performance from the next fiscal year onwards by achieving orders and sales as scheduled.

NIKKO Messe 2018 (from Oct 22 to Nov 2)

<Goals>

1. Compilation of 2016-2018 Medium-Term Management Plan
An event commemorating 100th anniversary
2. Showcase our innovative spirit based on continuous development of new products
3. Expand sales of new products and propose new business models
(e.g. recycling burner + crusher; remote maintenance linked with new operation console)
4. Improve ability to explain, primarily in young employees, and gather customer needs

Number of visitors

Number of visitors	Existing business	New	Total
AP	355	46	401
BP	202	35	237
Environment- and conveyor-related	90	4	94
Other business	77	5	82
Sales agents' association	149	–	149
Overseas	64	–	64
Total	937	90	1,027
Cooperating engineering shops	123	–	123
Suppliers	95	5	100
Investors, security analysts, individual shareholders, media, etc.	–	–	100

Number of items on display

AP-related business	6
BP-related business	8
Maintenance service	10
Environment- and conveyor-related	7
Mobile products	5
Other business	14
Total	50

<Outcome>

Inquiries following NIKKO Messe (from Nov 5 to Jan 31) (mil. yen)

Item		Value
AP sales	VP-related projects	2,375
	Crushing-related projects	956
BP sales	BP body, Hyper, operation console-related projects	1,240
MP sales	Kleemann, Trackstack, RedRhino	1,114
Total		5,685

★ Sales for both informal order for displayed VP plants and orders for BP plants are expected to be recorded in the next fiscal year

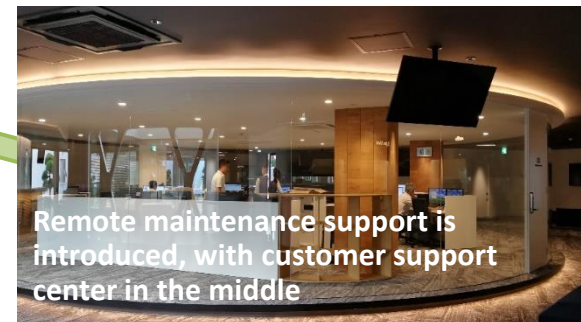
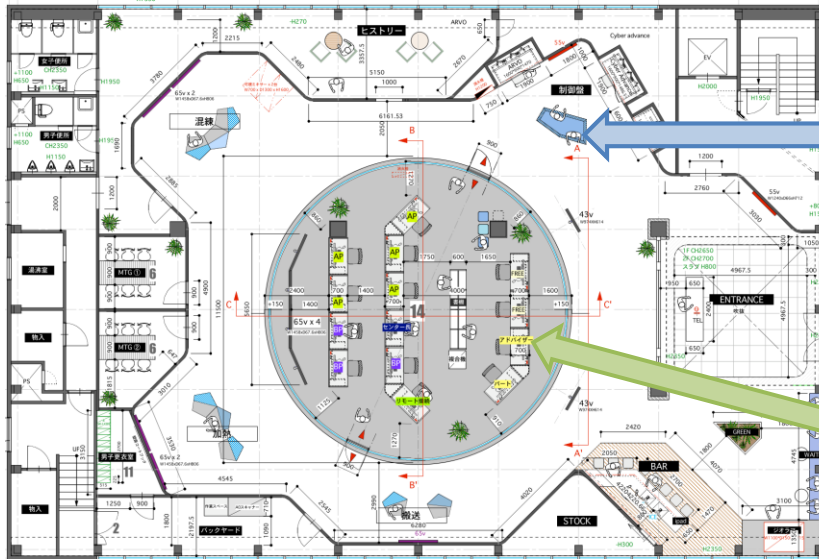
★ Other

- VP-related inquiries among AP sales have increased and are being materialized
Orders expected in FY 2018 14.50 mil. yen
Orders expected in FY 2019 9.25 mil. yen
Sales expected in FY 2019 17.00 mil. yen
- In BP sales, inquiries for operation consoles and plants have increased
- AP crusher-related and MP sales inquiries have increased

NIKKO Messe 2018 (from Oct 22 to Nov 2)

Our Permanent Exhibit Area in Head Office (NPS: Nikko Proposal Station)

A new showroom consists of ten areas, with a customer support center (CSC) in the middle.



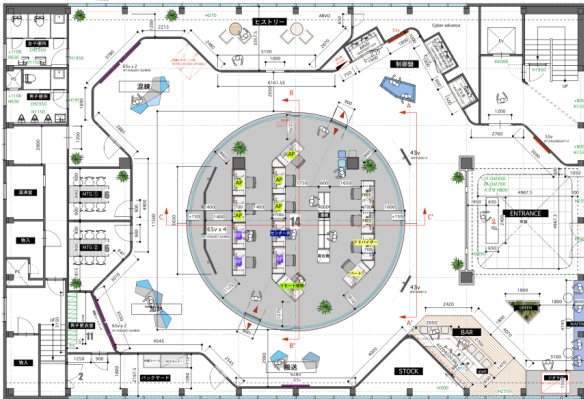
New CSC (Customer Support Center)

- We built a system for preventive maintenance using IoT based on big data of more than 10 years of plant operations.

(Voices of customers at Messe)

- The Customer Center was better than expected. It gave me an impression that information can be shared at once and easy to contact.
- Condition of the support center, data collection and future utilization methods are all good.
- The support system is well established and it appears to be able to solve users' concerns. And so on.

New Customer Support Center (CSC)



New CSC

Currently it can be connected with Nikko plants -- about 450 AP plants and about 650 BP plants -- for remote-controlled maintenance

→ Connect CSC and customer's operation console and grasp the plant's operation status and operation hours

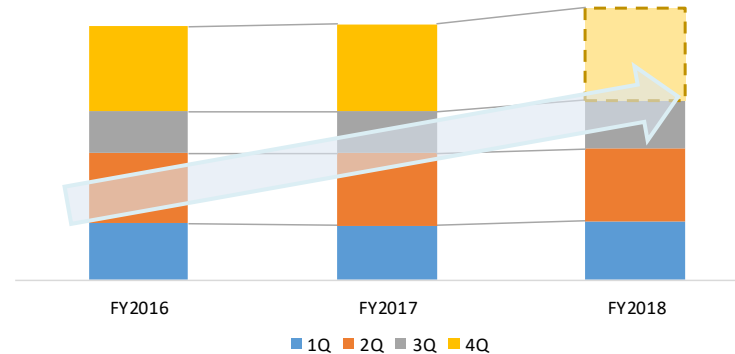
We built a system for preventive maintenance using IoT based on big data of more than 10 years of plant operations.



Future plan

- To build a parts sales structure for receiving parts orders directly from operation consoles
- Build preventive maintenance system based on parts wear to carry out timely proposal-based sales that eliminates loss in customers' operations
- Reduce work load of on-site service men and enable efficient sales and maintenance activities for improving revenues
→ High-level technology standardization by utilizing smart grass, etc.

Trend in quarterly service sales



New President (to assume office on April 1)

Name Masaru Tsuji
 Date of birth June 4, 1960 (58 years old)
 New position President and Representative Director
 Birthplace Hyogo Prefecture
 Education Master's degree in construction engineering,
 Graduate School of Engineering, Saitama University (graduated in March 1985)



(Brief career history)

Sep 1987 Joined NIKKO
 Dec 1995 Senior engineer, Design Team, BP Engineering Department
 Apr 1999 Leader, Corporate Planning Group, President's Office
 Feb 2002 Manager, IT Corporate Planning Office
 Jan 2003 Leader, Construction Team
 Oct 2003 Leader, Procurement Team
 Apr 2006 General Manager, Market Development Department
 Jun 2007 Executive Officer, Head of Market Development Department, and Business Promotion Office
 Jun 2008 Director, Head of Market Development Department, and Business Promotion Office
 Apr 2010 Director, Head of Business Development Department, Engineering Department,
 Market Development Department, and Business Promotion Office
 Jun 2011 Managing Director, Head of Sales Division, Business Development, and Environment Engineering Business
 Jun 2012 Managing Director, Head of Sales Division
 Apr 2015 Managing Director, Head of Sales Division, and Tokyo Office
 Jun 2015 Senior Managing Director, Head of Sales Division, and Tokyo Office
 Apr 2016 Senior Managing Director, Head of Sales Division

FY 2018 Performance Highlights (1)

(mil. yen)

	FY 2017			FY 2018				
	3Q Actual	3Q (9 mo.) Actual	Full year Actual	3Q Actual	YoY change	3Q (9 mo.) Actual	YoY change	Full year forecast
Net sales	7,992	24,145	35,114	5,721	(2,271) (28.4)%	20,418	(3,727) (15.4)%	32,500
Operating income	393	1,201	2,103	(167)	(560) —	307	(894) (74.4)%	1,600
Operating margin	4.9%	5.0%	6.0%	(2.9)%	— —	1.5%	— —	4.9%
Ordinary income	431	1,356	2,239	(142)	(573) —	453	(903) (66.6)%	1,750
Net income attributable to owners of parent	308	1,051	1,490	(2)	(310) —	562	(489) (46.5)%	1,400
New orders received	6,376	22,309	33,616	5,796	(580) (9.1)%	19,650	(2,659) (11.9)%	32,500
Order backlog	—	9,793	10,132	—	— —	9,364	(429) (4.4)%	10,132

(yen)

Exchange rate (EUR/JPY)	—	125.20	127.19	—	—	130.56	+5.36	130.00
Exchange rate (RMB/JPY)	—	16.47	16.63	—	—	16.76	+0.29	16.50

Operating income declined YoY by 890 mil. yen to 310 mil. yen, as domestic sales of AP- and BP-related businesses fell (down 1,290 mil. yen and 1,410 mil. yen, YoY, respectively) and SG&A expenses increased (up 240 mil. yen YoY). Cost-of-sales ratio improved by 1.4% thanks to lower outsourcing costs and other factors.

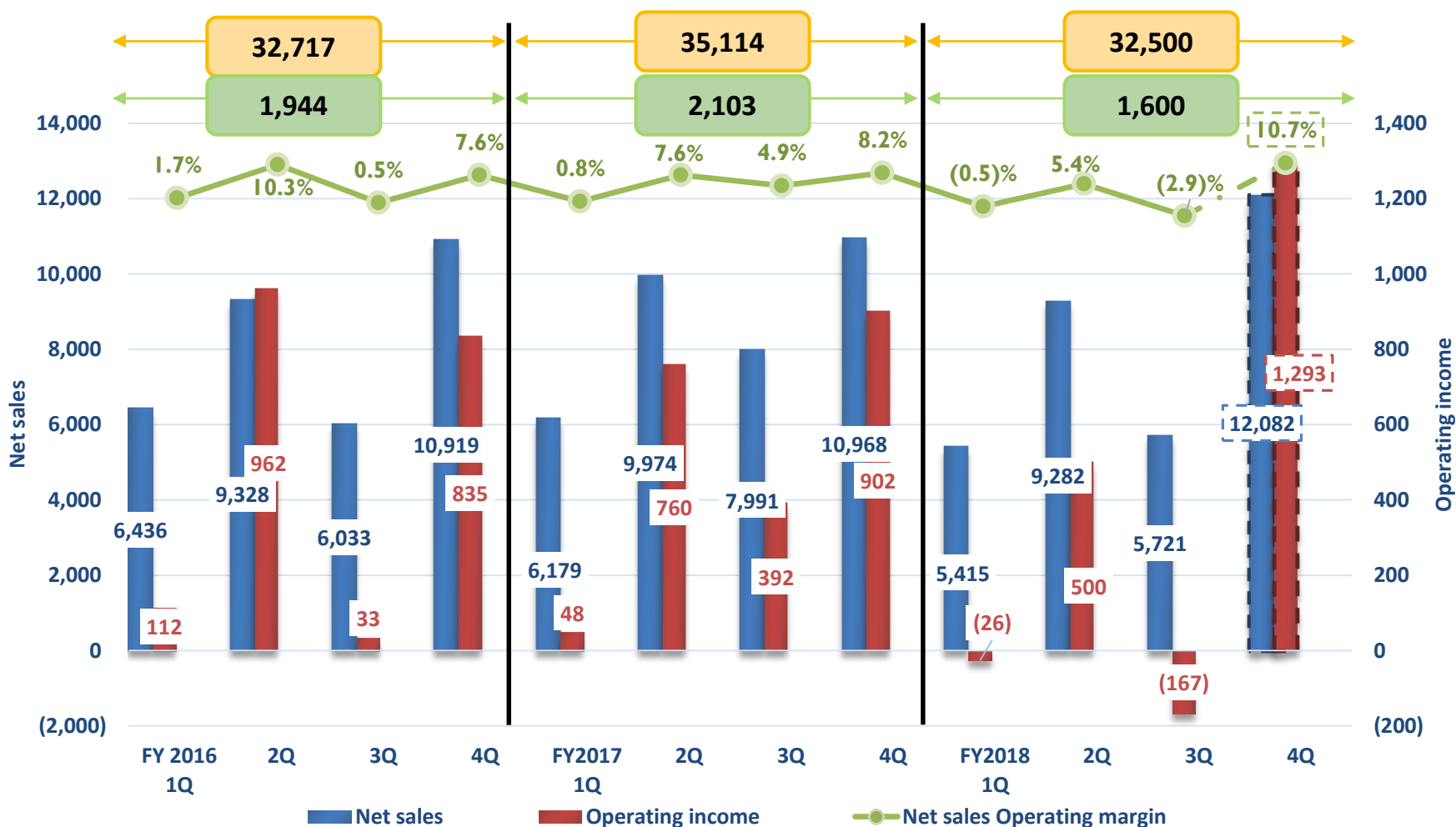
FY 2018 Performance Highlights (2)

(mil. yen)

		FY 2017			FY 2018				
		3Q Actual	3Q (9 mo.) Actual	Full year Actual	3Q Actual	YoY change	3Q (9 mo.) Actual	YoY change	Full year forecast
Asphalt plant-related business	Net sales	4,155	11,587	17,179	2,460	(1,695) (40.8)%	10,293	(1,294) (11.2)%	16,800
	Operating income	318	768	1,348	(132)	(450) —	283	(484) (63.2)%	1,100
	Operating margin	7.7%	6.6%	7.8%	(5.4)%	—	2.7%	—	6.5%
Concrete plant-related business	Net sales	1,291	6,897	9,521	1,612	+321 24.9%	5,482	(1,415) (20.5)%	8,100
	Operating income	68	737	1,015	23	(45) (66.2)%	381	(356) (48.3)%	740
	Operating margin	5.3%	10.7%	10.7%	1.4%	—	7.0%	—	9.1%
Environment- and conveyor-related business	Net sales	1,519	2,972	3,931	601	(918) (60.4)%	1,699	(1,273) (42.8)%	2,800
	Operating income	115	216	308	146	+31 27.0%	254	+38 17.6%	300
	Operating margin	7.6%	7.3%	7.8%	24.3%	—	14.9%	—	10.7%
Other business	Net sales	1,027	2,687	4,480	1,048	+21 2.0%	2,942	+255 9.5%	4,800
	Operating income	121	228	462	115	(6) (5.0)%	208	(20) (8.8)%	480
	Operating margin	11.8%	8.5%	10.3%	11.0%	—	7.1%	—	10.0%
Corporate expenses		(231)	(750)	(1,031)	(318)	—	(820)	—	(1,020)

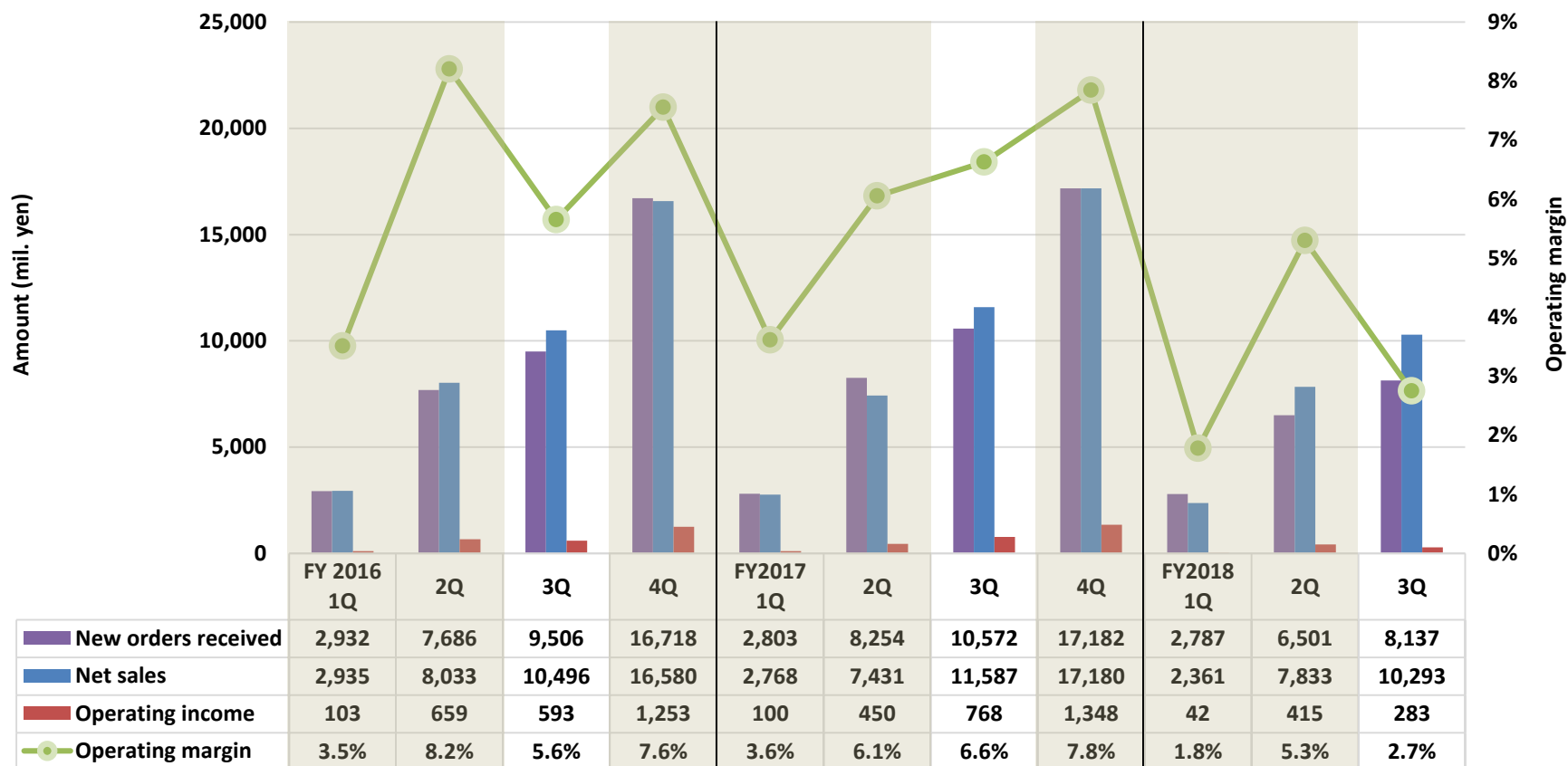
Quarterly net sales and operating income trends

(mil. yen)



Asphalt Plant-Related Business

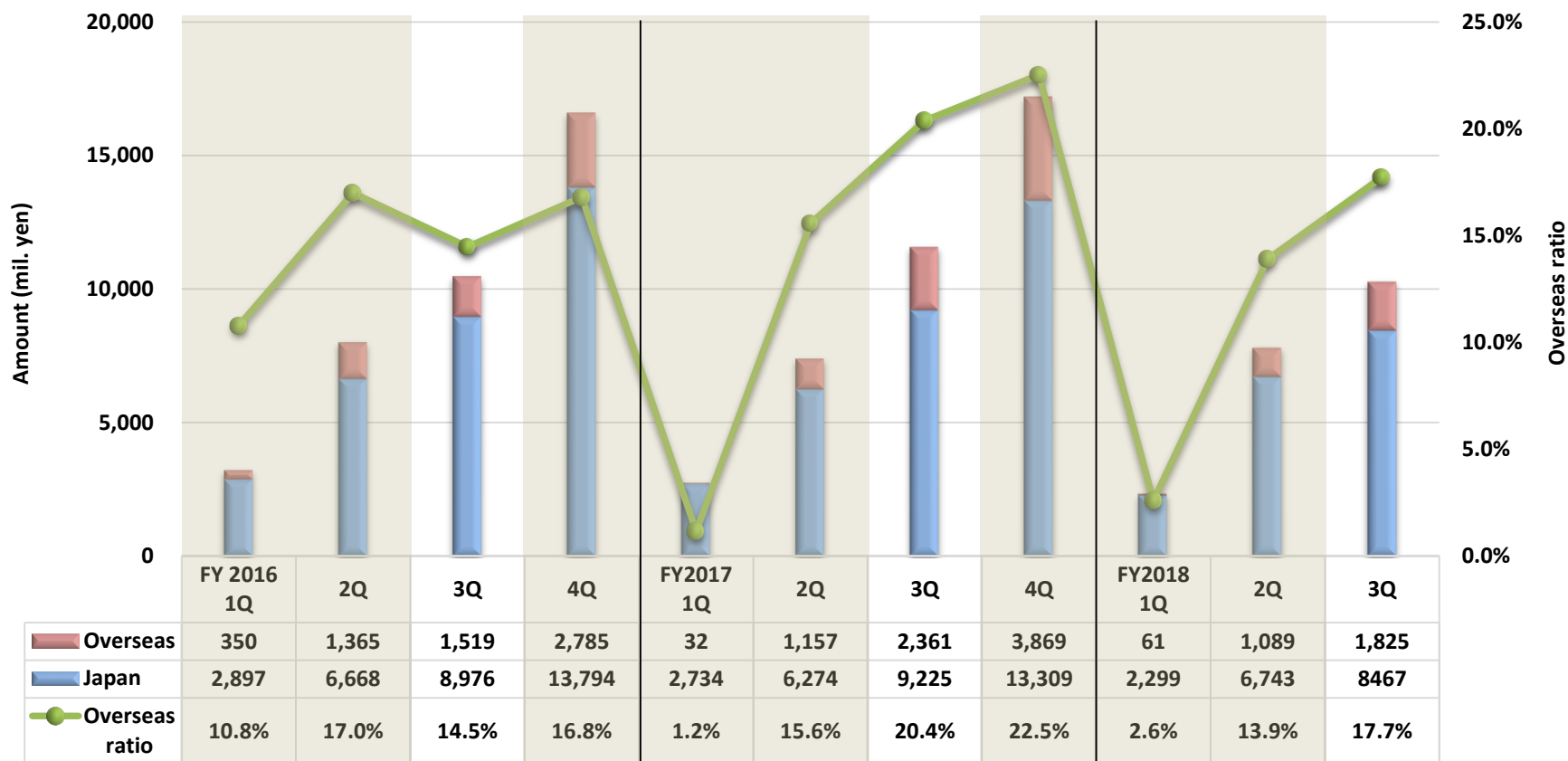
Note: Numbers for the second to fourth quarters of each fiscal year are year-to-date cumulative.



- New orders received:** Declined year on year as expected domestic orders were delayed into the next fiscal year. Overseas, there were deferring and delays in progress due to the foreign exchange situation and policy changes in the target countries.
- Net sales:** Plant product sales in Japan significantly underperformed the level in the same period a year earlier due to delay in delivery. Maintenance service exceeded the previous year's level. Sales in China fell. Exports to ASEAN and other countries declined significantly.
- Operating income:** Fell greatly from the same period a year earlier due to sales decline in sales other than maintenance service (plants, overseas)

Asphalt Plant-Related Business (Changes in Breakdown)

Note: Numbers for the second to fourth quarters of each fiscal year are year-to-date cumulative.



Nikko Shanghai:

Declined due to delay of projects into 4Q

Overseas:

Exports to ASEAN and other countries declined significantly

MS:

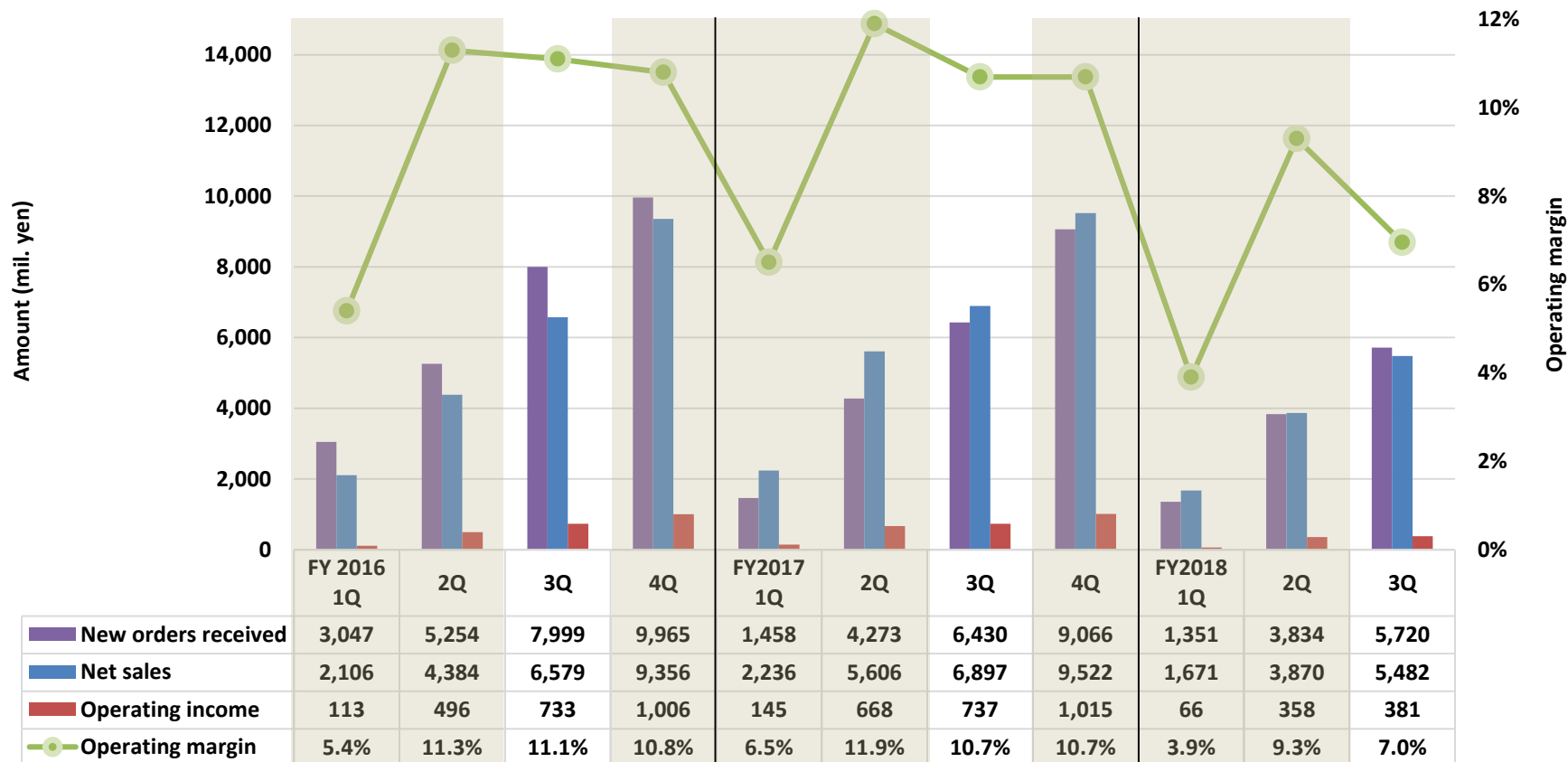
Sales increased partly due to the impact of new CSC

Asphalt plants:

Sales of plant products in Japan were well below the level of the same period a year earlier due to delay in delivery.

Concrete Plant-Related Business

Note: Numbers for the second to fourth quarters of each fiscal year are year-to-date cumulative.



New orders received: Declined compared with the same period a year earlier due to delay in order receipt timing.

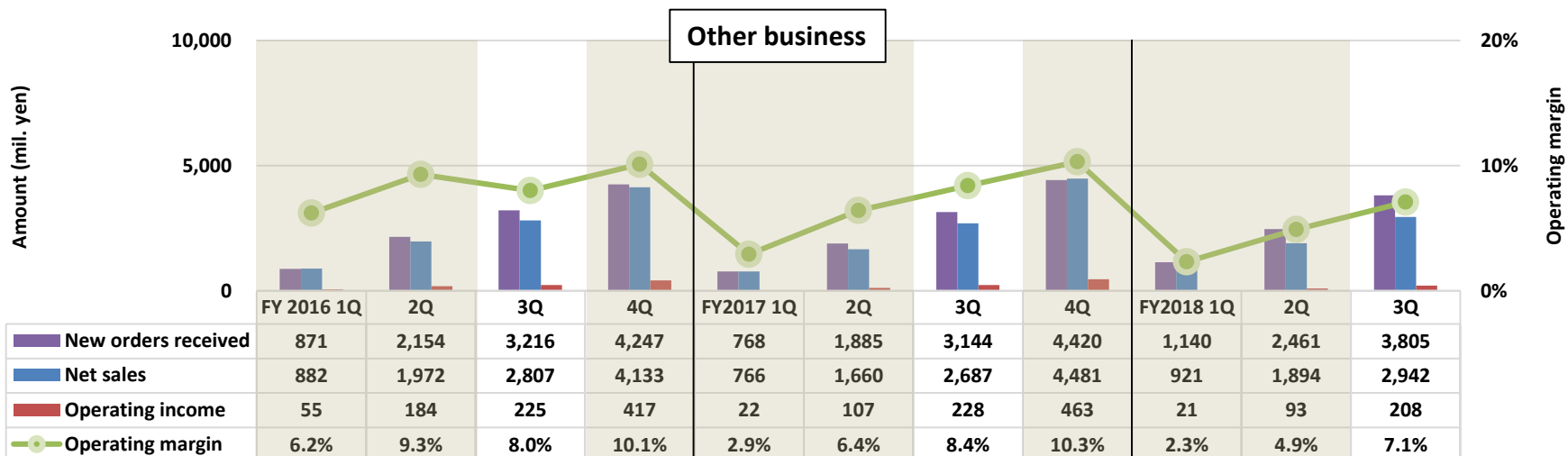
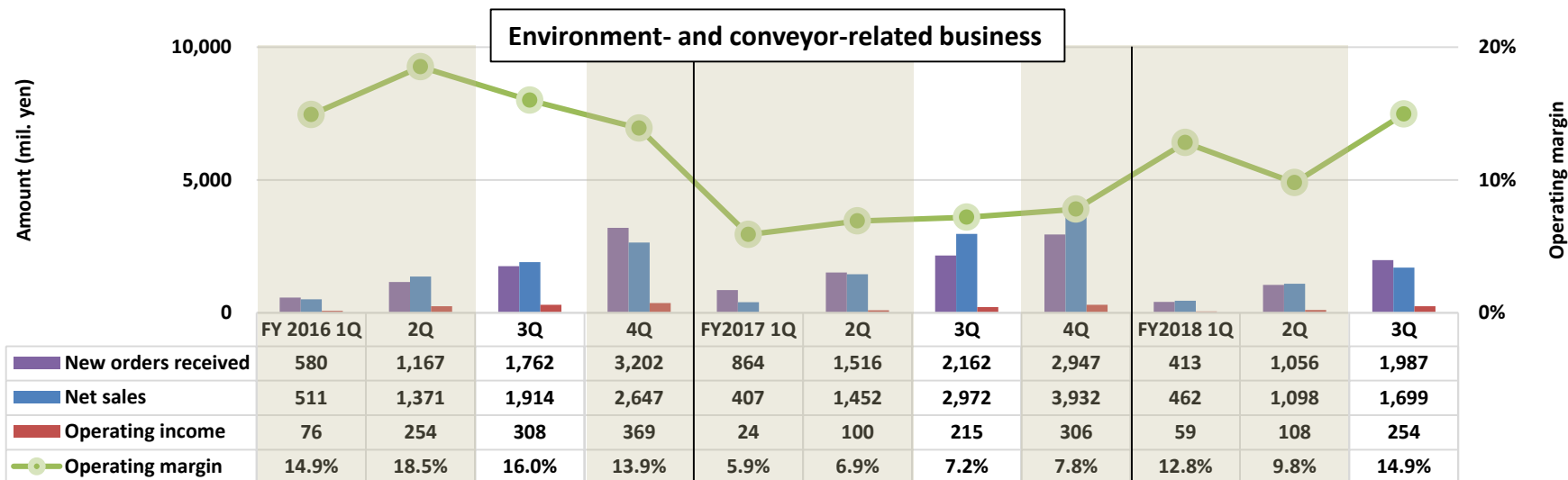
New sales: Maintenance service increased YoY

Operating income: Declined compared with the same period a year earlier, as plant order backlog was low

Operating income: Declined year on year due to plant sales decline.

Environment- and Conveyor-Related, and Other Businesses

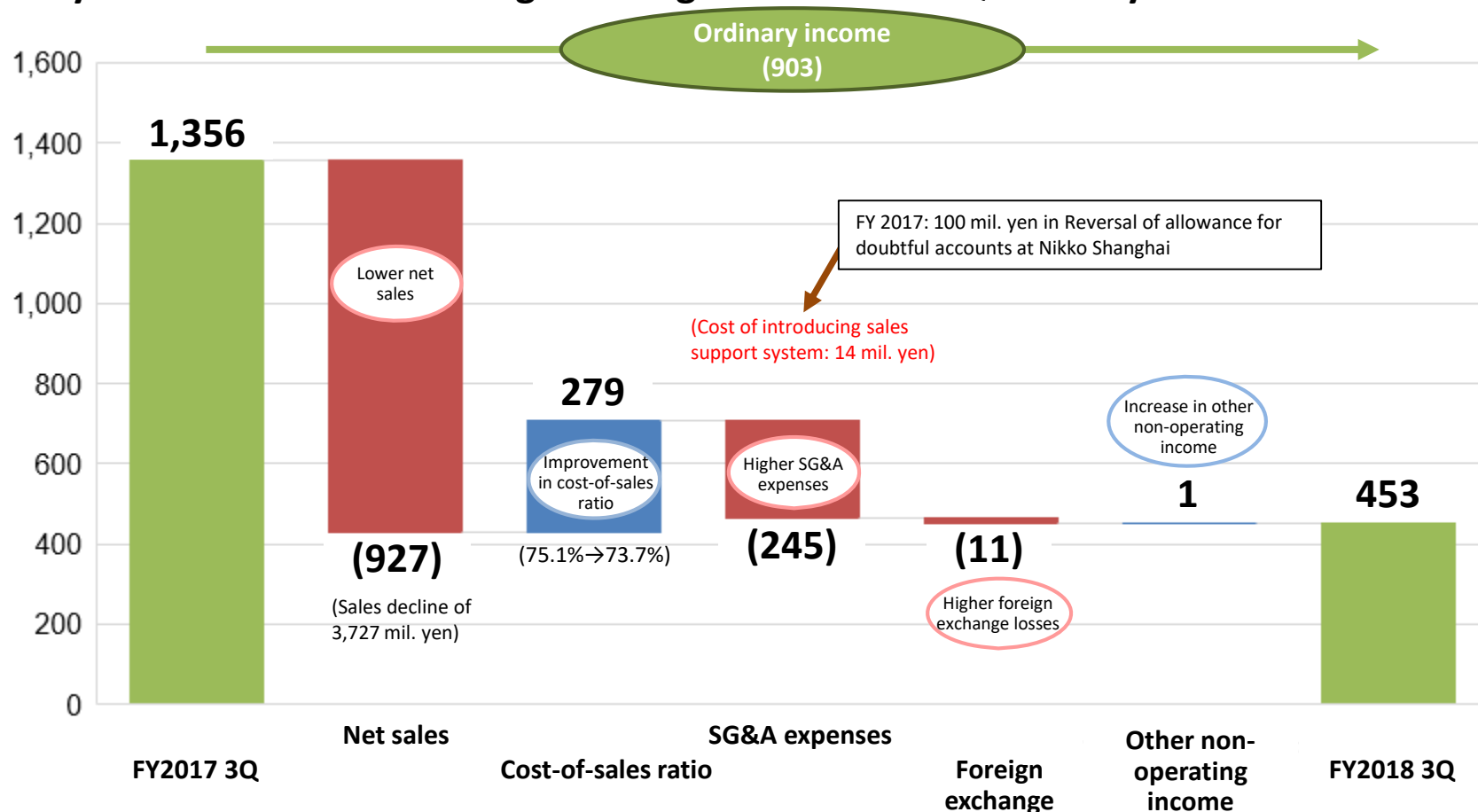
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Analysis of FY 2018 3Q Ordinary Income Change Factors

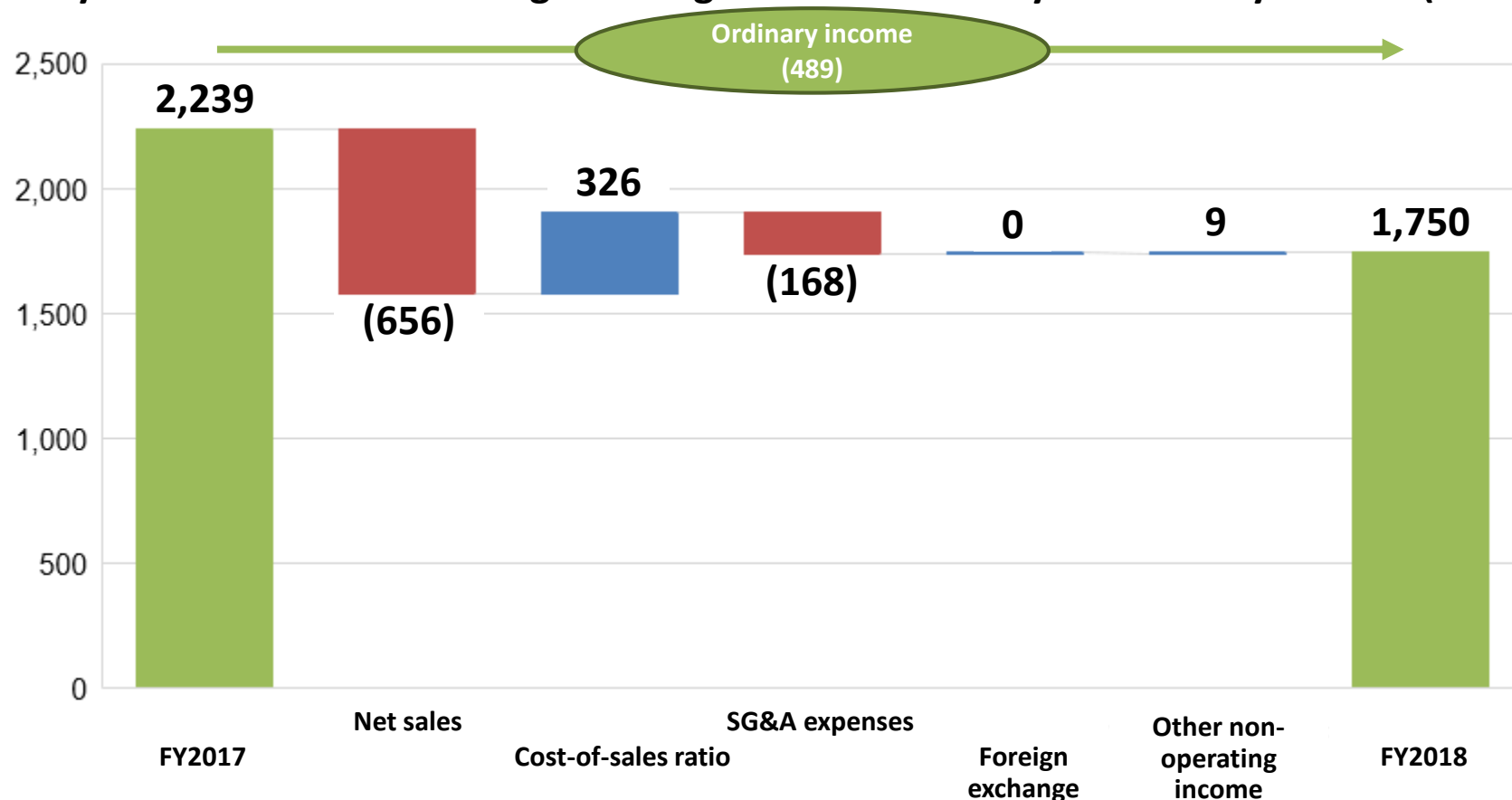
(mil. yen)

Analysis of factors contributing to changes in FY 2018 3Q ordinary income



Analysis of FY 2018 Ordinary Income Change Factors

Analysis of factors contributing to changes in FY 2018 full-year ordinary income (forecast) (mil. yen)



Unchanged from
the estimate in 2Q

Balance Sheet Trends

(mil. yen)

		FY2017 3Q	FY2018 3Q	Change	Main factors in year-on-year change
Assets	Current assets	30,773	28,897	(1,876)	Increase: Inventories 1,317 mil. yen Electronically recorded monetary claims 903 mil. yen Decrease: Cash and deposits (2,906) mil. yen Accounts receivable-trade (771) mil. yen Securities (300) mil. yen
	Property and equipment	5,305	6,496	+1,191	Increase: Buildings and structures 884 mil. yen Land 255 mil. yen Decrease: Securities (1,793) mil. yen
	Intangible assets	371	365	(6)	
	Investments and other assets	9,540	7,622	(1,918)	Investments in capital (235) mil. yen
Total assets		45,990	43,382	(2,608)	
Liabilities	Current liabilities	11,864	10,822	(1,042)	Decrease: Accounts payable-trade (853) mil. yen Accounts payable-other 454 mil. yen Other current liabilities 245 mil. Yen Deferred tax liabilities (666) mil. yen
	Long-term liabilities	3,715	2,928	(787)	
Total net assets		30,410	29,631	(779)	Increase: Retained earnings 503 mil. yen Decrease: Valuation difference on available-for-sale securities (1,269) mil. yen
Net assets per share (yen)		3,972.03	3,866.53	(105.50)	

Reference Materials

Trends in Net Sales, Profit, Cash Flows, and Other Indicators

(mil. yen)

	FY 2016				FY 2017				FY 2018		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Net sales	6,436	9,328	6,034	10,919	6,179	9,974	7,992	10,969	5,415	9,282	5,721
AP-related business	2,935	5,099	2,462	6,084	2,768	4,664	4,155	5,592	2,361	5,472	2,460
BP-related business	2,106	2,278	2,195	2,777	2,236	3,370	1,291	2,624	1,671	2,199	1,612
Environment- and conveyor-related business	511	861	542	733	407	1,046	1,519	959	462	636	601
Other business	882	1,091	834	1,326	766	894	1,027	1,793	921	973	1,048
Operating income	112	963	33	836	48	760	393	902	(26)	500	(167)
AP-related business	103	556	(66)	660	100	350	318	580	42	373	(132)
BP-related business	113	384	236	273	145	524	68	278	66	292	23
Environment- and conveyor-related business	76	178	54	61	24	77	115	92	59	49	146
Other business	55	129	41	192	22	85	121	234	21	72	115
Corporate expenses	(236)	(285)	(230)	(351)	(244)	(275)	(231)	(281)	(216)	(286)	(318)
Ordinary income	187	957	67	782	161	764	431	883	87	508	(142)
Net income attributable to owners of parent	124	766	28	422	182	561	308	439	130	434	(2)

Cash flow from operating activities	5,064				274				—	—	—
Cash flow from investing activities	(316)				41				—	—	—
Total dividend	209	—	194	—	232	—	191	—	267	—	229
Share buyback	1,006				245				—	—	—

Trends in New Orders Received and Order Backlog per Business Segment

(mil. yen)

New orders received (cumulative)	FY 2016				FY 2017				FY 2018		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
AP-related business	2,932	7,687	9,506	16,718	2,803	8,254	10,572	17,182	2,787	6,501	8,137
BP-related business	3,047	5,255	7,999	9,965	1,458	4,274	6,430	9,066	1,351	3,834	5,720
Environment- and conveyor-related business	580	1,168	1,762	3,202	864	1,517	2,162	2,947	413	1,056	1,987
Other business	871	2,155	3,216	4,247	768	1,886	3,144	4,420	1,140	2,461	3,805
Total	7,432	16,266	22,485	34,134	5,896	15,933	22,309	33,616	5,693	13,854	19,650

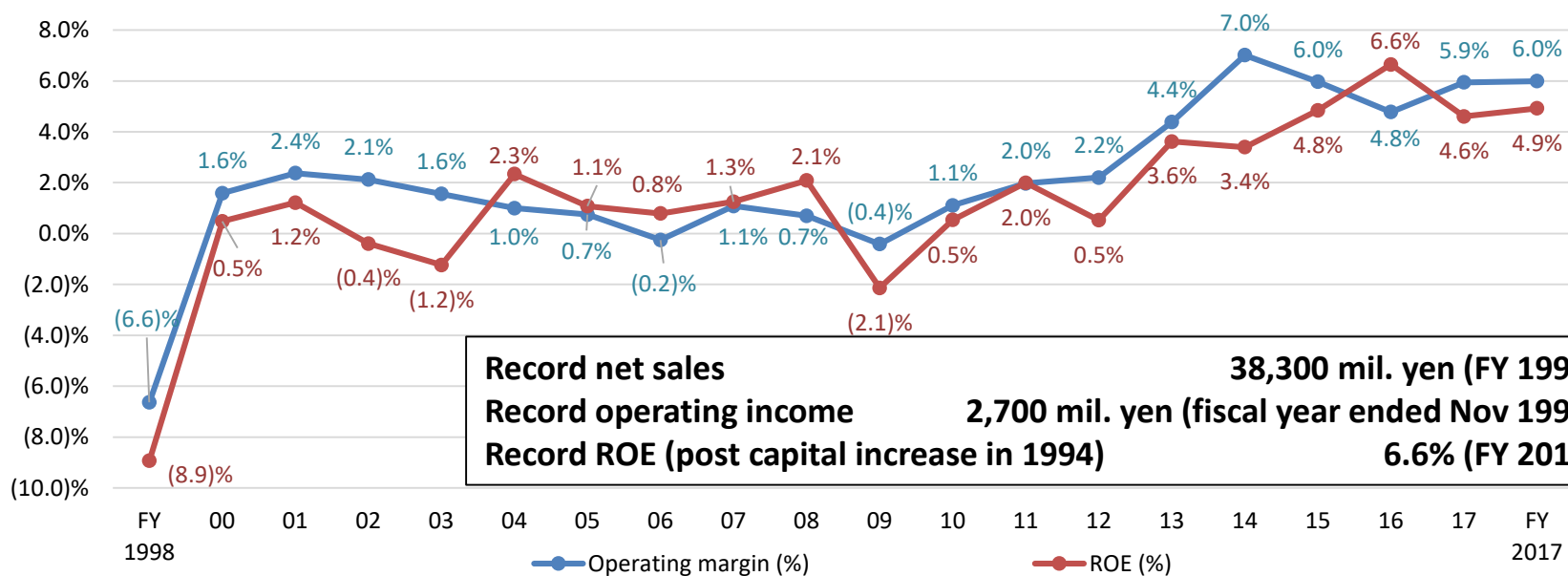
End-of-term order backlog	FY 2016				FY 2017				FY 2018		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
AP-related business	6,024	5,680	5,038	6,356	6,391	7,178	5,341	6,359	6,784	5,027	4,203
BP-related business	3,658	3,587	4,136	3,350	2,572	2,018	2,883	2,894	2,575	2,858	3,132
Environment- and conveyor-related business	885	612	663	1,371	1,827	1,434	560	387	338	345	675
Other business	425	618	846	551	553	776	1,008	490	710	1,058	1,352
Total	10,993	10,499	10,684	11,629	11,346	11,408	9,793	10,132	10,409	9,289	9,364

Trend in Key Financial Data

(mil. yen)

	FY 1998	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	FY 2017
Net sales	22,294	22,157	22,595	23,170	24,307	24,812	24,864	22,175	25,035	26,942	23,856	23,971	23,803	24,553	27,087	32,073	30,707	34,110	32,717	35,114
Operating income (loss)	(1,480)	352	536	492	379	248	185	(55)	271	189	(98)	265	470	541	1,186	2,249	1,832	1,629	1,944	2,103
Ordinary income	(1,290)	201	846	664	688	492	537	350	699	545	482	899	812	621	1,108	1,982	1,582	1,648	1,993	2,239
Net income (loss)	(2,151)	121	298	(93)	(284)	567	265	203	315	513	(499)	124	461	122	881	888	1,348	1,896	1,340	1,490

Operating margin, ROE



Trends in Capital Investment, Depreciation and Amortization, R&D Expenses, and Nonfinancial Data

(mil. yen)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY2018 1H	FY 2018 forecast
Capital investment	292	335	844	815	877	1,261	550	1,143	1,800
Depreciation and amortization	432	389	395	422	487	482	472	226	495
R&D expenses	239	256	295	276	227	271	291	145	300

(persons, years old, or years)

Employees (consolidated):	775	763	767	796	803	797	807	816	
Average age of employees (non-consolidated)	44.2	44.7	43.3	43.1	42.2	42.3	42.2	41.9	
Average years of service (non-consolidated)	21.5	21.2	20	19.3	18.2	18.5	18.3	18.1	
Female employees (non-consolidated)	10	11	11	10	12	15	17	18	
Overseas employees (consolidated)	92	90	91	95	92	91	101	95	
Foreign national employees (consolidated)	92	90	91	95	94	93	101	101	

New products for reducing environmental impact

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
New products	<ul style="list-style-type: none"> Specialized sand drying equipment High temperature preheating burner 	<ul style="list-style-type: none"> NTB-II burner 	<ul style="list-style-type: none"> New-type bag filter 	<ul style="list-style-type: none"> VP Series asphalt plants 	—	<ul style="list-style-type: none"> Foamed asphalt manufacturing equipment
Features reducing environmental impact	<ul style="list-style-type: none"> Improved plant production efficiency Energy saving 	<ul style="list-style-type: none"> Energy saving Higher combustion efficiency in low-combustion range 	<ul style="list-style-type: none"> Space saving Energy saving, exhaust gas reduction Low noise 	<ul style="list-style-type: none"> Preventing diffusion of recycled material odorous gas 	—	<ul style="list-style-type: none"> Support for manufacture of warm-mix asphalt

Please feel free to contact us as follows if you desire a meeting or have other requests.
(Meetings in Tokyo are also possible.)

Contact: Saburo Hachiken, Finance Department, Nikko Co., Ltd.

Tel: +81-78-947-3141

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Future projections and other forward-looking statements in this material were prepared based on information currently available to the management.
These statements contain risks and uncertainties, such as changes in performance outlook due to the financial situation for the Company in Japan and abroad, industry trends, product demand and supply, advances in new technology, and other factors. Accordingly, investment decisions should not be made based only on the forward-looking statements in this material. Note also that forward-looking statements in this material are subject to change without prior notice, except where procedures are required by law.

