# Tobishima

## Annual Report 2018

# PROFILE

**Since its founding in 1883, Tobishima has steadfastly contributed to society through major construction projects, from the undersea expressway tunnel, Tokyo Aqua-Line, to the Surikamigawa Dam, one of Japan's largest core rock-filled dams. Our portfolio not only exemplifies the high quality of our projects; it also demonstrates Tobishima's advanced technologies, the fruit of our many years of experience.**


Svay Rieng Provincial Referral Hospital [Cambodia]

**Renowned for our products and services, as well as the knowledge of our employees, we are constantly developing and investing in new technologies and systems to support continuous improvement.**

**Moreover, we have expanded our business domains by responding to the demands of the times. We are now engaged in solutions businesses that meet the varied needs of our customers, in addition to construction work. We will strengthen our explorations into new areas where Tobishima can fully apply its expertise in engineering and disaster prevention.**


The Road at Rikuzentakata of National Route 45 [Iwate]

**Outside of Japan, Tobishima has long been involved in improving infrastructure through construction of roads, ports, subways, hospitals, factories and government buildings, particularly in Southeast and West Asia.**

**We are working just as hard today to establish a corporate culture commensurate to the challenges of building the structures that people around the world need in order to enjoy better lives.**

## Consolidated Financial Highlights
**Years ended March 31, 2018**

| | | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|---|
| **For the Year:** | Net sales | **¥ 117,807** | **¥ 131,121** | **$ 1,234,198** |
| | Income before income taxes | **5,045** | **6,636** | **62,459** |
| | Net income attributable to owners of parent | **4,384** | **6,025** | **56,710** |
| **At Year-end:** | Total assets | **¥ 98,126** | **¥ 102,023** | **$ 960,306** |
| | Total net assets | **25,894** | **31,771** | **299,044** |
| **Per Share of Common Stock:** | (in yen and dollars): | | | |
| | Basic net income | **¥ 22.77** | **¥ 31.30** | **$ 0.295** |
| | Net assets | **134.48** | **164.98** | **1.553** |

Note 1: U.S. dollar amounts here and elsewhere in this annual report are translated from yen at the rate of ¥106.24=US$1.00, the rate on March 31, 2018 for the reader's convenience only.
Note 2: The years included in the text are fiscal years, which run from April 1 through March 31 of the following year.

# MESSAGE FROM THE PRESIDENT

**To Our Shareholders and Investors**

**Tobishima is Evolving into a New Business Contractor Based on its Expertise in Damage Prevention Technology**

We deeply appreciate the steadfast encouragement and support of our shareholders.

In the fiscal year ended March 31, 2018, we were able to exceed the results of the previous year in terms of operating income, ordinary income and net income, due in part to increased sales and enhanced profitability in our construction work. We are also making steady progress in the reform of our core business portfolio, new business creation and business diversification. We could not have arrived at this milestone without the support of our shareholders, to whom we once again express our profound gratitude.

The fiscal year ending March 31, 2019 is the second year of our three-year medium-term management plan and a crucial time for our corporate reforms aimed at transforming ourselves into the new Tobishima. We are resolved to continue our business restructuring and steadfastly execute our management strategy. We will also accelerate the pace of our working style reforms while bolstering our ESG management initiatives.

We advance into this new vision of the future with confidence, grateful as ever for the continued support of our shareholders.

June 2018

Masahiro Norikyo

Masahiro Norikyo
President

# Consolidated Balance Sheet
# TOBISHIMA CORPORATION
**As of March 31, 2018**

| ASSETS | | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S.Dollars 2018 |
|---|---|---|---|---|
| **Current assets** | Cash and cash equivalents | **¥ 24,607** | **¥ 20,786** | **$ 195,647** |
| | Marketable securities | **—** | **1,500** | **14,119** |
| | Notes receivable, accounts receivable from completed construction contracts, and other(※1) | **44,278** | **49,221** | **463,302** |
| | Allowance for doubtful accounts | **(42)** | **(11)** | **(105)** |
| | Costs on uncompleted construction contracts and other(※2) | **1,560** | **2,020** | **19,011** |
| | Deferred tax assets | **604** | **1,162** | **10,941** |
| | Other | **6,946** | **5,580** | **52,522** |
| | Total current assets | **77,953** | **80,258** | **755,437** |
| **Property, plant and equipment** | Buildings and structures | **14,334** | **14,642** | **137,823** |
| | Machinery, equipment, furniture, and fixtures | **3,112** | **3,950** | **37,178** |
| | Land | **6,471** | **7,297** | **68,687** |
| | Lease assets | **71** | **114** | **1,072** |
| | Construction in progress | **—** | **367** | **3,450** |
| | Accumulated depreciation | **(10,238)** | **(11,405)** | **(107,350)** |
| | Total property, plant and equipment | **13,750** | **14,965** | **140,860** |
| **Investments and other assets** | Investment securities(※3) | **4,312** | **4,493** | **42,288** |
| | Intangible assets | **382** | **633** | **5,963** |
| | Stock issuance costs | **6** | **2** | **15** |
| | Other(※4) | **2,103** | **1,873** | **17,633** |
| | Allowance for doubtful accounts | **(380)** | **(201)** | **(1,890)** |
| | Total investments and other assets | **6,423** | **6,800** | **64,009** |
| **Total** | | **¥ 98,126** | **¥ 102,023** | **$ 960,306** |

| LIABILITIES AND EQUITY | | | | |
|---|---|---|---|---|
| **Current liabilities** | Notes payable, accounts payable for construction contracts and other(※5) | **¥ 35,798** | **¥ 35,947** | **$ 338,354** |
| | Advances received on uncompleted construction contracts | **8,434** | **6,034** | **56,798** |
| | Deposits received | **12,891** | **11,813** | **111,196** |
| | Liability for warranties for completed construction | **176** | **202** | **1,901** |
| | Liability for loss on construction contracts(※6) | **257** | **414** | **3,900** |
| | Other | **2,121** | **3,810** | **35,864** |
| | Total current liabilities | **59,677** | **58,220** | **548,013** |
| **Long-term liabilities** | Liability for retirement benefits | **2,009** | **1,153** | **10,850** |
| | Liability for environmental measures | **3** | **—** | **—** |
| | Long-term borrowings(※7) | **10,000** | **10,247** | **96,456** |
| | Other | **543** | **631** | **5,943** |
| | Total long-term liabilities | **12,555** | **12,031** | **113,249** |
| | Total liabilities | **¥ 72,232** | **¥ 70,252** | **$ 661,262** |
| **Equity** | Common stock–authorized, 400,000 thousand shares; Issued, 193,104 thousand shares | **¥ 5,520** | **¥ 5,520** | **$ 51,957** |
| | Capital surplus | **6,248** | **6,248** | **58,811** |
| | Retained earnings | **13,968** | **19,415** | **182,751** |
| | Treasury stock–at cost: 586,364 Shares(※8) | **(448)** | **(448)** | **(4,222)** |
| | Accumulated other comprehensive income | | | |
| | Unrealized gain on available-for-sale securities | **818** | **953** | **8,969** |
| | Foreign currency translation adjustment | **5** | **7** | **67** |
| | Defined retirement benefit plans | **(221)** | **67** | **629** |
| | Total | **602** | **1,027** | **9,665** |
| | Noncontrolling interest | **4** | **9** | **82** |
| | Total equity | **25,894** | **31,771** | **299,044** |
| **Total** | | **¥ 98,126** | **¥ 102,023** | **$ 960,306** |

See notes to consolidated financial statements

# Consolidated Statement of Income
# TOBISHIMA CORPORATION
**Year ended March 31, 2018**

| | | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|---|
| **Net sales** | Net sales of completed construction contracts | **¥ 116,513** | **¥ 129,510** | **$ 1,219,036** |
| | Net sales of development business and other | **1,294** | **1,611** | **15,162** |
| | Total net sales | **117,807** | **131,121** | **1,234,198** |
| **Cost of sales** | Cost of sales of completed construction contracts(※9) | **105,174** | **115,239** | **1,084,708** |
| | Cost of sales on development business and other | **1,097** | **1,304** | **12,273** |
| | Total cost of sales | **106,271** | **116,543** | **1,096,981** |
| **Gross profit** | Gross profit on completed construction contracts | **11,339** | **14,271** | **134,327** |
| | Gross profit on development business and other | **197** | **307** | **2,890** |
| | Gross profit | **11,536** | **14,578** | **137,217** |
| **Selling, general, and administrative expenses(※10)** | | **6,059** | **6,325** | **59,535** |
| **Operating income** | | **5,477** | **8,253** | **77,682** |
| **Other income (expenses)** | Interest and dividends | **34** | **35** | **327** |
| | Gain on sales of property, plant and equipment(※11) | **5** | **13** | **127** |
| | Compensation for damage | **—** | **24** | **222** |
| | Insurance income | **0** | **20** | **192** |
| | Surrender value of insurance | **—** | **14** | **127** |
| | Compensation income | **13** | **—** | **—** |
| | Interest expense | **(200)** | **(167)** | **(1,568)** |
| | Commission for syndicate loan | **(10)** | **(208)** | **(1,955)** |
| | Loss on sales of property, plant and equipment(※12) | **—** | **(12)** | **(111)** |
| | Loss on sale of membership | **(7)** | **—** | **—** |
| | Impairment loss(※13) | **—** | **(1,079)** | **(10,158)** |
| | Other net | **(267)** | **(257)** | **(2,426)** |
| | Other expenses–net | **(432)** | **(1,617)** | **(15,223)** |
| **Income before income taxes** | | **5,045** | **6,636** | **62,459** |
| **Income taxes** | **Current** | **756** | **1,109** | **10,441** |
| | **Deferred** | **(57)** | **(502)** | **(4,727)** |
| | **Total income taxes** | **699** | **607** | **5,714** |
| **Net income** | | **4,346** | **6,029** | **56,745** |
| **Net income attributable to noncontrolling interest** | | **(38)** | **4** | **35** |
| **Net income attributable to owners of the parent** | | **¥ 4,384** | **¥ 6,025** | **$ 56,710** |

| **Per share of common stock(※8)** | Yen 2017 | Yen 2018 | U.S. Dollars 2018 |
|---|---|---|---|
| **Basic net income** | **22.77** | **31.30** | **0.295** |
| **Cash dividends applicable to the year** | **3.00** | **4.00** | **0.038** |

See notes to consolidated financial statements

# Consolidated Statement of Comprehensive Income
# TOBISHIMA CORPORATION
**Year ended March 31, 2018**

| | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|
| Net income | **¥ 4,346** | **¥ 6,029** | **$ 56,745** |
| Other comprehensive income | | | |
| Unrealized gain (loss) on available-for-sale securities | **(156)** | **134** | **1,265** |
| Foreign currency translation adjustments | **(2)** | **2** | **18** |
| Adjustment for retirement benefits | **95** | **288** | **2,714** |
| Total other comprehensive loss(※14) | **(63)** | **424** | **3,997** |
| Comprehensive income | **4,283** | **6,453** | **60,742** |
| Total comprehensive income | | | |
| Attributable to: | | | |
| Owners of the parent | **¥ 4,321** | **¥ 6,449** | **$ 60,706** |
| Non controlling interest | **(38)** | **4** | **36** |

See notes to consolidated financial statements

# Consolidated Statement of Changes in Equity
## TOBISHIMA CORPORATION
**Year ended March 31, 2018**

| | Thousands | | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding number of Shares | | | | | | Accumulated Other Comprehensive Income | | | | | |
| | Common Stock | Preferred Stock | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustment | Defined Retirement Benefit Plans | Total | Noncontrolling Interests | Total Equity |
| Balance, April 1, 2016 | 193,104 | | ¥ 5,520 | ¥ 6,248 | ¥ 9,969 | ¥ (444) | ¥ 975 | ¥ 7 | (¥ 317) | ¥ 21,958 | ¥ 4 | ¥ 21,962 |
| Cash Dividends,¥2 per share(※8) | | | | | (385) | | | | | (385) | | (385) |
| Net income attributable to owners of the parent | | | | | 4,384 | | | | | 4,384 | | 4,384 |
| Purchase of treasury stock | | | | | | (4) | | | | (4) | | (4) |
| Net changes in the year | | | | | | | (157) | (2) | 96 | (63) | | (63) |
| Balance, March 31, 2017 (April 1, 2017, as previously reported) | 193,104 | | 5,520 | 6,248 | 13,968 | (448) | 818 | 5 | (221) | 25,890 | 4 | 25,894 |
| Cash dividends, ¥3 per share(※8) | | | | | (578) | | | | | (578) | | (578) |
| Net income attributable to owners of the parent | | | | | 6,025 | | | | | 6,025 | | 6,025 |
| Purchase of treasury stock | | | | | | (0) | | | | (0) | | (0) |
| Net changes in the year | | | | | | | (135) | 2 | 288 | 425 | 5 | 430 |
| Balance, March 31, 2018 | 193,104 | | ¥ 5,520 | ¥ 6,248 | ¥ 19,415 | (¥ 448) | ¥ 953 | ¥7 | ¥ 67 | ¥ 31,762 | ¥ 9 | ¥ 31,771 |

| | Thousands of U.S. Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated Other Comprehensive Income | | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustment | Defined Retirement Benefit Plans | Total | Noncontrolling Interests | Total Equity |
| Balance, March 31, 2017 (April 1, 2017, as previously reported) | $ 51,957 | $ 58,811 | $ 131,477 | ($ 4,217) | $ 7,704 | $ 51 | ($ 2,085) | $ 243,697 | $ 37 | $ 243,734 |
| Cash dividends, $0.03 per share(※8) | | | (5,436) | | | | | (5,436) | | (5,436) |
| Net income attributable to owners of the parent | | | 56,710 | | | | | 56,710 | | 56,710 |
| Purchase of treasury stock | | | | (5) | | | | (5) | | (5) |
| Net changes in the year | | | | | 1,265 | 16 | 2,714 | 3,996 | 45 | 4,041 |
| Balance, March 31, 2018 | $ 51,957 | $ 58,811 | $ 182,751 | ($ 4,222) | $ 8,969 | $ 67 | $ 629 | $ 298,962 | $ 82 | $ 299,044 |

See notes to consolidated financial statements

# Consolidated Statement of Cash Flows
# TOBISHIMA CORPORATION
**Year ended March 31, 2018**

## Operating activities

| | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|
| Income before income taxes | ¥ 5,045 | ¥ 6,636 | $ 62,459 |
| Adjustment for: | | | |
| Income taxes paid | (917) | (834) | (7,852) |
| Depreciation and amortization | 606 | 604 | 5,685 |
| Impairment loss | — | 1,079 | 10,158 |
| Amortization of goodwill | 4 | 9 | 83 |
| Decrease in allowance for doubtful accounts | 9 | (32) | (297) |
| Decrease in liability for loss on construction contracts | (141) | 158 | 1,484 |
| Decrease in liability for retirement benefits | (780) | (634) | (5,970) |
| Foreign exchange losses | 11 | 21 | 201 |
| Compensation for pneumoconiosis damages | 36 | (4) | (40) |
| Gain on sales of property, plant and equipment | (5) | (2) | (17) |
| Changes in assets and liabilities, net of effects | | | |
| Decrease (increase) in notes and accounts receivable–trade | 1,982 | (4,494) | (42,299) |
| Decrease in real estate for sale | 298 | 87 | 815 |
| (Increase) decrease in costs on uncompleted construction contracts and other | (78) | 11 | 109 |
| Decrease in consumption taxes refund receivable | 369 | 10 | 98 |
| Decrease in accounts receivable-other | 1,154 | 1,398 | 13,157 |
| Decrease in interest and dividends receivable | 32 | 33 | 312 |
| Decrease in other assets | 33 | 129 | 1,211 |
| Increase in notes and accounts payable–trade | (855) | (396) | (3,728) |
| Increase (decrease) in advances received on uncompleted construction contracts | 2,876 | (2,803) | (26,386) |
| Increase (decrease) in deposits received | 1,573 | (1,094) | (10,300) |
| Increase in accrued consumption taxes | 136 | 967 | 9,106 |
| Decrease in interest payable | (198) | (171) | (1,608) |
| Increase in other liabilities | 61 | 62 | 583 |
| Compensation for pneumoconiosis damages paid | (66) | (11) | (105) |
| Other, net | 150 | 261 | 2,456 |
| Total adjustments | 6,290 | (5,646) | (53,144) |
| Net cash provided by operating activities | ¥ 11,335 | ¥ 990 | $ 9,315 |

## Investing activities

| | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|
| Purchase of short-term investment securities | ¥ (2,000) | ¥ (4,900) | $ (46,122) |
| Proceeds from sales of short-term investment securities | 2,000 | 3,400 | 32,003 |
| Purchase of property, plant and equipment | (264) | (1,983) | (18,669) |
| Proceeds from sales of property, plant and equipment | 5 | 3 | 26 |
| Purchase of intangible assets | (175) | (166) | (1,560) |
| Purchase of investment securities | (4) | (14) | (132) |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | (73) | (929) | (8,744) |
| Proceed from purchase of shares of subsidiaries resulting in change in scope of consolidation | — | 52 | 490 |
| Payments of loans receivable | (19) | (26) | (241) |
| Collection of loans receivable | 59 | 28 | 266 |
| Other, net | (321) | 61 | 574 |
| Net cash used in investing activities | (¥ 792) | (¥ 4,474) | ($ 42,109) |

## Financing activities

| | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|
| Net decrease in short-term borrowings | ¥ — | ¥ 60 | $ 565 |
| Proceed from long-term borrowings | — | 10,300 | 96,950 |
| Repayments of long-term borrowings | — | (10,045) | (94,546) |
| Cash dividends paid | (385) | (578) | (5,436) |
| Other, net | (68) | (56) | (532) |
| Net cash used in financing activities | (453) | (319) | (2,999) |
| **Foreign currency translation adjustments on cash and cash equivalents** | (15) | (18) | (176) |
| **Net increase(decrease) in cash and cash equivalents** | 10,075 | (3,821) | (35,969) |
| **Cash and cash equivalents, at beginning of year** | 14,532 | 24,607 | 231,616 |
| **Cash and cash equivalents, end of year** | ¥ 24,607 | ¥ 20,786 | $ 195,647 |

See notes to consolidated financial statements

## 1.BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications used in 2018.

The consolidated financial statements, except for the notes to them, are stated in Japanese yen, the currency of the country in which Tobishima Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to $1, the approximate rate of exchange at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation**—The consolidated financial statements as of March 31, 2018, include the accounts of the Company and its seven (three in 2017) significant subsidiaries (together, the "Group"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in the one unconsolidated subsidiary (one unconsolidated subsidiary in 2017) are stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The fiscal years of the subsidiaries are not necessarily the same as the Company’s. Accounts of those subsidiaries which have different fiscal periods have been adjusted for significant transactions to properly reflect their financial positions at March 31 of each year and the results of operations for the years then ended.

b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. **Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.
Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

d. **Inventories**
Costs on uncompleted construction contracts and others are stated at cost based on the specific identification method.

Costs on uncompleted construction contracts and others (materials and supplies) are stated at cost based on the moving-average method (or net selling value).

Current assets (real estate for sale) are stated at cost based on the specific identification method (or net selling value).

e. **Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:
(1) held-to-maturity debt securities, for which there is positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

f. **Property, Plant and Equipment (excluding leased items)**
Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2017.

An overseas consolidated subsidiary has also adopted the straight-line method.

Useful lives and residual values of assets held by the Company and its domestic consolidated subsidiary are in accordance with the regulations stipulated in the “Corporation Tax Law.”

g. **Intangible Assets (excluding leased items)**—Intangible assets (excluding leased items) are amortized using the straight-line method.
Useful lives of these assets are in accordance with regulations stipulated in the “Corporation Tax Law.”
Software for internal use is amortized by the straight-line method based on an estimated useful life of five years.

**h. Lease Assets**— Assets resulting from financial lease transactions for which ownership does not transfer at the end of the lease are deprecated by the straight-line method with the leasing period as the useful life and residual value as zero.

**i. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**j. Allowance for Doubtful Accounts**—To prepare for losses from defaults on sales receivables, loans receivable, and other accounts receivable, the Company reports the estimated uncollectible amounts for general claims based on its past default rates and for specific accounts with acknowledged credit risks based on an evaluation of the possibility of collection on an individual basis.

**k. Liability for Warranties for Completed Construction**—The liability is recorded in an amount based on the Company's past experience, with an additional amount deemed necessary in the future for execution of warranty obligations regarding construction projects.

**l. Liability for loss on Construction Contracts**—The liability is recorded in an amount deemed necessary at term end on the basis of estimated losses on construction contracts in the future.

**m. Retirement and Pension Plans**—The Company has a cash balance plan as a defined benefit corporate pension program. Under this program, a hypothetical individual employee account equivalent to the funded amount and the pension resources for annuities is set up for each plan participant. Seniority points based on length of service, merit points based on the level of competence, and interest credits based on market interest rates are accumulated in the hypothetical account.

In addition, the Company and one consolidated subsidiary had also participated in an employee welfare fund for construction workers, which was a multi-employer plan. This fund was dissolved in September 2016, and while it is currently in the process of liquidation, the dissolution is not expected to result in additional obligations for the Company. One consolidated subsidiary has joined the National Construction Association Pension Fund, a new multi-employer plan that was set up in October 2016. As reasonable estimates are not available for plan assets corresponding to the Company's contribution for the employee pension fund and corporate pension fund programs, the same accounting method as that used for defined contribution programs is applied.

Retirement benefit obligations are calculated using straight-line attribution to allocate projected retirement benefit payments to the end of the current fiscal year.

Unrecognized actuarial loss is amortized over 10 years, within the remaining average service period of employees when recognized, using the straight-line method beginning with the year following recognition.
Unrecognized prior service cost is amortized over five years, within the remaining average service period of employees when recognized, using the straight-line method.

**n. Research and Development Costs**— Research and development costs are charged to income as incurred.

**o. Construction Contracts**—Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

**p. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

**q. Accounting Method for Deferred Assets**
Stock issuance cost is amortized by the straight-line method over three years.

**r. Accounting for Consumption Tax**
Consumption tax is excluded from sales, cost of sales, and expenses.

**s. Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

**t. New Accounting Pronouncements**
On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition". The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

## 【Notes to the Consolidated Balance Sheet】

1. *3: In this figure, the amounts pertaining to non-consolidated subsidiaries are as follows:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Investment securities (stock) | **¥ 0 million** | **¥ 0 million** |

2. Assets pledged as collateral
The Company has pledged the following assets as collateral for guarantee money for operations:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| *3 Investment securities | **¥ 220 million** | **¥ 223 million** |
| *4 Investments and other assets “Other” (Long-term guarantee money) | **64** | **64** |
| Total | **¥ 284** | **¥ 287** |

3. Contingent liabilities
The Company provides completion guarantees, as shown below, for construction contracts signed by the following company:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Nishimatsu Construction Co., Ltd. | **¥ 7,401 million** | **¥ 8,076 million** |

4.*2 *6: With respect to construction contracts that are expected to result in losses, both the costs on uncompleted construction contracts and the provision for loss on construction contracts have been presented in full without being offset.
Costs on uncompleted construction contracts related to provisions for loss on construction contracts.

| Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|
| **¥ 20 million** | **¥ 43 million** |

5. *7: Syndicated term loan agreements
Prior fiscal year (as of March 31, 2017):
The Company has signed syndicated term loan agreements with financial institutions (total amount: ¥10,000 million), with the following restrictive financial covenants attached:
(a) The Company must avoid reporting ordinary loss in the consolidated statement of income presented at the end of each fiscal year for two consecutive years;
(b) The Company must avoid reporting ordinary loss in the nonconsolidated statement of income presented at the end of each fiscal year for two consecutive years;
(c) The Company must maintain its equity ratio at 10% or above on a nonconsolidated basis each fiscal year.

Current fiscal year (as of March 31, 2018):
The Company has signed syndicated term loan agreements with financial institutions (total amount: ¥10,000 million), with the following restrictive financial covenants attached:

(a) The Company must maintain the amount of net assets in the consolidated balance sheet at the end of each fiscal year's closing date more than 75% of the amount of net assets on the consolidated balance sheet as of the end of the fiscal year ending March 2017, and 75% of the amount of net assets in the consolidated balance sheet as of the last day of the fiscal year end;
(b) The Company must maintain the amount of net assets in the non-consolidated balance sheet at the end of each fiscal year's closing date more than 75% of the amount of net assets on the non-consolidated balance sheet as of the end of the fiscal year ending March 2017, and 75% of the amount of net assets in the non-consolidated balance sheet as of the last day of the fiscal year end;
(c) The Company must avoid reporting ordinary loss in the consolidated statement of income presented at the end of each fiscal year for two consecutive years;
(d) The Company must avoid reporting ordinary loss in the nonconsolidated statement of income presented at the end of each fiscal year for two consecutive years.

6.The Company has entered into commitment line agreements with five banks to make flexible and stable procurement of working capital. Contract maximum amounts and borrowing execution balances at the end of consolidated fiscal years are as follows.

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Contract maximum amount | **¥ — million** | **¥ 10,000 million** |
| Borrowing execution balance | **—** | **—** |
| Deducted amount | **¥ —** | **¥ 10,000 million** |

7.The Company settles accounting treatment of bills etc. matured at the end of the period, on the date or settlement date.
Since the end of the consolidated fiscal year was a holiday for financial institutions, the following notes matured at the end of the period are included in the balance at the end of the period.

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| *1 Notes receivable | **¥ — million** | **¥ 4 million** |
| *1 Electronically recorded receivables | **—** | **7 million** |
| *5 Notes payable | **—** | **33 million** |

## 【Notes to the Consolidated Statement of Income】

1. *9: Liabilities for loss on construction contracts included in "Cost of sales of completed construction contracts" are as follows:

| Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|
| ¥ 57 million | ¥ 248 million |

2. *10: Major expense items and amounts are as follows:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Employee salaries | ¥ 2,428 million | ¥ 2,551 million |
| Retirement benefit costs | 102 million | 93 million |

3. *10: R&D expenses included in "Selling, general and administrative expenses" are as follows:

| Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|
| ¥ 465 million | ¥ 483 million |

4. *11: The breakdown of gain on sales of property, plant and equipment is as follows:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Vehicles | ¥ 5 million | ¥ 2 million |
| land | — | 10 million |
| Other | — | 1 million |
| Total | ¥ 5 million | ¥ 13 million |

5. *12: The breakdown of loss on sales of property, plant and equipment is as follows:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Building | ¥ — million | ¥ 12 million |
| Total | ¥ — million | ¥ 12 million |

6. *13: Impairment loss
Prior fiscal year (from April 1, 2016 to March 31, 2017):
Not applicable

Current fiscal year (from April 1, 2017 to March 31, 2018):
The Group recorded impairment losses for the following assets.

| Location | Purpose | Type | Amount |
|---|---|---|---|
| Tokyo Prefecture | Idle asset | Land, buildings, and equipment | ¥ 888 million |
| Yamanashi Prefecture | Business assets | Construct, machinery, and intangible assets ,etc | ¥ 191 million |

The Group conducts grouping of business assets for each unit that continually comprehends income and expenditure and idle assets for each individual property.
In the current consolidated fiscal year, due to abolition of employee dormitories owned in Tokyo, the assets became idle assets. As a result, the carrying amount was reduced to the recoverable value, and impairment losses were recorded as an extraordinary loss (land : 715 million yen, building : 154 million yen, and buildings : 19 million yen).
With respect to the above-mentioned business assets, initial anticipated profitability is no longer expected, so we reduced the carrying amount to the recoverable value, and we recorded an impairment loss (construction in progress : 162 million, machinery : 3 million yen, goodwill : 26 million yen, and others : 0 million yen) in extraordinary losses.
The recoverable value of the asset group on which impairment losses were recorded is either the net selling price or the value in use, whichever is higher. The net selling price is calculated based on real estate appraisal value etc. by a real estate appraiser and the value in use is calculated by discounting the future cash flow.

## 【Notes to the Consolidated Statement of Comprehensive Income】

*14: "Reclassification adjustment" and "Tax effect" related to other comprehensive income:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Unrealized gain (loss) on available-for-sale securities | | |
| Amount arising during current fiscal year | **¥ (225) million** | **¥ (193) million** |
| Reclassification adjustment | **—** | **—** |
| Adjustment before tax effect | **(225) million** | **193 million** |
| Tax effect | **69 million** | **(59) million** |
| Unrealized gain (loss) on available-for-sale securities | **(156) million** | **134 million** |
| Foreign currency translation adjustment | | |
| Amount arising during current fiscal year | **(2) million** | **2 million** |
| Remeasurements of defined benefit plans | | |
| Amount arising during current fiscal year | **21 million** | **219 million** |
| Reclassification adjustment | **74 million** | **69 million** |
| Adjustment before tax effect | **95 million** | **288 million** |
| Tax effect | **—** | **—** |
| Remeasurements of defined benefit plans | **95 million** | **288 million** |
| Total other comprehensive income | **¥ (63) million** | **¥ 424 million** |

## 【Notes to the Consolidated Statement of Changes in Equity】

**Prior fiscal year (from April 1, 2016 to March 31, 2017)**

1. Type and amount of issued shares

| Type of stock | Number of shares at the beginning of fiscal year (1,000 shares) | Increase in number of shares during the fiscal year (1,000 shares) | Decrease in number of shares during the fiscal year (1,000 shares) | Number of shares at fiscal year end (1,000 shares) |
|---|---|---|---|---|
| Common stock | **193,104** | **—** | **—** | **193,104** |

2. Type and amount of treasury stock

| Type of stock | Number of shares at the beginning of fiscal year (1,000 shares) | Increase in number of shares during the fiscal year (1,000 shares) | Decrease in number of shares during the fiscal year (1,000 shares) | Number of shares at fiscal year end (1,000 shares) |
|---|---|---|---|---|
| Common stock | **559** | **24** | **—** | **583** |

Note 1 : The increase in common stock was due to the purchase of 2,000 odd lot shares and 21,000 shares owned by shareholders whose whereabouts are unknown.

3. Notes on equity warrants, etc.
   Not applicable

4. Notes on dividends
   (1) Amount of dividends paid:

| Resolution | Type | Total amount of dividend | Source of dividends | Dividend per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Shareholders' Meeting on June 29, 2016 | **Common stock** | **¥ 385 million** | **Retained earnings** | **¥ 2.00** | **March 31, 2016** | **June 30, 2016** |

Note : The amount of dividends per share includes a bonus dividend of ¥1.00.

(2) Dividends with record dates in the current fiscal year, of which the effective date falls in the next fiscal year

| Resolution | Type | Total amount of dividend | Source of dividends | Dividend per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Shareholders' Meeting on June 29, 2017 | **Common stock** | **¥ 578 million** | **Retained earnings** | **¥ 3.00** | **March 31, 2017** | **June 30, 2017** |

Note : The amount of dividends per share includes a bonus dividend of ¥1.00.

**Current fiscal year (from April 1, 2017 to March 31, 2018)**

1. Type and amount of issued shares

| Type of stock | Number of shares at the beginning of fiscal year (1,000 shares) | Increase in number of shares during fiscal year (1,000 shares) | Decrease in number of shares during fiscal year (1,000 shares) | Number of shares at fiscal year end (1,000 shares) |
|---|---|---|---|---|
| Common stock | **193,104** | **—** | **—** | **193,104** |

2. Type and amount of treasury stock

| Type of stock | Number of shares at the beginning of fiscal year (1,000 shares) | Increase in number of shares during fiscal year (1,000 shares) | Decrease in number of shares during fiscal year (1,000 shares) | Number of shares at fiscal year end (1,000 shares) |
|---|---|---|---|---|
| Common stock | **583** | **3** | **—** | **586** |

Note :The increase in common stock was due to the purchase of odd lot shares.

3. Notes on equity warrants, etc.
   Not applicable.

4. Notes on dividends
   (1) Amount of dividends paid:

| Resolution | Type | Total amount of dividend | Source of dividends | Dividend per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Shareholders' Meeting on June 29, 2017 | **Common stock** | **¥ 578 million** | **Retained earnings** | **¥ 3.00** | **March 31, 2017** | **June 30, 2017** |

Note : The amount of dividends per share includes a bonus dividend of ¥1.00.

(2) Dividends with record dates in the current fiscal year, of which the effective date falls in the next fiscal year.

| Resolution | Type | Total amount of dividend | Source of dividends | Dividend per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Shareholders' Meeting on June 29, 2018 | **Common stock** | **¥ 770 million** | **Retained earnings** | **¥ 4.00** | **March 31, 2018** | **June 30, 2018** |

# 【Lease Transactions】

Finance lease transactions (as lessee)

Nontransfer ownership finance leases
(1) Content of lease assets
Tangible assets:
Vehicles, machinery, and equipment
(2) Method of depreciation of lease assets
Please see "h. Lease Assets " under Summary of Significant Accounting Policies.

(3) Total rental expenses
Total rental expenses including lease payments under finance leases for the years ended March 31, 2018 and 2017, were ¥ 160 million and ¥ 185 million, respectively.

2. Operating lease transactions (as lessee)

Payments related to unexpired portions of non-cancellable operating lease transactions.

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Due within one year | **¥ 346 million** | **¥ 461 million** |
| Due after one year | **1,692 million** | **1,230 million** |
| Total | **¥ 2,038 million** | **¥ 1,692 million** |

## 【Financial Instruments and Related Disclosures】

1. Status of financial instruments

(1) Group Policy for financial instruments

The Company upholds its policy of limiting its fund management to the use of short-term deposits, etc., based on its funding plan, and undertakes fund procurement primarily through bank loans. The use of derivatives is limited to forward exchange contracts for hedging the risk of fluctuations in the foreign exchange market in foreign currency-denominated transactions and interest rate swaps, etc., for hedging the risk of fluctuations in interest rates on loans. The Company does not engage in derivatives for speculative purposes.

(2) Nature and extent of risk arising from financial instruments and risk management for financial instruments

While trade receivables such as notes receivable and accounts receivable from completed construction contracts are subject to the credit risk of customers, the Company operates under a system that alleviates such credit risk as much as possible through stringent credit management, from credit control of business associates at the order receiving stage to collection of accounts receivable from construction contracts.

Securities and investment securities consist primarily of equity in companies with which the Company maintains business relationships and government bonds pledged as collateral for guarantee money for operations, etc. While these securities are subject to the risk of fluctuations in market price, etc., the Company regularly monitors the fair value of the security and the financial condition of the issuer, and continuously review the state of its holdings.

Trade payables such as notes payable and accounts payable for construction contracts are mostly due within one year.

Short-term borrowings are primarily funds procured in relation to operational transactions.

While trade payable and loans payable are subject to liquidity risk related to fund procurement, the Company manages such risks through measures that include estimating the balance of funding requirements and formulating funding plans for effective and appropriate fund procurement.

With respect to the management and implementation of derivative transactions, risks inherent in the object of the hedge and hedging methods are clearly identified and trading authority, etc., determined under the Management Guidelines for Derivatives. The Company did not engage in any derivative transactions as of the end of the current fiscal year.

2. Fair value of financial instruments

The carrying amounts, fair values and the unrealized gain (loss) between them are as follows: Financial instruments for which fair value cannot be reliably determined are excluded from the list below (see Note 3).

**Prior fiscal year (as of March 31, 2017)**

| | Carrying amount (Millions of yen) | Fair value (Millions of yen) | Unrealized gain (loss) (Millions of yen) |
|---|---|---|---|
| Assets | | | |
| (1) Cash and cash equivalents | **¥ 24,607** | **¥ 24,607** | — |
| (2) Notes receivable, accounts receivable from completed construction contracts and other | **44,278** | | |
| Allowance for doubtful accounts (Note 1) | **(42)** | | |
| Difference | **44,236** | **44,236** | — |
| (3)Securities and investment securities | | | |
| Available-for-sale securities | **2,449** | **2,449** | — |
| Liabilities | | | |
| (4) Notes payable, accounts payable for construction contracts and other | **35,798** | **35,798** | — |
| (5) Long-term borrowings | **¥ 10,000** | **¥ 10,000** | — |

**Current fiscal year (as of  March 31, 2018)**

| | Carrying amount (Millions of yen) | Fair value (Millions of yen) | Unrealized gain (loss) (Millions of yen) |
|---|---|---|---|
| Assets | | | |
| (1) Cash and cash equivalents | **¥ 20,786** | **¥ 20,786** | — |
| (2) Notes receivable, accounts receivable from completed construction contracts and other | **49,221** | | |
| Allowance for doubtful accounts (Note 1) | **(11)** | | |
| Difference | **49,210** | **49,210** | — |
| (3) Securities and investment securities | | | |
| Available-for-sale securities | **4,167** | **4,167** | — |
| Liabilities | | | |
| (5) Notes payable, accounts payable for construction contracts, and other | **35,947** | **35,947** | — |
| (6) Long-term borrowings | **¥ 10,247** | **¥ 10,247** | — |

Note 1: Specific allowances for doubtful accounts relevant to (2) Notes receivable, accounts receivable from completed construction contracts, and other have been deducted.

Note 2: Method for calculating the fair value of financial instruments and matters related to securities

(1) Cash and cash equivalents (2) Notes receivable, accounts receivable from completed construction contracts, and — other:
The carrying amounts of these assets approximate fair value since they are settled within a short period of time.

(3) Securities and investment securities:
The fair value of a stock is determined by the price at which it is traded on an exchange, and the fair value of a bond is determined by the price at which it is traded on an exchange or the price quoted by financial institutions.
Since the joint operation designated money trusts etc. are settled within a short period of time, the fair value is approximately equal to the carrying amount, so it is based on the book value.
Securities are held as available-for-sale securities, and related notes have been presented under “Securities.”

(4) Notes payable, accounts payable for construction contracts and other:
The carrying amounts approximate fair value since they are settled within a short period of time.

(5) Long-term borrowings:
Since long-term borrowings are based on variable interest rates that reflect short-term market rates, the relevant carrying amounts are considered to approximate fair value.

Note 3:  Carrying amounts of financial instruments for which fair values cannot be reliably determined:

| Classification | **Prior fiscal year (as of March 31, 2017)** | **Current fiscal year (as of March 31, 2018)** |
|---|---|---|
| Unlisted stocks | **¥ 1,863 million** | **¥ 1,825 million** |

The above-listed securities, for which fair value is extremely difficult to determine since they do not have a market price, have been excluded from "(3) Securities and investment securities – Available-for-sale securities."

Note 4: Maturity analysis for financial assets and securities with contractual maturities:

**Prior fiscal year (as of March 31, 2017)**

| | Due in one year or less (Millions of yen) | Over one year within five years (Millions of yen) | Over five years within ten years (Millions of yen) | Over ten years (Millions of yen) |
|---|---|---|---|---|
| Cash and cash equivalents | **¥ 24,607** | **¥ —** | **¥ —** | **¥ —** |
| Notes receivable, accounts receivable from completed construction contracts, and other | **44,278** | **—** | **—** | **—** |
| Securities and investment securities | | | | |
| Available-for-sale securities with maturity dates | | | | |
| Government bonds | **—** | **139** | **75** | **—** |
| Joint operations monetary trusts | **—** | **—** | **—** | **—** |
| Total | **¥ 68,885** | **¥ 139** | **¥ 75** | **¥ —** |

**Current fiscal year (as of March 31, 2018)**

| | Due in one year or less (Millions of yen) | Over one year within five years (Millions of yen) | Over five years within ten years (Millions of yen) | Over ten years (Millions of yen) |
|---|---|---|---|---|
| Cash and cash equivalents | **¥ 20,786** | **¥ —** | **¥ —** | **¥ —** |
| Notes receivable, accounts receivable from completed construction contracts, and other | **49,221** | **—** | **—** | **—** |
| Securities and investment securities | | | | |
| Available-for-sale securities with maturity dates | | | | |
| Government bonds | **—** | **176** | **38** | **—** |
| Joint operations monetary trusts | **1,500** | **—** | **—** | **—** |
| Total | **¥ 71,507** | **¥ 176** | **¥ 38** | **¥ —** |

Note 5: Changes in Presentation

Since accounts receivable have become insignificant in value, they have been omitted from the current consolidated fiscal year. In order to reflect this change in the presentation method, the description for the previous consolidated fiscal year is also omitted. The amount of accounts receivable in the consolidated balance sheet and the market value and the amount expected to be redeemed within one year in the previous consolidated fiscal year are 6,133 million yen.

**Long-term borrowings**

Long-term borrowings at March 31, 2018 and 2017, consisted of loans from banks. The annual interest rates applicable to the long-term borrowings ranged from 1.11 % to 1.13 % and from 1.61 % to 1.66 % at March 31, 2018 and 2017, respectively.

Amounts to be repaid for long-term borrowings payable (excluding the current portion) for five years subsequent to March 31, 2018 are as follows:

| | Due after one year but in two years or less (Millions of yen) | Due after two years but in three years or less (Millions of yen) | Due after three years but in four years or less (Millions of yen) | Due after four years but in five years or less (Millions of yen) |
|---|---|---|---|---|
| Long-term borrowings payable | **¥ 102** | **¥ 10,060** | **¥ 60** | **¥ 25** |

## 【Securities】

**1. Marketable available-for-sale securities**

**Prior fiscal year (as of March 31, 2017)**

| | Carrying amount (Millions of yen) | Acquisition cost (Millions of yen) | Unrealized gain (loss) (Millions of yen) |
|---|---|---|---|
| (1) Securities and investment securities with carrying amounts that exceed their acquisition costs | | | |
| Stocks | **¥ 2,219** | **¥ 1,045** | **¥ 1,174** |
| Bonds | | | |
| Government bonds, etc. | **218** | **210** | **8** |
| Subtotal | **2,437** | **1,255** | **1,182** |
| (2) Securities and investment securities having acquisition costs that exceed their carrying amounts | | | |
| Stocks | **11** | **15** | **(4)** |
| Bonds | | | |
| Government bonds, etc. | **0** | **0** | **(0)** |
| Subtotal | **11** | **15** | **(4)** |
| Total | **¥ 2,448** | **¥ 1,270** | **¥ 1,178** |

**Current fiscal year (as of March 31, 2018)**

| | Carrying amount (Millions of yen) | Acquisition cost (Millions of yen) | Unrealized gain (loss) (Millions of yen) |
|---|---|---|---|
| (1) Securities and investment securities with carrying amounts that exceed their acquisition costs | | | |
| Stocks | **¥ 2,440** | **¥ 1,068** | **¥ 1,372** |
| Bonds | | | |
| Government bonds, etc. | **218** | **212** | **6** |
| Subtotal | **2,658** | **1,280** | **1,378** |
| (2) Securities and investment securities having acquisition costs that exceed their carrying amounts | | | |
| Stocks | **9** | **15** | **(6)** |
| Bonds | | | |
| Government bonds, etc. | **—** | **—** | **—** |
| Joint operations monetary trusts | **1,500** | **1,500** | **—** |
| Subtotal | **1,509** | **1,515** | **(6)** |
| Total | **¥ 4,167** | **¥ 2,795** | **¥ 1,372** |

**2. Available-for-sale securities sold**

**Prior fiscal year (from April 1, 2016 to March 31, 2017)**
Not applicable.

**Current fiscal year (from April 1, 2017 to March 31, 2018)**
For Stock of other securities, impairment losses of 37 millions yen are being made.

**3. Securities for which impairment was recognized**

**Prior fiscal year (from April 1, 2016 to March 31, 2017)**
Omitted due to immateriality.

**Current fiscal year (from April 1, 2017 to March 31, 2018)**
For stock of other securities, impairment losses of 37 million yen are recorded.

## 【Derivative Transactions】

There are no applicable items since the Company does not engage in derivative transactions.

# 【Retirement Benefits】

**1. Description of retirement benefit plan**

The Company has a cash balance plan as a defined benefit corporate pension program and a defined contribution plan as a defined contribution corporate pension program. Under the defined benefit program, a hypothetical individual employee account equivalent to the funded amount and the pension resources for annuities is set up for each plan participant. Seniority points based on length of service, merit points based on level of competence, and interest credits based on market interest rates are accumulated in the hypothetical account.

Some of the consolidated subsidiaries have joined the Smaller Enterprise Retirement Allowance Mutual Aid program, and one consolidated subsidiary has joined the comprehensive foundation corporate pension fund. These apply the same accounting method as that used for defined contribution programs.

In addition, in the lump-sum retirement benefit plan subsidized by some consolidated subsidiaries, liabilities related to retirement benefits and retirement benefit expenses are calculated by the simplified method.

**2. Defined benefit program**

(1) Adjustments to balance of projected benefit obligation at beginning and end of fiscal year:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Balance of projected benefit obligation as of the beginning of the current fiscal year | ¥ 8,456 million | ¥ 8,075 million |
| Service cost | 355 million | 356 million |
| Interest cost | 84 million | 80 million |
| Recognized actuarial gain/loss | 12 million | (76) million |
| Retirement benefit payment | (883) million | (844) million |
| Increase due to new consolidation | — | 64 million |
| Balance of projected benefit obligation as of the end of the current fiscal year | ¥ 8,074 million | ¥ 7,655 million |

Note : For consolidated subsidiaries, the simplified method is adopted in calculating retirement benefit obligations.

(2) Adjustments to balance of plan assets at beginning and end of fiscal year:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Balance of assets as of the beginning of the current fiscal year | ¥ 5,570 million | ¥ 6,066 million |
| Expected return on plan assets | 139 million | 152 million |
| Recognized actuarial gain | 34 million | 143 million |
| Contribution by company | 1,155 million | 987 million |
| Retirement benefit payment | (833) million | (844) million |
| Balance of plan assets as of the end of the current fiscal year | ¥ 6,065 million | ¥ 6,504 million |

(3) Adjustments between retirement benefit obligation and plan assets and liabilities and assets related to retirement benefits recorded in the consolidated statement of operations:

| | Prior fiscal year (As of March 31, 2017) | Current fiscal year (As of March 31, 2018) |
|---|---|---|
| Retirement benefit liability of funded plan | ¥ 8,074 million | ¥ 7,591 million |
| Plan asses | (6,065) million | (6,504) million |
| Subtotal | 2,009 million | 1,087 million |
| Retirement benefit liability of unfunded plan | — | 66 million |
| Net liability/asset recorded in consolidated statement of income | 2,009 million | 1,153 million |
| Retirement benefit liability | 2,009 million | 1,153 million |
| Retirement benefit asset | — | — |
| Net liability/asset recorded in consolidated statement of operations | ¥ 2,009 million | ¥ 1,153 million |

(4) Breakdown of net periodic benefit costs by item:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Service cost | ¥ 355 million | ¥ 356 million |
| Interest cost | 84 million | 81 million |
| Expected return on plan assets | (139) million | (152) million |
| Recognized actuarial loss | 74 million | 69 million |
| Net periodic benefit costs for defined benefit program | ¥ 374 million | ¥ 354 million |

Note : Retirement benefit expenses of consolidated subsidiaries that adopt the simplified method are included in "service cost."

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2018

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Actuarial gain/loss | ¥ 95 million | ¥ 288 million |
| Total | ¥ 95 million | ¥ 288 million |

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2018

| | Prior fiscal year (As of March 31, 2017) | Current fiscal year (As of March 31, 2018) |
|---|---|---|
| Unrecognized actuarial gain/loss | ¥ 222 million | ¥ (67) million |
| Total | ¥ 222 million | ¥ (67) million |

(7) Plan assets
Principal components of plan assets
The ratio of major asset categories to total plan assets are as follows:

| | Prior fiscal year (As of March 31, 2017) | Current fiscal year (As of March 31, 2018) |
|---|---|---|
| Bonds | 60 % | 59 % |
| Stock | 36 % | 37 % |
| Other | 4 % | 4 % |
| Total | 100 % | 100 % |

Method of setting expected long-term rate of return
The Company sets the expected long-term rate of return on plan assets based on the current and expected allocation of plan assets and the current and expected long-term rate of return of the various assets that comprise the plan assets.

(8) Actuarial assumptions
Significant actuarial assumptions as of the end of the current fiscal year are as follows:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Discount rate | 1.0 % | 1.0 % |
| Expected long term rate of return | 2.5 % | 2.5 % |
| Assumed salary increase rate | 5.4 % | 5.4 % |

Note:The assumed salary increase rate was calculated based on a pension point system.

**3. Defined contribution programs, and others**

The Company and its consolidated subsidiaries' contributions to the defined contribution and other programs amounted to ¥92 million for the prior fiscal year and ¥77 million for the current fiscal year.

## 【EQUITY】

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

(b) Increases/Decreases and transfer of common stock, reserve, and surplus
The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account that was charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 【Stock Options】

Not applicable

## 【Income Taxes】

1.The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.9% for each of the years ended March 31, 2018 and 2017. The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2018, are as follows:

| | Prior fiscal year (As of March 31, 2017) | Current fiscal year (As of March 31, 2018) |
|---|---|---|
| Deferred tax assets | | |
| Tax loss carryforwards | ¥ 2,405 million | ¥ 1,359 million |
| Loss on valuation of real estate for sale | 1,621 | 1,471 |
| Impairment loss | 809 | 1,129 |
| Liability for retirement benefits | 619 | 353 |
| Other | 850 | 1,055 |
| Deferred tax assets subtotal | 6,304 | 5,367 |
| Valuation allowance | (5,338) | (3,899) |
| Deferred tax assets total | 966 | 1,468 |
| Deferred tax liabilities | | |
| Unrealized loss on available-for-sale securities | (360) | (420) |
| Deferred tax liabilities total | (360) | (420) |
| Net deferred tax liabilities | ¥ 606 | ¥ 1,048 |

Note: Net deferred tax assets for the prior fiscal year and current fiscal year are included under the following items in the consolidated balance sheet.

| | Prior fiscal year (As of March 31, 2017) | Current fiscal year (As of March 31, 2018) |
|---|---|---|
| Current assets – Other (deferred tax assets) | ¥ 605 million | ¥ 1,162 million |
| Fixed Assets – "Other" under Investments and other assets (deferred tax assets) | 1 | — |
| Fixed liabilities – Other (deferred tax liabilities) | ¥ — | ¥ (114) |

2. A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2018, is as follows:

| | Prior fiscal year (As of March 31, 2017) | Current fiscal year (As of March 31, 2018) |
|---|---|---|
| Statutory tax rate | 30.9 % | 30.9 % |
| (Reconciliation) | | |
| Permanently non-deductible income | 5.8 % | 1.5 % |
| Permanently non-deductible expenses | (0.0) % | (0.0) % |
| Per capita inhabitant tax | 2.2 % | 1.5 % |
| Valuation allowance | (25.0) % | (24.8) % |
| Effective tax rate after application of tax effect accounting | 13.9 % | 9.1 % |

3.At March 31, 2018, the Company has tax loss carryforwards aggregating approximately \1,380 million which are available to be offset against taxable income in future years.
These tax loss carryforwards, if not utilized, will expire as follows:

| Year ending March 31 | Millions of yen |
|---|---|
| 2021 | ¥ 220 |
| 2022 | ¥ 970 |
| 2023 | ¥ 2,607 |
| Total | ¥ 3,797 |

## 【Business Combinations and Business Divestitures】

Prior fiscal year (as of March 31, 2017)
Not applicable.

Current fiscal year (as of March 31, 2018)
Omitted due to immateriality.

## 【Asset Retirement Obligation】

Prior fiscal year (as of March 31, 2017) and current fiscal year (as of March 31, 2018)
Omitted due to immateriality.

## 【Investment property】

The Company holds office buildings and land, etc., for rent in Kanagawa Prefecture and other areas. A portion of the land and buildings in Japan where its offices, etc., are located are rented, and these are recognized as "Real estate including portions for rent and other purposes."

The consolidated balance sheet amount, increase/decrease during the current fiscal year, fair value as of the end of the current term for real estate for rent and other, and real estate including portions for rent and other purposes are as follows:

| | | | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|---|---|
| Real estate for rent and other | Carrying amount | Balance as of the beginning of the current fiscal year (Millions of yen) | ¥ 995 | ¥ 8,435 |
| | | Increase(decrease) during the current fiscal year (Millions of yen) | 7,440 | 1,471 |
| | | Balance as of the end of the current fiscal year (Millions of yen) | 8,435 | 9,906 |
| | Fair value as of the end of the current fiscal year (Millions of yen) | | 8,476 | 10,501 |
| Real estate including portions for rent and other purposes | Carrying amount | Balance as of the beginning of the current fiscal year (Millions of yen) | 9,170 | 367 |
| | | Increase(decrease) during the current fiscal year (Millions of yen) | (8,803) | (10) |
| | | Balance as of the end of the current fiscal year (Millions of yen) | 367 | 357 |
| | Fair value as of the end of the current fiscal year (Millions of yen) | | ¥ 505 | ¥ 515 |

Note 1: The carrying amounts were calculated by subtracting the accumulated depreciation from the purchasing price.

Note 2: Primary factors for the increase/decrease during the prior fiscal year include: increases of ¥170 million due to the acquisition of offices for rent through renovation and ¥143 million due to the reclassification of assets used by the Company as assets for rent, and decreases of ¥432 million due to a change in the purpose of ownership and subsequent reclassification to real estate for sale, ¥1,307 million due to real estate whose rental period had expired, which is a component of real estate including portions for rent and other purposes, and ¥205 million due to depreciation. With regard to real estate including portions for rent and other purposes, real estate equivalent to ¥7,759 million has been reclassified as real estate for rent and other purposes.
The main increase in the current consolidated fiscal year is acquisition (¥1,336 million) by purchasing land for the rental business, renovation of an office building for rent, etc., and transfer from in-house use assets to idle assets (¥361 million). The main decrease is the partial disposal of facilities (¥25 million) and depreciation (¥211 million) due to the renovation of office building for rent.

Note 3: Fair values as of the end of the fiscal years are based on real estate appraisal reports submitted by external real estate appraisers. Some of the figures were adjusted based on appraisal values and indices in cases where no substantial changes have occurred in indices that are considered to be accurate reflections of appraisal value and market price since the most recent appraisal.

The following are the income/loss on real estate for rent and other purposes and real estate including portions for rent and other purposes for the current fiscal year.

| | | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|---|
| Real estate for rent and other purposes | Rent revenue (Millions of yen) | ¥ 816 | ¥ 713 |
| | Rent expenses (Millions of yen) | 565 | 517 |
| | Rent income/loss (Millions of yen) | 251 | 196 |
| | Other income/loss (Millions of yen) | — | (17) |
| Real estate including portions for rent and other purposes | Rent revenue (Millions of yen) | 10 | 10 |
| | Rent expenses (Millions of yen) | 2 | 1 |
| | Rent income/loss (Millions of yen) | 8 | 9 |
| | Other income/loss (Millions of yen) | ¥ (0) | ¥ — |

Note: Rent revenue is accounted for under "Net sales of development business and other" and rent expenses are accounted for under "Cost of sales on development business and other."

# 【Segment Information】

Segment Information

1. Overview of reportable segments
   The reportable segments of the Company are constituent units of the Company for which separate financial information can be obtained and regularly examined by the Board of Directors to determine the allocation of management resources and evaluate business performance.
   The Company is engaged in operations consisting primarily of businesses related to construction work in general centered on civil engineering and architecture, and additional general businesses related to real estate owned by the Company.
   The Company is therefore composed of segments related to these businesses, and reports on the following segments: Civil Engineering business, Architecture business and Development business.
   The Civil Engineering business involves performing civil engineering work and other contingent businesses and the Architecture business involves performing construction work and other contingent businesses. The Development business involves real estate development, housing sales, real estate leasing, and other businesses that do not belong to either the Civil Engineering business or the Architecture business.

2. Methods of measurement for the amounts of sales, income/loss, assets, and other items for each reportable segment
   The accounting policies of each reportable segment are consistent with those disclosed in "Significant Issues Fundamental to the Preparation of Consolidated Financial Statements."
   Income reported for the segments are figures based on operating income/loss.
   Figures for intersegment sales and transactions are based on current market values.

3. Information about sales, income/loss, assets, and other items by segment

**Prior fiscal year (from April 1, 2016 to March 31, 2017)** (Millions of yen)

| | Civil Engineering Business | Architecture Business | Development Business | Total | Adjusted amount (Note 1) | Consolidated (Note 2) |
|---|---|---|---|---|---|---|
| Net sales | | | | | | |
| Sales to third parties | **¥ 66,958** | **¥ 49,555** | **¥ 1,294** | **¥ 117,807** | **¥ —** | **¥ 117,807** |
| Intersegment sales and transactions | **—** | **—** | **109** | **109** | **(109)** | **—** |
| Total | **66,958** | **49,555** | **1,403** | **117,916** | **(109)** | **117,807** |
| Segment income | **4,000** | **3,330** | **107** | **7,438** | **(1,961)** | **5,477** |
| Segment assets | **62,608** | **25,841** | **9,158** | **97,607** | **519** | **98,126** |
| Other items | | | | | | |
| Depreciation | **194** | **121** | **287** | **601** | **—** | **601** |
| Increase in property, plant and equipment and intangible assets | **¥ 289** | **¥ 188** | **¥ 222** | **¥ 699** | **¥ —** | **¥ 699** |

Note 1: Amounts have been adjusted as follows:
(1) Adjusted amount of (¥1,961) million under "Segment income/loss" includes (¥109) million in elimination of intersegment transactions and (¥1,851) million in total corporate operating expenses that are not allocated to the reportable segments. Total corporate operating expenses are selling, general and administrative expenses not attributable to the reportable segments.
(2) Adjusted amount of ¥519 million under "Segment assets" includes ¥526 million in total corporate assets that are not allocated to the reportable segments. Total corporate assets primarily comprise assets related to surplus operational funds (deposits) and assets related to the administrative departments of the Company.

Note 2: Adjustments have been made between "Segment income" and "Operating income" in the consolidated statement of income.

**Current fiscal year (from April 1, 2017 to March 31, 2018)** (Millions of yen)

| | Civil Engineering Business | Architecture Business | Development Business | Total | Adjusted amount (Note 1) | Consolidated (Note 2) |
|---|---|---|---|---|---|---|
| Net sales | | | | | | |
| Sales to third parties | **¥ 73,641** | **¥ 55,869** | **¥ 1,611** | **¥ 131,121** | **¥ —** | **¥ 131,121** |
| Intersegment sales and transactions | **—** | **—** | **124** | **124** | **(124)** | **—** |
| Total | **73,641** | **55,869** | **1,735** | **131,245** | **(124)** | **131,121** |
| Segment income | **5,479** | **4,610** | **126** | **10,215** | **(1,962)** | **8,253** |
| Segment assets | **62,515** | **27,241** | **11,871** | **101,627** | **395** | **102,023** |
| Other items | | | | | | |
| Depreciation | **149** | **110** | **341** | **600** | **—** | **600** |
| Increase in property, plant and equipment and intangible assets | **¥ 687** | **¥ 263** | **¥ 1,980** | **¥ 2,930** | **¥ —** | **¥ 2,930** |

Note 1: Amounts have been adjusted as follows:
(1)Adjusted amount of (¥1,962) million under "Segment income/loss" includes (¥124) million in elimination of intersegment transactions and (¥1,837) million in total corporate operating expenses that are not allocated to the reportable segments. Total corporate operating expenses are selling, general and administrative expenses not attributable to the reportable segments
(2) Adjusted amount of ¥395 million under "Segment assets" includes ¥404 million in total corporate assets that are not allocated to the reportable segments. Total corporate assets primarily comprise assets related to surplus operational funds (deposits) and assets related to the administrative departments of the Company.

Note 2: Adjustments have been made between "Segment income" and "Operating income" in the consolidated statement of income.

# 【Related Information】

**Prior fiscal year (from April 1, 2016 to March 31, 2017)**

1. Information by product and service
   Omitted since similar information is presented in Segment Information.

2. Information by geographical representation
   (1) Net sales
   Omitted since net sales in Japan account for more than 90% of net sales presented in the consolidated statement of income.
   (2) Property, plant and equipment
   Omitted since the monetary value of property, plant and equipment located in Japan accounts for more than 90% of the monetary value of property, plant and equipment presented in the consolidated balance sheet.

3. Information by major client
   Omitted since there were no external clients accounting for 10% or more of net sales presented in the consolidated balance sheet.

**Current fiscal year (from April 1, 2017 to March 31, 2018)**

1. Information by product and service
   Omitted since similar information is presented in Segment Information.

2. Information by geographical representation
   (1) Net sales
   Omitted since net sales in Japan account for more than 90% of net sales presented in the consolidated statement of income.
   (2) Property, plant and equipment
   Omitted since the monetary value of property, plant and equipment located in Japan accounts for more than 90% of the monetary value of property, plant and equipment presented in the consolidated balance sheet.

3. Information by major client

(Millions of yen)

| Name or full name of customer | **Net sales** | **Related name of segment** |
|---|---|---|
| Ministry of Land, Infrastructure and Transport | **¥ 13,766** | Civil Engineering business and Architecture business |

# 【Information on Impairment Loss on Fixed Assets by Reportable Segment】

**Prior fiscal year (from April 1, 2016 to March 31, 2017)**

Not applicable

**Current fiscal year (from April 1, 2017 to March 31, 2018)**

Not applicable

(Millions of yen)

| | Civil Engineering Business | Architecture Business | Development Business | Total | Eliminations | Total |
|---|---|---|---|---|---|---|
| Impairment loss | **¥ 528** | **¥ 356** | **¥ 193** | **¥ 1,079** | **¥ —** | **¥ 1,079** |

# 【Information on Amortization of Goodwill and Balance of Unamortized Goodwill by Reportable Segment】

**Prior fiscal year (from April 1, 2016 to March 31, 2017)**

Omitted due to immateriality.

**Current fiscal year (from April 1, 2017 to March 31, 2018)**

Omitted due to immateriality

## 【Information on Gain on Negative Goodwill by Reportable Segment】

**Prior fiscal year (from April 1, 2016 to March 31, 2017)**
Not applicable

**Current fiscal year (from April 1, 2017 to March 31, 2018)**
Not applicable

## 【Transactions with Related Parties】

**Prior fiscal year (from April 1, 2016 to March 31, 2017) and current fiscal year (from April 1, 2017 to March 31, 2018)**
Not applicable

## 【Per Share Information】

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Net assets per share | **¥ 134.48** | **¥ 164.98** |
| Net income per share | **¥ 22.77** | **¥ 31.30** |

Note 1: Diluted net income/loss per share for the current fiscal year is not shown because there were no potentially dilutive shares outstanding.
Note 2: The basis for calculating net income/loss per share is as follows:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Net income attributable to owners of the parent (millions of yen) | **¥ 4,384** | **¥ 6,025** |
| Amounts not applicable to common stockholders (millions of yen) | — | — |
| Net income attributable to owners of the parent related to common stock (millions of yen) | **4,384** | **6,025** |
| Average number of common stock outstanding during term (1,000 shares) | **192,542** | **192,519** |

Regarding the calculation basis for number of shares, the consolidation of shares whose effective date will be October 1, 2018 has not been reflected. Please see【Significant Subsequent Events】for more details.

Note 3: The basis of calculation for net assets per share is as follows:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Total net assets (millions of yen) | **¥ 25,894** | **¥ 31,771** |
| Deduction from net assets (millions of yen) | **4** | **9** |
| Minority interests (millions of yen) | **4** | **9** |
| Term end amount allocated to common stock (millions of yen) | **¥ 25,890** | **¥ 31,762** |
| Number of common stock used to calculate net assets per share (1,000 shares) | **192,521** | **192,518** |

## 【Significant Subsequent Events】

*8 : At a meeting of the Board of Directors held on May 15, 2018, the Company resolved to propose to the 75th Annual General Meeting of Shareholders on reverse stock split and a change in the articles of incorporation, and these were approved at the Annual General Meeting of Shareholders held on June 28, 2018.

1. Reason for the reverse stock split
The total number of issued shares increased to 193,104,360 shares as of March 31, 2018 through transfer to common shares due to the exercise of purchasing rights for preferred stock that had been issued previously.

The Company considers this number of shares large when taking into account the business scale. The current stock price level is also far below the range per investment unit considered desirable by Tokyo Stock Exchange, Inc., which is equal to or greater than ¥50,000 and less than ¥500,000. In addition, the stock price volatility per ¥1 is relatively large and susceptible to sizable stock price fluctuations as a speculative investment. Therefore, the Company recognizes that the impact on all of the general investors is not low.

Taking these circumstances into consideration, the Company proposes a one-for-ten reverse stock split.

2. Matter of the reverse stock split
(1) Type of stock subject to the reverse
Common shares
(2) Method and percentage of the reverse stock split
As of October 1, 2018, the Company will conduct a one-for-ten reverse split of common shres held by the shareholders listed on the last shareholder register on September 30, 2018 (Actually, on September 28).

(3) Number of shares to be decreased due to the reverse stock split

| | |
|---|---|
| Total number of issued shares before the reverse stock split (as of March 31, 2018) | **193,104,360 shares** |
| Number of shares to be decreased due to reverse stock split | **173,793,924 shares** |
| Total number of issued shares after the reverse stock split | **19,310,436 shares** |

Note : " Number of shares to be decreased due to the reverse stock split " and "Total number of issued shares after the reverse stock split" are the theoretical values, these are multiplied by the Total number of issued shares before the reverse stock split and the percentage of reverse stock split.

(4) Total number of issuable shares after the reverse stock split

| | |
|---|---|
| Total number of issuable shares before the reverse stock split (as of March 31, 2018) | **400,000,000 shares** |
| Total number of issuable shares after the reverse stock split | **40,000,000 shares** |

3. Treatment in cases where fractions of less than one share occur
If any fraction of less than one share occurs as a result of this share reverse stock split, it shall be disposed altogether under the provisions of the Companies Act and the disposal fee will be distributed to shareholders who have fractions according to the percentage of the fraction.

4. Schedule of the reverse stock split

| | |
|---|---|
| Date of resolution of the Board of Directors | **May 15, 2018** |
| Date of resolution of Shareholders meeting | **June 28, 2018** |
| Effective date of the reverse stock split | **October 1, 2018** |

5. Effect on per share information
The per share information for the previous consolidated fiscal year and the current consolidated fiscal year, assuming that the reverse stock split took place at the beginning of the previous consolidated fiscal year, is as follows.

| | **Prior fiscal year (from April 1, 2016 to March 31, 2017)** | **Current fiscal year (from April 1, 2017 to March 31, 2018)** |
|---|---|---|
| Net assets per share | **¥ 1,344.81** | **¥ 1,649.80** |
| Net income per share | **¥ 227.69** | **¥ 312.95** |

**Deloitte.**

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Tobishima Corporation:

We have audited the accompanying consolidated balance sheet of Tobishima Corporation and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tobishima Corporation and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

## Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2018

# Nonconsolidated Balance Sheet
# TOBISHIMA CORPORATION
**As of March 31, 2018**

| ASSETS | | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|---|
| **Current assets** | Cash and cash equivalents | ¥ 24,606 | ¥ 20,015 | $ 188,398 |
| | Marketable securites | — | 1,500 | 14,119 |
| | Notes receivable | 181 | 3 | 24 |
| | Accounts receivable from completed construction contracts | 43,674 | 47,234 | 444,602 |
| | Allowance for doubtful accounts | (42) | (9) | (81) |
| | Costs on uncompleted construction contracts | 1,434 | 1,479 | 13,918 |
| | Real estate for sale | 497 | 411 | 3,865 |
| | Electronically recorded monetary claims - operating (*1) | — | 7 | 68 |
| | Deferred tax assets | 597 | 1,162 | 10,941 |
| | Other | 6,171 | 4,915 | 46,259 |
| | Total current assets | 77,118 | 76,717 | 722,113 |
| **Property, plant and equipment** | Buildings | 13,662 | 13,596 | 127,972 |
| | Accumulated depreciation | (7,375) | (7,660) | (72,100) |
| | Buildings, net | 6,287 | 5,936 | 55,872 |
| | Structures | 396 | 396 | 3,728 |
| | Accumulated depreciation | (314) | (321) | (3,019) |
| | Structures, net | 82 | 75 | 708 |
| | Machinery and equipment | 1,757 | 1,686 | 15,871 |
| | Accumulated depreciation | (1,327) | (1,315) | (12,382) |
| | Machinery and equipment, net | 430 | 371 | 3,489 |
| | Vehicles | 84 | 85 | 805 |
| | Accumulated depreciation | (76) | (71) | (667) |
| | Vehicles, net | 8 | 14 | 138 |
| | Tools, furniture, and fixtures | 1,256 | 1,251 | 11,775 |
| | Accumulated depreciation | (1,088) | (1,110) | (10,449) |
| | Tools, furniture and fixtures, net | 168 | 141 | 1,326 |
| | Land | 6,471 | 6,997 | 65,861 |
| | Lease assets | 71 | 58 | 544 |
| | Accumulated depreciation | (37) | (32) | (301) |
| | Lease assets, net | 34 | 26 | 243 |
| | Construction in progress | — | 360 | 3,391 |
| | Total property, plant and equipment | 13,480 | 13,920 | 131,028 |
| **Investments and other assets** | Investment securities(*2) | 4,312 | 4,483 | 42,194 |
| | Stocks of subsidiaries | 0 | 1,530 | 14,402 |
| | Investments in capital | 235 | 227 | 2,136 |
| | Long-term loans receivable | 306 | 292 | 2,748 |
| | Long-term loans receivable for employees | 24 | 34 | 314 |
| | Intangible assets | 344 | 377 | 3,551 |
| | Claims provable in bankruptcy, claims provable in rehabilitaion | 179 | 0 | 1 |
| | Long-term prepaid expenses | 59 | 54 | 504 |
| | Stock issuance cost | 5 | 2 | 15 |
| | Deferred tax assets | 1 | — | — |
| | Other (*3) | 1,298 | 1,192 | 11,221 |
| | Allowance for doubtful accounts | (380) | (201) | (1,890) |
| | Total investments and other assets | 6,383 | 7,990 | 75,196 |
| **Total** | | ¥ 96,981 | ¥ 98,627 | $ 928,337 |

See notes to nonconsolidated financial statements

# Nonconsolidated Balance Sheet
# TOBISHIMA CORPORATION
**As of March 31, 2018**

| LIABILITIES AND EQUITY | | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|---|
| **Current Liabilities** | Notes payable-trade | ¥ 2,192 | ¥ 1,903 | $ 17,907 |
| | Accounts payable for construction contracts | 21,337 | 20,723 | 195,055 |
| | Lease obligations | 14 | 12 | 115 |
| | Income taxes payable | 589 | 814 | 7,664 |
| | Advances received on uncompleted construction contracts | 8,434 | 5,590 | 52,612 |
| | Deposits received | 12,892 | 11,801 | 111,075 |
| | Liability for warranties for completed construction | 184 | 202 | 1,905 |
| | Liability for loss on construction contracts | 257 | 414 | 3,900 |
| | Electronically recorded obligations-operating | 11,708 | 11,468 | 107,945 |
| | Other | 1,448 | 2,475 | 23,298 |
| | Total current liabilities | 59,055 | 55,402 | 521,476 |
| **Long-term liabilities** | Lease obligations | 23 | 16 | 151 |
| | Deferred tax liabilities | — | 114 | 1,074 |
| | Liability for retirement benefits | 1,788 | 1,154 | 10,858 |
| | Liability for environmental measures | 3 | — | — |
| | Long-term borrowings (*4) | 10,000 | 10,000 | 94,126 |
| | Asset Retirement Obligations | 60 | 61 | 573 |
| | Other | 390 | 356 | 3,355 |
| | Total long-term liabilities | 12,264 | 11,701 | 110,137 |
| | Total liabilities | 71,319 | 67,103 | 631,613 |
| **Equity** | Common Stock-Authorized, 400,000 Thousand Shares; Issued, 193,104 Thousand Shares | 5,520 | 5,520 | 51,957 |
| | Capital surplus | | | |
| | Legal capital surplus | 2,980 | 2,980 | 28,050 |
| | Other capital surplus | 3,268 | 3,268 | 30,761 |
| | Total capital surplus | 6,248 | 6,248 | 58,811 |
| | Retained earnings | | | |
| | Other retained earnings | 13,524 | 19,252 | 181,212 |
| | Retained earnings brought forward | 13,524 | 19,252 | 181,212 |
| | Total retained earnings | 13,524 | 19,252 | 181,212 |
| | Treasury stock-at cost: 586,364 Shares(*5) | (448) | (449) | (4,222) |
| | Total shareholders' equity | 24,844 | 30,571 | 287,758 |
| | Accumulated other comprehensive income | | | |
| | Unrealized gain on available-for-sale securities | 818 | 953 | 8,966 |
| | Foreign currency translation adjustment | 818 | 953 | 8,966 |
| | Total equity | 25,662 | 31,524 | 296,724 |
| **Total** | | ¥ 96,981 | ¥ 98,627 | $ 928,337 |

See notes to nonconsolidated financial statements

# Nonconsolidated Statement of Income
## TOBISHIMA CORPORATION
**Year ended March 31, 2018**

| | | Millions of Yen 2017 | Millions of Yen 2018 | Thousands of U.S. Dollars 2018 |
|---|---|---|---|---|
| **Net sales** | Net sales of completed construction contracts | ¥ 114,626 | ¥ 127,078 | $ 1,196,138 |
| | Net sales of development business and other | 1,216 | 1,139 | 10,724 |
| | Total net sales | 115,842 | 128,217 | 1,206,862 |
| **Cost of sales** | Cost of sales of completed construction contracts | 103,866 | 113,461 | 1,067,964 |
| | Cost of sales on development business and other | 978 | 776 | 7,305 |
| | Total cost of sales | 104,844 | 114,237 | 1,075,269 |
| **Gross profit** | Gross profit on completed construction contracts | 10,760 | 13,617 | 128,172 |
| | Gross profit on development business and other | 238 | 364 | 3,420 |
| | Gross profit | 10,998 | 13,981 | 131,592 |
| **Selling, general, and administrative expenses** | | 5,566 | 5,720 | 53,837 |
| **Operating income** | | 5,432 | 8,261 | 77,755 |
| **Other income (expenses)** | Interest and dividends | 5 | 7 | 71 |
| | Interest on securities | 3 | 2 | 23 |
| | Insurance income | — | 20 | 188 |
| | Gain on sales of property, plant and equipment(*6) | 5 | 2 | 20 |
| | Dividend income | 28 | 30 | 280 |
| | Compensation income | 13 | — | — |
| | Interest expense | (200) | (163) | (1,537) |
| | Commission for syndicate loan | (10) | (207) | (1,955) |
| | Loss on retirement of property, plant and equipment(*7) | (2) | (47) | (441) |
| | Loss on sale of membership | (7) | — | — |
| | Impairment loss | — | (888) | (8,358) |
| | Other net | (219) | (177) | (1,663) |
| | Other expenses-net | (384) | (1,421) | (13,372) |
| **Income before income taxes** | | 5,048 | 6,840 | 64,383 |
| **Income taxes-current** | | 720 | 1,045 | 9,832 |
| **Income taxes-deferred** | | (49) | (510) | (4,801) |
| **Total income taxes** | | 671 | 534 | 5,031 |
| **Net income** | | ¥ 4,377 | ¥ 6,306 | $ 59,352 |

See notes to nonconsolidated financial statements

# Nonconsolidated Cost of Sales
## TOBISHIMA CORPORATION
**Year ended March 31, 2018**

**Cost of sales of completed construction contracts**

| | 2017 | | 2018 | | U.S. Dollars 2018 | |
|---|---|---|---|---|---|---|
| | amount (Millions of Yen) | distribution ratio(%) | amount (Millions of Yen) | distribution ratio(%) | Thousands of U.S. Dollars | distribution ratio(%) |
| **Cost of materials** | ¥ 18,596 | 17.9% | ¥ 19,653 | 17.3% | $ 184,983 | 17.3% |
| **Cost of labour** | 3,674 | 3.5% | 2,371 | 2.1% | 22,322 | 2.1% |
| outside order expenses for labour | 3,665 | 3.5% | 2,360 | 2.1% | 22,211 | 2.1% |
| **Cost of work contracted out** | 62,529 | 60.2% | 68,997 | 60.8% | 649,444 | 60.8% |
| **Cost** | 19,067 | 18.4% | 22,440 | 19.8% | 211,215 | 19.8% |
| employment cost | 8,230 | 7.9% | 8,770 | 7.7% | 82,554 | 7.7% |
| Total | ¥ 103,866 | 100.0% | ¥ 113,461 | 100.0% | $ 1,067,964 | 100.0% |

* Using job order costing

**Cost of sales on development business and other**

| | 2017 | | 2018 | | U.S. Dollars 2018 | |
|---|---|---|---|---|---|---|
| segment | amount (Millions of Yen) | distribution ratio(%) | amount (Millions of Yen) | distribution ratio(%) | Thousands of U.S. Dollars | distribution ratio(%) |
| **Purchase of real property** | ¥ 286 | 29.2% | ¥ 93 | 11.9% | $ 872 | 11.9% |
| **Purchase of development of building lots** | 3 | 0.3% | 2 | 0.3% | 21 | 0.3% |
| **Purchase of construction work** | — | — | — | — | — | — |
| **Cost** | 689 | 70.5% | 681 | 87.8% | 6,412 | 87.8% |
| employment cost | — | — | — | — | — | — |
| Total | ¥ 978 | 100.0% | ¥ 776 | 100.0% | $ 7,305 | 100.0% |

* Using job order costing

# Nonconsolidated Statement of Changes in Equity
# TOBISHIMA CORPORATION
### Year ended March 31, 2018

| | Thousands | | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Outstanding number of Shares | | | Capital Surplus | | | | Accumulated Other Comprehensive Income | |
| | Common Stock | Preferred Stock | Common Stock | Additional Paid-in Capital | Other Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain (Loss) on Available-for-Sale Securities | Total Equity |
| Balance, April 1, 2016 | **193,104** | | **¥ 5,520** | **¥ 2,980** | **¥ 3,268** | **¥ 9,533** | **¥ (444)** | **¥ 975** | **¥ 21,832** |
| Increase in stock | | | | | | | | | |
| Dividend of surplus | | | | | | **(385)** | | | **(385)** |
| Net income | | | | | | **4,377** | | | **4,377** |
| Purchase of treasury stock | | | | | | | **(4)** | | **(4)** |
| Net changes in the year | | | | | | | | **(157)** | **(157)** |
| Balance, March 31, 2017 (April 1, 2016, as previously reported) | **193,104** | | **5,520** | **2,980** | **3,268** | **13,524** | **(448)** | **818** | **25,662** |
| Dividend of surplus | | | | | | **(578)** | | | **(578)** |
| Net income | | | | | | **6,306** | | | **6,306** |
| Purchase of treasury stock | | | | | | | **(1)** | | **(1)** |
| Net changes in the year | | | | | | | | **135** | **135** |
| Balance, March 31, 2018 | **193,104** | | **¥ 5,520** | **¥ 2,980** | **¥ 3,268** | **¥ 19,252** | **¥ (449)** | **¥ 953** | **¥ 31,524** |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Capital Surplus | | | | Accumulated Other Comprehensive Income | |
| | Common Stock | Additional Paid-in Capital | Other Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain (Loss) on Available-for-Sale Securities | Total Equity |
| Balance, April 1, 2017 | **$ 51,957** | **$ 28,050** | **$ 30,761** | **$ 127,296** | **($ 4,217)** | **$ 7,704** | **$ 241,551** |
| Dividend of surplus | | | | **(5,436)** | | | **(5,436)** |
| Net income | | | | **59,352** | | | **59,352** |
| Purchase of treasury stock | | | | | **(5)** | | **(5)** |
| Net changes in the year | | | | | | **1,262** | **1,262** |
| Balance, March 31, 2018 | **$ 51,957** | **$ 28,050** | **$ 30,761** | **$ 181,212** | **$ (4,222)** | **$ 8,966** | **$ 296,724** |

See notes to nonconsolidated financial statements

## 1. BASIS OF PRESENTATION OF NONCONSOLIDATED FINANCIAL STATEMENTS

The accompanying nonconsolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these nonconsolidated financial statements, certain reclassifications and rearrangements have been made to the nonconsolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 nonconsolidated financial statements to conform to the classifications used in 2018.

The nonconsolidated financial statements are stated in Japanese yen, the currency of the country in which Tobishima Corporation. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to $1, the approximate rate of exchange at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

b. **Inventory**
Costs on uncompleted construction contracts and other are stated at cost based on the specific identification method.

Costs on uncompleted construction contracts and other (materials and supplies) are
stated at cost based on the moving-average method (or net selling value)

Current assets (real estate for sale) are stated at cost based on the specific identification method (or net selling value)

c. **Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:
(1) held-to-maturity debt securities, for which there is positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

d. **Property, Plant and equipment(excluding leased items)**
Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2017.

An overseas consolidated subsidiary has also adopted the straight-line method.

Useful lives and residual values of assets held by the Company and its domestic consolidated subsidiary are in accordance with the regulations stipulated in the “Corporation Tax Law.”

e. **Intangible Assets (excluding leased items)**—Intangible Assets (exc. leased items) are amortized using the straight-line method.
Useful lives of these assets are in accordance with regulations stipulated in the “Corporation Tax Law.”
Software for internal use is amortized by the straight-line method based on an estimated useful life of five years.

f. **Lease Assets**— Assets resulting from financial lease transactions for which ownership does not transfer at the end of the lease are deprecated by the straight-line method with the leasing period as the useful life and residual value as zero.

g. **Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. **Allowance for Doubtful Accounts**—To prepare for losses from defaults on sales receivables, loans receivable and other accounts receivable, the Company reports the estimated uncollectible amounts for general claims based on its past default rates and for specific accounts with acknowledged credit risks based on an evaluation of the possibility of collection on an individual basis.

i. **Liability for Warranties for Completed Construction**—The liability recorded in an amount based on the Company’s past experience, with an additional amount deemed necessary in the future for execution of warranty obligations regarding construction projects.

j. **Liability for Loss on Construction Contracts**— The liability is a recorded in an amount deemed necessary at term end on the basis of estimated losses on construction contracts in the future.

k. **Retirement and Pension Plans**—The Company has a cash balance plan as a defined benefit corporate pension program. Under this program, a hypothetical individual employee account equivalent to the funded amount and the pension resources for annuities is set up for each plan participant. Seniority points based on length of service, merit points based on level of competence, and interest credits based on market interest rates are accumulated in the hypothetical account.

In addition, the Company had also participated in an employee' welfare fund for construction workers, which was a multi-employer plan. This fund was dissolved in September 2016, and while it is currently in the process of liquidation, the dissolution is not expected to result in additional obligations for the Company. As reasonable estimates are not available for plan assets corresponding to the Company's contribution for the employees' pension fund and corporate pension fund programs, the same accounting method as that used for defined contribution programs is applied.

Retirement benefit obligations are calculated using straight-line attribution to allocate projected retirement benefit payments to the end of the current fiscal year.

Unrecognized actuarial loss is amortized over 10 years, within the remaining average service period of employees when recognized, using the straight-line method beginning with the year following recognition.
Unrecognized prior service cost is amortized over five years, within the remaining average service period of employees when recognized, using the straight-line method.

l. **Research and Development Costs**—Research and development costs are charged to income as incurred.

m. **Construction Contracts**—Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

n. **Income Taxes**—The provision for income taxes is computed based on the pretax income included in the nonconsolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

o. **Accounting method for deferred assets**—Stock issuance cost is amortized by the straight-line method over three years.

p. **Accounting for consumption tax**
Consumption tax is excluded from sales, cost of sales and expenses

q. **Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

## 【Notes to the Nonconsolidated Balance Sheet】

1. Assets pledged as collateral
The Company has pledged the following assets as collateral for guarantee money for operations:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| *2 Investment securities | **¥ 220 million** | **¥ 223 million** |
| *3 Investments and other assets "Other" (Long-term guarantee money) | **64 million** | **64 million** |
| Total | **¥ 284 million** | **¥ 287 million** |

2. Contingent liabilities
(1)The Company has provided the following amounts for guarantees for liabilities of refund of housing sales deposits with the following companies:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| E & CS Co., Ltd. (payable trade, Notes receivable-trade) | **¥ 251 million** | **¥ 49 million** |
| Tobishima Brunei Sdn. Bhd. (contract bond) | **—** | **25 million** |
| Total | **¥ 251million** | **¥ 74 million** |

(2) The Company provides completion guarantees, as shown below, for construction contracts signed by the following company:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Nishimatsu Construction Co.,Ltd. | **¥ 7,401 million** | **¥ 8,076 million** |

3. *4 : Syndicated term loan agreements
Prior fiscal year (as of March 31, 2017):
The Company has signed syndicated term loan agreements with financial institutions (total amount: ¥10,000 million), with the following restrictive financial covenants attached:
(a) The Company must avoid reporting for two consecutive years of ordinary loss in the consolidated statement of income presented at the end of each fiscal year;
(b)The Company must avoid reporting for two consecutive years of ordinary loss in the nonconsolidated statement of income presented at the end of each fiscal year;
(c)The Company must maintain its equity ratio for each fiscal year at 10% or above on a nonconsolidated basis.

Current fiscal year (as of March 31, 2018):
The Company has signed syndicated term loan agreements with financial institutions (total amount: ¥10,000 million), with the following restrictive financial covenants attached:
(a) The company must maintain the amount of net assets in the consolidated balance sheet at the end of each fiscal year's closing date more than 75% of the amount of net assets on the consolidated balance sheet as of the end of the fiscal year ending March 2017, and 75% of the amount of net assets in the consolidated balance sheet as of the last day of the fiscal year end;
(b) The company must maintain the amount of net assets in the non-consolidated balance sheet at the end of each fiscal year's closing date more than 75% of the amount of net assets on the non-consolidated balance sheet as of the end of the fiscal year ending March 2017, and 75% of the amount of net assets in the non-consolidated balance sheet as of the last day of the fiscal year end;
(c) The Company must avoid reporting for two consecutive years of ordinary loss in the consolidated statement of income presented at the end of each fiscal year;
(d) The Company must avoid reporting for two consecutive years of ordinary loss in the nonconsolidated statement of income presented at the end of each fiscal year.

4. The Company has entered into commitment line agreements with five banks to make flexible and stable procurement of working capital. Contract maximum amount and borrowing execution balance at the end of consolidated fiscal year are as follows. ownership.

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Contract maximum amount | **¥ — million** | **¥ 10,000 million** |
| Borrowing execution balance | **—** | **—** |
| Deducted amount | **¥ — million** | **¥ 10,000 million** |

5. The company settles accounting treatment of bills etc. matured at the end of the period, on the clearance date or settlement date.
Since the end of the consolidated fiscal year was a holiday of a financial institution, the following notes matured at the end of the period are included in the balance at the end of the period.

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| *1 Electronic recorded receivables | **— million** | **7 million** |

## 【Notes to the Consolidated Statement of Income】

1. *6 The breakdown of gain on sales of property, plant and equipment is as follows:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Vehicles | ¥ 5 million | ¥ 2 million |
| Other | — | 0 million |
| Total | ¥ 5 million | ¥ 2 million |

2. *7 The breakdown of loss on sales property, plant and equipment is as follows:

| | Prior fiscal year (from April 1, 2016 to March 31, 2017) | Current fiscal year (from April 1, 2017 to March 31, 2018) |
|---|---|---|
| Building | ¥ 1 million | ¥ 46 million |
| Other | 1 million | 1 million |
| Total | ¥ 2 million | ¥ 47 million |

## 【Income Taxes】

1. The tax effects of significant temporary differences and loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2017 and 2018, are as follows:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Deferred tax assets | | |
| Tax loss carryforwards | ¥ 2,405 million | ¥ 1,162 million |
| Loss on valuation of real estate for sale | 1,621 | 1,471 |
| Impairment loss | 809 | 1,078 |
| Liability for retirement benefits | 551 | 352 |
| Other | 860 | 1,002 |
| Deferred tax assets subtotal | 6,246 | 5,065 |
| Valuation allowance | (5,288) | (3,598) |
| Deferred tax assets total | 958 | 1,467 |
| Deferred tax liabilities | | |
| Unrealized loss on available-for-sale securities | (360) | (419) |
| Deferred tax liabilities total | (360) | (419) |
| Net deferred tax liabilities | ¥ 598 | ¥ 1,048 |

Note: Net deferred tax assets for the prior fiscal year and current fiscal year are included under the following items in the nonconsolidated balance sheet.

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Current assets – Other (deferred tax assets) | ¥ 597 million | ¥ 1,162 million |
| Fixed Assets – “Other” under Investments and other assets (deferred tax assets) | 1 | — |
| Fixed liabilities – Other (deferred tax liabilities) | ¥ — | ¥ (114) |

2. A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying nonconsolidated statement of income for the years ended March 31, 2017 and 2018, is as follows:

| | Prior fiscal year (as of March 31, 2017) | Current fiscal year (as of March 31, 2018) |
|---|---|---|
| Statutory tax rate | 30.9 % | 30.9 % |
| (Reconciliation) | | |
| Permanently non-deductible income | 5.8 % | 1.4 % |
| Permanently non-deductible expenses | (0.0) % | (0.0) % |
| Per capita inhabitant tax | 2.2 % | 1.5 % |
| Valuation allowance | (25.6) % | (26.0) % |
| Effective tax rate after application of tax effect accounting | 13.3 % | 7.8 % |

## 【Business Combinations and Business Separations】

Omitted due to immateriality.

## 【Significant Subsequent Events】

*5 : At a meeting of the Board of Directors held on May 15, 2018, the Company resolved to propose to the 75th Annual General Meeting of Shareholders on reverse stock split and a change in the articles of incorporation, and these were approved at the Annual General Meeting of Shareholders held on June 28, 2018.

1. Reason for the reverse stock split
   The total number of issued shares increased to 193,104,360 shares as of March 31, 2018 through transfer to common shares due to the exercise of purchasing rights for preferred stock that had been issued previously.

   The Company considers this number of shares large when taking into account the business scale. The current stock price level is also far below the range per investment unit considered desirable by Tokyo Stock Exchange, Inc., which is equal to or greater than ¥50,000 and less than ¥500,000. In addition, the stock price volatility per ¥1 is relatively large and susceptible to sizable stock price fluctuations as a speculative investment. Therefore, the Company recognizes that the impact on all of the general investors is not low.

   Taking these circumstances into consideration, the Company proposes a one-for-ten reverse stock split.

2. Matter of the reverse stock split
   (1) Type of stock subject to the reverse
   Common shares
   (2) Method and percentage of the reverse stock split
   As of October 1, 2018, the Company will conduct a one-for-ten reverse split of common shres held by the shareholders listed on the last shareholder register on September 30, 2018 (Actually, on September 28).

   (3) Number of shares to be decreased due to the reverse stock split

| | |
|---|---|
| Total number of issued shares before the reverse stock split (as of March 31, 2018) | **193,104,360 shares** |
| Number of shares to be decreased due to reverse stock split | **173,793,924 shares** |
| Total number of issued shares after the reverse stock split | **19,310,436 shares** |

Note : " Number of shares to be decreased due to the reverse stock split " and "Total number of issued shares after the reverse stock split" are the theoretical values, these are multiplied by the Total number of issued shares before the reverse stock split and the percentage of reverse stock split.

   (4) Total number of issuable shares after the reverse stock split

| | |
|---|---|
| Total number of issuable shares before the reverse stock split (as of March 31, 2018) | **400,000,000 shares** |
| Total number of issuable shares after the reverse stock split | **40,000,000 shares** |

3. Treatment in cases where fractions of less than one share occur
   If any fraction of less than one share occurs as a result of this share reverse stock split, it shall be disposed altogether under the provisions of the Companies Act and the disposal fee will be distributed to shareholders who have fractions according to the percentage of the fraction.

4. Schedule of the reverse stock split

| | |
|---|---|
| Date of resolution of the Board of Directors | **May 15, 2018** |
| Date of resolution of Shareholders meeting | **June 28, 2018** |
| Effective date of the reverse stock split | **October 1, 2018** |

5. Effect on per share information
   The per share information for the previous consolidated fiscal year and the current consolidated fiscal year, assuming that the reverse stock split took place at the beginning of the previous consolidated fiscal year, is as follows.

| | **Prior fiscal year (from April 1, 2016 to March 31, 2017)** | **Current fiscal year (from April 1, 2017 to March 31, 2018)** |
|---|---|---|
| Net assets per share | **¥ 1,332.97** | **¥ 1,637.45** |
| Net income per share | **¥ 227.30** | **¥ 327.53** |

# Corporate Directory

## Board of Directors

**Chairman and Representative Director**
Kanji Ito

**President and Representative Director**
Masahiro Norikyo

**Representative Director**
Hiroyasu Nakade

**Directors**
Masafumi Oku
Atsushi Ito
Yasuo Terashima
Hiroko Shibayama
Takashi Aihara

**Corporate Auditors**
**・Standing Auditors**
Hiroshi Matsushima
Takashi Hagisako
**・Auditors**
Fumiko Kosao
Izuru Goto

**Executive Officers**
**Chief Executive Officer**
Masahiro Norikyo

**Executive Vice-Presidents**
Hiroyasu Nakade
Masafumi Oku

**Senior Managing Executive Officers**
Atsushi Ito

**Managing Executive Officers**
Yasuo Terashima
Motoshi Kasakawa
Jiro Taki
Takuji Arao
Shinichiro Sato

**Executive Officers**
Endo Hiroshi
Shigeru Miwa
Shinya Sogabe
Yuichiro Uchikawa
Masakazu Oya
Mitsuhiko Takahashi
Kazuhiko Inoue
Katsuhiro Togashi
Toshimori Soma
Toshiyuki Matsubara
Akiyoshi Ban

## International Operations Division

W BLDG. 3F
1-8-15,Konan,Minato-ku,Tokyo,Japan
Phone 03-6455-8390
Fax 03-6455-8391

## Overseas Offices
## Brunei Office

Unit 6, 2nd floor, Block J, Abdul Razak Complex, Gadong, BE 2719, Bandar Seri Begawan, Negara Brunei Darussalam
Phone 673-2-425946
Fax 673-2-422041

## Pakistan Office

1st Floor, Plot No.55-C, U-Fone Tower, Jinnah Avenue, Islamabad, Pakistan
Phone 92-51-2310510
Fax 92-51-2310512

## Overseas Subsidiaries
## Tobishima (Brunei) Sdn. Bhd.

Unit 6, 2nd floor, Block J, Abdul Razak Complex, Gadong, BE 2719, Bandar Seri Begawan, Negara Brunei Darussalam

## Tobishima PNG Limited

Po Box 1905, Waterfront, Konedobu-125, NCD, Port Moresby, Papua New Guinea

## Employees by Occupation

(As of March 31, 2018)

| | |
|---|---|
| Administrative Officers | 226 |
| Civil Engineers | 623 |
| Building Engineers | 409 |
| Mechanical Engineers | 14 |
| Electrical Engineers | 8 |
| Other Equipment Engineers | 42 |
| Total | 1,322 |

## Year of Establishment:

March 1947
(Predecessor founded in 1883)

## Stock Information

(As of March 31, 2018)

Paid-In Capital: ￥5,519,942,968

Number of Shares Authorized :
Common Stock 400,000,000 shares

Number of Shares Issued :
Common Stock 193,104,360 shares

The total number of shares issued includes 586,364 treasury stocks.

Number of Shareholders: 41,303

ENGINEERING & CONSTRUCTION
TOBISHIMA CORPORATION
Head Office
1-8-15, Konan, Minato-ku, Tokyo, Japan