Consolidated Financial Statements

KYUDENKO CORPORATION

Year ended March 31, 2018
with Independent Auditor's Report

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2018

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Consolidated Financial Statements

Independent Auditor's Report

The Board of Directors
KYUDENKO CORPORATION

We have audited the accompanying consolidated financial statements of KYUDENKO CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 KYUDENKO CORPORATION and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

June 26, 2018
Fukuoka, Japan

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2018

	March 31, 2017	March 31, 2018	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks *(Notes 17, 19 and 22)*	¥ 30,314	**¥ 35,189**	**$ 331,229**
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable *(Notes 3, 19 and 24)*	106,204	**127,610**	**1,201,155**
Short-term investments *(Notes 19 and 20)*	1	**26**	**251**
Costs of uncompleted construction contracts	6,679	**6,826**	**64,254**
Merchandise	687	**897**	**8,445**
Raw materials and supplies	4,108	**5,444**	**51,251**
Deferred tax assets *(Note 14)*	3,415	**3,755**	**35,350**
Other current assets *(Note 17)*	6,766	**2,906**	**27,358**
Allowance for doubtful accounts *(Note 19)*	(6)	**(17)**	**(165)**
Total current assets	158,172	**182,640**	**1,719,131**
Fixed assets:			
Property and equipment:			
Buildings and structures *(Notes 4 and 17)*	64,920	**65,757**	**618,956**
Machinery, vehicles, tools, furniture and fixtures *(Notes 4 and 17)*	35,305	**39,515**	**371,944**
Leased assets	5,999	**6,345**	**59,727**
Land *(Note 17)*	28,385	**28,484**	**268,114**
Construction in progress	4,604	**1,718**	**16,177**
Accumulated depreciation	(53,453)	**(56,657)**	**(533,297)**
Total property and equipment	85,762	**85,164**	**801,622**
Intangible assets:			
Goodwill *(Notes 5 and 23)*	1,175	**500**	**4,706**
Other intangible assets	975	**943**	**8,876**
Total intangible assets	2,150	**1,443**	**13,583**
Investments and other assets:			
Investments in securities *(Notes 17, 19 and 20)*	36,990	**37,954**	**357,253**
Investments in unconsolidated subsidiaries and affiliates *(Notes 17 and 19)*	9,637	**10,671**	**100,443**
Long-term loans receivable *(Note 17)*	576	**932**	**8,778**
Asset for retirement benefits *(Note 7)*	241	**353**	**3,331**
Deferred tax assets *(Note 14)*	3,401	**2,433**	**22,908**
Other *(Note 17)*	4,167	**4,628**	**43,564**
Allowance for doubtful accounts	(892)	**(1,119)**	**(10,537)**
Total investments and other assets	54,393	**55,905**	**526,219**
Total fixed assets	142,306	**142,513**	**1,341,425**
Total assets	¥ 300,478	**¥ 325,153**	**$ 3,060,556**

	March 31,		
	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Liabilities			
Current liabilities:			
Notes payable, accounts payable on construction contracts and other accounts payable *(Notes 3 and 19)*	¥ 80,636	**¥ 98,738**	**$ 929,394**
Short-term borrowings *(Notes 17 and 22)*	14,839	**400**	**3,765**
Current portion of long-term debt *(Notes 6, 17 and 19)*	6,548	**7,184**	**67,623**
Convertible bond-type bonds with share subscription rights *(Notes 6 and 19)*	–	**13**	**122**
Lease obligations *(Note 6)*	849	**899**	**8,468**
Income taxes payable *(Note 14)*	6,083	**6,239**	**58,730**
Advances received on uncompleted construction contracts *(Note 24)*	9,611	**6,918**	**65,125**
Provision for loss on construction contracts	207	**–**	**–**
Other current liabilities *(Notes 13 and 14)*	5,986	**9,832**	**92,546**
Total current liabilities	124,745	**130,226**	**1,225,776**
Long-term liabilities:			
Convertible bond-type bonds with share subscription rights *(Notes 6 and 19)*	1,860	**–**	**–**
Long-term debt *(Notes 6, 17 and 19)*	9,707	**8,983**	**84,561**
Lease obligations *(Note 6)*	2,322	**2,597**	**24,453**
Provision for retirement benefits for directors and audit and supervisory board members	233	**406**	**3,827**
Liability for retirement benefits *(Note 7)*	17,471	**15,746**	**148,213**
Other long-term liabilities *(Notes 8 and 14)*	2,634	**3,053**	**28,739**
Total long-term liabilities	34,230	**30,787**	**289,795**
Total liabilities	158,975	**161,014**	**1,515,572**
Commitments and contingencies *(Note 16)*			
Net assets *(Note 9)*			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 70,134,971 and 71,158,510 shares in 2017 and 2018, respectively	11,632	**12,555**	**118,176**
Capital surplus	11,907	**12,853**	**120,983**
Retained earnings	119,700	**139,809**	**1,315,977**
Treasury stock, at cost	(8)	**(8)**	**(79)**
Total shareholders' equity	143,232	**165,209**	**1,555,057**
Accumulated other comprehensive loss			
Unrealized holding gain on securities	3,097	**4,261**	**40,112**
Unrealized loss on hedging instruments	(185)	**(570)**	**(5,370)**
Translation adjustments	167	**306**	**2,888**
Retirement benefit liability adjustments *(Note 7)*	(6,430)	**(7,757)**	**(73,017)**
Total accumulated other comprehensive loss	(3,351)	**(3,759)**	**(35,387)**
Non-controlling interests	1,622	**2,689**	**25,314**
Total net assets	141,503	**164,139**	**1,544,984**
Total liabilities and net assets	¥300,478	**¥325,153**	**$ 3,060,556**

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2018

	Year ended March 31,		
	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Net sales *(Note 23)*:			
Construction contracts *(Note 10)*	¥ 328,915	**¥ 346,403**	**$ 3,260,570**
Other	12,855	**14,468**	**136,191**
Total net sales	341,771	**360,872**	**3,396,762**
Cost of sales *(Notes 11 and 13)*:			
Construction contracts	279,412	**292,664**	**2,754,750**
Other	10,407	**11,547**	**108,694**
Total cost of sales	289,820	**304,212**	**2,863,445**
Gross profit:			
Construction contracts	49,503	**53,738**	**505,820**
Other	2,448	**2,921**	**27,497**
Total gross profit	51,951	**56,659**	**533,317**
Selling, general and administrative expenses *(Notes 12 and 13)*	21,219	**21,932**	**206,444**
Operating income *(Note 23)*	30,732	**34,726**	**326,872**
Non-operating income (expenses):			
Interest income	80	**83**	**790**
Dividend income	783	**564**	**5,312**
Interest expenses	(397)	**(411)**	**(3,870)**
Equity in earnings of affiliates	6	**310**	**2,919**
Gain on investments in partnership	188	**641**	**6,035**
Rent income	328	**326**	**3,070**
Insurance and dividend income	396	**606**	**5,704**
Foreign exchange loss	(73)	**–**	**–**
Extra retirement payments	(41)	**(88)**	**(832)**
Provisions of allowance for doubtful accounts of a subsidiary	(121)	**(151)**	**(1,421)**
Other, net	304	**733**	**6,907**
Ordinary income	32,187	**37,342**	**351,488**
Extraordinary income (loss):			
Gain on sales of property and equipment	50	**516**	**4,860**
Impairment loss on fixed assets *(Notes 5 and 23)*	–	**(831)**	**(7,823)**
Loss on disposal and sales of fixed assets	(142)	**(318)**	**(2,994)**
Gain on sales of investments in securities *(Note 20)*	37	**263**	**2,483**
Impairment loss on investments in securities	(96)	**(7)**	**(69)**
Loss on sales of a subsidiary's shares	(42)	**–**	**–**
Gain on bargain purchase *(Note 23)*	–	**183**	**1,731**
Gain on liquidation of subsidiary	–	**0**	**7**
Loss on valuation of an utility right	–	**(1)**	**(18)**
Profit before income taxes	31,995	**37,148**	**349,665**
Income taxes *(Note 14)*:			
Current	9,650	**10,856**	**102,186**
Deferred	41	**789**	**7,429**
Profit	22,303	**25,502**	**240,048**
Profit attributable to:			
Non-controlling interests	5	**206**	**1,946**
Owners of parent	¥ 22,297	**¥ 25,296**	**$ 238,102**

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2018

	Year ended March 31,		
	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Profit	¥ 22,303	**¥ 25,502**	**$ 240,048**
Other comprehensive income (loss) *(Note 15)*:			
Unrealized holding gain on securities	964	**1,161**	**10,937**
Unrealized gain (loss) on hedging instruments	31	**(172)**	**(1,626)**
Translation adjustments	(190)	**153**	**1,442**
Retirement benefit liability adjustments	954	**(1,327)**	**(12,490)**
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	23	**(211)**	**(1,993)**
Total other comprehensive income (loss)	1,783	**(396)**	**(3,730)**
Comprehensive income	¥ 24,086	**¥ 25,106**	**$ 236,318**
Comprehensive income (loss) attributable to:			
Owners of parent	¥ 24,128	**¥ 24,888**	**$ 234,263**
Non-controlling interests	¥ (42)	**¥ 218**	**$ 2,054**

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2018

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Unrealized loss on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non-controlling interests	Total net assets
						(Millions of yen)						
Balance at April 1, 2016	¥ 7,901	¥ 7,891	¥101,173	¥ (611)	¥ 116,355	¥ 2,117	¥ (234)	¥ 319	¥ (7,384)	¥ (5,182)	¥ 2,026	¥ 113,199
Issuance of new shares	3,730	3,726	–	–	7,457	–	–	–	–	–	–	7,457
Cash dividends paid	–		(3,742)	–	(3,742)	–	–	–	–	–	–	(3,742)
Profit attributable to owners of parent for the period	–	–	22,297	–	22,297	–	–	–	–	–	–	22,297
Purchase of treasury stock	–		–	(4)	(4)	–	–	–	–	–	–	(4)
Disposal of treasury stock	–	71	–	608	680	–	–	–	–	–	–	680
Increase in retained earnings due to merger	–	–	4	–	4	–	–	–	–	–	–	4
Purchase of shares of consolidated subsidiaries	–	217	–	–	217	–	–	–	–	–	–	217
Decrease in retained earnings due to change in accounting period of subsidiaries	–	–	(32)	–	(32)	–	–	–	–	–	–	(32)
Net changes in items other than those in shareholders' equity	–	–	–	–	–	979	49	(152)	954	1,830	(404)	1,426
Net changes during the year	3,730	4,015	18,527	603	26,877	979	49	(152)	954	1,830	(404)	28,303
Balance at April 1, 2017	11,632	11,907	119,700	(8)	143,232	3,097	(185)	167	(6,430)	(3,351)	1,622	141,503
Issuance of new shares	922	921	–	–	1,844	–	–	–	–	–	–	1,844
Cash dividends paid	–	–	(5,645)		(5,645)	–	–	–	–	–	–	(5,645)
Profit attributable to owners of parent for the period	–	–	25,296	–	25,296	–	–	–	–	–	–	25,296
Increase in retained earnings resulting from increase in investment in equity method affiliate	–	–	446	–	446	–	–	–	–	–	–	446
Purchase of treasury stock	–	–	–	(7)	(7)	–	–	–	–	–	–	(7)
Disposal of treasury stock	–	(4)	–	7	3	–	–	–	–	–	–	3
Purchase of shares of consolidated subsidiaries	–	28	–	–	28	–	–	–	–	–	–	28
Increase in retained earnings due to change in accounting period of a subsidiary	–	–	10	–	10	–	–	–	–	–	–	10
Net changes in items other than those in shareholders' equity	–	–	–	–	–	1,164	(384)	139	(1,327)	(407)	1,067	659
Net changes during the year	922	945	20,108	(0)	21,976	1,164	(384)	139	(1,327)	(407)	1,067	22,635
Balance at March 31, 2018	¥ 12,555	¥ 12,853	¥ 139,809	¥ (8)	¥ 165,209	¥ 4,261	¥ (570)	¥ 306	¥ (7,757)	¥ (3,759)	¥ 2,689	¥ 164,139

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2018

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Unrealized loss on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive loss	Non-controlling interests	Total net assets
						(Thousands of U.S. dollars) (Note 1)						
Balance at April 1, 2017	**$ 109,495**	**$ 112,078**	**$ 1,126,703**	**$ (76)**	**$ 1,348,201**	**$ 29,151**	**$ (1,747)**	**$ 1,574**	**$ (60,527)**	**$ (31,549)**	**$ 15,268**	**$ 1,331,920**
Issuance of new shares	**8,680**	**8,672**	–	–	**17,356**	–	–	–	–	–	–	**17,356**
Cash dividends paid	–	–	**(53,135)**	–	**(53,135)**	–	–	–	–	–	–	**(53,135)**
Profit attributable to owners of parent for the period	–	–	**238,102**	–	**238,102**	–	–	–	–	–	–	**238,102**
Increase in retained earnings resulting from increase in investment in equity method affiliate	–	–	**4,204**	–	**4,204**	–	–	–	–	–	–	**4,204**
Purchase of treasury stock	–	–	–	**(69)**	**(69)**	–	–	–	–	–	–	**(69)**
Disposal of treasury stock	–	**(38)**	–	**66**	**28**	–	–	–	–	–	–	**28**
Purchase of shares of consolidated subsidiaries	–	**266**	–	–	**266**	–	–	–	–	–	–	**266**
Increase in retained earnings due to change in accounting period of a subsidiary	–		**102**	–	**102**	–	–	–	–	–	–	**102**
Net changes in items other than those in shareholders' equity	–	–	–	–	–	**10,960**	**(3,623)**	**1,314**	**(12,490)**	**(3,838)**	**10,046**	**6,207**
Net changes during the year	**8,680**	**8,904**	**189,274**	**(3)**	**206,855**	**10,960**	**(3,623)**	**1,314**	**(12,490)**	**(3,838)**	**10,046**	**213,063**
Balance at March 31, 2018	**$ 118,176**	**$ 120,983**	**$ 1,315,977**	**$ (79)**	**$ 1,555,057**	**$ 40,112**	**$ (5,370)**	**$ 2,888**	**$ (73,017)**	**$ (35,387)**	**$ 25,314**	**$ 1,544,984**

See accompanying notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2018

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Cash flows from operating activities			
Profit before income taxes	¥ 31,995	**¥ 37,148**	**$ 349,665**
Depreciation and amortization	5,449	**5,512**	**51,887**
Impairment loss on fixed asset	–	**831**	**7,823**
Increase in allowance for doubtful accounts	142	**107**	**1,011**
Decrease in liability for retirement benefits and provision for retirement benefits for directors and audit and supervisory board members	(2,448)	**(3,634)**	**(34,208)**
Increase (decrease) in provision for loss on construction contracts	154	**(214)**	**(2,016)**
Loss on valuation of an utility right	–	**1**	**18**
Gain on investments in partnership	(188)	**(641)**	**(6,035)**
Interest and dividend income	(864)	**(648)**	**(6,103)**
Interest expenses	397	**411**	**3,870**
Foreign exchange loss (gain)	40	**(35)**	**(331)**
Equity in earnings of affiliates	(6)	**(310)**	**(2,919)**
Gain on sales of property and equipment, net	(46)	**(509)**	**(4,791)**
Loss on disposal of fixed assets	88	**204**	**1,925**
Impairment loss on investments in securities	96	**7**	**69**
Gain on sales of investments in securities	(37)	**(263)**	**(2,483)**
Loss on sales of a subsidiary’s shares	42	**–**	**–**
Gain on bargain purchase	–	**(183)**	**(1,731)**
Gain on liquidation of subsidiary	–	**(0)**	**(7)**
Increase in notes and accounts receivable on completed construction contracts	(15,156)	**(17,939)**	**(168,859)**
(Increase) decrease in costs of uncompleted construction contracts	(304)	**76**	**720**
Increase in inventories	(3,539)	**(1,500)**	**(14,120)**
Increase in notes and accounts payable on construction contracts	12,147	**15,598**	**146,826**
Decrease in advances received on uncompleted construction contracts	(254)	**(3,098)**	**(29,165)**
Increase in long-term accounts payable	10	**9**	**85**
(Decrease) increase in consumption taxes, net	(5,281)	**3,594**	**33,831**
Other, net	1,677	**5,711**	**53,761**
Subtotal	24,112	**40,235**	**378,723**
Interest and dividend income received	864	**629**	**5,922**
Interest expenses paid	(397)	**(398)**	**(3,755)**
Income taxes paid	(10,392)	**(10,562)**	**(99,422)**
Net cash provided by operating activities	¥ 14,187	**¥ 29,903**	**$ 281,467**

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2018

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 1)*
Cash flows from investing activities			
Payments into time deposits	¥ (671)	**¥ (406)**	**$ (3,823)**
Proceeds from withdrawal of time deposits	2,680	**168**	**1,581**
Purchase of property and equipment	(6,381)	**(4,092)**	**(38,518)**
Proceeds from sales of property and equipment	145	**710**	**6,685**
Purchase of investments in securities	(14,059)	**(3,278)**	**(30,855)**
Proceeds from sales of investments in securities	503	**3,140**	**29,556**
Purchase of subsidiaries’ shares resulting in changes in scope of consolidation	–	**(168)**	**(1,590)**
Proceeds from purchase of a subsidiary’s shares resulting in changes in scope of consolidation	21	**–**	**–**
Payments of long-term loans receivable	(322)	**(929)**	**(8,746)**
Collection of long-term loans receivable	345	**92**	**872**
Proceeds from sales of a subsidiary’s shares resulting in change in scope of consolidation	115	**–**	**–**
Other, net	(328)	**1,046**	**9,849**
Net cash used in investing activities	(17,951)	**(3,717)**	**(34,989)**
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	14,450	**(14,872)**	**(139,987)**
Proceeds from long-term debt	42	**6,187**	**58,239**
Repayments of long-term debt	(2,561)	**(6,549)**	**(61,648)**
Purchase of treasury stock	(4)	**(7)**	**(69)**
Cash dividends paid	(3,732)	**(5,635)**	**(53,047)**
Cash dividends paid to non-controlling shareholders	(103)	**(1)**	**(18)**
Repayments to non-controlling shareholders	(22)	**(20)**	**(192)**
Purchase of subsidiaries’ shares not resulting in changes in scope of consolidation	(29)	**(1)**	**(15)**
Other, net	(839)	**(881)**	**(8,299)**
Net cash provided by (used in) financing activities	7,200	**(21,783)**	**(205,038)**
Effect of exchange rate changes on cash and cash equivalents	(92)	**84**	**794**
Net increase in cash and cash equivalents	3,344	**4,486**	**42,234**
Cash and cash equivalents at the beginning of the year	26,732	**30,027**	**282,641**
Decrease in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiaries	(56)	**(9)**	**(91)**
Increase in cash and cash equivalents resulting from merger with non-consolidated subsidiary	7	**–**	**–**
Cash and cash equivalents at the end of the year *(Note 22)*	¥ 30,027	**¥ 34,505**	**$ 324,783**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2018

1. Basis of Presentation

KYUDENKO CORPORATION (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on consolidated profit or net assets.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥106.24 = U.S.$1.00, the rate of exchange prevailing on March 31, 2018. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen for the years ended March 31, 2018 and 2017 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2018 and 2017 (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Investments in companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method.

As of March 31, 2018, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 48 and 7 (43 and 6 in 2017), respectively.

During the year ended March 31, 2018, the following events and/or transactions have occurred, which resulted in changes in the scope of consolidation. Automation Technology Co., which is the Company's subsidiary, acquired Systech Co. and the Company acquired the shares of Jinnouchi Koumuten Co., Ergotech Co., and Sanyuu Densetu Co. These subsidiaries and SEIWA KOGYO CO., LTD. were newly included in the scope of consolidation. Kyuko-Lease Inc. was newly accounted for by the equity method through an additional share acquisition by the Company. In addition, Syodensya Co., a consolidated subsidiary, changed its name to Q-mast Co.

The financial statements of Jinnouchi Koumuten Co. are consolidated by using the financial statements as of February 28, which are prepared solely for consolidation purposes. Kyulien Environment Improving Co., Ltd., Asia Projects Engineering Pte. Ltd. and Kyudenko South East Asia Pte. Ltd. are consolidated by using their financial statements as of their respective fiscal year end, which falls on December 31. Sanyuu Densetsu Co. is consolidated by using its financial statements as of its fiscal year end, which falls on January 31. Necessary adjustments are made to their financial statements to reflect any significant transactions between their fiscal year-ends and March 31.

All significant intercompany balances and transactions have been eliminated in consolidation.

Certain subsidiaries were excluded from the scope of consolidation because the effect of their sales, net profit or loss, total assets and retained earnings on the accompanying consolidated financial statements was immaterial. Such unconsolidated subsidiaries and affiliates are accounted for by the equity method, unless they are clearly immaterial. Certain unconsolidated subsidiaries and affiliates were excluded from the scope of application of the equity method because their profit or loss and retained earnings attributable to the Company's interest were not material either individually or in aggregate to the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates (continued)

Unrealized intercompany gains among the Company and the consolidated subsidiaries have been eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to profit (loss).

The balance sheet accounts and income statement accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Differences arising from the translation are presented as translation adjustments and non-controlling interests in the consolidated financial statements.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(d) Inventories

Costs on uncompleted construction contracts are stated at cost determined on an individual project basis. Merchandise and raw materials and supplies are stated principally at the lower of cost or market, cost being determined principally by the periodic average method.

2. Summary of Significant Accounting Policies (continued)

(e) Short-term investments and investments in securities

Securities other than equity securities issued by unconsolidated subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets.

In cases where an embedded derivative in a compound financial instrument cannot be separately measured, the entire compound financial instrument is measured at fair value with changes in value charged or credited to profit (loss).

Non-marketable securities classified as other securities are carried at cost determined by the moving average method. Investments in limited liability partnerships and other similar partnerships, which are deemed to be securities under Article 2, Clause 2 of the Financial Instruments and Exchange Act of Japan, are valued at the amount of the underlying equity in their net assets based on the latest financial statements available as of the closing date stipulated in the partnership agreement.

(f) Property and equipment and depreciation (excluding leased assets)

Depreciation of property and equipment (excluding leased assets) of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value in accordance with the Corporation Tax Law of Japan, except for certain buildings of the Company and domestic consolidated subsidiaries, which are depreciated by the straight-line method. Facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 are also depreciated by the straight-line method.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to profit (loss).

(g) Intangible assets (excluding leased assets)

Intangible assets (excluding leased assets) are amortized by the straight-line method. Computer software for internal use is amortized by the straight-line method over the estimated useful life of five years.

(h) Goodwill

Goodwill is amortized by the straight-line method over periods not exceeding 20 years, considering each individual condition.

2. Summary of Significant Accounting Policies (continued)

(i) Leases

Leased assets under finance lease contracts which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method over the respective lease terms.

(j) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of collectability of receivables from companies in financial difficulty.

(k) Allowance for investment loss

Allowance for investment loss is provided at an amount considered to be appropriate based on an evaluation of the financial condition of the individual investees. The allowance is directly deducted from each investment amount.

(l) Provision for loss on construction contracts

Provision for loss on construction contracts is provided with respect to uncompleted construction projects for which anticipated future losses are expected and a reasonable estimate of the amount can be made at the fiscal year end.

As of March 31, 2018, no provision for loss on construction contracts was recognized, because there were no construction contracts for which losses were anticipated.

(m) Retirement benefits

Asset and liability for retirement benefits for employees have been provided at an amount calculated based on the retirement benefit obligation after the fair value of the pension plan assets are deducted. Retirement benefits are attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service cost is being amortized as incurred by the straight-line method over periods within the estimated average remaining years of service of the eligible employees.

2. Summary of Significant Accounting Policies (continued)

(m) Retirement benefits (continued)

Actuarial gain or loss is amortized in the years following the year in which the gain or loss is recognized primarily by the straight-line method over periods within the estimated average remaining years of service of the eligible employees.

All of the consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities mainly based on the assumption that the benefits payable, which are mainly calculated as if all eligible employees voluntarily terminated their employment at fiscal year-end, approximate the retirement benefit obligation at year-end.

In addition, provision for retirement benefits for directors and audit and supervisory board members of certain consolidated subsidiaries are provided at the amount payable at year-end in accordance with each company’s internal regulations.

(n) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred tax assets and liabilities are computed based on the temporary differences between the financial reporting and the tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future. Computations of deferred tax assets and liabilities are based on the tax rates which have been enacted as of the balance sheet date.

(o) Research and development costs

Research and development costs are charged to profit (loss) as incurred.

(p) Recognizing revenues and costs of construction contracts

Revenues and costs of construction contracts for which contract revenues, contract costs and the percentage of completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for construction contracts for which the percentage-of-completion cannot be reliably estimated.

(q) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

2. Summary of Significant Accounting Policies (continued)

(r) Derivative financial instruments

The Company and certain subsidiaries enter into forward foreign exchange contracts in order to hedge the risk arising from fluctuations in foreign currency exchange rates on transactions denominated in foreign currencies and interest-rate swaps in order to hedge the risk arising from fluctuations in interest rates on certain loans from financial institutions and interest and currency rate swaps in order to hedge the risk arising from fluctuations in foreign currency exchange rates and interest rates on all loans denominated foreign currencies from financial institutions. The Company and its consolidated subsidiaries do not enter into derivative transactions for speculative purposes.

Hedging instruments are interest-rate swaps, interest and currency rate swaps and forward foreign exchange contracts. Hedged items are interest payments on loans, foreign currency loans and associated interest payments and forecasted transactions in foreign currencies.

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to profit (loss), except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferral hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Short cut method, “Tokurei-shori” and “Furiate-shori” which is the net amounts to be paid or received under the interest rate swap contract are added to or deducted from the interest on the liabilities and foreign currency liabilities are translated at the corresponding currency swap contract rates, is applied for interest and currency rate swaps which qualify for such treatment. The allocation method, “Furiate-shori” which requires that recognized foreign currency receivables and payables be translated at the corresponding forward foreign exchange rates, is applied for forward foreign exchange contracts which qualify for such treatment.

Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same. An assessment of hedge effectiveness is omitted for interest and currency rate swaps which meet certain conditions. No evaluation is performed for hedge effectiveness of forward foreign exchange contracts since the derivative contracts are based on forecasted transactions which are certain to be executed.

2. Summary of Significant Accounting Policies (continued)

(s) Accounting standards issued but not yet effective

Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets

On February 16, 2018, the ASBJ issued "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (revised 2018) (ASBJ Guidance No.26). These revisions are arising from the timing of transferring "Practical Guidelines on Accounting Standards for Tax Effect Accounting" issued by the Japanese Institute of Certified Public Accountants to the ASBJ that made the following necessary revisions while adhering fundamentally to the framework outlined in the above practical guidelines.

(1) Overview

Major revised accounting treatments are as follows:

- Accounting treatment of taxable temporary differences related to investments in subsidiaries, etc. when an entity prepares separate financial statements and deferred tax liabilities related to temporary differences that are not recorded under certain situations such as when the parent company can determine whether to sell the investment and does not intend to conduct such sale in the foreseeable future
- Accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1, that is, the Company has recorded sufficient taxable income to exceed the amount of the deductible temporary differences in the current and prior three years

(2) Scheduled date of adoption

The Company expects to adopt the implementation guidance from beginning of the fiscal year ending March 31, 2019.

(3) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

(s) Accounting standards issued but not yet effective (continued)

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

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

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

3. Notes Receivable, Trade and Notes Payable, Trade Maturing on March 31, 2018

The balance sheet date for the year ended March 31, 2018 fell on a bank holiday. Consequently, notes receivable, trade of ¥443 million ($4,169 thousand) and notes payable, trade of ¥4,856 million ($45,707 thousand) with a due date of March 31, 2018 were included in the respective balances and settled on the next business day.

4. Reductions in Acquisition Costs Due to Subsidies and Capital Gains

The amounts of subsidies received from the Japanese national government and capital gains recognized upon the expropriation by the government and the exchange for similar transactions and deducted from the acquisition costs of property and equipment at March 31, 2017 and 2018 are as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Structures	¥ 283	**¥ 283**	**$ 2,666**
Machinery	¥ 2,809	**¥ 2,809**	**$ 26,445**

5. Impairment Loss on Fixed Assets

The Company and its consolidated subsidiaries perform impairment test by grouping their property and equipment and intangible assets for business use in each branch of the Company or each consolidated subsidiary principally based on their management accounting categories. Rental properties and idle assets which are not anticipated to be utilized in the future are grouped individually.

		2018	
Location	Classification	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Singapore	Goodwill	**¥ 831**	$ **7,823**

For the year ended March 31, 2018, as profitability of ASIA PROJECTS ENGINEERING PTE. LTD. decreased significantly, the carrying value of goodwill of ¥831 million ($7,823) resulting from the acquisition of this company was fully written down due to losing profitability and impairment loss on goodwill was recognized in the consolidated statement of income.

The recoverable amount of goodwill was measured at value in use based on estimated future cash flows discounted at rate of 7.0%.

6. Short-Term Borrowings, Long-Term Debt, Convertible Bond-type Bonds with Share Subscription Rights and Lease Obligations

The annual weighted-average interest rates applicable to short-term borrowings (excluding the current portion of long-term debt) were 0.27% and 0.83% for the years ended March 31, 2017 and 2018, respectively.

Long-term debt, convertible bond-type bonds with share subscription rights and lease obligations at March 31, 2017 and 2018 consisted of the following:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loans from banks due through 2030 with interest rates ranging from 0.266% to 2.400%	¥ 16,255	**¥ 16,168**	**$ 152,185**
Convertible bond-type bonds with share subscription rights (non-interest bearing)	1,860	**13**	**122**
Lease obligations due through 2026	3,172	**3,497**	**32,922**
	21,288	**19,678**	**185,230**
Less current portion	(7,398)	**(8,097)**	**(76,214)**
	¥ 13,890	**¥ 11,581**	**$ 109,015**

The aggregate annual maturities of long-term debt, convertible bond-type bonds with share subscription rights and lease obligations as of March 31, 2018 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2019	**¥ 8,097**	**$ 76,214**
2020	**1,481**	**13,947**
2021	**1,341**	**12,630**
2022	**1,174**	**11,052**
2023	**5,952**	**56,026**
2024 and thereafter	**1,631**	**15,357**
	¥ 19,678	**$ 185,230**

7. Retirement Benefit Plans

The Company has defined benefit plans (corporate pension plans) and defined contribution plans (corporate pension plans and lump-sum payment plans), and the consolidated subsidiaries also have defined benefit plans (multiple-employer pension plans and lump-sum payment plans) covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The Company and its consolidated subsidiaries may pay additional retirement benefits under certain circumstances.

For the defined benefit plans of most of consolidated subsidiaries, liabilities and expenses for retirement benefits are calculated using the simplified method.

Some consolidated subsidiaries have joined the employees' pension fund system, a multiple-employer pension plan. If the amount of plan assets corresponding to the contributions of each subsidiary cannot be reasonably calculated, such plans are accounted for by the same method as that for defined contribution plans.

(a) Defined benefit plans

1) The changes in the retirement benefit obligation for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 45,636	**¥ 44,233**	**$ 416,353**
Service cost	1,845	**1,855**	**17,467**
Interest cost	273	**309**	**2,914**
Actuarial gain and loss	84	**100**	**943**
Retirement benefit paid	(3,607)	**(2,746)**	**(25,854)**
Prior service cost	–	**2,300**	**21,650**
Balance at the end of the year	¥ 44,233	**¥ 46,052**	**$ 433,474**

2) The changes in the plan assets for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 25,800	**¥ 28,028**	**$ 263,823**
Expected return on plan assets	516	**560**	**5,276**
Actuarial gain and loss	241	**655**	**6,165**
Contributions by the Company	4,454	**4,508**	**42,436**
Retirement benefit paid	(3,033)	**(2,349)**	**(22,119)**
Other	49	**52**	**491**
Balance at the end of the year	¥ 28,028	**¥ 31,454**	**$ 296,074**

7. Retirement Benefit Plans (continued)

(a) Defined benefit plans (continued)

3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2017 and 2018 for the Company's and its consolidated subsidiaries' defined benefit plans:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 36,846	**¥ 36,590**	**$ 344,416**
Plan assets at fair value	(28,028)	**(31,454)**	**(296,074)**
	8,817	**5,135**	**48,341**
Unfunded retirement benefit obligation	7,387	**9,461**	**89,058**
Net liability for retirement benefits in the consolidated balance sheet	16,204	**14,597**	**137,400**
Liability for retirement benefits	16,204	**14,597**	**137,400**
Asset for retirement benefits	–	**–**	**–**
Net liability for retirement benefits in the consolidated balance sheet	¥ 16,204	**¥ 14,597**	**$ 137,400**

4) The components of retirement benefit expenses for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥ 1,795	**¥ 1,803**	**$ 16,976**
Interest cost	273	**309**	**2,914**
Expected return on plan assets	(516)	**(560)**	**(5,276)**
Amortization of actuarial gain and loss	1,702	**127**	**1,204**
Amortization of prior service cost	(454)	**(287)**	**(2,710)**
Other	41	**86**	**815**
Retirement benefit expenses	¥ 2,842	**¥ 1,479**	**$ 13,922**

Contributions from employees of ¥49 million and ¥52 million ($491 thousand) for the years ended March 31, 2017 and 2018 are not included in above service cost.

7. Retirement Benefit Plans (continued)

(a) Defined benefit plans (continued)

5) The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service cost	¥ (454)	**¥ (2,588)**	**$ (24,361)**
Actuarial gain and loss	1,858	**682**	**6,426**
Total	¥ 1,404	**¥ (1,905)**	**$ (17,934)**

6) The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized prior service cost	¥ 5,192	**¥ 7,780**	**$ 73,234**
Unrecognized actuarial gain and loss	4,057	**3,374**	**31,766**
Total	¥ 9,249	**¥ 11,155**	**$ 105,001**

7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2017 and 2018 was as follows:

	2017	2018
Bonds	43%	44%
Stocks	29%	25%
General accounts of life insurance	9%	8%
Other	19%	23%
Total	100%	100%

The expected return on assets has been estimated based on the present and anticipated allocation to each asset class and the expected long-term returns on assets held in each category at present and in the future.

8) Weighted average assumptions used in accounting for the above plans were as follows:

	2017	2018
Discount rates	0.7%	0.6%
Expected rates of return on plan assets	2.0%	2.0%

7. Retirement Benefit Plans (continued)

(b) Defined benefit plans accounted for using the simplified method

1) The changes in liability for retirement benefits calculated using the simplified method for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 1,284	**¥ 1,024**	**$ 9,646**
Retirement benefit expenses	361	**354**	**3,337**
Retirement benefit paid	(117)	**(188)**	**(1,774)**
Contributions	(352)	**(349)**	**(3,290)**
Transfer to accounts payable	(149)	**–**	**–**
Other	(1)	**(46)**	**(437)**
Balance at the end of the year	¥ 1,024	**¥ 794**	**$ 7,481**

2) The following table sets forth the funded status of the plans accounted for using the simplified method and the amounts recognized in the consolidated balance sheet at March 31, 2016 and 2017 for the defined benefit plans:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 3,957	**¥ 4,040**	**$ 38,028**
Plan assets at fair value	(3,143)	**(3,447)**	**(32,454)**
	814	**592**	**5,574**
Unfunded retirement benefit obligation	210	**202**	**1,907**
Net liability for retirement benefits in the consolidated balance sheet	1,024	**794**	**7,481**
Liability for retirement benefits	1,266	**1,148**	**10,812**
Asset for retirement benefits	(241)	**(353)**	**(3,331)**
Net liability for retirement benefits in the consolidated balance sheet	¥ 1,024	**¥ 794**	**$ 7,481**

3) Retirement benefit expenses calculated using the simplified method amounted to ¥361 million and ¥354 million ($3,337 thousand) for the years ended March 31, 2017 and 2018, respectively

7. Retirement Benefit Plans (continued)

(c) Defined contribution plans

Contributions made to defined contribution plans by the Company for the years ended March 31, 2017 and 2018 were ¥344 million and ¥364 million ($3,434 thousand), respectively.

(d) Multiple-employer pension plans

With regard to the employees' pension fund system, which some consolidated subsidiaries have joined, the disclosure on multiple-employer pension plans where contributions are recognized as retirement benefit expenses is not presented because such contributions were immaterial.

8. Asset Retirement Obligations

Asset retirement obligations mainly represent future obligations to restore leased property to its original condition associated with the removal of the consolidated subsidiaries' renewable energy generation facilities.

The asset retirement obligations are measured at the present value of the future liabilities applying discount rates of 0.612% to 1.994% corresponding with 17 years, which is the estimated useful life of those facilities from the acquisition date.

The following table indicates the changes in asset retirement obligations included in "Other long-term liabilities" for the years ended March 31, 2017 and 2018:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 925	**¥ 1,028**	**$ 9,680**
Increase due to acquisition of property and equipment	86	**111**	**1,046**
Adjustment due to passage of time	16	**17**	**164**
Balance at the end of the year	¥ 1,028	**¥ 1,157**	**$ 10,891**

9. Net Assets

Under the Corporate Law of Japan (the "Corporate Law"), the entire amount paid for new shares is required to be designated as common stock, in principle. However, a company may designate an amount not exceeding 50% of the proceeds of the issuance of new shares as additional paid-in-capital, which is included in capital surplus.

The Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than capital reserve) and retained earnings (other than legal reserve) be transferred to capital reserve and legal reserve, respectively, until the sum of capital reserve and legal reserve equals 25% of the stated common stock. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors, if certain conditions are met, but neither capital reserve nor legal reserve is available for distributions.

The Company's capital reserve included in capital surplus at March 31, 2018 amounted to ¥12,537 million ($118,009 thousand).

There was no legal reserve for the years ended March 31, 2017 and 2018.

(a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2017:

Types of shares	*Number of shares at April 1, 2016*	*Increase*	*Decrease*	*Number of shares at March 31, 2017*
		(Number of Shares)		
Shares issued:				
Common stock	66,039,535	4,095,436	–	70,134,971
Treasury stock:				
Common stock	391,045	1,342	373,446	18,941

Detail of the increase in shares issued is as follows:

Issuance of new shares due to exercise of share subscription rights	
2nd unsecured convertible bond-type bonds with share subscription rights	4,095,436

Details of the increase and decrease in treasury stock are as follows:

Increase due to purchase of shares of less than one standard unit	1,342
Decrease due to exercise of share subscription rights	
2nd unsecured convertible bond-type bonds with share subscription rights	373,446

9. Net Assets (continued)

(a) Shares issued and outstanding / Treasury shares (continued)

For the year ended March 31, 2018:

Types of shares	*Number of shares at April 1, 2017*	*Increase*	*Decrease*	*Number of shares at March 31, 2018*
		(Number of Shares)		
Shares issued:				
Common stock	70,134,971	1,023,539	–	71,158,510
Treasury stock:				
Common stock	18,941	1,615	1,665	18,891

Detail of the increase in shares issued is as follows:

Issuance of new shares due to exercise of share subscription rights	
2nd unsecured convertible bond-type bonds with share subscription rights	1,023,539

Details of the increase and decrease in treasury stock are as follows:

Increase due to purchase of shares of less than one standard unit	1,615
Decrease due to exercise of share subscription rights	
2nd unsecured convertible bond-type bonds with share subscription rights	1,665

(b) Share subscription rights

For the year ended March 31, 2017

			Number of shares subject to share subscription rights			
Issuer	*Description*	*Type of shares*	*At April 1, 2016*	*Increase*	*Decrease*	*At March 31, 2017*
				(Number of Shares)		
The Company	2nd unsecured convertible bond-type bonds with share subscription rights	Common stock	5,456,877	33,533	4,468,882	1,021,528

1. Number of shares subject to share subscription rights represents the number of shares to be issued upon exercise of the share subscription rights.
2. The increase during the year was due to adjustments to the conversion value, and the decrease was due to exercise of the share subscription rights.
3. The share subscription rights are included in the convertible bond-type bonds with share subscription rights in the consolidated balance sheet.

9. Net Assets (continued)

(b) Share subscription rights (continued)

For the year ended March 31, 2018

			Number of shares subject to share subscription rights			
Issuer	*Description*	*Type of shares*	*At April 1, 2017*	*Increase*	*Decrease*	*At March 31, 2018*
				(Number of Shares)		
The Company	2nd unsecured convertible bond-type bonds with share subscription rights	Common stock	1,021,528	10,892	1,025,204	7,216

1. Number of shares subject to share subscription rights represents the number of shares to be issued upon exercise of the share subscription rights.
2. The increase during the year was due to adjustments to the conversion value, and the decrease was due to exercise of the share subscription rights.
3. The share subscription rights are included in the convertible bond-type bonds with share subscription rights in the consolidated balance sheet.

(C) Dividends

1) Dividends paid

For the year ended March 31, 2017:

	Total dividends	*Record date*	*Effective date*
	(Millions of yen)		
Resolution: Meeting of the Board of Directors on April 28, 2016 Cash dividends (¥25 per share)	¥ 1,641	March 31, 2016	June 7, 2016
Resolution: Meeting of the Board of Directors on October 29, 2016 Cash dividends (¥30 per share)	¥ 2,101	September 30, 2016	December 1, 2016

9. Net Assets (continued)

(C) Dividends (continued)

1) Dividends paid (continued)

For the year ended March 31, 2018:

	Total dividends		*Record date*	*Effective date*
	(Millions of yen)	*(Thousands of U.S. dollars)*		
Resolution: Meeting of the Board of Directors on April 28, 2017				
Cash dividends (¥40 ($0.38) per share)	¥ 2,805	$ 26,406	March 31, 2017	June 6, 2017
Resolution: Meeting of the Board of Directors on October 27, 2017				
Cash dividends (¥40 ($0.38) per share)	¥ 2,839	$ 26,729	September 30, 2017	December 1, 2017

10. Net Sales from Construction Contracts Recognized by Percentage-of-Completion Method

Net sales from construction contracts recognized by the percentage-of-completion method for the years ended March 31, 2017 and 2018 amounted to ¥166,115 million and ¥180,913 million ($1,702,874 thousand), respectively.

11 Provision (Reversal of Provision) for Loss on Construction Contracts

Provision (reversal of provision) for loss on construction contracts included in cost of sales for the years ended March 31, 2017 and 2018 represents provision of ¥154 million and reversal of provision of ¥214 million ($2,016 thousand), respectively.

12. Selling, General and Administrative Expenses

Major items included in selling, general and administrative expenses for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 8,735	**¥ 9,200**	**$ 86,598**
Retirement benefit expenses	614	**362**	**3,411**
Retirement benefits expenses for directors and audit and supervisory board members	59	**51**	**480**
Depreciation and amortization	859	**948**	**8,926**

13. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2017 and 2018 amounted to ¥235 million and ¥286 million ($2,699 thousand), respectively.

14. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.69% for the years ended March 31, 2017 and 2018. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rates was not presented because the difference between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income was not greater than 5% of the statutory tax rate for the years ended March 31, 2017 and 2018.

14. Income Taxes (continued)

The significant components of deferred tax assets and liabilities as of March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Liability for retirement benefits	¥ 5,341	**¥ 4,784**	**$ 45,032**
Accrued bonuses	2,125	**2,241**	**21,096**
Unrealized profits on fixed assets	703	**850**	**8,003**
Tax loss carryforwards	932	**638**	**6,006**
Other	2,748	**2,877**	**27,084**
Gross deferred tax assets	11,852	**11,391**	**107,223**
Valuation allowance	(1,272)	**(1,045)**	**(9,836)**
Total deferred tax assets	10,579	**10,346**	**97,387**
Deferred tax liabilities:			
Unrealized holding gain on other securities	(1,290)	**(1,864)**	**(17,546)**
Reserve for deductions in acquisition costs of property and equipment	(1,269)	**(1,249)**	**(11,761)**
Reserve for special depreciation	(824)	**(627)**	**(5,907)**
Other	(818)	**(916)**	**(8,623)**
Total deferred tax liabilities	(4,203)	**(4,657)**	**(43,839)**
Net deferred tax assets	¥ 6,376	**¥ 5,688**	**$ 53,547**

Note: Net deferred tax assets as of March 31, 2017 and 2018 were reflected in the following accounts in the consolidated balance sheet:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Current assets - deferred tax assets	¥ 3,415	**¥ 3,755**	**$ 35,350**
Fixed assets - deferred tax assets	3,401	**2,433**	**22,908**
Current liabilities - other current liabilities	(59)	**(3)**	**(33)**
Long-term liabilities - other long-term liabilities	(381)	**(496)**	**(4,678)**

15. Other Comprehensive Income (loss)

Reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain on securities:			
Amount arising during the year	¥1,403	**¥1,949**	**$ 18,346**
Reclassification adjustments for gain included in profit attributable to owners of parent	(27)	**(253)**	**(2,389)**
Amount before tax effect	1,376	**1,695**	**15,956**
Tax effect	(412)	**(533)**	**(5,019)**
Unrealized holding gain on securities	964	**1,161**	**10,937**
Unrealized gain (loss) on hedging instruments:			
Amount arising during the year	44	**(248)**	**(2,338)**
Reclassification adjustments included in profit	–	–	–
Amount before tax effect	44	**(248)**	**(2,338)**
Tax effect	(13)	**75**	**712**
Unrealized gain (loss) on hedging instruments:	31	**(172)**	**(1,626)**
Translation adjustments:			
Amount arising during the year	(190)	**153**	**1,442**
Retirement benefit liability adjustments:			
Amount arising during the year	156	**(1,745)**	**(16,428)**
Reclassification adjustments for gain and loss included in profit attributable to owners of parent	1,248	**(160)**	**(1,506)**
Amount before tax effect	1,404	**(1,905)**	**(17,934)**
Tax effect	(450)	**578**	**5,443**
Retirement benefits liability adjustments	954	**(1,327)**	**(12,490)**
Share of other comprehensive income (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	23	**(211)**	**(1,993)**
Total other comprehensive income (loss)	¥1,783	**¥ (396)**	**$ (3,730)**

16. Commitments and Contingencies

At March 31, 2017 and 2018, the Company and its consolidated subsidiaries were contingently liable for guarantees as follows:

Debt guarantees for non-consolidated companies, affiliates not accounted for by the equity method and third parties

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 465	**¥ 378**	**$ 3,563**
Development Bank of Japan Inc. (Nagashima Windhill Co.)	245	**217**	**2,045**
The Hokuriku Bank, Ltd. (Matusima Fuuryoku Co.)	–	**880**	**8,283**
Total	¥ 711	**¥ 1,475**	**$ 13,891**

Discounted notes receivable

2017	2018	2018
(Millions of yen)		*(Thousands of U.S. dollars)*
¥ 30	**¥ 413**	**$ 3,887**

Endorsement for transfer of notes receivable

2017	2018	2018
(Millions of yen)		*(Thousands of U.S. dollars)*
¥ 6	**¥ 2**	**$ 23**

The Company has entered into subordinated loan commitment contracts as a subordinated creditor in joint financing for companies involved in the PFI business. (PFI is a private finance initiative which is a method of providing funds for major capital investments, where by private firms are contracted to complete and manage public projects.)

At March 31, 2017 and 2018, the Company had loan commitment agreements with 9 companies and 10 companies, respectively. The unused balances under the loan commitment contracts at March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total loan commitments	¥ 146	**¥ 155**	**$ 1,465**
Aggregated borrowings	–	**–**	**–**
Unused balances	¥ 146	**¥ 155**	**$ 1,465**

17. Pledged Assets

The assets pledged as collateral for short-term borrowings of ¥137 million and ¥1,399 million ($13,168 thousand) and long-term debt of ¥1,991 million and ¥1,792 million ($16,867 thousand) of the Company's investees involved in the renewable energy generation business and/or PFI business at March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash on hand and in banks	¥ 281	**¥ 418**	**$ 3,942**
Other current assets – short-term loans receivable	1,309	**15**	**146**
Buildings and structures	8	**6**	**65**
Machinery, vehicles, tools, furniture and fixtures	1,441	**1,271**	**11,964**
Land	–	**0**	**4**
Investments in securities and investments in unconsolidated subsidiaries and affiliates	7,212	**6,826**	**64,259**
Long-term loans receivable	92	**77**	**724**
Investments and other assets – rental deposit	15	**15**	**141**
Total	¥ 10,361	**¥ 8,631**	**$ 81,249**

18. Amounts Per Share

Per share information as of March 31, 2017 and 2018 and for the years then ended is as follows:

	2017	2018	2018
	(Yen)		*(U.S. dollars)*
Profit attributable to owners of parent:			
Basic	¥ 327.22	**¥ 356.89**	**$ 3.36**
Diluted	313.47	**355.55**	**3.35**
Net assets	¥ 1,995.00	**¥ 2,269.48**	**$ 21.36**

Basic profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of share subscription rights.

18. Amounts Per Share (continued)

Net assets per share are computed based on the net assets excluding non-controlling interests and the number of shares of common stock outstanding at the year end.

(a) The bases for the calculation of basic and diluted profit attributable to owners of parent per share are as follows:

	2017	**2018**
	(Thousands of shares)	
Weighted average number of shares for basic profit attributable to owners of parent	68,143	**70,878**
Increase in shares of common stock:		
Exercise of share subscription rights	2,989	**267**

The entire amounts of profit attributable to owners of parent of ¥22,297 million and ¥25,296 million ($238,102 thousand) for the years ended March 31, 2017 and 2018 were attributed to common shareholders.

(b) The bases for the calculation of net assets per share are as follows:

	2017	**2018**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥ 141,503	**¥ 164,139**	**$ 1,544,984**
Amounts deducted from total net assets:			
Non-controlling interests	(1,622)	**(2,689)**	**(25,314)**
Net assets attributable to shares of common stock	¥ 139,881	**¥ 161,449**	**$ 1,519,669**

	2017	**2018**
	(Thousands of shares)	
Number of shares of common stock in issue	70,143	**71,158**
Less: Number of shares of treasury stock	(18)	**(18)**
Number of shares of common stock used for the calculation of net assets per share	70,116	**71,139**

19. Financial Instruments

Status of financial instruments

(a) Policy for financial instruments

The Company and its consolidated subsidiaries utilize highly secure financial assets for short-term fund management. In addition, they obtain borrowings from financial institutions such as banks for short-term operating funds and capital expenditures. Derivative transactions are only used to reduce risks arising from future fluctuations in foreign currency exchange rates and interest rates, except for certain highly secure embedded derivatives in compound financial instruments used for surplus funds. The Company and its consolidated subsidiaries do not enter into derivatives for speculative purposes.

Furthermore, the Company and its consolidated subsidiaries examine their utilization based on internal rules and regulations each time.

(b) Details of financial instruments, related risk and risk management system

Trade receivables, such as notes receivable, accounts receivable on completed construction contracts and other accounts receivable, are exposed to credit risk in relation to customers. With regard to this risk, the Company and its consolidated subsidiaries monitor the due dates and outstanding balances and make efforts to identify at an early point and mitigate risks of bad debts from customers who have financial difficulties.

Investments in securities mainly consist of equity securities and are exposed to market risk. The Company and its consolidated subsidiaries review the fair values of listed equity securities quarterly and the financial condition of the issuing entities.

Trade payables, such as notes payable, accounts payable on construction contracts and other accounts payable, have payment due dates mainly within one year.

Short-term borrowings are taken out mainly to obtain funds for operating activities.

Long-term debt is used mainly for the purposes of capital investments.

Trade payables, short-term borrowings and long-term debt are exposed to liquidity risk. The Company and its consolidated subsidiaries manage the risk by preparing and updating its cash flow plans monthly. In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk, the Company uses interest rate swaps for certain loans borrowed from financial institutions, interest rate and currency swaps are used for all loans denominated in foreign currencies, and forward foreign exchange contracts are used for certain forecasted transactions denominated in foreign currencies. Furthermore, the Company and its consolidated subsidiaries examine the utilization of hedge transactions based on internal rules and regulations each time.

19. Financial Instruments (continued)

Status of financial instruments (continued)

(c) Supplemental explanation on estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, the fair value is reasonably estimated. As the estimation of the fair value relies on various assumptions and factors, different assumptions and factors could result in different fair value.

Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2017 and 2018, the estimated fair value and the difference between them are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value:

	March 31, 2017		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
Cash on hand and in banks	¥ 30,314	¥ 30,314	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	106,204		
Less: Allowance for doubtful accounts (*1)	(6)		
	106,198	106,198	–
Investments in securities	20,897	20,897	–
Total assets	¥ 157,410	¥ 157,410	¥ –
Notes payable, accounts payable on construction contracts and other accounts payable	80,636	80,636	–
Convertible bond-type bonds with share subscription rights	1,860	2,978	1,118
Long-term debt (*2)	16,255	16,291	35
Total liabilities	¥ 98,752	¥ 99,906	¥1,154
Derivatives	¥ (80)	¥ (80)	¥ –

19. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	March 31, 2018					
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Cash on hand and in banks	**¥ 35,189**	**¥ 35,189**	**¥ –**	**$ 331,229**	**$ 331,229**	**$ –**
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	**127,610**			**1,201,155**		
Less: Allowance for doubtful accounts (*1)	**(17)**			**(165)**		
	127,593	**127,593**	**–**	**1,200,990**	**1,200,990**	**–**
Investments in securities	**22,756**	**22,756**	**–**	**214,200**	**214,200**	**–**
Total assets	**¥ 185,539**	**¥ 185,539**	**¥ –**	**$ 1,746,420**	**$ 1,746,420**	**$ –**
Notes payable, accounts payable on construction contracts and other accounts payable	**98,738**	**98,738**	**–**	**929,394**	**929,394**	**–**
Long-term debt (*2)	**16,168**	**16,142**	**(25)**	**152,185**	**151,944**	**(240)**
Total liabilities	**¥ 114,907**	**¥ 114,881**	**¥ (25)**	**$ 1,081,579**	**$ 1,081,339**	**$ (240)**
Derivatives (*3)	**¥ (329)**	**¥ (329)**	**¥ –**	**$ (3,096)**	**$ (3,096)**	**$ –**

(*1) The allowance for doubtful accounts was deducted from the notes receivable, accounts receivable on completed construction contracts and other accounts receivable.
(*2) The balances include the current portion of long-term debt.
(*3) The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

Note 1: Valuation methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions are as follows:

Assets

Cash on hand and in banks
Since all these items are settled in a short period of time, the carrying value approximates fair value.

Notes receivable, accounts receivable on completed construction contracts and other accounts receivable
Since these items are settled in a short period of time, the carrying value approximates fair value.

19. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

Investments in securities
The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. The fair value of investment trusts is based on publicly available information.

Liabilities

Notes payable, accounts payable on construction contracts and other accounts payable
Since all these items are settled in a short period of time, the carrying value approximates fair value.

Convertible bond-type bonds with share subscription rights
The fair value of convertible bond-type bonds with share subscription rights is based on quoted market prices.

Long-term debt
The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings are entered into.

Derivative transactions

The fair value of derivative transactions is based on prices provided by the counterparty financial institutions. The fair value of the interest rate and currency swaps was included in that of the hedged long-term debt as they are accounted for together with underlying hedged items under the short-cut method.

Note 2: Unlisted equity securities of ¥25,950 million and ¥25,869 million ($243,496 thousand) as of March 31, 2017 and 2018, respectively, were not included in the above table because it was extremely difficult to determine the fair value.

19. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

Note 3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2017 and March 31, 2018 were as follows:

	March 31, 2017			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash in banks	¥ 30,237	¥ –	¥ –	¥ –
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	106,204	–	–	–
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	3	1,000	1,832	392
Other securities with maturities (Other)	–	207	–	12,490
Total	¥136,445	¥ 1,207	¥ 1,832	¥ 12,882

	March 31, 2018			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash in banks	**¥ 35,124**	**¥ –**	**¥ –**	**¥ –**
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	**127,610**	**–**	**–**	**–**
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	**–**	**2,006**	**825**	**253**
Other securities with maturities (Other)	**40**	**231**	**–**	**11,310**
Total	**¥162,775**	**¥ 2,237**	**¥ 825**	**¥ 11,563**

19. Financial Instruments (continued)

Estimated fair value of financial instruments (continued)

	March 31, 2018			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Thousands of U.S. dollars)			
Cash in banks	**$ 330,618**	**$ –**	**$ –**	**$ –**
Notes receivable, accounts receivable on completed construction contracts and other accounts receivable	**1,201,155**	**–**	**–**	**–**
Short-term investments and investments in securities				
Other securities with maturities (debt securities)	**–**	**18,884**	**7,771**	**2,381**
Other securities with maturities (Other)	**376**	**2,178**	**–**	**106,457**
Total	**$ 1,532,150**	**$ 21,062**	**$ 7,771**	**$ 108,839**

The redemption schedule for long-term debt is disclosed in Note 6.

20. Securities

(a) Information regarding marketable securities classified as other securities as of March 31, 2017 and 2018 is as follows:

	March 31, 2017		
	Carrying value	Acquisition cost	Gross unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost			
Equity securities	¥ 16,509	¥ 11,917	¥ 4,592
Debt securities	1,121	1,088	33
Others	214	122	91
Subtotal	17,845	13,128	4,717
Securities whose carrying value does not exceed their acquisition cost			
Equity securities	863	1,152	(288)
Debt securities	2,020	2,059	(38)
Others	169	169	(0)
Subtotal	3,053	3,380	(327)
Total	¥ 20,899	¥ 16,509	¥ 4,389

	March 31, 2018					
	Carrying value	Acquisition cost	Gross unrealized gain (loss)	Carrying value	Acquisition cost	Gross unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose carrying value exceeds their acquisition cost						
Equity securities	**¥ 18,132**	**¥ 11,607**	**¥ 6,525**	**$ 170,676**	**$ 109,253**	**$ 61,422**
Debt securities	**123**	**88**	**34**	**1,163**	**836**	**327**
Others	**189**	**106**	**82**	**1,780**	**1,000**	**779**
Subtotal	**18,445**	**11,802**	**6,643**	**173,619**	**111,090**	**62,528**
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	**1,347**	**1,691**	**(343)**	**12,685**	**15,923**	**(3,237)**
Debt securities	**2,954**	**3,007**	**(53)**	**27,806**	**28,308**	**(501)**
Others	**36**	**50**	**(13)**	**340**	**470**	**(130)**
Subtotal	**4,338**	**4,749**	**(411)**	**40,832**	**44,702**	**(3,869)**
Total	**¥ 22,783**	**¥ 16,551**	**¥ 6,231**	**$ 214,452**	**$ 155,793**	**$ 58,659**

20. Securities (continued)

(b) Information regarding sales of securities classified as other securities for the years ended March 31, 2017 and 2018 was as follows:

	2017		2018		2018	
	Proceeds from sales	Gain on sales	Proceeds from sales	Gain on sales	Proceeds from sales	Gain on sales
	(Millions of yen)				*(Thousands of U.S. dollars)*	
Equity securities	¥ 16	¥ 10	**¥ 546**	**¥ 227**	**$ 5,143**	**$ 2,140**
Debt securities	368	18	**–**	**–**	**–**	**–**
Others	119	8	**45**	**36**	**424**	**342**
	¥ 504	¥ 37	**¥ 591**	**¥ 263**	**$ 5,567**	**$ 2,483**

(c) Impairment losses on securities classified as other securities of ¥96 million and ¥7 million ($69 thousand) were recognized for the years ended March 31, 2017 and 2018, respectively.

The securities whose fair value has declined by 30% on more are treated as securities whose fair value declined significantly.

Loss on impairment is recorded on securities whose fair value has declined by 50 per cent. or more, or whose fair value has declined by 30 per cent. or more, but less than 50 per cent., if the decline is deemed to be irrecoverable. Loss on impairment is recorded on securities whose fair value is difficult to determine if the decline is deemed to be irrecoverable considering the financial position of the securities' issuers.

Allowance for investment losses directly deducted from the corresponding investments in securities for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Investments in securities	¥ 201	**¥ 76**	**$ 724**

21. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2017 and 2018, for which hedge accounting has been applied.

a. Currency-related transactions

				March 31, 2017		
Method of hedge accounting	*Hedging instruments*		*Hedged items*	Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Allocation method	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	¥ 6,984	¥ 6,573	¥ (80)

				March 31, 2018		
Method of hedge accounting	*Hedging instruments*		*Hedged items*	Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Allocation method	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	**¥ 6,573**	**¥ 3,393**	**¥ (329)**

				March 31, 2018		
Method of hedge accounting	*Hedging instruments*		*Hedged items*	Notional amounts	Due after one year	Fair value
				(Thousands of U.S. dollars)		
Allocation method	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	**$ 61,873**	**$ 31,942**	**$ (3,096)**

The fair value was calculated based on prices provided by the counterparty financial institutions.

21. Derivative Transactions

b. Interest-related transactions

Method of hedge accounting	*Hedging instruments*		*Hedged items*	**March 31, 2017** Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Short-cut method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	¥ 5,000	¥ –	¥ –
Principle method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	2,759	2,593	(129)
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	1,757	1,506	–

Method of hedge accounting	*Hedging instruments*		*Hedged items*	**March 31, 2018** Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Principle method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	**¥ 4,137**	**¥ 3,982**	**¥ (341)**
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	**1,506**	**1,255**	**–**

Method of hedge accounting	*Hedging instruments*		*Hedged items*	**March 31, 2018** Notional amounts	Due after one year	Fair value
				(Thousands of U.S. dollars)		
Principle method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	**$ 38,941**	**$ 37,490**	**$ (3,217)**
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	**14,175**	**11,812**	**–**

The fair value of the interest swaps for the year ended March 31, 2017 and the interest rate and currency swaps for the year ended March 31, 2018 was included in that of the hedged long-term debt as they are accounted for together with underlying hedged items under the Short-cut method.

The principle method was applied to the interest rate swaps used to hedge long-term debt of an affiliate accounted for by the equity method, and the notional amount and the fair value were based on the Company’s proportionate share.

The fair value was calculated based on prices provided by the counterparty financial institutions.

22. Supplemental Information on Consolidated Statement of Cash Flows

(a) Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2017 and 2018 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash on hand and in banks	¥ 30,314	**¥ 35,189**	**$ 331,229**
Time deposits with maturities of more than three months	(287)	**(668)**	**(6,294)**
Short-term borrowings	–	**(16)**	**(150)**
Cash and cash equivalents	¥ 30,027	**¥ 34,505**	**$ 324,783**

(b) Information regarding details of significant non-monetary transactions for the years ended March 31, 2017 and 2018 is as follows:

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2017 and 2018 amounted to ¥1,162 million and ¥1,153 million ($10,857 thousand), respectively.

Asset retirement obligations recorded for the years ended March 31, 2017 and 2018 amounted to ¥86 million and ¥111 million ($1,046 thousand), respectively.

Exercise of share subscription rights on convertible bond-type bonds with share subscription rights is as follows:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Gain on disposal of treasury stock due to exercise of share subscription rights	¥ 71	**¥ (4)**	**$ (38)**
Increase in common stock due to exercise of share subscription rights	3,730	**922**	**8,680**
Increase in capital surplus due to exercise of share subscription rights	3,726	**921**	**8,676**
Decrease in treasury stock due to exercise of share subscription rights	608	**7**	**66**
Decrease in convertible bond-type bonds with share subscription rights due to exercise of share subscription rights	¥ 8,137	**¥ 1,847**	**$ 17,385**

23. Segment Information

(a) Business segment information

(1) Outline of reportable segments

The reportable segments of the Company and its consolidated subsidiaries (the "Group") are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions on resource allocation and to assess performance.

The Group is primarily engaged in the integrated utilities engineering service business, based on mid- to long-term business plans developed in the head office of the Company. The Company's regional offices mainly offer services in cooperation with each company of the Group.

Also, some consolidated subsidiaries operate as independent management units and are involved in other industries such as sales business of construction-related materials and equipment, real estate sales business and renewable energy generation business.

Thus, the Group consists of the segments based on business activities, with several businesses that have essentially identical financial characteristics and contents of services combined into "Utilities engineering service" as a reportable segment for the purpose of disclosing appropriate information.

The "Utilities engineering service" segment primarily offers services for the design and construction of electrical works, such as power distribution lines, indoor wiring, and electronic communication, and of heating ventilation and air conditioning mechanical installation works, such as ventilation, heating and cooling, plumbing, water treatment and sanitation equipment installation.

(2) Change in presentation of reportable segments

Effective March 31, 2018, the Company reviewed the management method of the sales business of construction-related materials and equipment, which had been included in "Others" in terms of enhancing business management within the new Group structure since the Company reorganized and reinforced its materials procurement structure in the group, especially, Q-mast, the Company's subsidiary. The sales of construction-related materials and equipment to group companies by Q-mast is considered material procurement activity for the utilities engineering service of the Group and accordingly, categorized as "Utilities engineering service." The sales of construction-related materials and equipment to third parties is categorized as "Others" which is the same as before.

The Company has reclassified the previously reported segment information for the year ended March 31, 2017 to conform to this revised segmentation.

23. Segment Information (continued)

(a) Business segment information (continued)

(3) Method used to calculate net sales, profit or loss, assets, liabilities and other items by reportable segment

The accounting policies of the reportable segments are substantially the same as those described in "2. Summary of Significant Accounting Policies." Segment performance is evaluated based on operating profit or loss. Intersegment sales and transfers are determined by reference to actual market price.

(4) Information as to net sales, income or loss and other items for each reportable segment for the years ended March 31, 2017 and 2018 are summarized as follows:

	Year ended March 31, 2017				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)		
Net sales					
Sales to third parties	¥ 328,915	¥ 12,855	¥ 341,771	¥ –	¥ 341,771
Intersegment sales and transfers	3,582	4,472	8,055	(8,055)	–
Total	¥ 332,498	¥ 17,328	¥ 349,826	¥ (8,055)	¥ 341,771
Segment income or loss	¥ 29,249	¥ 1,324	¥ 30,573	¥ 159	¥ 30,732
Other items					
Depreciation and amortization	¥ 3,063	¥ 2,544	¥ 5,607	¥ (158)	¥ 5,449
Amortization of goodwill	¥ 314	¥ 2	¥ 317	¥ –	¥ 317

	Year ended March 31, 2018				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)		
Net sales					
Sales to third parties	**¥ 346,403**	**¥ 14,468**	**¥ 360,872**	**¥ –**	**¥ 360,872**
Intersegment sales and transfers	**2,567**	**4,938**	**7,506**	**(7,506)**	**–**
Total	**¥ 348,970**	**¥ 19,407**	**¥ 368,378**	**¥ (7,506)**	**¥ 360,872**
Segment income or loss	**¥ 33,273**	**¥ 1,735**	**¥ 35,008**	**¥ (281)**	**¥ 34,726**
Other items					
Depreciation and amortization	**¥ 3,211**	**¥ 2,446**	**¥ 5,658**	**¥ (145)**	**¥ 5,512**
Amortization of goodwill	**¥ 148**	**¥ –**	**¥ 148**	**¥ –**	**¥ 148**

23. Segment Information (continued)

(a) Business segment information (continued)

(4) Net sales, profit or loss and other items by reportable segment for the years ended March 31, 2017 and 2018 are summarized as follows: (continued)

	Year ended March 31, 2018				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
	(Thousands of U.S. dollars)				
Net sales					
Sales to third parties	**$ 3,260,570**	**$ 136,191**	**$ 3,396,762**	**$ –**	**$ 3,396,762**
Intersegment sales and transfers	**24,171**	**46,484**	**70,655**	**(70,655)**	**–**
Total	**$ 3,284,741**	**$ 182,675**	**$ 3,467,417**	**$ (70,655)**	**$ 3,396,762**
Segment income or loss	**$ 313,189**	**$ 16,335**	**$ 329,524**	**$ (2,651)**	**$ 326,872**
Other items					
Depreciation and amortization	**$ 30,231**	**$ 23,026**	**$ 53,257**	**$ (1,370)**	**$ 51,887**
Amortization of goodwill	**$ 1,397**	**$ –**	**$ 1,397**	**$ –**	**$ 1,397**

Note 1: "Other" consisted of business segments that were not included in reportable segments, such as sales business of construction-related materials and equipment for third parties, real estate sales business, renewable energy generation business, temporary staffing service, software development business, environmental analysis / measurement business, medical-related business, golf course management, business hotel management, planning and operation of commercial facilities and other.

Note 2: Details of adjustments and eliminations were as follows:

(i) Segment assets and segment liabilities are not described since these are not allocated to each segment

(ii) Segment income of ¥159 million and segment loss of ¥281 million ($2,651 thousand) for the years ended March 31, 2017 and 2018 posted in adjustment reflects the elimination of transactions between segments, respectively.

(iii) Segment income or loss is reconciled to operating income on the consolidated statement of income.

(iv) Impairment loss on goodwill of ¥831 million ($7,823 thousand) is recognized in "Utilities engineering service" was recognized for the year ended March 31, 2018.

23. Segment Information (continued)

(b) Related information

(1) Geographical information

The disclosure of geographical segment information has been omitted as net sales to third parties and property and equipment in Japan constituted more than 90% of the consolidated sales for the years ended March 31, 2017 and 2018.

(2) Information by major customers

The following table presents major customer information for the years ended March 31, 2017 and 2018:

	2017	2018	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Name of customers:			
Kyushu Electric Power Co., Inc.			
Reportable segment:			
Utilities engineering service and Others			
Net sales	¥ 52,505	**¥ 51,910**	**$ 488,618**

(c) Amortization of goodwill and remaining balance of goodwill by reportable segment

The following table presents the amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2017 and 2018:

	Year ended March 31, 2017			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Millions of yen)			
Goodwill:				
Amortization	¥ 314	¥ 2	¥ –	¥ 317
Balance as of March 31	¥ 1,175	¥ –	¥ –	¥ 1,175

	Year ended March 31, 2018			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Millions of yen)			
Goodwill:				
Amortization	**¥ 148**	**¥ –**	**¥ –**	**¥ 148**
Balance as of March 31	**¥ 298**	**¥ 201**	**¥ –**	**¥ 500**

23. Segment Information (continued)

(c) Amortization of goodwill and remaining balance of goodwill by reportable segment (continued)

	Year ended March 31, 2018			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Thousands of U.S. dollars)			
Goodwill:				
Amortization	**$ 1,397**	**$ –**	**$ –**	**$1,397**
Balance as of March 31	**$ 2,812**	**$ 1,893**	**$ –**	**$4,706**

(d) Gain on bargain purchase by reportable segment

For the year ended March 31, 2018, the Company recorded a gain on bargain purchase of ¥183 million ($1,731 thousand) in the "Utilities engineering service" segment mainly as a result of the acquisition of shares of Ergotech Co., and newly including Ergotech Co., and its subsidiary, SEIWA KOGYO CO., LTD. in the scope of consolidation.

24. Related Party Transactions

Transactions and balances with related parties as of and for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Kyushu Electric Power Co., Inc.			
Construction order	¥ 48,652	**¥ 47,881**	**$ 450,688**
Accounts receivable on completed construction contracts	¥ 9,317	**¥ 8,435**	**$ 79,400**
Advances received on uncompleted construction contracts	¥ 62	**¥ 92**	**$ 867**

The transaction amounts do not include consumption taxes. The balances include consumption taxes. Kyushu Electric Power Co., Inc. (located in Fukuoka City, with a capital amount of ¥237,304 million ($2,233,659 thousand) engaged in the business of supplying electric power) is a related company which owned 22.99% and 22.66% of the shares of the Company as of March 31, 2017 and 2018, respectively.

The terms of the transactions referred to above were negotiated and determined on an arm's-length basis similar to third party transactions.

25. Subsequent Event

Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2018, was approved at the meeting of the Board of Directors held on April 27, 2018:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends (¥50.00 = $0.47 per share)	**¥ 3,557**	**$ 33,489**