



Annual Report 2018

For the year ended March 31, 2018

Lighting up the
future together



KANDENKO

Your Partner in the Social Infrastructure

Kandenko Co., Ltd. aims for the mutual prosperity of its shareholders, customers, and the communities where it works, and finds its purpose in this pursuit. We conduct business in a wide range of fields and have grown into one of the largest general infrastructure companies in Japan.

In fields such as building infrastructure, telecommunications infrastructure, and electric power infrastructure, Kandenko uses its independently developed technologies, expertise, and work methods to provide end-to-end engineering services ranging

from design and execution to maintenance and renovation of electrical, telecommunications, and other kinds of work. We are also active in the renewable energy field, where the execution expertise we have accumulated in the fields of solar and wind power serves us well.

Kandenko will continue to innovate on the technology front, nurture human resources, and build a sounder financial structure while making a long-lasting contribution to society as a partner in social the infrastructure.

Corporate Motto

"People First"

Corporate Philosophy

1. Based on respect for humanity, Kandenko fulfills its duty of corporate social contribution and contributes to creating richer human environments.
2. By anticipating the needs of customers and seeking technological innovation, Kandenko provides optimal services and facilities.
3. By working for human resource development and continual improvement, Kandenko aims to be a future-oriented company.

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The Kandenko Group

The Kandenko Group consists of Kandenko Co., Ltd. and 31 consolidated subsidiaries whose businesses include facility installation, electrical equipment sales, real estate and leasing operations, and electric power generation. The positions of these businesses within the Group and the business segment to which they belong are explained below.

Facility Installation Business

The business areas of Kandenko Co., Ltd., and its subsidiaries facility installation works in the electrical, plumbing, and other sectors are the business field of Kandenko Co., Ltd., Kawasaki Setsubi Kogyo Co., Ltd., Kanko Facilities Co., Ltd., Kanagawa K-Techno Co., Ltd., Chiba K-Techno Co., Ltd., Saitama K-Techno Co., Ltd., Ibaraki K-Techno Co., Ltd., Tochigi K-Techno Co., Ltd., Gunma K-Techno Co., Ltd., Tama K-Techno Co., Ltd., Shizuoka K-Techno Co., Ltd., HANDENKO CORPORATION, Kanko Power Techno Co., Ltd., Kanagawa Power Techno Co., Ltd., Chiba Power Techno Co., Ltd., Saitama Power Techno Co., Ltd., Ibaraki Power Techno Co., Ltd., Tochigi Power Techno Co., Ltd., Gunma Power Techno Co., Ltd., Nishikanto Power Techno Co., Ltd., Shizuoka Power Techno Co., Ltd., Transmission Line Construction Co., Ltd., Sato Kensetsu Kogyo Co., Ltd., SYSTEC ENGINEERING K.K., and NETSAVE Co., Ltd. While, Tokyo Kouji Keibi Co., Ltd., undertakes

worksite security operations and Bay Techno Co., Ltd., carries out design and estimation operations. Kandenko outsources some engineering work, worksite security, and design and estimation operations to these subsidiaries.

Kandenko, Transmission Line Construction Co., Ltd., and SYSTEC ENGINEERING K.K. receive orders for electrical work from the Tokyo Electric Power Company (TEPCO) Group.

From the fiscal year ended March 31, 2018, the following entities have been included in the consolidated accounts in view of their accounting significance: Chiba Power Techno Co., Ltd., Ibaraki Power Techno Co., Ltd., Tochigi Power Techno Co., Ltd., Gunma Power Techno Co., Ltd., Nishikanto Power Techno Co., Ltd., and Shizuoka Power Techno Co., Ltd., which were established on July 3, 2017.

Other Businesses

Kandenko Co., Ltd. operates in the real estate and electric power generation businesses; KANKO SYOJI CO., LTD., in the electrical equipment sales business; K Asset Management Co., Ltd., in the real estate and leasing businesses; and Choshi Wind Development Co., Ltd., Kama Solar Power Co., Ltd., and Maebashi Biomass Power Co., Ltd. in the electric power generation business. Kandenko Co., Ltd., purchases from KANKO SYOJI CO., LTD., part of the materials and other supplies required for installation work, and leases from K Asset Management Co.,

Ltd., land and buildings as well as vehicles and other equipment. Kandenko, Choshi Wind Development Co., Ltd., and Maebashi Biomass Power Co., Ltd. sell electric power to the TEPCO Group.

Maebashi Biomass Power Co., Ltd., whose power plant started operations in March 2018, has been included in the consolidated accounts from the fiscal year ended March 31, 2018 in view of its accounting significance.

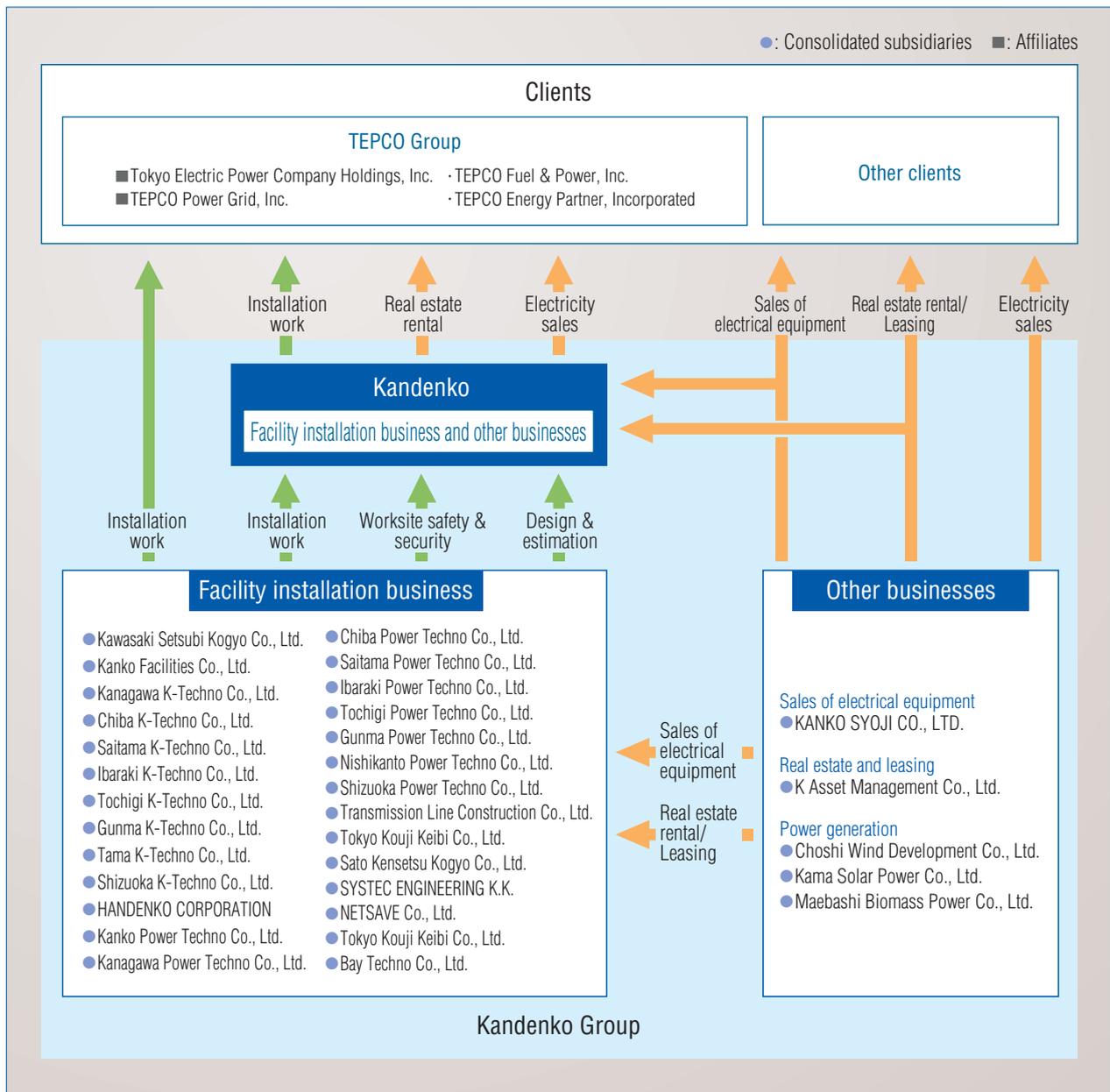


Our online mission video 'Lighting Up'

Kandenko Group Structure

The businesses mentioned above are arranged in a schematic diagram below showing the Kandenko Group's structure.

(As of March 31, 2018)



Consolidated Financial Highlights

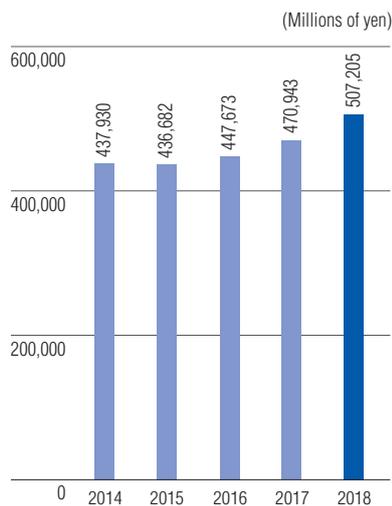
Kandenko Co., Ltd. and Consolidated Subsidiaries
 Years ended March 31, 2017 and 2018

Millions of yen

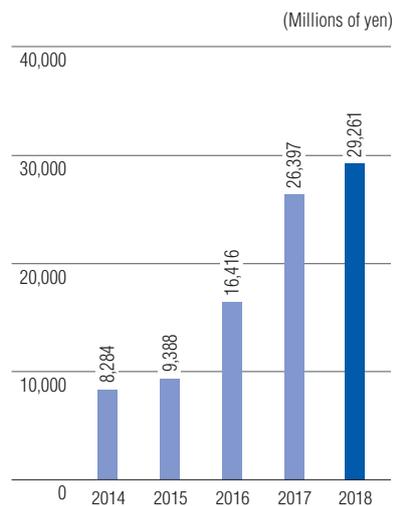
	2017	2018	Reference: 2018 (Kandenko, non-consolidated)
Net sales	¥ 470,943	¥ 507,205	¥ 444,452
Operating profit	26,397	29,261	24,843
Ordinary profit	27,345	30,031	25,828
Profit attributable to owners of parent*	17,591	19,058	16,919
Comprehensive income	18,422	22,927	-
Total assets	424,874	443,752	380,348
Total net assets	213,356	230,810	202,140
Equity ratio (%)	48.72	50.51	53.15
Net assets per share (yen)	1,013.33	1,097.36	989.63
Earnings per share (yen)	86.11	93.31	82.83
Cash dividends per share (yen)	20.00	24.00	-
Number of employees (persons)	9,244	9,571	6,976

*In the column for Kandenko's non-consolidated results, the figure indicates profit.

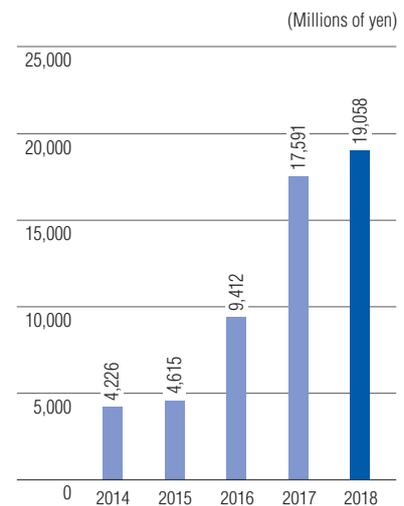
Net Sales



Operating Profit



Profit Attributable to Owners of Parent



Progress of Medium-Term Management Plan and Business Results Outlook

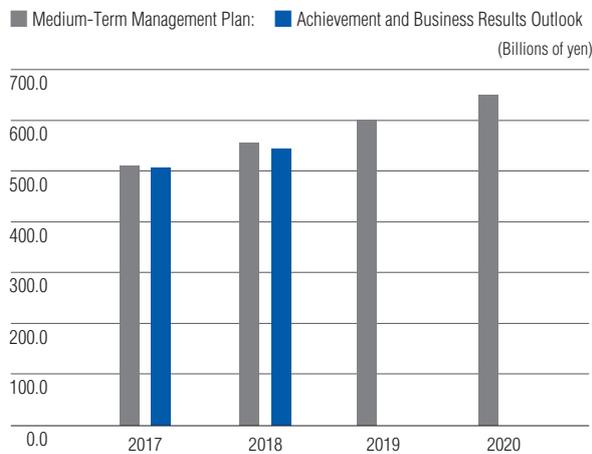
In 2016, the Kandenko Group announced a growth strategy aimed at establishing a resilient corporate structure capable of sustained growth and achieving high profitability. The Group is now uniting around the Medium-Term Management Plan based on this strategy to further improve business results.

Numerical targets

	(Billions of yen)		
	2018	2019	2020
Consolidated net sales	545.0	600.0	650.0
Consolidated operating profit	30.5	33.0	36.0

Progress of the Medium-Term Management Plan

Consolidated net sales



- Accelerated progress with operations in Electrical Engineering, Environmental Facilities and Systems, and Renovation Work
- Increased net sales in electric power generation business due to power plant startups and acquisitions
- Share of net sales from TEPCO Group down to the lowest-ever level

Consolidated operating profit



- Improved profitability in Electrical Engineering, Environmental Facilities and Systems, and Renovation Work
- Improved productivity in Power Distribution Line Engineering Work
- Improved profit contribution also from the electric power generation business

Key Management Policies for Fiscal 2018

Reinforce initiatives to improve customer confidence

- Ensure compliance with ethical, safety, and quality behavior

Reinforce profit-generating capacity and ability to win orders

- Expand orders for renovation work
- Ensure strong work execution abilities and deploy effectively

Develop technologies to support business activities

- Develop technologies to contribute to improving productivity and enhancing safety and labor-saving at the worksite

Reinforce "people first" principle to motivate staff and energize the workplace

- Reinforce human resources development
- Promote reforms for work practices and annual leave systems

Progress with structural reform of business

- Enhance ability to offer one-stop service
- Establish renovation work as a major focus

Message from the Management



Kiyoshi Goto

Kiyoshi Goto
Chairman and Director



Yoshimi Morito

Yoshimi Morito
President and Director

Fiscal 2017 Business Environment

In fiscal 2017, ended March 31, 2018, the Japanese economy continued along a path of recovery driven by strong exports and solid consumer spending, with the added boost of positive corporate results and other factors.

Against this background, the contraction in electric power facility investment continued, but private-sector construction investment remained at a high level. This was due notably to construction demand for office and commercial buildings in major cities and for factory plants to provide expanded production capacity.

In response, Kandenko rolled out customer-focused total solution services and implemented sales activities benefiting from enhanced coordination between corporate divisions. In parallel, we took action to improve price-competitiveness by stepping up cost management initiatives and cutting operational unit costs.

As a result, we were able to post favorable business results for the fiscal year, as shown in the table on the page 7.

Outlook

Looking ahead, the forecast is for a continuing squeeze on investment in electric power facilities due to cost-cutting measures by the TEPCO Group. On the other hand, domestic construction investment is expected to continue its strong development on the back of projects in the planning pipeline. These include the construction of factory and logistics facilities to promote labor-saving, increased efficiency and other improvements, and the upgrading and expansion of accommodation and transport facilities to meet overseas tourist demand.

Kandenko's response to these conditions will be to follow through with the declared growth strategy—covering the period up to the end of fiscal 2020 in March 2021—by implementing the key management policies outlined below.

First, we will work to secure contracts by rolling out sales activities tailored to regional markets and by making use of our accumulated store of technology and expertise to expand our business fields. In parallel, we will pursue a range of profit-generating strategies including stringent cost control initiatives and the review and standardization of the work management process.

Next, we will move energetically forward with technology development that not only responds to customer needs but also

By working to build a resilient corporate structure and achieve high profitability as a general infrastructure company, we are committed to continued progress toward our management targets.

contributes to safety and labor-saving at worksites and improved productivity.

To complement these strategies, we will seek to develop the human resources that are our future by promoting skill development among young and mid-level employees and to teach them technical skills and abilities. We will also address the issue of reforming work styles and annual leave systems, which is seen as an urgent task for business corporations, with the aim of creating an energized work environment where individuals can develop to their full potential.

We will stay closely attuned to contemporary social changes, from the introduction of artificial intelligence and the Internet of Things to the decline in the working population and the move toward a more sustainable society based on long-lasting infrastructure. This will enable us to respond with speedy and dynamic structural reform of our businesses.

Going forward, we will maintain a rigorous focus on compliance and on work safety and quality that are at the heart of our management approach. In this way, we are fully committed to building a corporate brand that inspires customer trust and to meeting the expectations of our valued shareholders.

Basic Policy on Sharing Profits: Dividends for Fiscal 2017 and 2018

Our basic policy emphasizes maintenance of a stable shareholder return as well as twice-yearly payment of an interim and a year-end dividend. By actively reflecting profit growth in the dividend, we work to ensure appropriate shareholder return.

For fiscal 2017, the dividend consists of an interim dividend and a year-end dividend of ¥12, respectively, for a total annual dividend of ¥24 per share.

For fiscal 2018, we plan to issue an annual dividend of ¥26 per share (an interim dividend of ¥13 and a year-end dividend of ¥13), up by ¥2 from the dividend for fiscal 2017.

Fiscal 2017 Business Results

Consolidated results (Billions of yen)

Net sales	¥ 507.2 (up 7.7% YoY)
Operating profit	29.3 (up 10.9% YoY)
Ordinary profit	30.0 (up 9.8% YoY)
Profit attributable to owners of parent	19.1 (up 8.3% YoY)

Non-consolidated results

New orders received	¥ 506.0 (up 6.7% YoY)
Net sales	444.5 (up 8.4% YoY)
Operating profit	24.8 (up 13.3% YoY)
Ordinary profit	25.8 (up 13.0% YoY)
Profit	16.9 (up 9.2% YoY)

Fiscal 2018 Business Results (Forecast)

Consolidated results (Billions of yen)

Net sales	¥ 545.0 (up 7.5% YoY)
Operating profit	30.5 (up 4.2% YoY)
Ordinary profit	31.3 (up 4.2% YoY)
Profit attributable to owners of parent	20.4 (up 7.0% YoY)

Non-consolidated results

New orders received	¥ 520.0 (up 2.8% YoY)
Net sales	475.0 (up 6.9% YoY)
Operating profit	26.0 (up 4.7% YoY)
Ordinary profit	27.0 (up 4.5% YoY)
Profit	18.2 (up 7.6% YoY)

Business Review by Division

Electrical Engineering, Environmental Facilities and Systems, and Renovation Work

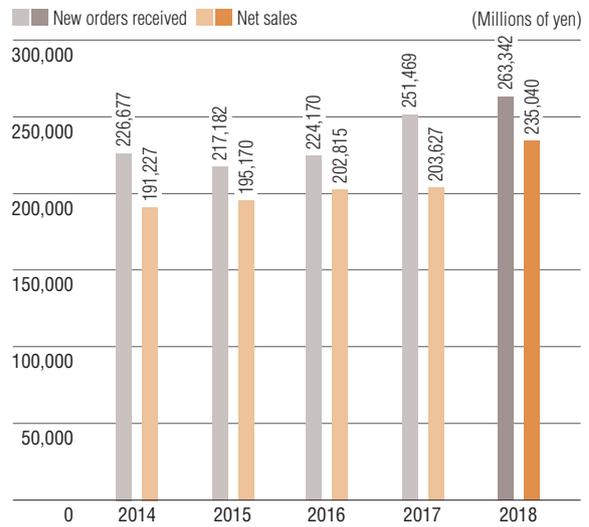
Description of Business

Electrical Engineering Work: Work on electrical facilities and equipment inside all types of buildings and structures, building interiors, and control equipment

Environmental Facilities and Systems, and Renovation Work: Work on air conditioning as well as water, heat and disaster prevention systems

In the segment covering electrical engineering work, environmental facilities and systems, and renovation work, we energetically rolled out one-stop sales activities aimed at increasing orders for maintenance and renovation work. To cope with high levels of work in hand, we also took steps to further expand work execution abilities, enhance worksite support systems, and achieve other improvements. As a result, we were able to improve on the business results of the previous fiscal year, with new orders received up 4.7% to ¥263,342 million and net sales up 15.4% to ¥235,040 million.

Business results by type of work



Kawasaki Heavy Industries, Ltd. Energy Center in Akashi Factory



Nihombashi Takashimaya S.C. East Building

Information & Communication Work

Description of Business

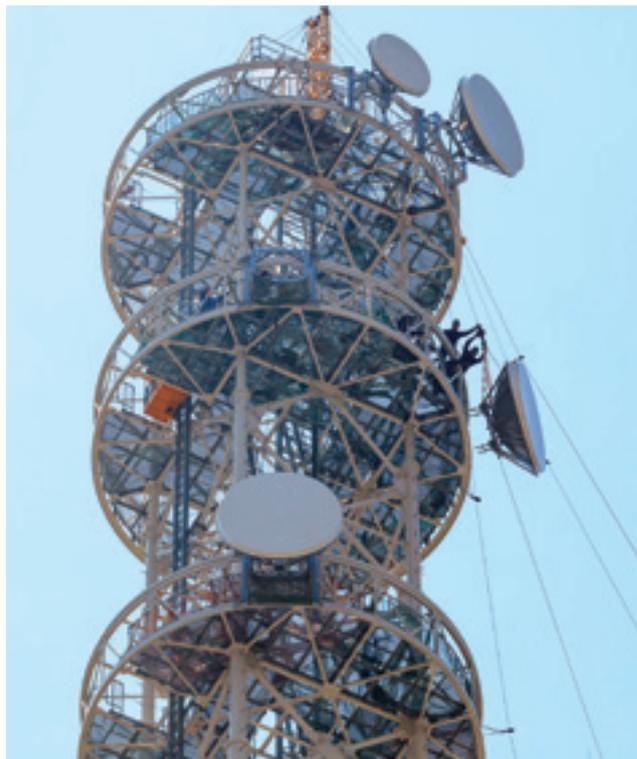
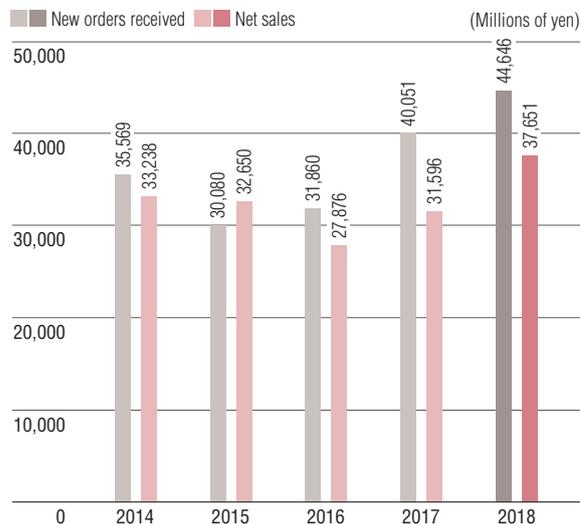
Develop proposals for and carry out installation and maintenance of information and telecommunications systems, lay optical fiber cables for telecommunications providers, install optical transmission equipment, build and maintain transmission base stations for mobile communications, build and maintain networks for cable TV and municipalities, and maintain telecommunications facilities for electric power providers

In the segment covering information and communication work, progress was made with upgrades to the highway telecommunications network and with large-scale updating work for cable television operators to prepare for the next generation of high-definition broadcasting (4K/8K). At the same time, by vigorously promoting joint sales activities with other divisions, we sought to secure orders for installation of networks and related operations. As a result, we were able to improve on our business results of the previous fiscal year across the board, with new orders received growing 11.5% to ¥44,646 million and net sales up 19.2% to ¥37,651 million.

Updating cable television facilities



Business results by type of work



Installing a wireless telecommunications antenna

Business Review by Division

Power Distribution Line Engineering Work

Description
of
Business

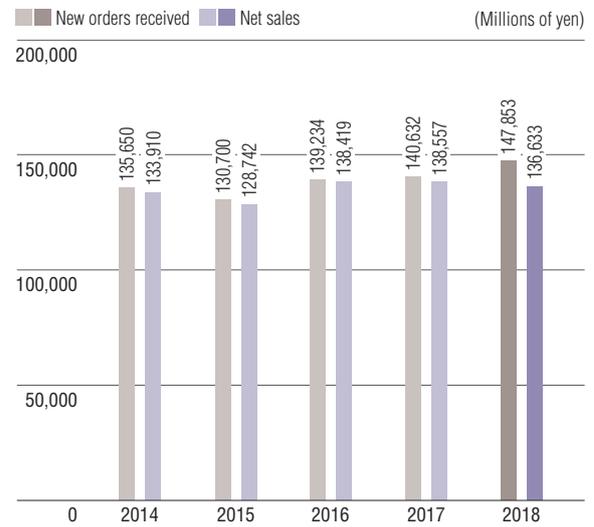
Construction and maintenance of TEPCO's electric power facilities

The segment covering engineering work on overhead and underground power distribution lines was impacted by reduced investment in electric power distribution facilities. In response, we worked to improve productivity through close management of work projects and wide-area deployment of work execution abilities. Additionally, we sought to win orders from new customers in areas such as cable-laying work for factories and railway facilities. This resulted in a 5.1% increase in new orders received to ¥147,853 million, while net sales dipped 1.4% to ¥136,633 million.

Work on overhead power distribution lines using indirect live-line techniques



Business results by type of work



Connecting underground power distribution cables

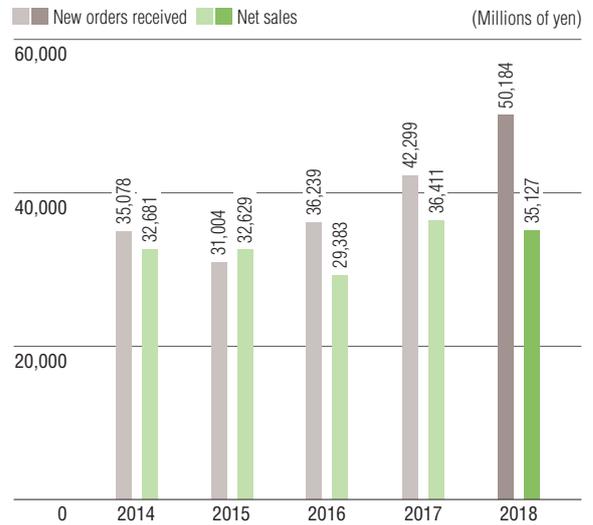
Electric Power & Civil Engineering Work

Description of Business

- Power Generation and Transformation Work:** Work on power stations and substations, and wind power generation
- Transmission Lines Work:** Work on overhead transmission lines
- Civil Engineering Work and Underground Lines Work:** Work on underground transmission lines, and civil engineering work using C.C. Box technology
- Nuclear Power Work:** Regular inspections and maintenance of nuclear power plant facilities and equipment

This segment covers civil engineering work involving power generation and transformation, overhead and underground power transmission lines, and nuclear and wind power generation. The division benefited from major expansions in the installation of extra high-voltage power intake and transformer equipment for large factories and similar facilities, and in work on transmission lines to prepare for the introduction of renewable energy. We also worked to increase orders in the field of social infrastructure, including laying of underground natural gas pipelines and sewage pipe works. As a result, new orders received grew 18.6% from the previous fiscal year to ¥50,184 million, while net sales slipped 3.5% to ¥35,127 million.

Business results by type of work



Connecting power lines to renewable energy systems



Laying an underground gas pipe

Topics: Projects by Kandenko



1 DCM Homac Sapporo Product Center (Eniwa, Hokkaido)



2 Niigata Post Office (Niigata)



8 Hamamatsu Photonics K.K., Miyakoda Plant, Block 3 (Shizuoka)



9 Osaka Heavy Ion Therapy Center (Osaka)



3 Saitama Sekishinkai Hospital (Saitama)



4 Kanagawa Prefectural Office, New Building, Debating Chamber (Kanagawa)



12 Pacific Century Place Jakarta (Indonesia)



10 Ropponmatsu 421 (Fukuoka)



5 Culttz Kawasaki: Kawasaki City Sports and Culture Center (Kanagawa)



6 X-PRESS Yurakucho (Tokyo)



11 Nouren Plaza (Okinawa)



7 Sumitomo Fudosan Osaki Garden Tower (Tokyo)



Moving ahead with undergrounding of power lines

In the lead-up to the 2020 Tokyo Olympic Games, the construction of competition venues and related facilities is progressing steadily. To coincide with this, the Tokyo Metropolitan Government is moving forward actively with the undergrounding of power lines, with the aim of strengthening the city's disaster resilience and improving its scenic amenities.

Since its establishment, Kandenko has accumulated a wealth of experience and expertise in undergrounding cables, as part of its contribution to developing the electrical infrastructure. We are currently engaged in a major project for the undergrounding of power cables along the Tokyo Port Seaside Road, beside the Sea Forest Waterway, where the rowing and canoeing events of the Tokyo Olympics will take place.

Demand for undergrounding is expected to continue to grow, and Kandenko will work to expand its contract portfolio by further strengthening its sales and operational abilities.



At this worksite, some 15 workers take part in night and day operations undergrounding power lines



Pipe-laying work



Central Breakwater in Tokyo Bay, where construction work on the Olympic rowing and canoeing venue is under way



Laying telecommunications cables for the Hakone Ropeway

The Owakudani Valley, where white volcanic steam rises in thick clouds from the rugged terrain, is one of the most iconic locations in the scenic Hakone area. The Hakone Ropeway offers a panoramic view over this dramatic landscape and attracts large numbers of tourists from Japan and overseas. The safety of the ropeway is ensured by telecommunications cables that monitor the status of the facilities and transmit emergency signals. Work to update the cables was recently planned, but because of a volcanic eruption in the Owakudani area in 2015, which caused the land to shift and other damage, the no-entry zone was extended and a new route for cabling had to be engineered. As this work needed to be done on steep slopes inaccessible to heavy machinery, a difficult operation involving many hazards was envisaged. The contract was awarded to Kandenko in recognition of our record of experience and expertise with projects in mountainous environments.

We laid the groundwork for the operations carefully, carrying out exhaustive on-site surveying and selecting a team highly experienced in similar operations. As a result, we were able to complete the project safely and successfully.



Completion of disaster relief housing in Onagawa

Onagawa, a town on the Pacific coast in eastern Miyagi Prefecture, suffered great damage from the devastating earthquake and tsunami of 2011. Today, seven years later, the town is gradually recovering its former vitality.

As part of the recovery, Kandenko completed electrical work in July 2017 for a municipal project to provide replacement public housing called Onagawa Jutaku on high ground overlooking Onagawa Bay. Residents who had been waiting eagerly to transfer from temporary housing have now moved in. This promises to add a powerful impetus to the town's reconstruction.

Going forward, we hope to continue contributing to the recovery of the Tohoku region by carrying out electrical work for similar facilities.



Participation in the Mount Fuji Reforestation Project

Kandenko recently participated in the Mount Fuji Reforestation Project. Operated by the Organization for Industrial, Spiritual and Cultural Advancement (OISCA), a nonprofit foundation, the project aims to regenerate the forest environment around Mount Fuji, which has suffered serious damage.

Through the unique landscape created by its majestic shape and natural endowments, Mount Fuji exerts a fascinating appeal on people both in Japan and overseas. However, the forests that stretch across its foothills have suffered damage in places from insects and deer. In 2002, a mass die-off of trees was identified covering an area extending to 100 hectares, about 20 times the size of Tokyo Dome baseball stadium, resulting in fears about the shrinking of this rich forest resource and the negative impact on the ecosystem.

The tree planting carried out in May 2017 and June 2018 together attracted 273 participants from among Kandenko employees and their families. In an area located around 1,600 meters above sea level, close to the second base station, seedlings of various native deciduous species were planted, including mountain cherry, maple, and Mongolian oak. Nets were also put in place to prevent damage from feeding deer. Kandenko employees from Yamanashi Prefecture were also invited to come and listen to talks on the natural environment of Mount Fuji as part of the Family Nature Education Project for parents and children.

Going forward, we intend to continue our participation in this project as a way to contribute to the conservation of Mount Fuji's environment.



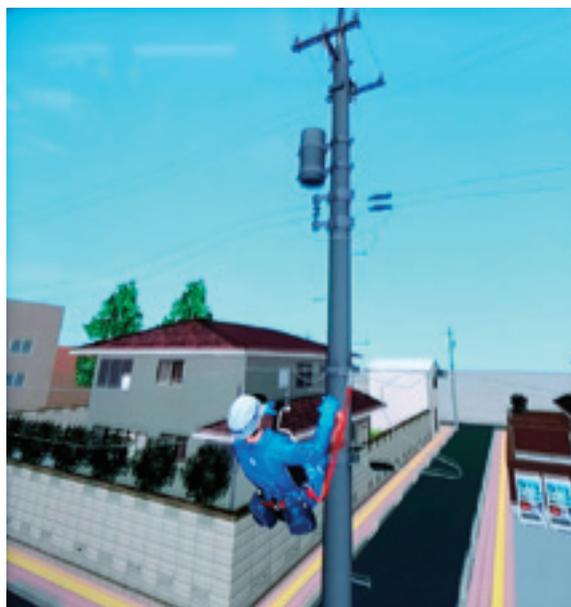
Research and Development Activities

To respond to issues at the worksite and customer needs, the Kandenko Group is focusing on three key areas: technology development to support worksite safety, labor saving and cost reduction; technology development to meet customer needs; and technology development to support business field expansion. In fiscal 2017, our R&D was guided by the idea of enhancing Kandenko's brand strength through technology development, as we aim to become a "100-Year Company Supporting Society." In particular, we actively promoted IT and robot introduction technology that contributes to work safety and labor saving, alongside technology designed to support business continuity plans and disaster prevention, and applied technology adaptable to social infrastructure. At the same time, we worked to further strengthen our research system, to create new lines of research, and to reinforce our brand strength and the external appeal of our technology.

Consolidated R&D expenses in fiscal 2017 totaled ¥1.217 million. The main achievements of our R&D activities are presented below. Please note that R&D expenses are not broken down by business segment.

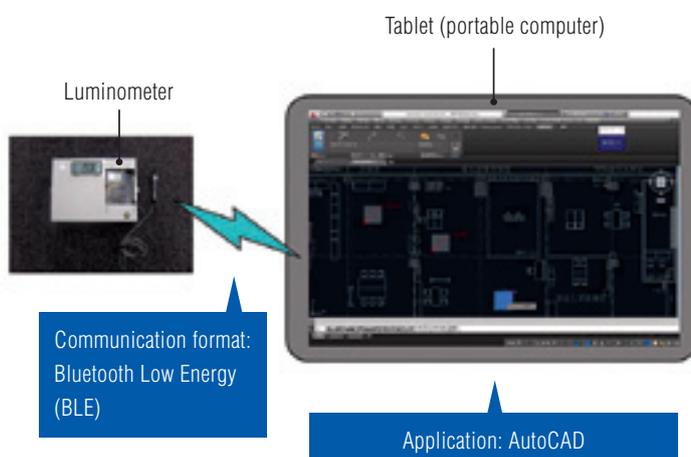
Development of safety education system using virtual reality technology

To prevent work accidents caused for instance by falls, flying or falling objects or cuts, it is necessary to predict hidden hazard points at the worksite and improve safety awareness to avoid these dangers. With this in mind, we used virtual reality (VR) technology to develop educational software designed to heighten sensitivity to danger and improve safety awareness. This is done by simulating the physical experience of falls or electric shock, which have a high risk of developing into serious accidents, through visual, aural, and tactile stimulation using video software, sounds, vibrations, and electric impulses. Going forward, we will promote improved safety awareness by using this system at our Construction Headquarters, branches, and elsewhere to carry out safety training based on realistic physical encounters with danger.



Development of a support system for recording measurements

In indoor electrical engineering work, the results of lighting measurements are first entered by hand in drawings or documents by the measurement or recording operatives, and the final documents are then prepared through electronic data entry. The recording and entry operations were therefore time-consuming and open to mistakes. To remedy this, we developed a system that automatically enters measurement results directly into online drawings and documents, from where they can be further transmitted. We plan to further adapt this system for use in operations such as measurements of insulation resistance and voltage, as a way to boost operational efficiency through labor saving at the worksite.



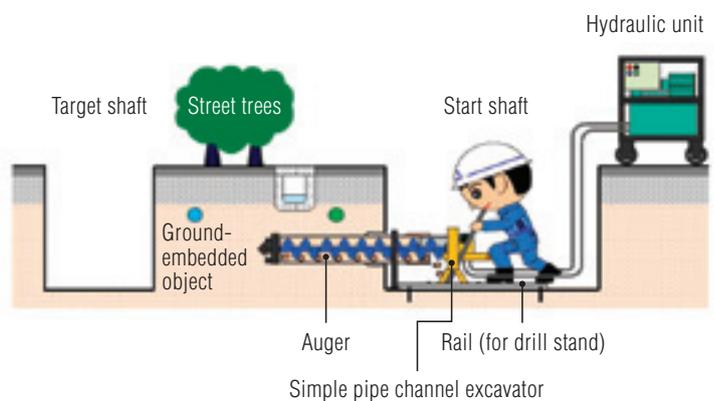
Development of quake-resistant devices for transformers

We have developed quake-resistant devices for transformers that can be mounted on old-style transformers, which are not compliant with guidelines on preventing seismic displacement of power distribution transformers. The device makes it possible to restrict oscillation in the top part of the transformer during seismic motion, protecting the transformer itself and preventing accidents such as short circuits and ground faults between the transformer and attached equipment. We will promote this device as a disaster response technology that will benefit customers' business continuity plans, and aim to increase orders during renovation and upgrading work.



Development of simple utility tunnel excavator—a technology to support undergrounding of power cables

In work on electric power cables in joint utility tunnels, digging must be carried out while ensuring access to the entrances of adjacent stores and dwellings. This means that the timing and the arrangements for the process have to be coordinated with the wishes of local residents and other parties, which leads to reduced operational efficiency. In response, we developed an easy-to-operate excavator that makes it possible to dig utility tunnels while leaving unexcavated the short stretches in front of store doorways and residential entrances. We will deploy this excavator to boost operational efficiency and target more orders for electric power work and other infrastructural projects.



Corporate Governance

Corporate Governance

As Kandenko's operating environment changes dramatically, we are working to make management more efficient and transparent while ensuring the fairness of business execution. We realize that Kandenko's continued existence as a company with high value to its stakeholders depends on a robust corporate governance system. We are therefore unstinting in our efforts to strengthen corporate governance.

Basic Corporate Governance Policy

In keeping with the content and the spirit of the Corporate Governance Code established by the Tokyo Stock Exchange, Kandenko implements a basic corporate governance policy that sets out its basic approach with the aim of enhancing the practical effectiveness of corporate governance.

Outline of the Current Corporate Governance System

Board of Directors

The Kandenko Board of Directors, which consists of 15 members including two outside directors, meets regularly once a month, and additionally whenever necessary, to discuss important business matters and to reach final decisions, taking account of the contributions of the independent directors and other considerations. The Board also oversees the execution of business by the directors. A designated corporate department is in place to provide support to the outside directors, for instance by briefing them where necessary on items due to be discussed at Board meetings. Important managerial issues, including those that will be brought up at a Board of Directors' meeting, are discussed by the Management Committee, which meets regularly each week and additionally whenever necessary. In these ways, we strive for rational corporate administration. Moreover, we have introduced an executive officer system, which separates managerial oversight from business execution, to accelerate the decision-making process and reinforce business execution while enhancing the efficiency of the directors' business execution system. To foster swift responses to changes in the operating environment and invigorate management, directors' terms are limited to one year from the time of appointment.

Audit & Supervisory Board Members

Kandenko has employed an Audit & Supervisory Board member system for some time. Five Audit & Supervisory Board members, including three from outside the Company, conduct audits appropriately based on legal requirements and Kandenko's audit policy. The outside members heighten our system's independence and neutrality. They attend our Board of Directors' meetings and other important meetings, where they express their independent and objective opinions. Audit & Supervisory Board members, including outside members, meet with the Company's directors on a regular and irregular basis to ask about the state of the latter's work. We provide the

Audit & Supervisory Board members with the Auditing Office to enable the complete and effective fulfillment of their duties.

Independent Accounting Auditor

Kandenko has appointed Inoue Audit Corporation as its independent accounting auditor. The three CPAs who audited Kandenko's accounts are Masami Hiramatsu, Teruo Hayashi, and Katsuhiko Suzuki, none of whom has audited our accounts for over seven consecutive years. Six other CPAs and one additional person assist with the account audit.

Internal Audit

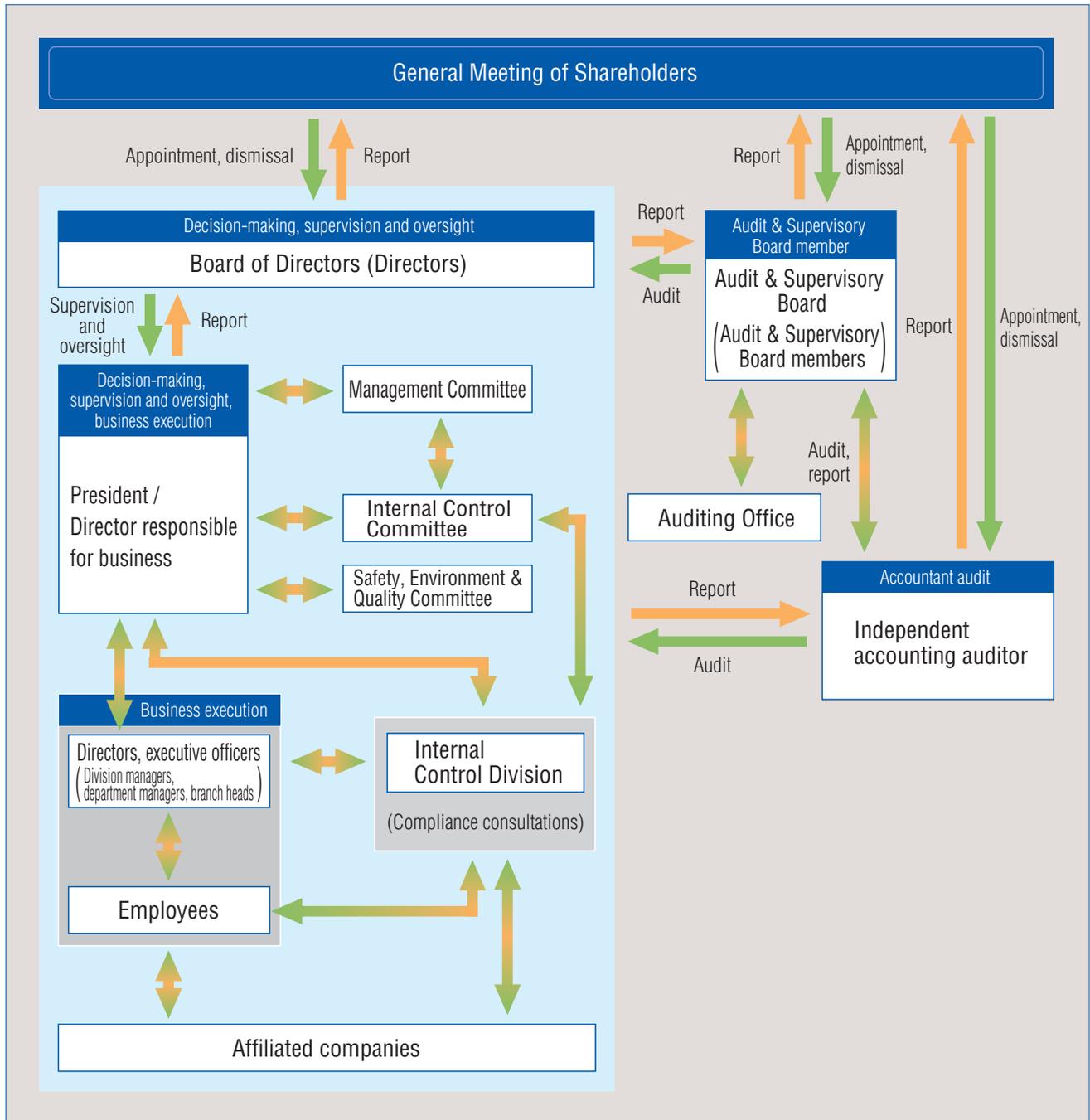
For internal auditing, the 18-strong staff of the Internal Audit Division carries out the audit in accordance with the Internal Control Enhancement Plan. The audit results are reported to the Internal Control Committee and the Management Committee, and as appropriate to the Board of Directors, to enable any required remedial action to be taken.

Independent accounting auditors and the Internal Audit Division report their findings at Audit & Supervisory Board meetings and regularly discuss these matters with the Audit & Supervisory Board members, including outside members. Opinions are exchanged whenever necessary so that cooperation is ensured. While the Audit & Supervisory Board members (including outside members), independent accounting auditors, and the Internal Audit Division carry out their audits, they receive regular reports on the maintenance and state of internal control from each division responsible for business execution.

Outside Directors and Outside Audit & Supervisory Board Members

Currently, the Company has two outside directors and three outside Audit & Supervisory Board members. We appoint outside directors and outside Audit & Supervisory Board members to fulfill audit and oversight functions and to enhance transparency, so in accordance with the Companies Act and other regulations, we look for candidates whose experience and expertise

Corporate Governance System



outside the Company will be useful to Kandenko, and who can oversee and audit the directors' execution of duties from an independent and neutral standpoint. Regarding outside Audit & Supervisory Board members, the Audit & Supervisory Board meeting first agrees on the candidates, the Board of Directors approves them, and then they are presented at a shareholders' meeting for a vote. In the case of outside directors, the

Board of Directors nominates a number of outside director candidates who meet the independence criteria listed below, giving due consideration to the practical effectiveness of its operations. For outside members of the Audit & Supervisory Board, the Board of Directors nominates a number of candidates with the ability to audit the execution of business by the directors from a position of independence and objectivity.

Corporate Governance

Independence Criteria for Independent Outside Directors

Kandenko considers outside director candidates to be independent as long as they do not trigger any of the following exclusion criteria:

1. The candidate is or has been a business executive of Kandenko or a Kandenko's subsidiary.
2. The candidate is a business executive of a major shareholder of Kandenko (a shareholder with 10% or more of the voting rights including indirect holdings) or a business executive of a company of which Kandenko is a major shareholder.
3. The candidate is a business executive of a major creditor of Kandenko (a creditor who has provided loans of more than 1% of consolidated assets in the most recent fiscal year).
4. The candidate is a business executive of a major business client of Kandenko (a client accounting for more than 1% of consolidated net sales in the most recent fiscal year) or a business executive of a company of which Kandenko is a major business client.
5. The candidate is a representative employee or an employee of an accounting auditor of Kandenko.
6. The candidate is a person who has, or a member of a group that has, received from Kandenko material benefits or gifts of high value (more than ¥10 million excluding corporate officers' remuneration).
7. The candidate is a business executive of a company with a reciprocal relationship with Kandenko through outside officers.
8. The candidate has a relative (a spouse or relative within the second degree of kinship) to whom any of 1 to 6 above applies (restricted to officers and senior employees).
9. The candidate has triggered any of 2 to 8 above in the past five years.

State of Progress of the Internal Control System

Based on the Basic Policy for Enhancing the Internal Control System adopted by the Board of Directors (enacted April 2006, revised May 2015), Kandenko has established an Internal Control Committee chaired by the company president that discusses issues relating to the internal control system. The Company also lays down internal control regulations that set out the basic principles of internal control and management regulations for affiliated companies that set out relevant management principles. Through these and other measures, Kandenko has put in place a system to ensure appropriate business conduct by the Company and by the corporate group consisting of Kandenko and its subsidiaries. Additionally, to promote adaptation to the internal control reporting system introduced in 2008 in accordance with the Financial Instruments and Exchange Act, the Company has set up a department in charge of reviewing internal controls relating to financial reporting in order to promote appropriate operation and evaluation and to ensure the credibility of financial reporting.

Compliance System

To clarify important points in the Kandenko Group's business activities and encourage deeper entrenchment of compliance, we have enacted the Kandenko Group Charter of Corporate Behavior, and we are promoting its establishment and raising the consciousness of all Group employees about the Charter. We have set up a compliance consultation point for employees and an internal system where legal violations can be reported. We are working to establish and maintain a corporate culture of fairness and transparency.

In its attitude to antisocial forces, the whole Kandenko organization is committed to a resolute stance rejecting any action that could raise suspicion of an inappropriate relationship. Backing this stance are the Kandenko Group Charter of Corporate Behavior and the Internal Control Enhancement Plan adopted by the Internal Control Committee, which form the basis for education, training, and related activities to ensure compliance and promote full awareness throughout the organization.

Risk Management System

The Kandenko Group operates a set of internal regulations on risk management. Having categorized and defined risks relating to business operations item by item, Kandenko devises countermeasures to match their degree of impact and likelihood of occurrence. In addition to taking advance measures of this kind to prevent risk, Kandenko has designated reporting channels and response systems in place for the event of risk materializing.

Additionally, the Internal Control Committee meets periodically to check the operating status of the risk management system and to analyze and evaluate risk status and related matters, while the establishment of a dedicated Internal Control Division serves to strengthen the risk management system.

Described below are factors that could possibly have a significant impact on decisions made by investors. In recognizing that there is the potential for such risks to occur, the Kandenko Group is undertaking efforts to avoid their occurrence as well as formulating countermeasures in the event such risks occur.

Moreover, the statements described below regarding the future reflect judgments made by the Kandenko Group based on what was known up to the end of the fiscal year ended March 31, 2018.

Changes in the Business Environment

In the event that significant changes occur in the business environment, such as decreases in construction-related investments or capital investment in electric power facilities and equipment exceeding projected changes, it is possible that the actual financial performance or other results of the Company could be affected. Sales to the TEPCO Group account for about 40% of the Kandenko Group's sales.

Fluctuations in the Cost of Materials or Labor Costs

Should the cost of materials or labor costs increase significantly, and the increase cannot be reflected in the contracted fees, it is possible that the actual financial performance or other results of the Company could be affected.

Work and Related Risks

If work done by Kandenko turns out to be seriously defective or an accident occurs in the course of work, it is possible that the actual financial performance or other results of the Company could be affected.

Credit Risk of Client Company

In the construction industry, the contract fee for one transaction is very large, and in many cases, a condition of concluding the contract is that payment of a large sum of the construction fee is to be made when the handover of the construction project is completed. Should the client company suffer from a credit shortage before the Company can receive payment of the construction fee, it is possible that the actual financial performance or other results of the Company could be affected.

Asset Holding Risk

As it is necessary to have such assets as real estate and securities for business activities, should something happen, such as a significant decline in the value of the held assets, or a dramatic drop in the profitability of the real estate for business purposes, it is possible that the actual financial performance or other results of the Company could be affected.

Liability for Employees' Retirement Benefits

Should the value of pension assets decline, or should there be changes in the assumptions, such as the return on investments or discount rate, used to calculate the liability for employees' retirement benefits, it is possible that the actual financial performance or other results of the Company could be affected.

Legal Regulations

The Company is subject to legal regulations, including the Construction Business Act, the Antimonopoly Act and the Industrial Safety and Health Act. Should there be any changes, such as the revision or repeal of legal regulations, or the enactment of new legal regulations, or if changes are made to criteria for their application or administrative sanctions are handed down based on the legal regulations, it is possible that the actual financial performance or other results of the Company could be affected.

Systems to Ensure Appropriate Business Conduct by Kandenko and the Corporate Group Consisting of Kandenko and Its Subsidiaries

Kandenko has put in place a system to promote information sharing with its subsidiaries, under which the Kandenko Board of Directors receives reports on important matters relating to the business conduct of subsidiaries, including their accounting and internal control operations.

Moreover, for the purpose of risk management at subsidiaries, internal regulations are in place whose basic aim is to prevent crisis situations in advance and to minimize the impact on business activities in the event that a crisis situation materializes. Additionally, Kandenko provides advice and other support for the creation of risk management systems at subsidiaries, and periodically checks and evaluates the status of risk management at its subsidiaries.

By periodically receiving reports from its subsidiaries, Kandenko is able to check their conduct of business, ascertain the state of management operations at the subsidiary, and offer advice and other measures to tackle management issues.

In parallel, the Internal Audit Division carries out internal audit of subsidiaries in accordance with the Internal Control Enhancement Plan. The audit results are reported to the Internal Control Committee and the Management Committee, and as appropriate to the Board of Directors, to enable any required remedial action to be taken.

Environmental Initiatives

The human race has enjoyed many benefits of industrial and economic development, but these benefits have come at the cost of global warming, pollution, and ecological destruction. A great burden has thus been placed on the global environment.

Coexistence with the natural environment, the foundation of our existence, is essential for any healthy society. This is also a theme that we must continually keep in mind in our business activities.

At Kandenko, we take the long-term view that it is corporate management's vital social responsibility to have an environmental vision leading to the creation of a sustainable society. We will do our part to leave a safe, sound environment for future generations by implementing initiatives that reduce the burden on the environment.

Basic Policy on the Environment

Our Philosophy

As a member of a recycling-based society, Kandenko will help to construct a rich human environment, and through unceasing innovations, will help to conserve the global environment.

Activity Plan

1. We consider environmental conservation to be an important management issue. We are committed to making continual, incremental improvements to our environmental management system (EMS).
2. While engaged in activities to save resources, conserve energy, promote recycling, and prevent pollution, we will reduce the volume of waste produced by our businesses.
3. We will follow legal regulations and agreements and enact our own environmental standards to promote environmental conservation.
4. We will educate our employees about the environment and raise their environmental awareness.
5. We will build bridges of cooperation to regional society and seek harmony with society as a whole.

Environmental Management System

In accordance with its basic environmental policy, Kandenko has built an EMS that covers the entire Company, and has been engaged in making continuous improvements to the system and carrying forward proactive environmental conservation activities.

To promote environmental conservation activities, Kandenko's head office, regional headquarters, branches, and representative offices have cooperated as one in constructing an EMS that complies with ISO 14001 standards. Seeking a fair and just assessment from a third party, we acquired ISO 14001 certification for our branches in Tokyo, Saitama, Chiba, Kanagawa, Shizuoka and Nagoya.

Structure for Promoting Environmental Preservation

To facilitate a deep review of its policies and initiatives in the field of environmental conservation activities, Kandenko appoints a Safety, Environment & Quality Committee chaired by the company president. Under the control of the Environmental Department of Safety, Environment and Quality Division, the departments set up to promote environmental activities are as follows: in the Construction Headquarters, the Safety, Environment & Quality Promotion Group; and in the Regional Headquarters, the General Affairs Department, General Affairs Team and the Safety, Environment & Quality Promotion Group.

Environmental Education

We believe that in promoting environmental activities such as energy conservation, the reduction of CO₂ emissions, and proper disposal of industrial waste, each employee's correct understanding and concern for environmental issues is critical, so we carry out environmental education for people of all ranks.

Kandenko encourages employees to take the Certification Test for Environmental Specialists (Eco Test), which is organized by the Tokyo Chamber of Commerce and Industry. People who pass the test have a broad knowledge of the environment and can voluntarily lead environmental conservation initiatives among their colleagues and in their communities, making this qualification valuable to both the individual and the Company.

Initiatives to Reduce the Environmental Burden

Given the increasing seriousness of global environmental issues, we believe that we can contribute to protecting the healthy biodiversity of the ecosystem and realize a sustainable society by implementing systematic and efficient environmental conservation measures in all aspects of our business activities.

In addition to promoting environment-friendly procurement, Kandenko's initiatives for environmental conservation include efforts to reduce consumption of resources and energy and measures to improve industrial waste recycling rates and convert waste into valuable resources. By ensuring strict compliance with environmental laws and regulations, we are also working to eliminate environmental risk, enhance environmental awareness, and further integrate environmental conservation activities. As a corporate member of a recycling-based society, Kandenko seeks to create a rich human environment and implement unceasing innovation, contributing in this way to activities that conserve the global environment.

Concrete Initiatives

Introducing Green Electric Power

Kandenko is one of the first in the industry to participate in a Green Electric Power Fund, which promotes the use of natural energy sources. To receive a green electric power supply, the Company entered into a 15-year contract effective from April 2002 with Japan Natural Energy Company Limited based on a Green Energy Certification System.



In fiscal 2016, Kandenko was awarded a Green Energy Certificate for using 1,000,000 kWh of natural energy. This is equivalent to about 34.0% of the electric power consumption of the Kandenko head office building supplied from natural energy sources.



Meeting room that exclusively uses LED lighting (head office)

Kandenko's hot-water supply system for industrial use: EcoCute Q (Kawasaki Representative Office)



Promoting Green Purchasing

Kandenko engages in green purchasing activities with respect to materials used at its offices and worksites, including stationery, office supplies, office machinery, furnishings, and uniforms. To prioritize purchasing of environment-friendly eco-products, Kandenko bases its initiatives on a set of green purchasing guidelines.

Electric Energy-Saving Initiatives

Kandenko is rolling out a service known as Kandenko Eco-Business to respond to the many and diverse needs of customers in the field of environmental burden reduction. Covering customer facilities such as electric power, air conditioning and sanitation systems, IT networks, and security systems, it offers a one-stop service from inspection, diagnosis, and planning to design, installation, and maintenance to promote energy saving and CO₂ reduction at customer facilities.

Kandenko's business bases are fitted with an energy-saving office lighting control system that uses daylight sensors to detect the strength of daylight from windows and personnel sensors to detect human movement, and then adjusts the amount of artificial light provided accordingly. Kandenko has additionally introduced energy-saving facilities such as LED lighting, ice-based thermal storage air conditioning systems, and its hot-water supply system for industrial use: EcoCute Q.

Kandenko's other energy-saving activities include switching off unnecessary lighting and avoiding wasteful air conditioning settings that result in excessive cooling or heating of indoor spaces.

Vehicle Energy-Saving Initiatives

Kandenko employs a large vehicle fleet consisting mainly of work vehicles such as aerial work platform trucks and other vehicles to transport materials and equipment. To raise the fuel efficiency of all vehicles, employees have worked in concert to promote eco-driving.

Concurrently, Kandenko is promoting the introduction of electric vehicles, which have outstanding environmental performance features such as no CO₂ emissions during operation, and hybrid vehicles, which have excellent fuel efficiency.



Electric vehicles and a high-speed charging equipment (behind of the vehicle on the right)



Electric aerial platform truck

Initiatives for Female Advancement

Project to Promote Female Advancement

Kandenko has had an in-house female advancement promotion team Since 2006. The team works to create a workplace environment in which female employees feel motivated and valued.

In fiscal 2016, as an action plan to further promote the advancement of female employees, we launched the Project to Promote Female Advancement. So that all our staff can continue to enjoy ongoing professional growth in a positive and motivating atmosphere, this project aims to ensure that all employees, both male and female, can develop their abilities in line with their ambitions by creating a conducive workplace environment.

Going forward, we will continue with positive initiatives for female advancement.

Period of the Action Plan

April 1, 2016 to March 31, 2021

Action Target

A fourfold or more increase (32 or more people) in the number of females in managerial positions to the end of fiscal 2020.

Basic Policies of Initiative

Improvement in Workplace Culture and Awareness

Create a workplace culture and awareness that appropriately values and rewards people who work hard regardless of gender.

Expansion of Assigned Duties and Development of Professional Abilities

Roll out initiatives to expand the range of duties assigned to female employees, for instance by promoting the advancement of women at engineering worksites, and create an environment in which employees can take the initiative in developing their professional skills.

Enhanced Support for Work-Life Balance

Achieve a workplace environment that supports both male and female employees who continue working while raising children.

Participation in Science and Technology Challenge*

Since fiscal 2016, we have participated in the Science and Technology Challenge—an initiative organized by the Japanese Cabinet Office and the Japan Business Federation—by actively supporting female high school students in their choice of career paths in the fields of science and technology.



http://www.gender.go.jp/c-challenge/about_rikochalle/index.html
(Japanese only)

* Through initiatives led by the Gender Equality Bureau of the Cabinet Office, the Science and Technology Challenge supports female high school and university students interested in the fields of science and technology, who are taking on the challenge of a related career path based on a clear vision of their future.

Kurumin Accreditation Mark Recognizing Support for Child-Rearing

In 2015, Kandenko was recognized by the Tokyo Labor Bureau as a company that supports child-rearing with the award of the Kurumin Mark. To be recognized as a company that supports child-rearing, companies must meet a certain set of conditions, including formulation of an Employers' Action Plan in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children and achievement during the plan of a target figure for female employees taking child-rearing leave.

Kandenko received the accreditation mark in recognition of achievements during the five years of the plan starting from 2010, which included the introduction of a child-rearing leave system that exceeds the legal requirement and a relaxation of the qualifying requirements for a maternity-friendly work pattern.



Kurumin Mark

Financial Section

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Consolidated 10-Year Financial Summary

(Millions of yen)

For the fiscal years ended March 31	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net sales	¥ 473,804	¥ 453,623	¥ 462,482	¥ 441,786	¥ 447,741	¥ 437,930	¥ 436,682	¥ 447,673	¥ 470,943	¥507,205
Operating profit	8,858	9,477	10,735	8,034	7,364	8,284	9,388	16,416	26,397	29,261
Ordinary profit	9,854	10,484	11,634	9,070	8,301	9,089	10,336	17,077	27,345	30,031
Profit attributable to owners of parent	5,586	5,428	5,866	1,876	3,952	4,226	4,615	9,412	17,591	19,058
Comprehensive income	–	–	1,772	4,381	8,238	7,327	11,984	7,137	18,422	22,927
Total assets	379,093	378,150	353,342	359,726	364,008	359,933	366,177	407,681	424,874	443,752
Total net assets	172,487	177,536	176,808	178,757	184,269	189,692	193,345	197,980	213,356	230,810
Equity ratio (%)	44.57	45.96	48.93	48.54	49.49	51.45	51.44	47.22	48.72	50.5
Net assets per share (yen)	826.08	850.04	845.67	854.31	881.41	906.29	922.05	942.42	1,013.33	1,097.36
Earnings per share (yen)	27.30	26.54	28.69	9.18	19.34	20.69	22.59	46.07	86.11	93.31
Cash dividends per share (yen)	12.00	14.00	12.00	12.00	12.00	12.00	14.00	14.00	20.00	24.00
Net cash provided by (used in) operating activities	16,947	12,236	10,257	13,035	15,401	(2,218)	2,921	18,042	6,751	11,469
Net cash provided by (used in) investing activities	(9,825)	(9,763)	(3,799)	1,583	(12,748)	(5,839)	2,253	(7,101)	(17,867)	(10,015)
Net cash used in financing activities	(3,519)	(4,400)	(4,037)	(5,423)	(2,900)	(4,540)	(3,743)	19,807	(169)	(7,857)
Cash and cash equivalents at end of period	41,060	39,142	41,539	50,725	50,550	38,697	40,157	70,899	59,612	54,099
Number of employees (persons)	8,513	8,665	8,769	8,746	8,732	8,821	8,839	8,915	9,244	9,571

Financial Position

Analysis of Consolidated Financial Position

Total assets at the end of the fiscal year under review increased ¥18,877 million over the previous fiscal year to ¥443,752 million.

Assets

Due mainly to increases of ¥23,921 million in notes receivable, accounts receivable from completed construction contracts and other, total current assets grew by ¥8,974 million over the previous fiscal year-end.

Primarily reflecting increases of ¥6,505 million in property, plant and equipment, and ¥4,779 million in investment securities, total non-current assets rose by ¥9,903 million from the end of the previous fiscal year.

Liabilities

Total current liabilities increased by ¥3,443 million over the previous fiscal year-end. This was due, among other factors, to the growth of ¥7,305 million in notes payable, accounts payable for construction contracts and others, which offset a decrease of ¥2,089 million in advances received on uncompleted construction contracts.

Total non-current liabilities declined by ¥2,020 million from the end of the previous fiscal year. This was primarily because of a decrease of ¥3,081 million in net defined benefit liability, which offset an increase of ¥1,217 million in long-term loans payable.

Total liabilities rose by ¥1,423 million year on year to ¥212,941 million.

Net Assets

Due largely to rises of ¥14,110 million in retained earnings and ¥2,868 million in valuation difference on available-for-sale securities, total net assets grew by ¥17,454 million over the previous fiscal year-end to reach ¥230,810 million.

Accordingly, net assets per share and the equity ratio were ¥1,097.36 and 50.50%, respectively (compared with ¥1,013.33 and 48.72% in the previous fiscal year).

Cash Flows

In the consolidated fiscal year under review, cash and cash equivalents (henceforth “funds”) decreased by ¥5,513 million year on year to ¥54,099 million. This reflected net outflows of funds from both investing activities and financing activities, which offset the positive contribution from operating activities.

Cash Flows from Operating Activities

In the fiscal year under review, cash flows from operating activities added ¥11,469 million to funds (up ¥4,718 million from the previous fiscal year). This was due to positive items, such as ¥29,133 million in profit before income taxes, ¥6,860 million in decrease in costs on uncompleted construction contracts, and ¥7,320 million in increase in notes and accounts payable–trade, outweighing negative items such as ¥23,869 million in increase in notes and accounts receivable–trade and ¥8,706 million in income taxes paid.

Cash Flows from Investing Activities

During the fiscal year under review, funds decreased by ¥10,015 million due to investing activities (up ¥7,851 million from the previous fiscal year). The decrease was attributable mainly to expenditures of ¥9,614 million for the purchase of property, plant and equipment.

Cash Flows from Financing Activities

During the fiscal year under review, financing activities decreased funds by ¥7,857 million (down ¥7,688 million from the previous fiscal year). The chief factors in this were a net decrease of ¥1,632 million in short-term loans payable and ¥4,902 million in cash dividends paid.

Consolidated Balance Sheet

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2017 AND 2018

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2017	2018	2018	
Assets				
Current assets				
Cash and deposits	*3 ¥ 60,073	*3 ¥ 56,787	*3 \$ 535,726	
Notes receivable, accounts receivable from completed construction contracts and other	*3 139,139	*3 163,061	*3 1,538,311	
Securities	14,999	9,999	94,330	
Costs on uncompleted construction contracts	*5 30,900	*5 24,040	*5 226,792	
Raw materials and supplies	4,552	5,123	48,330	
Deferred tax assets	6,852	6,226	58,735	
Other	12,843	13,148	124,037	
Allowance for doubtful accounts	(598)	(648)	(6,113)	
Total current assets	268,764	277,738	2,620,169	
Non-current assets				
Property, plant and equipment				
Buildings and structures	*3 88,570	*3 90,192	*3 850,867	
Machinery, vehicles, tools, furniture and fixtures	*3 54,567	*3 60,105	*3 567,028	
Land	*2, *3 60,278	*2, *3 60,292	*2, *3 568,792	
Leased assets	2,414	2,537	23,933	
Construction in progress	760	1,095	10,330	
Accumulated depreciation	(108,013)	(109,140)	(1,029,622)	
Total property, plant and equipment	98,577	105,082	991,339	
Intangible assets				
Intangible assets	5,323	5,902	55,679	
Investments and other assets				
Investment securities	*1, *3 41,539	*1, *3 46,318	*1, *3 436,962	
Net defined benefit asset	—	0	0	
Deferred tax assets	5,326	3,498	33,000	
Other	*3 6,213	*3 6,003	*3 56,632	
Allowance for doubtful accounts	(869)	(792)	(7,471)	
Total investments and other assets	52,209	55,027	519,122	
Total non-current assets	156,110	166,013	1,566,160	
Total assets	¥ 424,874	¥ 443,752	\$ 4,186,339	

The accompanying notes are an integral part of financial statements.

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2017	2018	2018	
Liabilities				
Current liabilities				
Notes payable, accounts payable for construction contracts and other	¥ 82,398	¥ 89,704	\$ 846,264	
Short-term loans payable	*3 10,920	*3 10,072	*3 95,018	
Lease obligations	425	477	4,500	
Income taxes payable	5,375	4,639	43,764	
Advances received on uncompleted construction contracts	19,600	17,510	165,188	
Provision for warranties for completed construction	1,226	241	2,273	
Provision for loss on construction contracts	*5 4,050	*5 3,214	*5 30,320	
Other	21,792	23,373	220,500	
Total current liabilities	145,789	149,233	1,407,858	
Non-current liabilities				
Convertible bond-type bonds with share acquisition rights	20,080	20,060	189,245	
Long-term loans payable	*3 7,581	*3 8,799	*3 83,009	
Lease obligations	795	966	9,113	
Deferred tax liabilities for land revaluation	*2 6,789	*2 6,772	*2 63,886	
Net defined benefit liability	28,269	25,188	237,622	
Other	2,213	1,921	18,122	
Total non-current liabilities	65,728	63,708	601,018	
Total liabilities	211,518	212,941	2,008,877	
Net assets				
Shareholders' equity				
Capital stock	10,264	10,264	96,830	
Capital surplus	6,350	6,351	59,915	
Retained earnings	182,458	196,568	1,854,415	
Treasury shares	(575)	(585)	(5,518)	
Total shareholders' equity	198,496	212,599	2,005,650	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	12,418	15,286	144,207	
Deferred gains or losses on hedges	(522)	(471)	(4,443)	
Revaluation reserve for land	*2 (4,861)	*2 (4,842)	*2 (45,679)	
Remeasurements of defined benefit plans	1,460	1,573	14,839	
Total accumulated other comprehensive income	8,494	11,546	108,924	
Non-controlling interests	6,364	6,665	62,877	
Total net assets	213,356	230,810	2,177,452	
Total liabilities and net assets	¥ 424,874	¥ 443,752	\$ 4,186,339	

The accompanying notes are an integral part of financial statements.

Consolidated Statement of Income

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2017 AND 2018

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2017	2018	2018	2018
Net sales of completed construction contracts	¥ 470,943	¥ 507,205		\$ 4,784,952
Cost of sales of completed construction contracts	*1, *2 421,208	*1, *2 452,828	*1, *2	4,271,962
Gross profit (loss) on completed construction contracts	49,734	54,377		512,990
Selling, general and administrative expenses	*3 23,337	*3 25,115	*3	236,933
Operating profit (loss)	26,397	29,261		276,047
Non-operating income				
Interest income	44	16		150
Dividend income	766	837		7,896
Other	583	428		4,037
Total non-operating income	1,394	1,282		12,094
Non-operating expenses				
Interest expenses	213	237		2,235
Business commencement expenses	18	95		896
Other	214	180		1,698
Total non-operating expenses	446	512		4,830
Ordinary profit (loss)	27,345	30,031		283,311
Extraordinary income				
Gain on sales of non-current assets	–	*5 150	*5	1,415
Gain on bargain purchase	135	–		–
Gain on sales of investment securities	34	–		–
Total extraordinary income	170	150		1,415
Extraordinary losses				
Loss on retirement of non-current assets	269	621		5,858
Impairment loss	101	*6 363	*6	3,424
Other	27	62		584
Total extraordinary losses	397	1,048		9,886
Profit (loss) before income taxes	27,118	29,133		274,839
Income taxes - current	8,243	8,234		77,679
Income taxes - deferred	627	1,071		10,103
Total income taxes	8,871	9,306		87,792
Profit (loss)	18,246	19,826		187,037
Profit (loss) attributable to non-controlling interests	655	768		7,245
Profit (loss) attributable to owners of parent	¥ 17,591	¥ 19,058		\$ 179,792

The accompanying notes are an integral part of financial statements.

Consolidated Statement of Comprehensive Income

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2017 AND 2018

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2017	2018	2018	
Profit (loss)	¥ 18,246	¥ 19,826	\$ 187,037	
Other comprehensive income				
Valuation difference on available-for-sale securities	(40)	2,899	27,349	
Deferred gains or losses on hedges	53	50	471	
Remeasurements of defined benefit plans, net of tax	163	150	1,415	
Total other comprehensive income	176	3,100	29,245	
Comprehensive income	¥ 18,422	¥ 22,927	\$ 216,292	
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent	17,753	22,091	208,405	
Comprehensive income attributable to non-controlling interests	¥ 669	¥ 835	\$ 7,877	

The accompanying notes are an integral part of financial statements.

Consolidated Statement of Changes in Equity

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2017

(Millions of Yen)

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury shares		
Balance at beginning of current period	¥ 10,264	¥ 6,349	¥ 168,576	¥ (565)	¥ 184,624	
Changes of items during period						
Purchase of shares of consolidated subsidiaries		(0)			(0)	
Dividends of surplus			(3,268)		(3,268)	
Profit (loss) attributable to owners of parent			17,591		17,591	
Reversal of revaluation reserve for land			(440)		(440)	
Change of scope of consolidation			—		—	
Purchase of treasury shares				(10)	(10)	
Disposal of treasury shares		0		0	0	
Net changes of items other than shareholders' equity						
Total changes of items during period	—	0	13,881	(10)	13,872	
Balance at end of current period	¥ 10,264	¥ 6,350	¥ 182,458	¥ (575)	¥ 198,496	

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	¥ 12,460	¥ (575)	¥ (5,302)	¥ 1,309	¥ 7,891	¥ 5,464	¥ 197,980
Changes of items during period							
Purchase of shares of consolidated subsidiaries							(0)
Dividends of surplus							(3,268)
Profit (loss) attributable to owners of parent							17,591
Reversal of revaluation reserve for land							(440)
Change of scope of consolidation							—
Purchase of treasury shares							(10)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	(42)	53	440	151	603	900	1,503
Total changes of items during period	(42)	53	440	151	603	900	15,375
Balance at end of current period	¥ 12,418	¥ (522)	¥ (4,861)	¥ 1,460	¥ 8,494	¥ 6,364	¥ 213,356

The accompanying notes are an integral part of financial statements.

YEAR ENDED MARCH 31, 2018

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	¥ 10,264	¥ 6,350	¥ 182,458	¥ (575)	¥ 198,496
Changes of items during period					
Purchase of shares of consolidated subsidiaries		1			1
Dividends of surplus			(4,902)		(4,902)
Profit (loss) attributable to owners of parent			19,058		19,058
Reversal of revaluation reserve for land			(19)		(19)
Change of scope of consolidation			(26)		(26)
Purchase of treasury shares				(10)	(10)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	—	1	14,110	(10)	14,102
Balance at end of current period	¥ 10,264	¥ 6,351	¥ 196,568	¥ (585)	¥ 212,599

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	¥ 12,418	¥ (522)	¥ (4,861)	¥ 1,460	¥ 8,494	¥ 6,364	¥ 213,356
Changes of items during period							
Purchase of shares of consolidated subsidiaries							1
Dividends of surplus							(4,902)
Profit (loss) attributable to owners of parent							19,058
Reversal of revaluation reserve for land							(19)
Change of scope of consolidation							(26)
Purchase of treasury shares							(10)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	2,868	50	19	112	3,051	300	3,352
Total changes of items during period	2,868	50	19	112	3,051	300	17,454
Balance at end of current period	¥ 15,286	¥ (471)	¥ (4,842)	¥ 1,573	¥ 11,546	¥ 6,665	¥ 230,810

The accompanying notes are an integral part of financial statements.

YEAR ENDED MARCH 31, 2018

(Thousands of U.S. Dollars)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	\$ 96,830	\$ 59,905	\$ 1,721,301	\$ (5,424)	\$ 1,872,603
Changes of items during period					
Purchase of shares of consolidated subsidiaries		9			9
Dividends of surplus			(46,245)		(46,245)
Profit (loss) attributable to owners of parent			179,792		179,792
Reversal of revaluation reserve for land			(179)		(179)
Change of scope of consolidation			(245)		(245)
Purchase of treasury shares				(94)	(94)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	–	9	133,113	(94)	133,037
Balance at end of current period	\$ 96,830	\$ 59,915	\$ 1,854,415	\$ (5,518)	\$ 2,005,650

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	\$ 117,150	\$ (4,924)	\$ (45,858)	\$ 13,773	\$ 80,132	\$ 60,037	\$ 2,012,792
Changes of items during period							
Purchase of shares of consolidated subsidiaries							9
Dividends of surplus							(46,245)
Profit (loss) attributable to owners of parent							179,792
Reversal of revaluation reserve for land							(179)
Change of scope of consolidation							(245)
Purchase of treasury shares							(94)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	27,056	471	179	1,056	28,783	2,830	31,622
Total changes of items during period	27,056	471	179	1,056	28,783	2,830	164,660
Balance at end of current period	\$ 144,207	\$ (4,443)	\$ (45,679)	\$ 14,839	\$ 108,924	\$ 62,877	\$ 2,177,452

The accompanying notes are an integral part of financial statements.

Consolidated Statement of Cash Flows

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2017 AND 2018

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2017	2018	2018
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 27,118	¥ 29,133	\$ 274,839
Depreciation and amortization	4,774	5,101	48,122
Impairment loss	101	363	3,424
Gain on bargain purchase	(135)	—	—
Increase (decrease) in allowance for doubtful accounts	(51)	(26)	(245)
Increase (decrease) in provision for loss on construction contracts	1,654	(835)	(7,877)
Increase (decrease) in net defined benefit liability	(2,323)	(2,063)	(19,462)
Decrease (increase) in net defined benefit asset	—	(0)	(0)
Interest and dividend income	(811)	(854)	(8,056)
Interest expenses	213	237	2,235
Loss (gain) on valuation of investment securities	—	21	198
Loss (gain) on sales of investment securities	(34)	—	—
Decrease (increase) in notes and accounts receivable - trade	(7,245)	(23,869)	(225,179)
Decrease (increase) in costs on uncompleted construction contracts	4,227	6,860	64,716
Decrease (increase) in other inventories	(403)	(570)	(5,377)
Increase (decrease) in notes and accounts payable - trade	(3,831)	7,320	69,056
Increase (decrease) in advances received on uncompleted construction contracts	(215)	(2,089)	(19,707)
Other, net	(7,328)	851	8,028
Subtotal	15,709	19,579	184,707
Interest and dividend income received	811	854	8,056
Interest expenses paid	(233)	(257)	(2,424)
Income taxes (paid) refund	(9,535)	(8,706)	(82,132)
Net cash provided by (used in) operating activities	6,751	11,469	108,198
Cash flows from investing activities			
Net decrease (increase) in time deposits	(2,000)	2,873	27,103
Purchase of securities	(11,999)	(5,199)	(49,047)
Proceeds from sales and redemption of securities	9,000	5,199	49,047
Purchase of property, plant and equipment	(7,290)	(9,614)	(90,698)
Proceeds from sales of property, plant and equipment	142	9	84
Purchase of investment securities	(1,340)	(709)	(6,688)
Proceeds from sales and redemption of investment securities	45	26	245
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,445)	—	—
Payments of loans receivable	(0)	(533)	(5,028)
Collection of loans receivable	33	220	2,075
Other, net	(2,011)	(2,287)	(21,575)
Net cash provided by (used in) investing activities	(17,867)	(10,015)	(94,481)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	2,357	(1,632)	(15,396)
Proceeds from long-term loans payable	2,036	560	5,283
Repayments of long-term loans payable	(702)	(798)	(7,528)
Repayments of lease obligations	(532)	(522)	(4,924)
Cash dividends paid	(3,268)	(4,902)	(46,245)
Other, net	(60)	(562)	(5,301)
Net cash provided by (used in) financing activities	(169)	(7,857)	(74,122)
Effect of exchange rate change on cash and cash equivalents	(1)	(5)	(47)
Net increase (decrease) in cash and cash equivalents	(11,286)	(6,407)	(60,443)
Cash and cash equivalents at beginning of period	70,899	59,612	562,377
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	894	8,433
Cash and cash equivalents at end of period	¥ 59,612	¥ 54,099	\$ 510,367

The accompanying notes are an integral part of financial statements.

Notes to Consolidated Financial Statements

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2017 AND 2018

BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kandenکو Co., Ltd. (the "Company") and its consolidated subsidiaries (the "Companies") maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

For the convenience of readers, the accompanying consolidated

financial statements as of and for the year ended March 31, 2018 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥106 =U.S.\$1.00, the exchange rate prevailing on March 31, 2018.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in dollars) do not necessarily agree with the sum of the individual amounts.

SIGNIFICANT MATTERS PROVIDING THE BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. The scope of consolidation

(1) Number of consolidated subsidiaries: 31

Names of the consolidated subsidiaries

Kawasaki Setsubi Kogyo Co., Ltd.

Kanko Facilities Co., Ltd.

Kanagawa K - Techno Co., Ltd.

Chiba K - Techno Co., Ltd.

Saitama K - Techno Co., Ltd.

Ibaraki K - Techno Co., Ltd.

Tochigi K - Techno Co., Ltd.

Gunma K - Techno Co., Ltd.

Tama K - Techno Co., Ltd.

Shizuoka K - Techno Co., Ltd.

HANDENKO CORPORATION

Kanko Power Techno Co., Ltd.

Kanagawa Power Techno Co., Ltd.

Chiba Power Techno Co., Ltd.

Saitama Power Techno Co., Ltd.

Ibaraki Power Techno Co., Ltd.

Tochigi Power Techno Co., Ltd.

Gunma Power Techno Co., Ltd.

Nishikanto Power Techno Co., Ltd.

Shizuoka Power Techno Co., Ltd.

Transmission Line Construction Co., Ltd.

Sato Kensetsu Kogyo Co., Ltd.

SYSTEC ENGINEERING Co., Ltd.

NETSAVE Co., Ltd.

Tokyo Kouji Keibi Co., Ltd.

Bay Techno Co., Ltd.

KANKO SYOJI CO., LTD.

K asset management Co., Ltd.

Choshi Wind Development Co., Ltd.

Kama Solar Power Co., Ltd.

Maebashi Biomass Power Co., Ltd.

Among these subsidiaries, Chiba Power Techno Co., Ltd., Ibaraki Power Techno Co., Ltd., Tochigi Power Techno Co., Ltd., Gunma Power Techno Co., Ltd., Nishikanto Power Techno Co., Ltd. and Shizuoka Power Techno Co., Ltd., which were established on July 3, 2017, and Maebashi Biomass Power Co., Ltd., which started commercial operations in March 2018, have been included in the scope of consolidation from the year ended March 31, 2018 in consideration of their importance.

(2) Name of major non-consolidated subsidiary:

THAI KANDENKO CO., LTD.

(Reason for excluding from the scope of consolidation)

All of the non-consolidated subsidiaries are small in scale and have no material impact on the consolidated financial statements in terms of total assets, net sales, net income (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest).

2. Application of equity method

(1) Number of non-consolidated subsidiaries and affiliates that are accounted for by the equity method: None

(2) Name of the major non-consolidated subsidiaries and affiliates that are not accounted for by the equity method:

THAI KANDENKO CO., LTD.

(Reason for excluding from the scope of the equity method)

Non-consolidated subsidiaries and affiliates that are not accounted for by the equity method have immaterial impact on the consolidated financial statements in terms of net income (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), and are not material, taken as a whole.

3. Accounting period of consolidated subsidiaries

The year-end date for consolidated subsidiaries is the same as the consolidated year-end date.

4. Significant accounting policies

(1) Evaluation methods for significant assets

(a) Securities

- i. Held-to-maturity securities
Amortized cost method (straight-line method)
- ii. Available-for-sale securities
Securities with market quotations:
Stated at market value at the end of the year (Unrealized gains or losses, net of applicable taxes, are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.).

Securities without market quotations:

Stated at cost determined by the moving-average method.

(b) Derivatives

Fair value method

(c) Inventories

- i. Costs on uncompleted construction contracts
Stated at cost determined by the specific cost method.
- ii. Raw materials and supplies
Stated at cost determined by the moving-average method (Balance sheet amounts are determined by writing down the carrying amount based on declining profitability.)

(2) Depreciation methods of significant depreciable assets

(a) Property, plant and equipment (excluding leased assets)

Depreciated mainly by the declining-balance method

Useful life and residual value are determined on the same basis as that of the method provided in the Corporate Tax Act.

Useful lives of certain buildings are deemed as 30 years although their useful lives based on the Corporate Tax Act are longer than 30 years.

(b) Intangible assets (excluding leased assets)

Straight-line method

Software for internal use is amortized by the straight-line method over an estimated useful life (5 years).

(c) Leased assets

Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method based on the assumption that the useful life equals the lease term, and the residual value equals zero.

(3) Accounting policies for significant allowance and provisions

(a) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for to the amount

sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated by applying the percentage of actual losses on collection experienced in the past to remaining receivables.

(b) Provision for warranties for completed construction

To provide for possible future expenses under warranties for completed construction contracts, provision for construction contracts completed during the year is provided based on future estimated amount.

(c) Provision for loss on construction contracts

To provide for future losses on construction orders, provision for estimated losses is provided for uncompleted construction contracts at the end of the year that are likely to incur losses and the amount can be reasonably estimated.

(4) Accounting method relating to retirement benefits

(a) Method of attributing expected retirement benefit to periods

Method of attributing expected retirement benefit to periods is allocated by the straight-line basis (the expected benefit divided by the total service years would be deemed as arising in each period).

(b) Amortization of actuarial gains and losses and past service cost

Past service costs are being amortized as incurred by the straight-line method over a certain period (5 years) within the average remaining years of service of the eligible employees.

Actuarial gains and losses are amortized by the straight-line method over a certain period (5 years) within the average remaining years of service of the eligible employees commencing with the following periods.

(5) Accounting policies for significant revenues and expenses

(a) Recognition of revenues and costs of completed construction contracts

i. Construction contracts that the outcome of the construction activity is deemed certain during the course of the activity at the end of the year
Percentage-of-completion method (cost proportion method shall be applied to estimate the percentage-of-completion of such construction contract)

ii. Other construction contracts
Completed-contract method

(6) Significant hedge accounting method

(a) Hedge accounting method

The Companies use the deferral hedge accounting method. However, the exceptional accounting is used for interest rate swaps that meet specified matching criteria.

(b) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Loans payable

(c) Hedging policy

In accordance with internal approval procedures for derivative transactions, interest rate fluctuation risks related to the hedged items are hedged to a certain degree.

(d) Method for evaluating the effectiveness of hedges

The Companies evaluate the effectiveness of their hedging activities by comparing cumulative changes in cash flows on the hedging instruments with cumulative changes in cash flows on the related hedged items. However, the evaluation of hedging effectiveness is omitted for interest rate swaps to which the exceptional accounting is applied.

(7) Method and period of amortization of goodwill

Goodwill is amortized by the straight-line method over the estimated period that the benefits are expected to be received, not exceeding 20 years.

(8) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents include cash in hand, readily available deposits and short-term investments with maturities of three months or less from the purchase date whose value is not subject to significant fluctuation risk.

(9) Other significant accounting policies for the preparation of consolidated financial statements

Accounting method for consumption taxes:

Consumption and local consumption taxes are accounted for by the tax-exclusion method.

ACCOUNTING STANDARDS, ETC. NOT YET EFFECTIVE

- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, amendment on February 16, 2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, latest amendment on February 16, 2018, Accounting Standards Board of Japan)

(1) Outline

"Implementation Guidance on Tax Effect Accounting," etc. underwent the following necessary revisions, essentially adhering to the content of practical guidelines on tax effect accounting transferred from the Japanese Institute of Certified Public Accountants (JICPA) to the Accounting Standards Board of Japan (ASBJ).

(Main revisions to accounting treatment)

- Treatment of taxable temporary difference related to stocks of subsidiaries, etc. in non-consolidated financial statements
- Treatment of recoverability of deferred tax assets related to companies corresponding to (Category 1)

(2) Scheduled date of application

This implementation guidance will be applied from the beginning of the year ending March 31, 2019.

(3) Effects of the application of this accounting standard, etc.

The effects of the application of the "Implementation Guidance on Tax Effect Accounting," etc. on the consolidated financial statements are currently under assessment.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018, Accounting Standards Board of Japan)

(1) Outline

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published "Revenue from Contracts with Customers" in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Given that IFRS No. 15 will be applied from fiscal years starting on or after January 1, 2018 and Topic 606 from fiscal years starting after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) developed comprehensive Accounting Standard on Revenue Recognition and published it together with implementation guidance.

The fundamental policy for developing Accounting Standard on Revenue Recognition by the ASBJ was that the accounting standard would incorporate the fundamental policy of IFRS No. 15 as the starting point from the perspective of comparability of financial statements, which is one of the benefits of achieving consistency with IFRS No. 15. For matters that require actual practice, etc. carried out in Japan up until present to be taken into consideration, alternative treatment will be added to an extent that does not impair financial statement comparability.

This accounting standard and its implementation guidance will be applied from the beginning of the first fiscal year to start on or after April 1, 2021; provided, however, that this accounting standard and its implementation guidance may be applied from the beginning of the fiscal years that start on or after April 1, 2018.

(2) Scheduled date of application

The date of application is presently under consideration.

(3) Effects of the application of this accounting standard, etc.

The effects of the application of the "Accounting Standard for Revenue Recognition," etc. on the consolidated financial statements are currently under assessment.

CHANGES IN PRESENTATION

(Consolidated statement of income)

Because the amount of “insurance premiums refunded cancellation” in “non-operating income,” which was presented as a separate item in the year ended March 31, 2017, is 10% or less of the total amount of non-operating income, this item is included in “other” in “non-operating income” from the year ended March 31, 2018. The consolidated financial statements for the year ended March 31, 2017 have been reclassified to reflect this change in presentation.

As a result, ¥230 million, which was presented as “insurance premiums refunded cancellation” in “non-operating income” in the consolidated statement of income for the year ended March 31, 2017, has been reclassified to “other.”

Because the amount of “business commencement expenses,” which was included in “other” in “non-operating expenses” in the year ended March 31, 2017, has exceeded 10% of the total amount of non-operating expenses, this item is presented as a separate item from the year ended March 31, 2018. The consolidated financial statements for the year ended March 31, 2017 have been reclassified to reflect this change in presentation.

As a result, ¥232 million, which was presented as “other” in “non-operating expenses” in the consolidated statement of income for the year ended March 31, 2017, has been reclassified to ¥18 million of “business commencement expenses,” and ¥214 million of “other.”

NOTES TO CONSOLIDATED BALANCE SHEET

*1. Amounts of non-consolidated subsidiaries and affiliates' stocks included in investment securities

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Investment securities (Stocks)	¥ 1,377	¥ 1,687	\$ 15,915	
Investment securities (Investments in capital)	82	82	773	

*2. The Company revalued its land held for business use in accordance with the “Act on Revaluation of Land” (the Act No. 34, March 31, 1998) and recorded revaluation reserve for land in the net assets section.

(a) Method of revaluation:

Revaluation was made by reasonably adjusting the market value of standard sites as stipulated by the Article 2 Clause 1 of the “Ordinance for Enforcement of the Act on Revaluation of Land” (Ordinance No. 119, March 31, 1998) and value determined by the method for calculating taxable land price of land holding tax in accordance with the Article 16 of the Land-holding Tax Act as defined and published by the Commissioner of National Tax Agency as stipulated by the Article 2 Clause 4 of the “Ordinance for Enforcement of the Act on Revaluation of Land.”

(b) Date of revaluation:

March 31, 2002

(c) As of March 31, 2017, the combined fair value of the revalued land was ¥3,478 million lower than its combined book value after revaluation.

*3. Assets pledged as collateral and secured obligations

(1) Assets pledged as collateral which the Company's subsidiaries provide and secured obligations

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2018		2018	
Cash and deposits	¥ 1,969	¥ [–]	¥ 2,082	¥ [–]	\$ 19,641	\$ [–]
Notes receivable, accounts receivable from completed construction contracts and other	57	[–]	107	[–]	1,009	[–]
Buildings and structures	831	[609]	1,557	[587]	14,688	[5,537]
Machinery, vehicles, tools, furniture and fixtures	6,669	[6,669]	10,097	[6,366]	95,254	[60,056]
Land	558	[–]	657	[–]	6,198	[–]
Investments and other assets – Other (lease deposits)	7	[–]	7	[–]	66	[–]
Total	¥ 10,094	¥ [7,279]	¥ 14,510	¥ [6,954]	\$ 136,886	\$ [65,603]
Short-term loans payable	¥ 890	¥ [601]	¥ 1,562	¥ [615]	\$ 14,735	\$ [5,801]
Long-term loans payable	6,941	[6,173]	8,419	[5,558]	79,424	[52,433]
Total	¥ 7,832	¥ [6,775]	¥ 9,981	¥ [6,173]	\$ 94,160	\$ [58,235]

Note: The figures in the brackets show factory foundation mortgaged assets and related obligations.

(2) Assets pledged as collateral for the loans of the investing company of the Company and its subsidiaries

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Buildings and structures	¥ 1	¥ 0	\$ 0	0
Land	26	26		245
Investment securities	44	44		415
Investments and other assets – Other (long-term loans receivable)	130	129		1,216
Total	¥ 201	¥ 201	\$ 1,896	

4. Contingent liabilities

The Company provides guarantees of the employees' loans from financial institutions.

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Employees (housing loans)	¥ 1,356	¥ 1,188	\$ 11,207	

*5. Both costs on uncompleted construction contracts relating to construction contracts that are likely to incur losses and provision for loss on construction contracts are presented without offsetting.

Amount of costs on uncompleted construction contracts corresponding to provision for loss on construction contracts

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
	¥ 106	¥ 233	\$ 2,198	

NOTES TO CONSOLIDATED STATEMENT OF INCOME

*1. Provision for loss on construction contracts included in cost of sales of completed construction contracts

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
	¥ 3,165	¥ 1,454	\$ 13,716	

*2. The value of inventories at the year-end represents the value after writing down of the book value in accordance with the declining in profitability of assets, and the following loss on valuation of inventories is included in cost of sales of completed construction contracts

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
	¥ 163	¥ 198	\$ 1,867	

*3. Principal accounts and amounts in selling, general and administrative expenses

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Employees' salaries and allowances	¥ 10,948	¥ 11,786	\$ 111,188	
Retirement benefit expenses	699	609	5,745	

4. Total amount of research and development expenses included in general and administrative expenses and manufacturing costs

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
	¥ 1,188	¥ 1,217	\$	11,481

*5. Breakdown of gain on sales of non-current assets

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Intangible assets	¥ -	¥ 150	\$	1,415

*6. Impairment loss

The Companies recorded impairment loss for the following asset groups.

For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

For the year ended March 31, 2018			
Location	Purpose of Use	Type	Number of assets
Tokyo and others	Idle assets	Land	17
Tokyo	Assets for lease	Land, etc.	3
Chiba prefecture and others	Power production facilities and others	Machinery, vehicles, tools, furniture and fixtures, etc.	3

Idle assets, assets for lease and power production facilities and others for which impairment loss was recognized were grouped mainly by individual properties.

The book value of the above asset group was reduced to the respective recoverable amount, due to a decline in land prices of the idle assets and assets for lease and a decline in the profitability of the power production facilities. The decline was recorded as impairment loss of ¥363 million (\$3,424 thousand) in extraordinary losses. The impairment loss breaks down as ¥212 million (\$2,000 thousand) for land, ¥91 million (\$858 thousand) for buildings and structures, and ¥59 million (\$556 thousand) for machinery, vehicles, tools, furniture and fixtures.

The recoverable amount for idle assets and assets for lease was measured at the net sales price, primarily based on the market value of standard sites and the assessed value of inheritance tax using roadside land prices. For power production facilities, the recoverable amount was measured based on value in use, applying a discount rate of 7.2% to future cash flow.

NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*1. Reclassification adjustments and tax effects relating to other comprehensive income

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Valuation difference on available-for-sale securities:				
Losses arising during the year	¥ (37)	¥ 4,192	\$ 39,547	
Reclassification adjustments	(24)	(9)	(84)	
Amount before income tax effect	(62)	4,182	39,452	
Income tax effect	21	(1,283)	(12,103)	
Valuation difference on available-for-sale securities	(40)	2,899	27,349	
Deferred gains or losses on hedges				
Gains (losses) arising during the year	53	50	471	
Remeasurements of defined benefit plans:				
Gains (losses) arising during the year	653	1,017	9,594	
Reclassification adjustments	(429)	(845)	(7,971)	
Amount before income tax effect	224	172	1,622	
Income tax effect	(61)	(21)	(198)	
Remeasurements of defined benefit plans, net of tax	163	150	1,415	
Total other comprehensive income	¥ 176	¥ 3,100	\$ 29,245	

NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2017

1. Matters related to class and number of issued shares and class and number of treasury shares

	(Shares)			
	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Shares issued:				
Common shares	205,288,338	–	–	205,288,338
Total	205,288,338	–	–	205,288,338
Treasury shares:				
Common shares	1,009,642	11,075	937	1,019,780
Total	1,009,642	11,075	937	1,019,780

Notes:

- Increase in number of common shares in treasury shares is due to repurchase of shares less than one unit.
- Decrease in number of common shares in treasury shares is due to the sales of shares less than one unit in response to repurchase requests.

2. Matter related to dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 29, 2016	Common shares	¥1,634 million	¥8.0	March 31, 2016	June 30, 2016
Board of directors' meeting on October 31, 2016	Common shares	¥1,634 million	¥8.0	September 30, 2016	December 5, 2016

(2) Dividends whose record date fell in the year ended March 31, 2017, but whose effective date comes after March 31, 2017

Resolution	Class of shares	Total dividends	Source of dividend funds	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 27, 2017	Common shares	¥2,451 million	Retained earnings	¥12.0	March 31, 2017	June 28, 2017

For the year ended March 31, 2018

1. Matters related to class and number of issued shares and class and number of treasury shares

(Shares)

	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Shares issued:				
Common shares	205,288,338	–	–	205,288,338
Total	205,288,338	–	–	205,288,338
Treasury shares:				
Common shares	1,019,780	9,182	407	1,028,555
Total	1,019,780	9,182	407	1,028,555

Notes:

1. Increase in number of common shares in treasury shares is due to repurchase of shares less than one unit.

2. Decrease in number of common shares in treasury shares is due to the sales of shares less than one unit in response to repurchase requests.

2. Matter related to dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 27, 2017	Common shares	¥2,451 million \$23,122 thousand	¥12.0 \$0.11	March 31, 2017	June 28, 2017
Board of directors' meeting on October 31, 2017	Common shares	¥2,451 million \$23,122 thousand	¥12.0 \$0.11	September 30, 2017	December 5, 2017

(2) Dividends whose record date fell in the year ended March 31, 2018, but whose effective date comes after March 31, 2018

Resolution	Class of shares	Total dividends	Source of dividend funds	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 27, 2018	Common shares	¥2,451 million \$23,122 thousand	Retained earnings	¥12.0 \$0.11	March 31, 2018	June 28, 2018

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

*1. Relationship between the balance of cash and cash equivalents at the end of the year and the amount on the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	2018
Cash and deposits	¥ 60,073	¥ 56,787	\$ 535,726	
Time deposits with maturities of more than three months	(11,461)	(8,687)	(81,952)	
Short-term investments with maturities of three months or less from the purchase date	10,999	5,999	56,594	
Cash and cash equivalents	¥ 59,612	¥ 54,099	\$ 510,367	

FINANCIAL INSTRUMENTS

1. Status of financial instruments

(1) Policies on financial instruments

The Companies manage surplus funds by investing in high security financial instruments, primarily short-term deposits and debt securities and raise funds through borrowings from banks and other financial institutions and issuance of convertible bond-type bonds with share acquisition rights.

Certain consolidated subsidiaries enter into derivative transactions to hedge interest rate fluctuation risks arising from borrowings and the Companies do not use derivative transactions for speculative purposes.

(2) Description of financial instruments and related risks

Notes receivable, accounts receivable from completed construction contracts and other, trade receivables, are exposed to customer credit risk. Securities and investment securities, primarily consist of held-to-maturity debt securities and shares of companies with business relationship, are exposed to market price fluctuation risks.

Notes payable, accounts payable for construction contracts and other, trade payables, are due within one year. Proceeds from short-term loans payable are mainly used for operational funds requirement and proceeds from convertible bond-type bonds with share acquisition rights and long-term loans payable are mainly used for capital expenditures. Floating rate borrowings are exposed to interest rate fluctuation risks, but are hedged by using derivative transactions (interest-rate swaps).

Derivative transactions are interest rate swaps used as hedging instruments, in order to hedge interest rate fluctuation risks for borrowings. Details of hedge accounting including hedging instruments and hedged items, hedging policy and method for evaluating the effectiveness of hedges are described in "SIGNIFICANT MATTERS PROVIDING THE BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS, 4. Significant accounting policies (6) Significant hedge accounting method."

(3) Risk management system for financial instruments

(a) Credit risk management (risks that counterparties may default)

For trade receivables, the sales administration division regularly monitors major counterparties' credit status, and performs due date

controls and balance controls for each customer to mitigate and quickly capture the collectability issues caused by deterioration in the financial conditions.

Held-to-maturity securities are invested in debt securities with high credit rating, therefore, exposed to minimum credit risk.

The Companies enter into derivative transactions with financial institutions with high credit rating in order to mitigate credit risk.

(b) Market risk management (fluctuation risks in market prices and interest rates)

Interest rate swaps are used to mitigate interest rate fluctuation risks for borrowings. As for securities, and investment securities, except for held-to-maturity debt securities, the accounting department regularly monitors fair values and issuers' (counterparties') financial status, considers the relationships with the counterparties, and continuously reviews the Company's securities holdings.

Derivative transactions are executed and managed in accordance with the nature and limits approved by the board of directors of the subsidiaries. The executed transactions are periodically reported to the board of directors.

(c) Liquidity risk management associated with financing activities (payment default risks)

The accounting department prepares and updates a monthly management plan of funds as necessary to manage the liquidity risk.

(4) Supplementary explanation on fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments, for which a quoted market price is not available, is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described in "DERIVATIVE TRANSACTIONS" does not represent the market risk of the derivative transactions.

2. Fair value of financial instruments

Carrying amount and fair value of financial instruments, and differences between these values are as follows. The financial instruments whose fair values are deemed extremely difficult to determine are excluded from the table below. (See Note 2 below)

	Millions of Yen					
	For the year ended March 31, 2017					
	Carrying amount		Fair value		Difference	
(1) Cash and deposits	¥	60,073	¥	60,073	¥	–
(2) Notes receivable, accounts receivable from completed construction contracts and other		139,139				
Allowance for doubtful accounts (*1)		(529)				
		138,610		138,610		–
(3) Securities and investment securities						
1) Held-to-maturity securities		15,048		15,047		(0)
2) Available-for-sale securities		37,511		37,511		–
(4) Notes payable, accounts payable for construction contracts and other (*2)		(82,398)		(82,398)		–
(5) Short-term loans payable (*2)		(10,920)		(10,920)		–
(6) Convertible bond-type bonds with share acquisition rights (*2)		(20,080)		(21,720)		1,639
(7) Long-term loans payable (*2)		(7,581)		(7,595)		13
(8) Derivative transactions (*3)	¥	(522)	¥	(522)	¥	–

(*1) The amount of allowance for doubtful accounts related to notes receivable, accounts receivable from completed construction contracts and other is deducted.

(*2) The value of liabilities is shown in parenthesis.

(*3) The value of assets and liabilities arising from derivative transactions is shown at net value and with the amount in parenthesis indicating the net liability position.

	Millions of Yen					
	For the year ended March 31, 2018					
	Carrying amount		Fair value		Difference	
(1) Cash and deposits	¥	56,787	¥	56,787	¥	–
(2) Notes receivable, accounts receivable from completed construction contracts and other		163,061				
Allowance for doubtful accounts (*1)		(587)				
		162,473		162,473		–
(3) Securities and investment securities						
1) Held-to-maturity securities		10,040		10,040		(0)
2) Available-for-sale securities		41,695		41,695		–
(4) Notes payable, accounts payable for construction contracts and other (*2)		(89,704)		(89,704)		–
(5) Short-term loans payable (*2)		(10,072)		(10,072)		–
(6) Convertible bond-type bonds with share acquisition rights (*2)		(20,060)		(23,330)		3,269
(7) Long-term loans payable (*2)		(8,799)		(8,764)		(35)
(8) Derivative transactions (*3)	¥	(471)	¥	(471)	¥	–

Thousands of U.S. Dollars

	For the year ended March 31, 2018		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	\$ 535,726	\$ 535,726	\$ –
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,538,311		
Allowance for doubtful accounts (*1)	(5,537)		
	1,532,764	1,532,764	–
(3) Securities and investment securities			
1) Held-to-maturity securities	94,716	94,716	(0)
2) Available-for-sale securities	393,349	393,349	–
(4) Notes payable, accounts payable for construction contracts and other (*2)	(846,264)	(846,264)	–
(5) Short-term loans payable (*2)	(95,018)	(95,018)	–
(6) Convertible bond-type bonds with share acquisition rights (*2)	(189,245)	(220,094)	30,839
(7) Long-term loans payable (*2)	(83,009)	(82,679)	(330)
(8) Derivative transactions (*3)	\$ (4,443)	\$ (4,443)	\$ –

(*1) The amount of allowance for doubtful accounts related to notes receivable, accounts receivable from completed construction contracts and other is deducted.

(*2) The value of liabilities is shown in parenthesis.

(*3) The value of assets and liabilities arising from derivative transactions is shown at net value and with the amount in parenthesis indicating the net liability position.

Notes:

1. The calculation methods for the fair value of financial instruments, marketable securities and derivative transactions

(1) Cash and deposits

Deposits are stated at their carrying amount as the fair value approximates the carrying amount because of the short maturity.

(2) Notes receivable, accounts receivable from completed construction contracts and other

The fair value of these instruments is stated at the net present value by maturity group which is discounted considering the credit risk. The fair value with short maturity approximates the carrying amount.

(3) Securities and investment securities

The fair value of stocks is calculated by quoted market price and the fair value of debt securities is calculated by quoted market price or quotes from counterparty financial institutions. Negotiable certificates of deposit and jointly operated money trusts are stated at their carrying amount as the fair value approximates the carrying amount because of the short maturity.

Information by holding purpose is described in "SECURITIES."

(4) Notes payable, accounts payable for construction contracts and other, and (5) Short-term loans payable

These are stated at their carrying amount as the fair value approximates the carrying amount because of the short maturity.

(6) Convertible bond-type bonds with share acquisition rights

The fair value of convertible bond-type bonds with share acquisition rights is based on the prices presented by the counterparty financial institutions.

(7) Long-term loans payable

The fair value of long-term loans payable is based on the present value of sum of principal and interest discounted using the borrowing rate for similar new borrowings. The fair value of long-term loans payable with variable interest rates subject to the exceptional accounting of interest rate swaps is calculated by discounting the sum of principal and interest that were recognized together with the interest rate swaps, with the reasonably estimated rate which would be applied if a similar new borrowing were entered into.

(8) Derivative transactions

Please refer to "DERIVATIVE TRANSACTIONS."

2. The carrying amount of financial instruments whose fair values are deemed extremely difficult to determine

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Unlisted stocks, etc.	¥ 3,979	¥ 4,582	\$ 43,226	

Since no quoted market price is available, it is extremely difficult to estimate future cash flows and it is deemed extremely difficult to determine their fair value, these financial instruments are not included in "(3) Securities and investment securities."

3. Expected redemption amount of monetary receivables and securities with maturity dates after the consolidated year-end date

	Millions of Yen			
	For the year ended March 31, 2017			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 60,073	¥ –	¥ –	¥ –
Notes receivable, accounts receivable from completed construction contracts and other	132,652	6,486	–	–
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	–	10	–	–
Held-to-maturity securities (corporate bonds)	8,000	–	–	–
Held-to-maturity securities (other)	6,000	1,000	–	–
Available-for-sale securities with maturities (other)	1,000	–	–	–
Total	¥ 207,726	¥ 7,496	¥ –	¥ –

	Millions of Yen			
	For the year ended March 31, 2018			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 56,787	¥ –	¥ –	¥ –
Notes receivable, accounts receivable from completed construction contracts and other	163,061	–	–	–
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	–	10	–	–
Held-to-maturity securities (corporate bonds)	6,000	–	–	–
Held-to-maturity securities (other)	3,000	1,000	–	–
Available-for-sale securities with maturities (other)	1,000	–	–	–
Total	¥ 229,848	¥ 1,010	¥ –	¥ –

	Thousands of U.S. Dollars			
	For the year ended March 31, 2018			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$ 535,726	\$ –	\$ –	\$ –
Notes receivable, accounts receivable from completed construction contracts and other	1,538,311	–	–	–
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	–	94	–	–
Held-to-maturity securities (corporate bonds)	56,603	–	–	–
Held-to-maturity securities (other)	28,301	9,433	–	–
Available-for-sale securities with maturities (other)	9,433	–	–	–
Total	\$ 2,168,377	\$ 9,528	\$ –	\$ –

4. Scheduled amount of repayment of short-term loans payable, convertible bond-type bonds with share acquisition rights and long-term loans payable after the consolidated year-end date

Millions of Yen

	For the year ended March 31, 2017					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	¥ 10,920	¥ –	¥ –	¥ –	¥ –	¥ –
Convertible bond-type bonds with share acquisition rights	–	–	–	20,000	–	–
Long-term loans payable	–	1,582	1,029	658	342	3,968
Total	¥ 10,920	¥ 1,582	¥ 1,029	¥ 20,658	¥ 342	¥ 3,968

Millions of Yen

	For the year ended March 31, 2018					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	¥ 10,072	¥ –	¥ –	¥ –	¥ –	¥ –
Convertible bond-type bonds with share acquisition rights	–	–	20,000	–	–	–
Long-term loans payable	–	1,245	874	557	567	5,554
Total	¥ 10,072	¥ 1,245	¥ 20,874	¥ 557	¥ 567	¥ 5,554

Thousands of U.S. Dollars

	For the year ended March 31, 2018					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	\$ 95,018	\$ –	\$ –	\$ –	\$ –	\$ –
Convertible bond-type bonds with share acquisition rights	–	–	188,679	–	–	–
Long-term loans payable	–	11,745	8,245	5,254	5,349	52,396
Total	\$ 95,018	\$ 11,745	\$ 196,924	\$ 5,254	\$ 5,349	\$ 52,396

SECURITIES

1. Held-to-maturity securities

Millions of Yen

	For the year ended March 31, 2017					
	Carrying amount		Market value		Difference	
Securities whose market value exceeds their carrying amount:						
Government/municipal bonds	¥	–	¥	–	¥	–
Corporate bonds		–		–		–
Other		–		–		–
Subtotal	¥	–	¥	–	¥	–
Securities whose market value does not exceed their carrying amount:						
Government/municipal bonds	¥	10	¥	9	¥	(0)
Corporate bonds		7,999		7,999		(0)
Other		7,038		7,038		–
Subtotal	¥	15,048	¥	15,047	¥	(0)
Total	¥	15,048	¥	15,047	¥	(0)

Millions of Yen

	For the year ended March 31, 2018					
	Carrying amount		Market value		Difference	
Securities whose market value exceeds their carrying amount:						
Government/municipal bonds	¥	–	¥	–	¥	–
Corporate bonds		–		–		–
Other		–		–		–
Subtotal	¥	–	¥	–	¥	–
Securities whose market value does not exceed their carrying amount:						
Government/municipal bonds	¥	10	¥	9	¥	(0)
Corporate bonds		5,999		5,999		(0)
Other		4,030		4,030		–
Subtotal	¥	10,040	¥	10,040	¥	(0)
Total	¥	10,040	¥	10,040	¥	(0)

Thousands of U.S. Dollars

	For the year ended March 31, 2018					
	Carrying amount		Market value		Difference	
Securities whose market value exceeds their carrying amount:						
Government/municipal bonds	\$	–	\$	–	\$	–
Corporate bonds		–		–		–
Other		–		–		–
Subtotal	\$	–	\$	–	\$	–
Securities whose market value does not exceed their carrying amount:						
Government/municipal bonds	\$	94	\$	84	\$	(0)
Corporate bonds		56,594		56,594		(0)
Other		38,018		38,018		–
Subtotal	\$	94,716	\$	94,716	\$	(0)
Total	\$	94,716	\$	94,716	\$	(0)

2. Available-for-sale securities

Millions of Yen

	For the year ended March 31, 2017		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost:			
Stocks	¥ 33,842	¥ 15,636	¥ 18,205
Bonds	—	—	—
Other	—	—	—
Subtotal	¥ 33,842	¥ 15,636	¥ 18,205
Securities whose carrying amount does not exceed their acquisition cost:			
Stocks	¥ 2,669	¥ 2,917	¥ (248)
Bonds	—	—	—
Other	1,000	1,000	—
Subtotal	¥ 3,669	¥ 3,917	¥ (248)
Total	¥ 37,511	¥ 19,553	¥ 17,957

Millions of Yen

	For the year ended March 31, 2018		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost:			
Stocks	¥ 38,472	¥ 15,948	¥ 22,524
Bonds	—	—	—
Other	—	—	—
Subtotal	¥ 38,472	¥ 15,948	¥ 22,524
Securities whose carrying amount does not exceed their acquisition cost:			
Stocks	¥ 2,223	¥ 2,607	¥ (384)
Bonds	—	—	—
Other	1,000	1,000	—
Subtotal	¥ 3,223	¥ 3,607	¥ (384)
Total	¥ 41,695	¥ 19,556	¥ 22,139

Thousands of U.S. Dollars

	For the year ended March 31, 2018		
	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost:			
Stocks	\$ 362,943	\$ 150,452	\$ 212,490
Bonds	—	—	—
Other	—	—	—
Subtotal	\$ 362,943	\$ 150,452	\$ 212,490
Securities whose carrying amount does not exceed their acquisition cost:			
Stocks	\$ 20,971	\$ 24,594	\$ (3,622)
Bonds	—	—	—
Other	9,433	9,433	—
Subtotal	\$ 30,405	\$ 34,028	\$ (3,622)
Total	\$ 393,349	\$ 184,490	\$ 208,858

3. Available-for-sale securities sold during the year

For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

For the year ended March 31, 2018

Disclosure is omitted due to immateriality.

4. Impairment loss on securities

For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

For the year ended March 31, 2018

Disclosure is omitted due to immateriality.

DERIVATIVE TRANSACTIONS

Derivative transactions to which hedge accounting is applied

Interest rate-related

For the year ended March 31, 2017					
Hedge accounting method	Type of transactions	Primary hedged items	Contract amount	Contract amount due after one year	Fair value
Deferral hedge	Interest rate swaps: fixed payment, floating receipt	Long-term loans payable	¥4,804 million	¥4,540 million	¥(522) million

Notes: Calculation method for fair value:

Fair value is based on the prices presented by the counterparty financial institutions.

Hedge accounting method	Type of transactions	Primary hedged items	Contract amount	Contract amount due after one year	Fair value
Exceptional accounting of the interest rate swaps	Interest rate swaps: fixed payment, floating receipt	Long-term loans payable	¥1,149 million	¥1,018 million	(Note)

Note: The fair value of interest rate swaps subject to the application of the exceptional accounting is recognized together with long-term loans payable, which is designated as the hedged item, therefore their fair value is included in the fair value of the relevant long-term loans payable (the fair value of current portion of long-term loans payable is included in the fair value of short-term loans payable).

For the year ended March 31, 2018

Hedge accounting method	Type of transactions	Primary hedged items	Contract amount	Contract amount due after one year	Fair value
Deferral hedge	Interest rate swaps: fixed payment, floating receipt	Long-term loans payable	¥ 4,540 million \$42,830 thousand	¥ 4,270 million \$40,283 thousand	¥ (471) million \$(4,443) thousand

Note: Calculation method for fair value:

Fair value is based on the prices presented by the counterparty financial institutions.

Hedge accounting method	Type of transactions	Primary hedged items	Contract amount	Contract amount due after one year	Fair value
Exceptional accounting of the interest rate swaps	Interest rate swaps: fixed payment, floating receipt	Long-term loans payable	¥ 1,018 million \$ 9,603 thousand	¥ 215 million \$ 2,028 thousand	(Note)

Note: The fair value of interest rate swaps subject to the application of the exceptional accounting is recognized together with long-term loans payable, which is designated as the hedged item, therefore their fair value is included in the fair value of the relevant long-term loans payable (the fair value of current portion of long-term loans payable is included in the fair value of short-term loans payable).

RETIREMENT BENEFITS

1. Overview of retirement benefit plans

The Companies have funded and unfunded defined benefit plans and defined contribution plans to prepare for retirement benefits to employees. Defined benefit pension plans (funded plans) offer retirement lump-sum payments or pensions according to the salary and service period of the eligible employees. Retirement lump-sum payment plans (unfunded plans) offer retirement lump-sum payments according to the salary and service period of the eligible employees. When employees retire, the Companies may provide them with additional retirement benefits, etc.

Certain consolidated subsidiaries participate in multi-employer corporate pension fund, which is accounted for in the same manner as defined contribution plans because it is impracticable to reasonably estimate an amount of plan assets for the contributions made by the subsidiaries. In addition, regarding the multi-employer corporate pension fund, note on the multi-employer plan is omitted due to immateriality.

Certain consolidated subsidiaries use the simplified method in calculating net defined benefit liability and asset, and retirement benefit expenses.

2. Defined benefit plans

(1) Changes in defined benefit obligations

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Balance at beginning of year	¥ 70,005	¥ 67,940	\$ 640,943	
Current service cost	2,244	2,242	21,150	
Interest cost	607	581	5,481	
Actuarial gains and losses	(390)	(98)	(924)	
Benefit paid	(5,197)	(4,157)	(39,216)	
Increase accompanying with new consolidation	670	—	—	
Balance at end of year	¥ 67,940	¥ 66,508	\$ 627,433	

(2) Changes in plan assets

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Balance at beginning of year	¥ 39,040	¥ 39,670	\$ 374,245	
Expected return on plan assets	585	589	5,556	
Actuarial gains and losses	263	919	8,669	
Contributions by the employer	3,246	3,360	31,698	
Benefits paid	(3,855)	(3,217)	(30,349)	
Increase accompanying with new consolidation	388	—	—	
Other	2	(2)	(18)	
Balance at end of year	¥ 39,670	¥ 41,320	\$ 389,811	

(3) Reconciliation between ending balances of defined benefit obligations and plan assets and the net defined benefit liability and net defined benefit asset reported on the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Funded defined benefit obligations	¥ 48,490	¥ 46,661	\$ 440,198	
Plan assets	(39,670)	(41,320)	(389,811)	
	¥ 8,819	¥ 5,341	\$ 50,386	
Unfunded defined benefit obligations	19,449	19,846	187,226	
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 28,269	¥ 25,188	\$ 237,622	
Net defined benefit liability	¥ 28,269	¥ 25,188	\$ 237,622	
Net defined benefit asset	¥ —	¥ (0)	\$ (0)	
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 28,269	¥ 25,188	\$ 237,622	

(4) Breakdown of retirement benefit expenses

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	2018
Current service cost	¥ 2,244	¥ 2,242	\$ 21,150	
Interest cost	607	581	5,481	
Expected return on plan assets	(585)	(589)	(5,556)	
Actuarial gains and losses recognized in the year	(441)	(857)	(8,084)	
Past service cost recognized in the year	12	12	113	
Other	262	249	2,349	
Total	¥ 2,099	¥ 1,639	\$ 15,462	

(5) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans (before tax effect) consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	2018
Past service cost	¥ (12)	¥ (12)	\$ (113)	
Actuarial gains and losses	(212)	(159)	(1,500)	
Total	¥ (224)	¥ (172)	\$ (1,622)	

(6) Accumulated remeasurements of defined benefit plans

Accumulated remeasurements of defined benefit plans (before tax effect) consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	2018
Unrecognized past service cost	¥ 12	¥ –	\$ –	
Unrecognized actuarial gains and losses	(2,088)	(2,248)	(21,207)	
Total	¥ (2,076)	¥ (2,248)	\$ (21,207)	

(7) Plan assets

(a) Breakdown of plan assets

The ratio of each major category to total plan assets is as follows:

	2017	2018
General account	42%	41%
Bonds	35%	34%
Equities	22%	24%
Other	1%	1%
Total	100%	100%

(b) Method of determining the long-term expected rates of return on plan assets

Expected return rate on plan assets is determined by considering the current and anticipated future portfolio of plan assets and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

(8) Assumptions used in actuarial calculations

Major assumptions used in actuarial calculations

	2017	2018
Discount rate	mainly 0.9%	mainly 0.9%
Expected return rate on plan assets	mainly 1.5%	mainly 1.5%

3. Defined contribution plans

The required amount of contribution to the defined contribution plans (including the multi-employer corporate pension fund accounted for in the same manner) of the Companies was ¥1,627 million and ¥1,615 million (\$15,235 thousand) for the years ended March 31, 2017 and 2018, respectively.

DEFERRED TAX ACCOUNTING

1. Breakdown of major factors that caused deferred tax assets and liabilities

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Deferred tax assets:				
Net defined benefit liability	¥ 8,708	¥ 7,756	\$ 73,169	
Depreciation and amortization	3,656	3,674	34,660	
Accrued bonuses	3,017	3,053	28,801	
Loss on valuation of assets	1,349	1,405	13,254	
Provision for loss on construction contracts	1,253	987	9,311	
Allowance for doubtful accounts	422	474	4,471	
Loss carry-forward	255	247	2,330	
Others	3,363	2,792	26,339	
Subtotal	22,026	20,391	192,367	
Valuation allowance	(2,908)	(2,485)	(23,443)	
Total	¥ 19,118	¥ 17,906	\$ 168,924	
Deferred tax liabilities:				
Valuation difference on available-for-sale securities	¥ (5,463)	¥ (6,746)	\$ (63,641)	
Reserve for advanced depreciation of non-current assets	(1,019)	(991)	(9,349)	
Reserve for special depreciation	(373)	(291)	(2,745)	
Others	(171)	(179)	(1,688)	
Total	¥ (7,028)	¥ (8,209)	\$ (77,443)	
Net deferred tax assets	¥ 12,089	¥ 9,696	\$ 91,471	

Note: Except for above, deferred tax liabilities for land revaluation are recorded as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Deferred tax liabilities for land revaluation	¥ 6,789	¥ 6,772	\$ 63,886	

2. Breakdown of items which caused the difference between the statutory tax rate and the effective tax rate after adopting tax effect accounting

	2017	2018
Statutory tax rate	30.9%	
(Adjustments)		This note has been omitted as the difference between the statutory tax rate and the effective tax rate after adopting tax effect accounting is 5% or less of the statutory tax rate.
Expenses not deductible for tax purposes	1.5%	
Non-taxable dividend income	(0.3%)	
Per capita levy of inhabitant taxes	1.0%	
Increase in valuation allowance	1.2%	
Reversal of revaluation reserve for land	(0.6%)	
Others-net	(1.0%)	
Effective tax rate after adopting tax effect accounting	32.7%	

SEGMENT INFORMATION, ETC.

(Segment information)

1. Outline of reportable segment information

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Companies engage in facility installation work, sales of electrical equipment, rental of real estate, leasing, sales of electrical power and others.

“Engineering” is determined to be the reportable segment.

“Engineering” includes business related to electrical work, plumbing work and various other work on facilities.

2. Method of measurement for the amounts of net sales, profit or loss, assets and other items by reportable segment

The accounting treatment regarding the reportable business segments are the same as recorded in “SIGNIFICANT MATTERS PROVIDING THE BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS.” The profit of reportable segments is based on operating profit. The intersegment profit and transfers are based on trading prices in the market.

3. Net sales, profit or loss, assets and other items by reportable segments

Millions of Yen

	For the year ended March 31, 2017				
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)
Net sales:					
Customers	¥ 461,451	¥ 9,491	¥ 470,943	¥ –	¥ 470,943
Inter-segment	195	25,682	25,877	(25,877)	–
Total	¥ 461,646	¥ 35,174	¥ 496,820	¥ (25,877)	¥ 470,943
Segment profit	¥ 24,982	¥ 1,468	¥ 26,451	¥ (54)	¥ 26,397
Segment assets	¥ 378,006	¥ 60,936	¥ 438,942	¥ (14,068)	¥ 424,874
Other items:					
Depreciation and amortization	¥ 3,718	¥ 1,127	¥ 4,845	¥ (71)	¥ 4,774
Increase in property, plant and equipment and intangible assets	6,837	5,337	12,175	(243)	11,932

Notes:

1. The "Other" segment is a business segment which is not included in the reportable segment and includes electrical equipment sales business, real estate business, lease business and power generation business.
2. Adjustments in segment profit, segment assets and other items are elimination of internal transactions between segments.
3. Segment profit is adjusted with operating profit presented in the consolidated statement of income.

Millions of Yen

	For the year ended March 31, 2018				
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)
Net sales:					
Customers	¥ 496,633	¥ 10,571	¥ 507,205	¥ –	¥ 507,205
Inter-segment	4,716	34,243	38,960	(38,960)	–
Total	¥ 501,350	¥ 44,815	¥ 546,165	¥ (38,960)	¥ 507,205
Segment profit	¥ 27,491	¥ 1,706	¥ 29,197	¥ 64	¥ 29,261
Segment assets	¥ 394,693	¥ 72,788	¥ 467,481	¥ (23,729)	¥ 443,752
Other items:					
Depreciation and amortization	¥ 3,999	¥ 1,595	¥ 5,594	¥ (493)	¥ 5,101
Increase in property, plant and equipment and intangible assets	7,919	7,575	15,495	(1,917)	13,578

Thousands of U.S. Dollars

	For the year ended March 31, 2018				
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)
Net sales:					
Customers	\$ 4,685,216	\$ 99,726	\$ 4,784,952	\$ –	\$ 4,784,952
Inter-segment	44,490	323,047	367,547	(367,547)	–
Total	\$ 4,729,716	\$ 422,783	\$ 5,152,500	\$ (367,547)	\$ 4,784,952
Segment profit	\$ 259,349	\$ 16,094	\$ 275,443	\$ 603	\$ 276,047
Segment assets	\$ 3,723,518	\$ 686,679	\$ 4,410,198	\$ (223,858)	\$ 4,186,339
Other items:					
Depreciation and amortization	\$ 37,726	\$ 15,047	\$ 52,773	\$ (4,650)	\$ 48,122
Increase in property, plant and equipment and intangible assets	74,707	71,462	146,179	(18,084)	128,094

Notes:

1. The "Other" segment is a business segment which is not included in the reportable segment and includes electrical equipment sales business, real estate business, lease business and power generation business.
2. Adjustments in segment profit, segment assets and other items are elimination of internal transactions between segments.
3. Segment profit is adjusted with operating profit presented in the consolidated statement of income.

(Related information)

For the year ended March 31, 2017

1. Information about products and services

Information is omitted as similar information is described in the segment information.

2. Information about geographical region

(1) Net sales

Information is omitted as net sales to external customers in Japan accounted for more than 90% of net sales reported in the consolidated statement of income.

(2) Property, plant and equipment

Details of property, plant and equipment are omitted as amounts of property, plant and equipment located in Japan accounted for more than 90% of all property, plant and equipment reported on the consolidated balance sheet.

3. Information about major customers

Customer Name	Net sales	Related segment
Tokyo Electric Power Company Group	¥172,871 million	Engineering

For the year ended March 31, 2018

1. Information about products and services

Information is omitted as similar information is described in the segment information.

2. Information about geographical region

(1) Net sales

Information is omitted as net sales to external customers in Japan accounted for more than 90% of net sales reported in the consolidated statement of income.

(2) Property, plant and equipment

Details of property, plant and equipment are omitted as amounts of property, plant and equipment located in Japan accounted for more than 90% of all property, plant and equipment reported on the consolidated balance sheet.

3. Information about major customers

Customer Name	Net sales	Related segment
Tokyo Electric Power Company Group	¥171,029 million	Engineering

Customer Name	Net sales	Related segment
Tokyo Electric Power Company Group	\$1,613,481 thousand	Engineering

(Information about impairment loss in non-current assets of each reportable segment)

For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

	For the year ended March 31, 2018			
	Engineering	Other (Note)	Corporate/elimination	Total
Impairment loss	¥ 256	¥ 106	¥ –	¥ 363

	For the year ended March 31, 2018			
	Engineering	Other (Note)	Corporate/elimination	Total
Impairment loss	\$ 2,415	\$ 1,000	\$ –	\$ 3,424

Note: "Other" is related to real estate business and power generation business.

(Information about amortization and unamortized balance of goodwill of each reportable segment)

For the year ended March 31, 2017

For the year ended March 31, 2018

Disclosure is omitted due to immateriality.

Disclosure is omitted due to immateriality.

(Information about gain on bargain purchase of each reportable segment)

For the year ended March 31, 2017

For the year ended March 31, 2018

Disclosure is omitted due to immateriality.

Not applicable.

(RELATED PARTY TRANSACTIONS)

Transactions between related parties

Transactions between the Company and related parties

The parent company and major shareholders (limited to companies) of the Company

For the year ended March 31, 2017						
Type	Name	Location	Capital stock	Description of business	Ratio of voting rights held	Relation to the related party
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Chiyoda-ku, Tokyo	¥1,400,975 million	Electric power business	(Held) Direct –% Indirect 47.8%	Electric work contract
	TEPCO Power Grid, Incorporated	Chiyoda-ku, Tokyo	¥ 80,000 million	General power transmission and distribution business	(Held) Direct 46.6% Indirect 0.3%	Electric work contract

Type	Name	Nature of transaction	Amount of transaction	Account	Balance at end of year
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Installation of electric work	¥ 12,631 million	Notes receivable, accounts receivable from completed construction contracts and other	¥ 7,376 million
				Advances received on uncompleted construction contracts	¥ 132 million
	TEPCO Power Grid, Incorporated	Installation of electric work	¥146,793 million	Notes receivable, accounts receivable from completed construction contracts and other	¥22,753 million
				Advances received on uncompleted construction contracts	¥ 626 million
		Purchase of raw materials	¥ 35,587 million	Notes payable, accounts payable for construction contracts and other	¥ 1,839 million

For the year ended March 31, 2018

Type	Name	Location	Capital stock	Description of business	Ratio of voting rights held	Relation to the related party
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Chiyoda-ku, Tokyo	¥ 1,400,975 million \$13,216,745 thousand	Electric power business	(Held) Direct –% Indirect 47.6%	Electric work contract
	TEPCO Power Grid, Incorporated	Chiyoda-ku, Tokyo	¥ 80,000 million \$ 754,716 thousand	General power transmission and distribution business	(Held) Direct 46.4% Indirect 0.3%	Electric work contract

Type	Name	Nature of transaction	Amount of transaction	Account	Balance at end of year
Other affiliates	Tokyo Electric Power Company Holdings, Incorporated	Installation of electric work	¥ 8,718 million \$ 82,245 thousand	Notes receivable, accounts receivable from completed construction contracts and other	¥ 5,069 million \$ 47,820 thousand
				Advances received on uncompleted construction contracts	¥ 100 million \$ 943 thousand
	TEPCO Power Grid, Incorporated	Installation of electric work	¥ 144,059 million \$1,359,047 thousand	Notes receivable, accounts receivable from completed construction contracts and other	¥ 28,457 million \$268,462 thousand
				Advances received on uncompleted construction contracts	¥ 1,250 million \$ 11,792 thousand
	Purchase of raw materials	¥ 34,395 million \$ 324,481 thousand	Notes payable, accounts payable for construction contracts and other	¥ 2,670 million \$ 25,188 thousand	

Notes:

1. Above transaction amounts do not include consumption taxes and above balances at the end of the year include consumption taxes.

2. Terms and conditions of the transactions and its policies

Terms and conditions for construction orders and purchase of raw materials are determined based on arm's length basis through negotiations considering market price, etc.

PER SHARE INFORMATION

	Yen		U.S. Dollars	
	2017	2018	2018	
Net assets per share	¥ 1,013.33	¥ 1,097.36	\$	10.35
Earnings per share	86.11	93.31		0.88
Diluted earnings per share	79.34	85.93		0.81

Notes:

1. The basis of calculating earnings per share and diluted earnings per share is as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Earnings per share				
Profit attributable to owners of parent	¥ 17,591	¥ 19,058	\$	179,792
Amount not attributable to common shareholders	—	—		—
Profit attributable to owners of parent applicable to common shares	17,591	19,058		179,792

	Thousands of Shares	
	2017	2018
Weighted average number of common shares during the year	204,273	204,262

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Diluted earnings per share				
Adjustment of profit attributable to owners of parent	(13)	(13)		(122)
[Interest expenses, net of tax included in the above]	[(13)]	[(13)]		[(122)]

	Thousands of Shares	
	2017	2018
Increase in common shares	17,256	17,365
[Convertible bond-type bonds with share acquisition rights included in the above]	[17,256]	[17,365]
Overview of dilutive securities that are not included in the computation of diluted earnings per share because of their anti-dilutive effect	—	—

2. The basis of calculating net assets per share is as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2017	2018	2018	
Total net assets	¥ 213,356	¥ 230,810	\$	2,177,452
Amount deducted from total net assets	6,364	6,665		62,877
[Non-controlling interests included in the above]	[6,364]	[6,665]		[62,877]
Total net assets related to common shares	206,991	224,145		2,114,575

	Thousands of Shares	
	2017	2018
Number of common shares outstanding at end of year	204,268	204,259

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

CONSOLIDATED SUPPLEMENTAL SCHEDULES

(Schedule of bonds)

Company name	Issue type	Issuance date	As of April 1, 2017	As of March 31, 2018	Interest rate (%)	Collateral	Maturity
Kandenko Co., Ltd.	Euro-yen convertible bond-type bonds with share acquisition rights due 2021, subject to call	March 31, 2016	¥ 20,080 million \$189,433 thousand	¥ 20,060 million \$189,245 thousand	—	None	March 31, 2021
Total	—	—	¥ 20,080 million \$189,433 thousand	¥ 20,080 million \$189,245 thousand	—	—	—

Notes:

1. Information on convertible bond-type bonds with share acquisition rights is as follows:

Shares to be issued	Common shares
Issuance price of share acquisition rights	Gratis
Issuance price of shares	¥ 1,151.7 \$ 10.86
Total issuance value	¥ 20,100 million \$189,622 thousand
Total issuance value of shares issued through the exercise of share acquisition rights	¥ — million
Grant ratio of share acquisition rights (%)	100
Exercise period of share acquisition rights	April 14, 2016 to March 17, 2021

Upon the exercise of each of the share acquisition rights, the bonds relating to the share acquisition rights shall be contributed. The value of the bonds shall be the same as their face amount.

2. The redemption schedule for five years subsequent to March 31, 2018 is summarized as follows:

Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
—	—	¥ 20,000 million \$188,679 thousand	—	—

(Schedule of loans)

	As of April 1, 2017	As of March 31, 2018	Average interest rate (%)	Maturity
Short-term loans payable	¥ 10,122 million \$ 95,490 thousand	¥ 8,490 million \$ 80,094 thousand	0.7	—
Current portion of long-term loans payable	¥ 798 million \$ 7,528 thousand	¥ 1,582 million \$ 14,924 thousand	1.7	—
Current portion of lease obligations	¥ 425 million \$ 4,009 thousand	¥ 477 million \$ 4,500 thousand	—	—
Long-term loans payable (excluding current portion of long-term loans payable)	¥ 7,581 million \$ 71,518 thousand	¥ 8,799 million \$ 83,009 thousand	1.6	2019 to 2032
Lease obligations (excluding current portion of lease obligations)	¥ 795 million \$ 7,500 thousand	¥ 966 million \$ 9,113 thousand	—	2019 to 2025
Other interest-bearing debt	—	—	—	—
Total	¥ 19,723 million \$ 186,066 thousand	¥ 20,315 million \$ 191,650 thousand	—	—

Notes:

1. Interest rates and balances at the end of the year are used to calculate average interest rate. The average interest rate of lease obligations has not been presented since lease obligations before deducting the amount equivalent to interest expense included in total lease payments are recorded on the consolidated balance sheet.

2. The redemption schedule of long-term loans payable and lease obligations (excluding current portion) for five years subsequent to March 31, 2018 is summarized as follows:

	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term loans payable	¥ 1,245 million \$ 11,745 thousand	¥ 874 million \$ 8,245 thousand	¥ 557 million \$ 5,254 thousand	¥ 567 million \$ 5,349 thousand
Lease obligations	¥ 375 million \$ 3,537 thousand	¥ 297 million \$ 2,801 thousand	¥ 173 million \$ 1,632 thousand	¥ 71 million \$ 669 thousand

(Schedule of Asset Retirement Obligations)

The amounts of asset retirement obligations as of April 1, 2017 and March 31, 2018 are less than 1% of the total liabilities and net assets as of April 1, 2017 and March 31, 2018. Therefore, the disclosure is omitted.

OTHERS

Quarterly information for the year ended March 31, 2018

Cumulative period	First quarter	Second quarter	Third quarter	Fourth quarter
Net sales	¥ 112,739 million \$ 1,063,575 thousand	¥ 231,512 million \$ 2,184,075 thousand	¥ 342,315 million \$ 3,229,386 thousand	¥ 507,205 million \$ 4,784,952 thousand
Profit before income taxes	¥ 7,491 million \$ 70,669 thousand	¥ 14,113 million \$ 133,141 thousand	¥ 18,614 million \$ 175,603 thousand	¥ 29,133 million \$ 274,839 thousand
Profit attributable to owners of parent	¥ 4,832 million \$ 45,584 thousand	¥ 9,107 million \$ 85,915 thousand	¥ 11,967 million \$ 112,896 thousand	¥ 19,058 million \$ 179,792 thousand
Earnings per share	¥ 23.66 \$ 0.22	¥ 44.59 \$ 0.42	¥ 58.59 \$ 0.55	¥ 93.31 \$ 0.88
Each quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share	¥ 23.66 \$ 0.22	¥ 20.93 \$ 0.19	¥ 14.00 \$ 0.13	¥ 34.72 \$ 0.32

Independent Auditors' Report

To The Board of Directors of Kandenko Co., Ltd.

We have audited the accompanying consolidated financial statements of Kandenko Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as of March 31, 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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

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

Opinion

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

Convenience translations

The accompanying consolidated financial statements as of and for the year ended March 31, 2018 have been translated into United States dollars solely for the convenience of readers. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into dollars on the basis set forth in "BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS" of the notes to consolidated financial statements.



Inoue Audit Corporation

Tokyo, Japan

June 27, 2018

Company Profile

History

Time	Notes
Sep. 1944	Kyoritsu Kogyo Co., Ltd., and seven other companies merge to rationalize their electrical engineering work. Kanto Haiden Co., Ltd. joins the new group to form Kanto Denki Koji Co., Ltd., an electrical engineering company with capital of ¥3 million and a head office at 2 Tameike, Akasaka Ward, Tokyo. Eight regional branches are established in Kanagawa, Saitama, Chiba, Gunma, Tochigi, Ibaraki, Yamanashi, and Numazu (now Shizuoka), and operations begin.
Mar. 1948	The Tama Branch is established.
Oct. 1949	In accordance with the Construction Business Act, the Company receives ministerial registration No. 250, which it renews every two years.
Jan. 1959	The Osaka (now Kansai) Branch is established.
Sep. 1960	The head office moves to 4-1-18 Yushima, Bunkyo Ward, Tokyo.
July 1961	The Company invests in Oyo Denki Co., Ltd. (now KANKO SYOJI CO., LTD.).
Oct. 1961	The Company's stock is listed on the Second Section of the Tokyo Stock Exchange (capital: ¥350 million).
Jan. 1970	The Sendai (now Tohoku) Branch is established.
Feb. 1970	The Shinetsu (now Nagano) Branch is established. The civil engineering business is launched. The Company's stock listing moves to the First Section of the Tokyo Stock Exchange (capital: ¥1,700 million).
May 1970	The air-conditioning duct business (now the environmental facilities and systems and renovation business) is launched.
Aug. 1970	The Sapporo (now Hokkaido) Branch is established.
Apr. 1971	The Company invests in Dai-ichi Kigyo Co., Ltd. (now Kanko Power Techno Co., Ltd.).
June 1973	The Comprehensive Education Center (now the Education & Training Center) is established.
Apr. 1974	Due to revision of the Construction Business Act, the Company receives ministerial permit (Special – 49) No. 3885, which it currently renews every five years.
June 1976	The Company receives ministerial permit (Ordinary – 51) No. 3885, which it currently renews every five years.
July 1979	The nuclear energy-related business is launched.
Oct. 1981	The Singapore Office is established.
Sep. 1984	The Company name is changed to Kandenko Co., Ltd.
Nov. 1984	Kanko Fudousan Kanri Co., Ltd. (now K Asset Management Co., Ltd.) is established.
Jan. 1985	The Company invests in Tokyo Kouji Keibi Co., Ltd.
May 1985	The Company's first issue of unsecured convertible bonds (¥10 billion) takes place.
July 1987	Kanko Maintenance Service Co., Ltd. (now Kanko Facilities Co., Ltd.) is established.
Dec. 1988	The head office moves to 4-8-33 Shibaura, Minato Ward, Tokyo (its present location).
Apr. 1990	The Nagoya Branch is established.
July 1991	The Kyushu Branch is established.
July 1993	The Tsukuba Technology Research & Development Institute (now the Technology Research & Development Institute) is established.
July 1994	Bay Techno Co., Ltd. is established.
July 1995	The Niigata Branch is established.
July 1997	The Chuo (now Tokyo) Branch is established.
Oct. 1997	Ibaraki K-Techno Co., Ltd., Tochigi K-Techno Co., Ltd., Gunma K-Techno Co., Ltd., Yamanashi K-Techno Co., Ltd. (now Tama K-Techno Co., Ltd.), and Shizuoka K-Techno Co., Ltd., are established.
July 1998	Kanagawa K-Techno Co., Ltd., Chiba K-Techno Co., Ltd., and Saitama K-Techno Co., Ltd., are established.
Nov. 2000	NETSAVE Co., Ltd. is established.
Aug. 2001	The Taiwan Branch is established.
Dec. 2001	In accordance with the Building Lots and Buildings Transaction Business Act, the Company receives a Building Lots and Building Transactions Business License (1) No. 80352 from the governor of Tokyo, which it renews every five years.
May 2003	The Company invests in Hankyu Denki Koji Co., Ltd. (now HANDENKO CORPORATION).
June 2004	The Company invests in Transmission Line Construction Co., Ltd.
Apr. 2008	The Company invests in Kawasaki Setsubi Kogyo Co., Ltd. (listed on the Second Section of the Nagoya Stock Exchange).
Oct. 2012	The Company invests in Choshi Wind Development Co., Ltd. (and launches the power generation business).
Mar. 2013	Kama Solar Power Co., Ltd. is established.
Oct. 2014	The regional headquarters system is introduced.
July 2015	The Fukushima Headquarters is established.
Mar. 2016	The Company issues ¥20 billion of euro-yen convertible bond-type bonds with subscription rights to shares due 2021.
Apr. 2016	Kanagawa Power Techno Co., Ltd. and Saitama Power Techno Co., Ltd. are established.
Oct. 2016	The Company invests in Sato Kensetsu Kogyo Co., Ltd. (indirect ownership of the latter's subsidiary Systec Engineering)
July 2017	Chiba Power Techno Co., Ltd., Ibaraki Power Techno Co., Ltd., Tochigi Power Techno Co., Ltd., Gunma Power Techno Co., Ltd., Nishikanto Power Techno Co., Ltd., and Shizuoka Power Techno Co., Ltd. are established.

Stock Information (As of March 31, 2018)

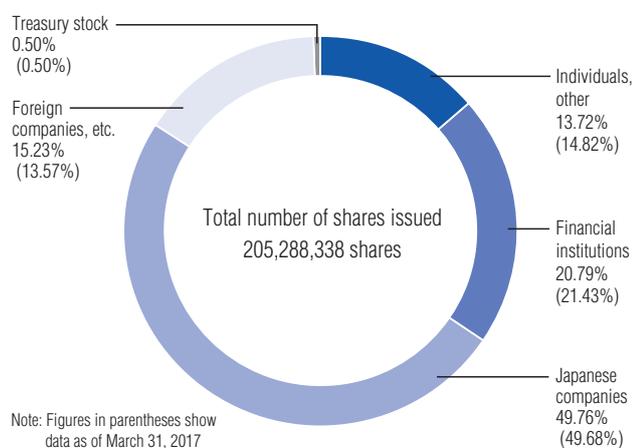
The shares of common stock of the Company are listed on the First Section of the Tokyo Stock Exchange. On March 31, 2018, there were a total of 9,213 shareholders.

The following table lists the 10 largest shareholders appearing on the register at that date.

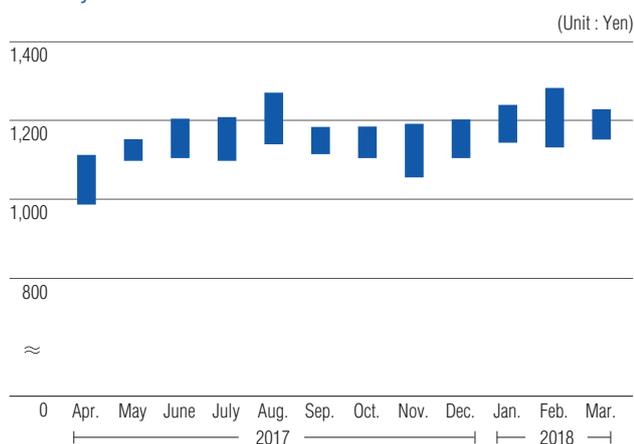
Principal Shareholders

	Name	Number of shares held	Shares held as a percentage of total outstanding shares
1	TEPCO Power Grid, Inc.	94,753,552	46.15
2	Japan Trustee Services Bank, Ltd. (Trust Account)	9,560,200	4.66
3	Mizuho Bank, Ltd.	8,121,839	3.96
4	The Master Trust Bank of Japan, Ltd. (Trust Account)	7,505,100	3.66
5	Kandenko Group Employees Shareholding Association	5,724,815	2.79
6	STATE STREET BANK AND TRUST COMPANY 505001	2,047,934	1.00
7	Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,705,300	0.83
8	Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,685,200	0.82
9	EVERGREEN	1,499,000	0.73
10	The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,491,700	0.73
	Total	134,095,540	65.32

Number of Shares Held by Type of Shareholder



Monthly Stock Price



Stock-Related Information

Fiscal year-end	March 31
Ordinary general meeting of shareholders	June
Record dates for dividend payments	March 31 for the fiscal year-end dividend. September 30 for the interim dividend.
Record date	The date on which shares must be owned for shareholders to exercise voting rights at the general meeting of shareholders is March 31. If other votes are required, the record date will be set and announced in advance.
Method of public notification	Notification will be given electronically. However, if we cannot issue an electronic notification, we will place a notice in the <i>Nihon Keizai Shimbun</i> , published in Tokyo. Kandenko's URL for public notices is as follows. http://www.kandenko.co.jp/index.html
Transfer agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan
Transfer agent contact point (inquiries about stock-related matters)	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063, Japan Tel: 0120-782-031 (toll-free)

Board of Directors and Audit & Supervisory Board Members (As of June 27, 2018)

Chairman	Kiyoshi Goto	Senior Managing Director and Executive Officer	Shinichirou Kitayama	Audit & Supervisory Board Members	Haruhiko Terauchi
President and Executive Officer	Yoshimi Morito	Managing Directors and Executive Officers	Shuichi Yamaguchi		Hiroyuki Kaneko
Executive Vice Presidents	Shigenori Takaoka		Toru Yukimura		Sumihito Okawa (outside)
	Shoichiro Kashiwabara		Shigeru Nagaoka		Takashi Suetsuna (outside)
Executive Vice Presidents and Executive Officers	Toshio Nakama		Eimei Shimura		Takehiro Yamaguchi (outside)
	Kenichi Takahashi		Yuji Ueda		
		Directors (outside)	Takashi Uchino		
			Masataka Ishizuka		

Network

Domestic Offices		Overseas Offices	
Head Office	4-8-33 Shibaura, Minato-ku, Tokyo, Japan		
Tokyo Branch	4-8-33 Shibaura, Minato-ku, Tokyo, Japan	Singapore Branch	6001 Beach Road, #20-03/04 Golden Mile Tower, Singapore 199589
Kanagawa Branch	1-1-8 Hiranuma, Nishi-ku, Yokohama, Japan	Taiwan Branch	6F-1, No. 45, Section 1, Minchuan Eastern Road, Taipei, Taiwan
Chiba Branch	2-1-24 Shinjuku, Chuo-ku, Chiba, Japan	Yangon Branch	BLK-31, Room 21, 2nd Floor, Shwe Ohn Pin Apartment, Yanshin Road, Yankin Township, Yangon, Myanmar
Saitama Branch	1-9-6 Sakuragicho, Omiya-ku, Saitama, Japan	Indonesia Representative Office	12th Floor, Summitmas II Building, Jl. Jend. Sudirman Kav. 61-62, Jakarta 12190 Indonesia
Ibaraki Branch	2-7-14 Jonan, Mito-shi, Ibaraki, Japan		
Tochigi Branch	91-1 Imaizumicho, Utsunomiya-shi, Tochigi, Japan		
Gunma Branch	215-6 Furuichimachi, Maebashi-shi, Gunma, Japan		
Yamanashi Branch	4-12-25 Chuo, Kofu-shi, Yamanashi, Japan		
Shizuoka Branch	8-12 Yoneyamacho, Numazu-shi, Shizuoka, Japan		
Tama Branch	2-24-6 Myojincho, Hachioji-shi, Tokyo, Japan		
Kansai Branch	Nakanoshima Festival Tower 20th Floor, 2-3-18 Nakanoshima, Kita-ku, Osaka, Japan		
Nagoya Branch	Nagoya Toho Building 6th Floor, 1-2-7 Sakae, Naka-ku, Nagoya-shi, Aichi, Japan		
Kyushu Branch	Yakuin Business Garden 4th Floor, 1-1-1 Yakuin, Chuo-ku, Fukuoka, Japan		
Hokkaido Branch	Takeda Resona Building 3rd Floor, 4-1-2 Kitaichijo Nishi, Chuo-ku, Sapporo-shi, Hokkaido, Japan		
Tohoku Branch	Sendai Daiichi Seimei Tower Building, 4-6-1 Ichibancho, Aoba-ku, Sendai-shi, Miyagi, Japan		
Nagano Branch	1629-32 Midoricho, Nagano, Japan		

KANDENKO

<https://www.kandenko.co.jp/>



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Printed in Japan