



Lighting up the future together

# Your Partner in 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 its human resources, and build a sounder financial structure while making a long-lasting contribution to society as a partner in social 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 its customers and seeking technological innovation, Kandenko provides optimal services and facilities.
3. By working for human resource development and continuous improvement, Kandenko aims to be a future-oriented company.



Here we present the online commercial 'Lighting Up,' which we are currently broadcasting.

Based around the key phrase "Lighting up the future together," this commercial depicts in images how actual structures take shape out of a design on paper, spreading light throughout the city. In this way, it communicates the importance and value of Kandenko's work to support the vital infrastructure of electric power.



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The Kandenken Group consists of Kandenken Co., Ltd. and 24 consolidated subsidiaries whose businesses comprise 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 Kandenken Co., Ltd., and its subsidiaries are as follows: facility installation works in the electrical, plumbing, and other sectors are the business field of Kandenken 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., Saitama Power Techno Co., Ltd., Transmission Line Construction Co., Ltd., Sato Kensetsu Kogyo Co., Ltd., SYSTEC ENGINEERING K.K., and NETSAVE Co., Ltd. Tokyo Kouji Keibi Co., Ltd., undertakes worksite security operations and Bay Techno Co., Ltd.,

carries out design and estimation operations. Kandenken outsources part of its engineering work, its worksite security, and design and estimation operations to these subsidiaries.

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

From the fiscal year ended March 31, 2017, the following entities have been included in the consolidated accounts in view of their accounting significance: Kanagawa Power Techno Co., Ltd. and Saitama Power Techno Co., Ltd., which were established on April 1, 2016; and Sato Kensetsu Kogyo Co., Ltd., all of whose shares were acquired on October 27, 2016, and its subsidiary SYSTEC ENGINEERING K.K.

## Other Businesses

Kandenken 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., and Kama Solar Power Co., Ltd., in the electric power generation business. Kandenken 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.

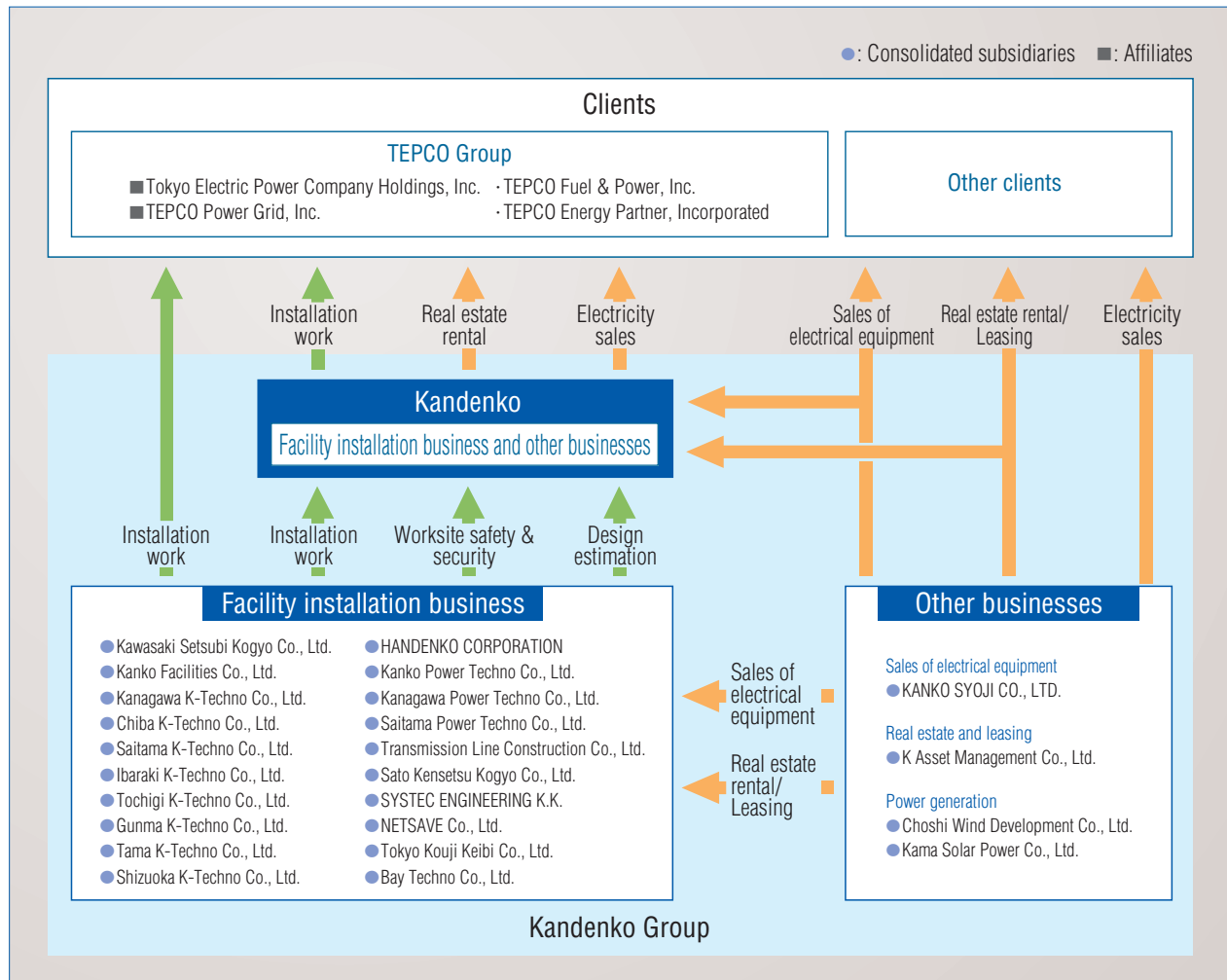
Kandenken and Choshi Wind Development Co., Ltd., sell electric power to the TEPCO Group.

In addition to the above, effective April 1, 2016, the affiliate TEPCO spun off its fuel and thermal power generation business, its general power distribution business, and its electric power retail business as the separate companies TEPCO Fuel & Power, Inc., TEPCO Power Grid, Inc., and TEPCO Energy Partner Incorporated, respectively, under a holding company system, changing its name accordingly to Tokyo Electric Power Company Holdings, Inc. At the same time, all shares of Kandenken held by Tokyo Electric Power Company Holdings, Inc., were transferred to the latter's wholly owned subsidiary, TEPCO Power Grid, Inc. This means that, from the consolidated fiscal year ended March 31, 2017, Kandenken's affiliates consist of two companies: Tokyo Electric Power Company Holdings, Inc., and TEPCO Power Grid, Inc.

## Kandenko Group Structure

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

(As of March 31, 2017)



Technique and skill competition held at our Education & Training Center

## Consolidated Financial Highlights

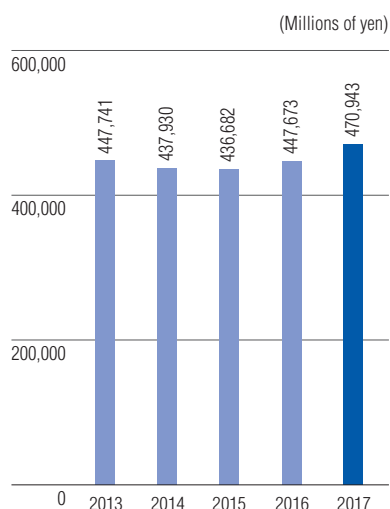
Kandenko Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

Millions of yen

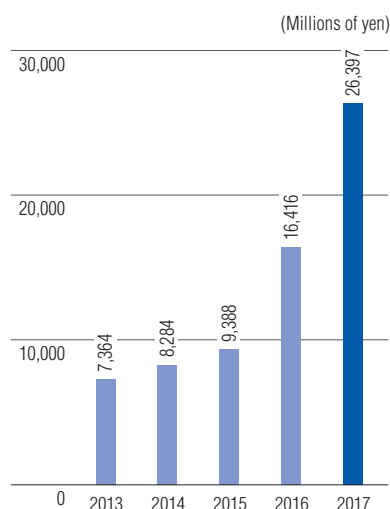
	2016	2017	Reference: 2017 (Kandenko, non-consolidated)
Net sales	¥ 447,673	¥ 470,943	¥ 410,192
Operating profit	16,416	26,397	21,921
Ordinary profit	17,077	27,345	22,861
Profit attributable to owners of parent*	9,412	17,591	15,488
Comprehensive income	7,137	18,422	–
Total assets	407,681	424,874	361,674
Total net assets	197,980	213,356	187,312
Equity ratio (%)	47.22	48.72	51.79
Net assets per share (yen)	942.42	1,013.33	916.99
Earnings per share (yen)	46.07	86.11	75.82
Cash dividends per share (yen)	14.00	20.00	–
Number of employees (persons)	8,915	9,244	6,729

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

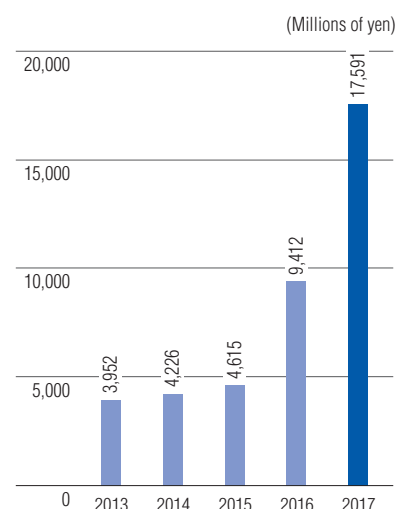
### Net Sales



### Operating Profit



### Profit Attributable to Owners of Parent





# Medium-Term Management Plan

The Kandenko Group has set out a new management plan based on the growth strategy it formulated with the stated objective of achieving high profitability and a resilient corporate structure for sustained growth.

## Outline of the management plan

In 2016, the Kandenko Group set out a growth strategy designed to achieve high profitability and a resilient corporate structure for sustained growth. The strategy contained a number of strands: a business base reinforcement strategy, a business field expansion strategy, measures to contribute to a stable electric power supply, a human resources strategy, and an investment strategy to enhance work execution capabilities. Since then, the Group has moved forward with customer-focused sales activities and cost cutting to boost price competitiveness, combined with initiatives to expand business into the field of social infrastructure networks and to develop business in renewable energy generation and other sectors.

As a result, business results for fiscal 2016 were positive. In terms of profit specifically, we succeeded in meeting our original plan targets one year ahead of schedule. Looking ahead, lively construction demand is forecast, particularly from the infrastructure upgrades and large-scale redevelopment projects expected in the lead-up to the Tokyo Olympics and Paralympics. Changes in our business environment are also projected to result from growth in corporate capital stocks, innovation in energy systems, and other factors. We intend to take advantage of these conditions to further expand our business fields.

Under the fiscal 2017 management plan, formulated to reflect this situation, we will continue to push forward with a range of policies. These are aimed especially at driving structural reform and constructing a new business model around the concept of establishing an unbeatable presence as a general infrastructure company to set new records in business performance. In this way, we aim to accelerate our progress along the path of sustained growth.

## Key policies for fulfilling the management plan

### 1. Thoroughgoing compliance, improved of safety and quality

- Ensure compliance with ethical, safety, and quality behavior
- Eliminate accidents involving staff and equipment
- Upgrade the Group's governance system

### 2. Structural reform, profit growth

- Strengthen price competitiveness through operational efficiencies and cost reduction

- Achieve greater efficiencies in Group management
- Expand orders for renovation work
- Reorganize sales and work execution systems in air conditioning and plant facility work
- Reorganize overseas business systems
- Work to assist disaster recovery in the Fukushima area
- Strengthen the ability to provide a recovery and reconstruction response following large-scale natural disasters (contribution to stable electric power supply)

### 3. Construction of a new business model, expansion of business fields

- Strengthen sales systems to win orders for social infrastructure network projects not limited to specific areas and sectors
- Expand orders for undergrounding power lines to eliminate power masts and cables
- Expand business in electric power infrastructure work in new operating areas
- Promote renewable energy power generation business and real estate business

### 4. Fostering employees and technology that will sustain the Company in the future

- Reinforce human resource development system
- Recruit required human resources
- Develop technology to support workplace safety, labor saving, and cost reduction

### 5. Infusing the Company with vigor and liveliness

- Promote reforms for work practices and annual leave systems
- Create a supportive workplace environment
- Build a company that fosters the development of each individual employee

## Numerical targets

Consolidated	Billions of yen		
	2017	2018	2019
Net sales	510.0	555.0	600.0
Operating profit	29.0	30.0	33.0
Non-consolidated			
New orders received	500.0	530.0	570.0
Net sales	442.0	480.0	520.0
Operating profit	24.3	25.5	27.5

## Message from the Management



Kiyoshi Goto  
Chairman and Director

*Kiyoshi. Goto*



Yoshimi Morito  
President and Director

*Yoshimi Morito*

### Fiscal 2016 Business Environment

In fiscal 2016, ended March 31, 2017, the Japanese economy followed a path of gradual recovery on the strength of positive corporate results and continuing improvement in the employment situation. The improving trend was also driven by emerging signs of a pickup in consumer spending and other factors.

As a result, private-sector construction investment showed a rising trend on the back of demand for the construction of large-scale office and commercial facilities, especially in the greater Tokyo area. Investment in electric power facilities also showed an overall positive development, albeit with some impact apparent from the full liberalization of electric power retailing.

In response to these conditions, Kandenko worked to roll out locally focused sales activities matched to customer needs and to attract new customers. These initiatives were coupled with company-wide efforts to cut costs to strengthen price competitiveness.

As a result, we succeeded in posting favorable business results for the period under review, as detailed in the table on page 7. In terms of profits, we reached a record level of profit attributable to owners of parent, while the profit targets set by the growth strategy, launched at the start of the fiscal year under review, were fulfilled one year ahead of schedule.

### Outlook

Looking ahead, it is projected that ongoing business rationalization within the TEPCO Group will mean continued downward pressure on investment in electric power facilities. On the other hand, with the construction of facilities for the Tokyo Olympics and Paralympics moving into full swing, and numerous large-scale redevelopment projects planned in the greater Tokyo area, construction investment in the Japanese market is expected to continue to show solid development.

In response to these conditions, Kandenko will pursue the growth strategy that it formulated as the roadmap to its vision of a "100-Year Company Supporting Society." In line with this strategy, we will focus efforts across the Company to implement the key management policies outlined below.

First, we will emphasize the customer perspective in rolling out services offering total solutions, from design and execution to maintenance and renovation. As part of this drive to boost orders and achieve profit, we will concurrently further enhance cost management and procurement functions.

Second, to respond to the ongoing reform of Japan's energy systems as a general infrastructure group, we will further expand our sales and execution systems, to win orders for electric power

# By building a solidly established corporate brand that customers trust, we will further accelerate our progress along the path of sustained growth.

infrastructure work. Additionally, we will draw on the technology and expertise built up over time in a targeted drive to expand our range of business fields, by pursuing initiatives in the social infrastructure sector not limited to specific areas or industries.

In addition, on-the-job training to contribute to skill development among young and mid-level employees, as well as training programs to reinforce technical skills and abilities, will be among the initiatives designed to build the human resources on which the future depends. Concurrently, we will introduce reforms to work practices and annual leave systems as well as measures to promote female advancement as we work to build a company that fosters the development of each employee.

In parallel, we will continue to push ahead aggressively with efforts to promote workplace safety and labor-saving measures, expand our business domains, and develop technology that accurately reflects increasingly diverse customer needs.

Going forward, Kandenko will continue working to further improve the safety and quality that are at the heart of our management approach, while ensuring full compliance and devoting our best energies to building a solidly established corporate brand that customers trust. In this way, we are committed to meeting the expectations of our valued shareholders.

## Basic Policy on Sharing Profits: Dividends for Fiscal 2016 and 2017

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 2016, the dividend consists of an interim dividend of ¥8 and a year-end dividend of ¥12 (which includes a special dividend of ¥4), for a total annual dividend of ¥20 per share.

For fiscal 2017, we plan to pay a regular annual dividend of ¥24 per share (an interim dividend ¥12 and a year-end dividend ¥12), up ¥4 from the dividend for fiscal 2016.

## Fiscal 2016 Business Results

### Consolidated results (Billions of yen)

Net sales	¥ 470.9 (up 5.2% YoY)
Operating profit	26.4 (up 60.8% YoY)
Ordinary profit	27.3 (up 60.1% YoY)
Profit attributable to owners of parent	17.6 (up 86.9% YoY)

### Non-consolidated results

New orders received	¥ 474.5 (up 10.0% YoY)
Net sales	410.2 (up 2.9% YoY)
Operating profit	21.9 (up 73.4% YoY)
Ordinary profit	22.9 (up 72.1% YoY)
Profit	15.5 (up 107.1% YoY)

## Fiscal 2017 Business Results (Forecast)

### Consolidated results (Billions of yen)

Net sales	¥ 510.0 (up 8.3% YoY)
Operating profit	29.0 (up 9.9% YoY)
Ordinary profit	29.6 (up 8.2% YoY)
Profit attributable to owners of parent	18.7 (up 6.3% YoY)

### Non-consolidated results

New orders received	¥ 500.0 (up 5.4% YoY)
Net sales	442.0 (up 7.8% YoY)
Operating profit	24.3 (up 10.9% YoY)
Ordinary profit	25.3 (up 10.7% YoY)
Profit	16.5 (up 6.5% YoY)



## Business Review by Division

### Electrical Engineering, Environmental Facilities and Systems, and Renovation Work



**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

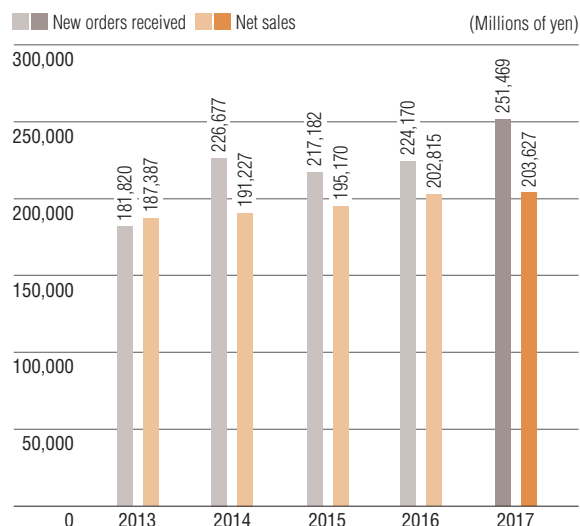
In the segment covering electrical engineering, environmental facilities and systems, and renovation work, we worked to increase the volume of orders received through a range of initiatives. These included finely targeted sales activities based on advance gathering and analysis of market information, and the presentation of renovation solutions that promote energy saving and a longer lifespan. Other initiatives pursued in parallel included a further drive toward cost management and upgrading of worksite support systems.

As a result, we surpassed our performance of the previous fiscal year, with new orders received up 12.2% to ¥251,469 million and net sales up 0.4% to ¥203,627 million.

Notre Dame Yokohama Minatomirai



Business results by type of work



Sophia University, Sophia Tower

## Information & Communication Work



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, we worked to secure orders from cable television operators for large-scale updating in preparation for the next generation of high-definition (4K/8K) broadcasting, and from mobile telephone operators for upgrading base stations to boost telecommunications quality and speed. We also reinforced our sales and work execution systems to secure internal LAN projects.

As a result, we succeeded in improving our performance compared with the previous fiscal year, with new orders received increasing by 25.7% to ¥40,051 million and net sales rising by 13.3% to ¥31,596 million.

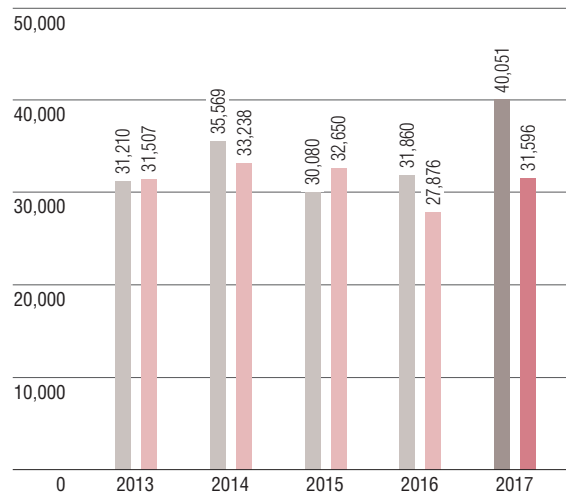
Installing a wireless telecommunications antenna



Business results by type of work

■ New orders received ■ Net sales

(Millions of yen)



Updating cable television facilities

## Business Review by Division

### Power Distribution Line Engineering Work



Construction and maintenance of TEPCO's electric power facilities

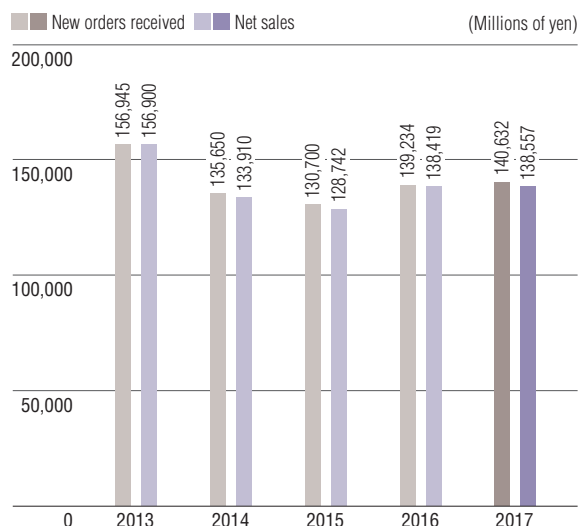
In the segment covering engineering work on overhead and underground power distribution lines, we worked to enhance productivity through flexible deployment of execution capabilities to match work volume. We also targeted reduced unit costs by closely monitoring earnings and expenditures at each branch office. Additionally, we strove to expand the division's range of business through sales development activities aimed at general customers.

As a result, new orders received increased by 1.0% to ¥140,632 million and net sales grew by 0.1% to ¥138,557 million.

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



Business results by type of work



Installing a joint utility tunnel for electric power lines



## Electric Power & Civil Engineering Work



**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:** Conduct regular inspections and maintenance of nuclear power plant facilities and equipment

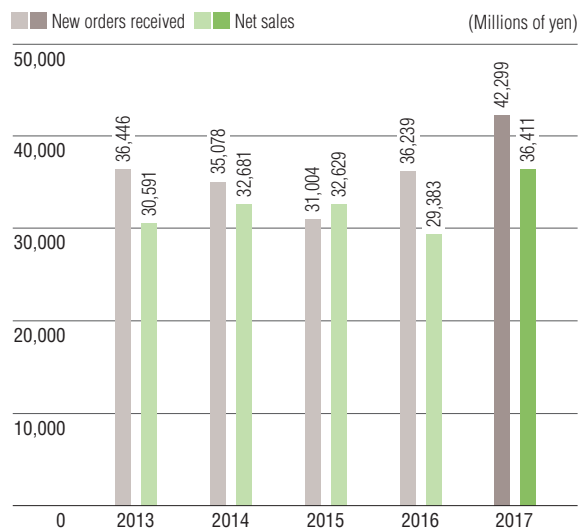
This segment covers power generation and transformation, overhead and underground power transmission lines, civil engineering, and nuclear and wind power generation. In the area of projects related to wind and solar power generation and other renewable energies, orders received showed a solid development. Meanwhile, solutions-based sales activities bringing together the division's full range of capabilities were targeted at securing contracts in social infrastructure sectors such as water supply, gas, and railways.

As a result, we succeeded in boosting performance compared with the previous fiscal year, with new orders received rising by 16.7% to ¥42,299 million and net sales increasing by 23.9% to ¥36,411 million.

Connecting underground transmission cables



Business results by type of work



Stringing overhead power lines in the grounds of a substation

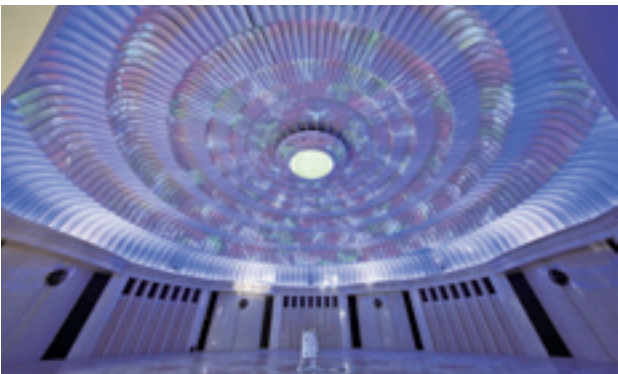




1 Maruha Nichiro Corporation, New Ishinomaki Plant (Miyagi)



3 Hosei University Fujimi Gate (Tokyo)



5 MOA Museum of Art (Shizuoka)



7 Mitsui Fudosan Logistics Park Komaki (Aichi)



2 Yamazaki Baking Creation Center (Chiba)



4 Yokohama Nomura Building (Kanagawa)



6 NGK Insulators, Ltd., Ishikawa Plant (Ishikawa)



8 Nakanoshima Festival Tower West (Osaka)



11 Weather radar stations (Myanmar)



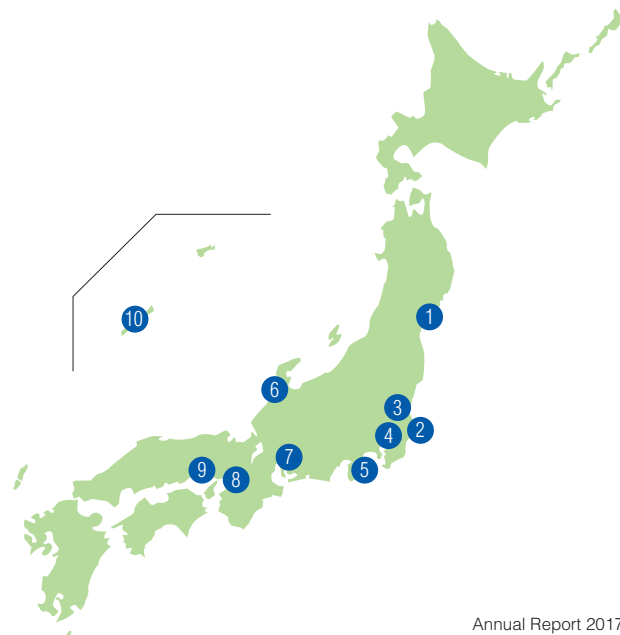
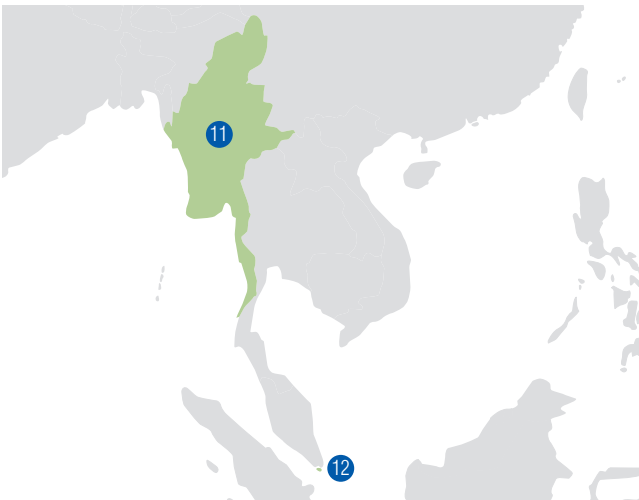
9 Hyogo Prefectural Kobe Children's Hospital (Hyogo)



10 Nakagami Hospital (Okinawa)



12 Yale-NUS College (Singapore)





# Grand opening of Tokyo Garden Terrace Kioicho

The Kioicho district in Tokyo's Chiyoda Ward takes its name from several feudal lords whose residences were located there during the Edo Period. July 2016 saw the grand opening here of Tokyo Garden Terrace Kioicho.

The new complex contains a number of elements such as Kioi Tower, an office and hotel block with state-of-the-art function; Kioi Residence, a block of 135 high-spec apartments; and the Classic House at Akasaka Prince, which has restaurants and a wedding hall, among other facilities. Kandenko carried out the electrical work for these buildings.

One of the buildings, the Classic House at Akasaka Prince, has been restored to its appearance in 1930, the year it was built. When installing the lighting the technology and expertise accumulated by Kandenko over many years came into play, ensuring that the elegance of former times was preserved for the present without damaging the building's precious and historically valuable fabric.



# Grand opening of Kyobashi Edogrand

Tokyo Station is the gateway to Tokyo, and Kyobashi is a district just to its east that has been a thriving commercial quarter since the Edo Period. Kyobashi Edogrand is a new local landmark that had its grand opening in November 2016.

The new facility comprises three elements: the Meijiya Kyobashi Building, renovated to retain its original appearance from the time of its construction in 1933; a contrastingly designed low-rise shopping zone; and a super high-rise office facility, one of the largest of its kind in the area, whose anti-quake design includes Japan's first wind-resistant structure. While carrying on the district's Edo Period traditions, the new complex promises to become a new business focus and a place where many different types of people can come together.

Making maximum use of our accumulated technology and expertise, we intend to continue supporting the creation of new cityscapes as a general infrastructure company.



# Works on weather radar stations in Myanmar: Contributing to disaster prevention infrastructure

The Republic of the Union of Myanmar, which lies in the western part of the Indochinese Peninsula, has a coastline of about 2,400 km along the Bay of Bengal and the Andaman Sea and is crisscrossed by a network of rivers, large and small. Accordingly, it suffers from flooding together with the cyclones that strike in most years.

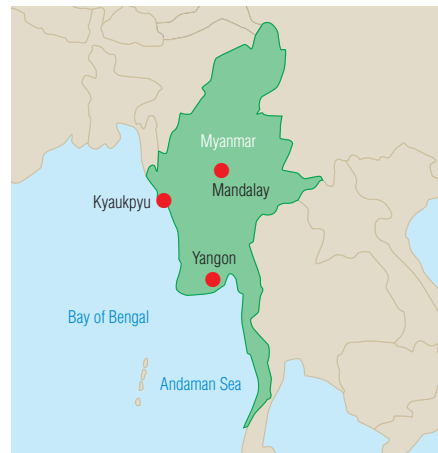
To gather information quickly and accurately on the emergence, path, strength and other details of cyclones, it is essential for the country to have a radar observation network that covers most of its territory, including the coastal strip. However, its aging radar stations ceased to operate, leaving the country with no functioning system.

In response to this situation, the Japan International Cooperation Agency (JICA) put forward, as part of its program of official development assistance, a plan to install updated meteorological observation facilities. Kandenko was one of the participating companies.

The plan envisaged the installation of weather radar stations at three locations—the capital city of Yangon, Kyaukpyu on the Bay of Bengal, and Mandalay in the country's geographical center—combined with a nationwide network of 30 automatic weather stations. Kandenko was responsible mainly for the electrical work connected with the construction of the stations. In a country where some regions still lack electricity, a water supply, the Internet, and other social infrastructure, Kandenko was careful to draw up a detailed work plan taking account of the lead time for importing materials and equipment, and took measures to reinforce coordination with local staff. As a result, operations progressed steadily and were completed successfully in March 2017, slightly more than three years after receipt of the contract.



Yangon weather radar station



Kyaukpyu weather radar station during construction



## Energy-saving promoted in renovations of lighting equipment at Tokyu Corporation's Yukigaya-Otsuka Train Depot

Kandenko is reinforcing initiatives to win orders for social infrastructure projects, such as railway, gas, and water supply. This is part of the Kandenko Group's drive to achieve its growth strategy by expanding its business fields.

As a result of these initiatives, we recently won and executed an order for renovation of the lighting equipment at Tokyu Corporation's Yukigaya-Otsuka Train Depot. The project involved replacing the existing mercury lamps with LED lamps for energy saving and long life.

In executing the project, to avoid disrupting the railway's operations, we were required to work in the limited period between the railway's last evening service and the first morning service, combining safety with speed. Accordingly, we drew up a work plan based on a detailed advance survey and carried out replacement work in a number of locations simultaneously. Thanks to these and other measures to ensure the efficiency of operations, we completed the work successfully and received a highly positive assessment from the customer.



# Completion of a new building for our Fukushima Headquarters

In September 2016, we completed a new building for our Fukushima Headquarters, the base for our disaster recovery and reconstruction activities in Fukushima Prefecture.

This will allow us to expand our work execution and sales capabilities with a view to further reconstruction and development in the Fukushima area.

In addition, affiliate and associate companies that were previously dispersed across the prefecture will now use our existing building as their base. This should allow us to strengthen relations with them and result in enhanced functioning of our headquarters. Thus far, more than 500,000 Kandenko Group employees have participated in recovery and reconstruction operations in the Fukushima area. Going forward, we are committed to using the new headquarters building as a center for continued Group-wide efforts to assist with locally focused reconstruction and development.



Projects executed by Fukushima Headquarters



Eurus Fukushima Kawauchi Solar Park (Kawauchi Village, Futaba District, Fukushima Prefecture)



Naraha Remote Technology Development Center (Naraha Town, Futaba District, Fukushima Prefecture)



# Research and Development Activities

To respond to customer requirements and worksite issues, the Kandenko Group is focusing on the key areas of technology development to answer customer needs, as well as technology development to contribute to worksite safety, labor saving, and cost reduction, and to support the expansion of business fields.

In fiscal 2016, we moved forward aggressively with development in a number of specific areas: technology to improve the lifespan and reliability of customer facilities, technology to introduce new operational techniques and robots that contribute to work safety and labor saving, and we applied technology for use with railways, port and harbor installations, and other social infrastructure.

R&D expenses amounted to ¥1,188 million (consolidated) in fiscal 2016, and the main results are detailed below. (R&D expenses are not broken down by segment.)

## Facility Installation Business

### Research to expand the range of application of the small-bore tunnel drilling method

To respond to situations where, for instance, there is insufficient space to install launch and reception shafts because of densely packed underground installations or issues with noise and vibration, we developed an ultra-compact small-bore tunnel-drilling device that can operate even in restricted spaces. This method enables electric power conduits to be laid from within existing manholes. It has also allowed expansion of the range of application of the small-bore tunnel drilling method, for instance, for use in gas works and in work to inject anti-quake reinforcement material into railway embankments and cuttings. Going forward, we will propose this method for adoption at customer facilities with a view to increasing orders for civil engineering-related projects.



Anti-quake reinforcement work for railway tracks using small-bore tunnel drilling method

### Research to improve operational efficiency of drones

Drones are compact unmanned aerial vehicles. We have tested in the field their potential applicability and effectiveness for use at heights that are difficult for people to access, in hazardous locations, or across large site areas, where they can be used to execute work, inspect facilities, carry and fit machine parts. Going forward, we intend to carry out further technology development to ensure the safety of work and to improve operational efficiency by using drones.



Drone used for work on overhead power distribution lines

### Development of a cable modem control system

Kandenko sells to cable television operators a range of overseas-produced large cable modem termination systems (CMTSs) for Internet/telephone service. However, as the range included no control systems suitable for use in Japan, we developed a control system that reflected Japanese domestic needs. This system has a function that controls the CMTS and the cable modem fitted in the user's residence, configures a telecommunication service for each user contract, and monitors the communication status. Going forward, we will take advantage of the system to promote CMTS sales and improve the reliability of customer facilities.

### Improvement of a steel pipe column assembly tool

The steel pipe column assembly tool is a specialized tool that is used when a prefab steel pipe column is assembled by hand. However, current models were heavy and involved a high workload. In response, we worked to reduce weight and introduce electric operation to come up with an improved assembly tool with outstanding operability. Going forward, we will use this tool to ensure safety and improve efficiency in the manual erection of steel pipe columns.



Steel pipe column assembly tool

## Other Businesses

### Development of a technique for status diagnosis through analysis of wind turbine monitoring data

To facilitate preventive maintenance for wind turbines, we developed a technique for status diagnosis that analyzes a range of monitoring data to detect changes in status and discover advanced signs of malfunction. Going forward, we will carry out further technology development with the aim of systematizing the data acquisition required for preventive maintenance and increasing the use and reliability of wind turbines.

# 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

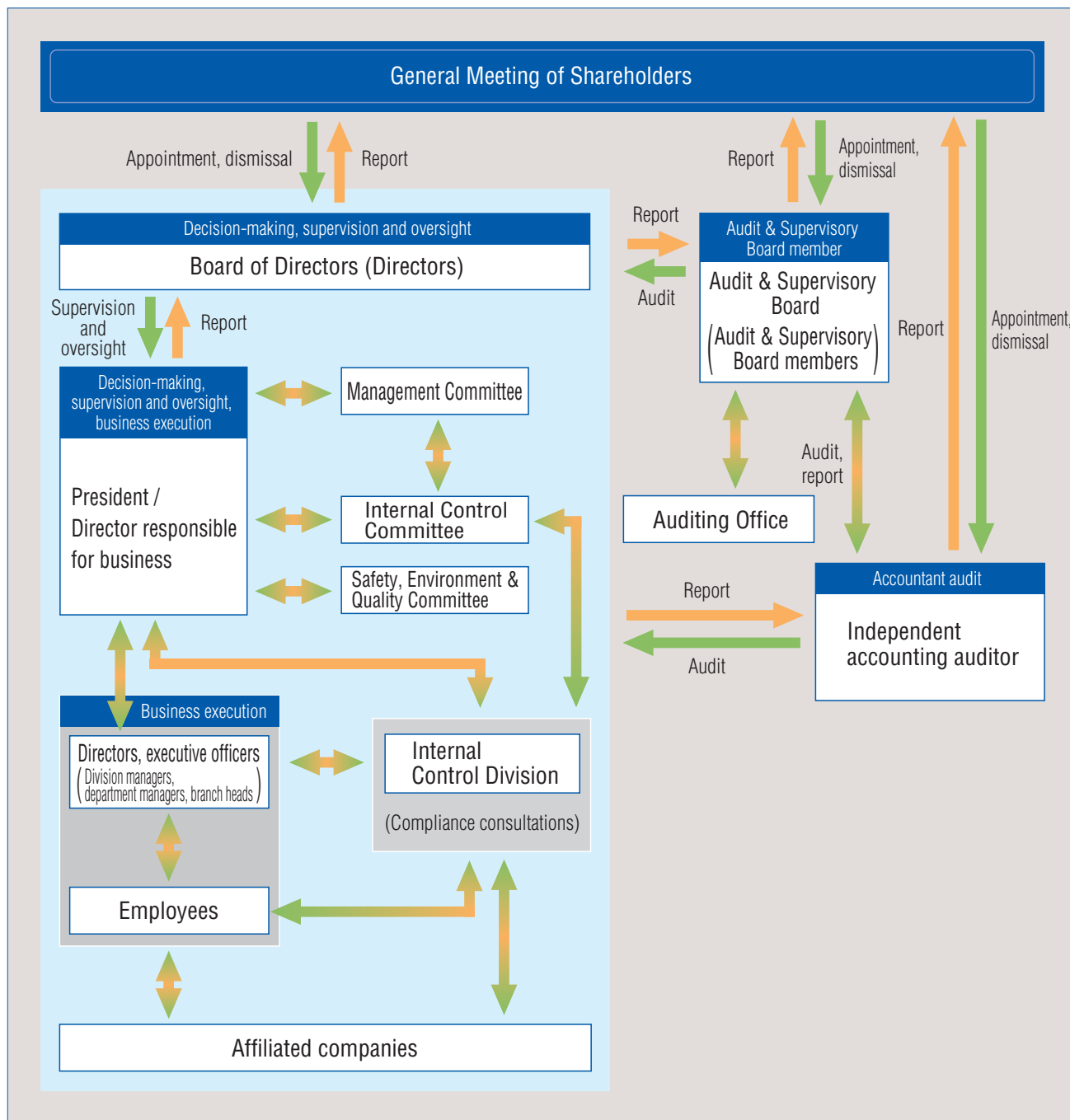
For internal auditing, the 18-strong staff of the Internal Audit Division carries out the audit in accordance with the Internal Control Enhancement Plan. The audit results are reported to the Internal Control Committee and the Management Committee, and as appropriate to the Board of Directors, to enable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

Independent accounting auditors and the Internal Audit Division report their findings at the Audit & Supervisory Board meeting 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 to 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, 2017.

## 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 the 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 140001 standards. Seeking a fair and just assessment from a third party, we acquired ISO 140001 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 CO<sub>2</sub> 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.



Ice-based thermal storage air conditioning system (Ibaraki Branch)

### 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 CO<sub>2</sub> 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.

Meeting room that exclusively uses LED lighting (head office)



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

# Environmental Initiatives

## 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 CO<sub>2</sub> 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

## Resource Conservation Initiatives

At representative offices and other business bases, leftover work materials, outdated facilities, and any other disused materials are collected. Kandenko contributes to resource conservation by sorting and storing these materials, then converting them for reuse, recycling them into new products, or reutilizing them in some other way. The sorting of waste materials at representative offices, which is essential for reducing waste emissions and ensuring efficient use of resources, unites the staff of each office in concerted efforts.

Additionally, Kandenko implements water-saving measures in the day-to-day use of restrooms and other facilities, while recycled water produced by collecting and purifying rainwater and wastewater is used at the head office for flushing toilets.

Concurrently, to protect forestry resources, we use recycled paper and paper that supports forest management, work to cut the use of photocopying paper, promote the use of paper-free projectors at meetings, and take other steps to promote resource conservation.



Sorting and storage at an office



Sorting and storing industrial waste



Collecting rainwater

# Financial Section

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# Consolidated 10-Year Financial Summary

(Millions of yen)

For the fiscal years ended March 31	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net sales	¥ 468,608	¥ 473,804	¥ 453,623	¥ 462,482	¥ 441,786	¥ 447,741	¥ 437,930	¥ 436,682	¥ 447,673	¥ 470,943
Operating profit	6,457	8,858	9,477	10,735	8,034	7,364	8,284	9,388	16,416	26,397
Ordinary profit	7,276	9,854	10,484	11,634	9,070	8,301	9,089	10,336	17,077	27,345
Profit attributable to owners of parent	4,865	5,586	5,428	5,866	1,876	3,952	4,226	4,615	9,412	17,591
Comprehensive income	—	—	—	1,772	4,381	8,238	7,327	11,984	7,137	18,422
Total assets	373,674	379,093	378,150	353,342	359,726	364,008	359,933	366,177	407,681	424,874
Total net assets	173,171	172,487	177,536	176,808	178,757	184,269	189,692	193,345	197,980	213,356
Equity ratio (%)	45.84	44.57	45.96	48.93	48.54	49.49	51.45	51.44	47.22	48.72
Net assets per share (yen)	837.07	826.08	850.04	845.67	854.31	881.41	906.29	922.05	942.42	1,013.33
Earnings per share (yen)	23.78	27.30	26.54	28.69	9.18	19.34	20.69	22.59	46.07	86.11
Cash dividends per share (yen)	12.00	12.00	14.00	12.00	12.00	12.00	12.00	14.00	14.00	20.00
Net cash provided by (used in) operating activities	23,153	16,947	12,236	10,257	13,035	15,401	(2,218)	2,921	18,042	6,751
Net cash provided by (used in) investing activities	2,439	(9,825)	(9,763)	(3,799)	1,583	(12,748)	(5,839)	2,253	(7,101)	(17,867)
Net cash used in financing activities	(1,887)	(3,519)	(4,400)	(4,037)	(5,423)	(2,900)	(4,540)	(3,743)	19,807	(169)
Cash and cash equivalents at end of period	37,503	41,060	39,142	41,539	50,725	50,550	38,697	40,157	70,899	59,612
Number of employees (persons)	7,893	8,513	8,665	8,769	8,746	8,732	8,821	8,839	8,915	9,244



# Financial Position

## Analysis of Consolidated Financial Position

Total assets at the end of the fiscal year under review increased ¥17,193 million over the previous fiscal year to ¥424,874 million.

### Assets

Due mainly to increases of ¥9,283 million in notes receivable, accounts receivable from completed construction contracts and other, total current assets grew by ¥8,564 million over the previous fiscal year-end.

Primarily reflecting increases of ¥4,936 million in property, plant and equipment, ¥2,573 million in intangible assets, and ¥1,773 million in investment securities, total non-current assets rose by ¥8,629 million from the end of the previous fiscal year.

### Liabilities

Mainly because of an increase of ¥3,234 million in short-term loans payable, total current liabilities grew by ¥2,477 million over the previous fiscal year-end.

Total non-current liabilities declined by ¥659 million from the end of the previous fiscal year. This was primarily because of a decrease of ¥2,695 million in net defined benefit liability, which offset an increase of ¥2,014 million in long-term loans payable.

Total liabilities rose by ¥1,817 million year on year to ¥211,518 million.

### Net Assets

Due mainly to a ¥13,881 million expansion in retained earnings, total net assets climbed by ¥15,375 million year on year to ¥213,356 million.

Accordingly, net assets per share and equity ratio were ¥1,013.33 and 48.72%, respectively (compared with ¥942.42 and 47.22% in the previous fiscal year).

## Cash Flows

In the consolidated fiscal year under review, cash and cash equivalents (henceforth “funds”) decreased by ¥11,286 million year on year to ¥59,612 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 ¥6,751 million to funds (down ¥11,291 million from the previous fiscal year). Factors making a positive contribution to funds, including chiefly ¥27,118 million in profit before income taxes, outweighed negative factors such as an increase of ¥7,245 million in notes and accounts receivable-trade and ¥9,535 million in income taxes paid.

### Cash Flows from Investing Activities

During the fiscal year under review, funds decreased by ¥17,867 million due to investing activities (down ¥10,765 million from the previous fiscal year). Here, ¥9,000 million in proceeds from redemption of securities was outweighed by ¥11,999 million for the purchase of securities and ¥7,290 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 ¥169 million (down ¥19,977 million from the previous fiscal year). This primarily reflected ¥3,268 million in cash dividends paid, which offset income of ¥2,357 million from a net increase in short-term loans payable.

# Consolidated Balance Sheet

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
MARCH 31, 2016 AND 2017

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2016	2017	2017	
<b>Assets</b>				
Current assets				
Cash and deposits	*3 ￥ 77,360	*3 ￥ 60,073	*3 \$ 536,366	
Notes receivable, accounts receivable from completed construction contracts and other	*3 129,855	*3 139,139	*3 1,242,312	
Securities	3,999	14,999	133,919	
Costs on uncompleted construction contracts	*5 33,899	*5 30,900	*5 275,892	
Raw materials and supplies	4,149	4,552	40,642	
Deferred tax assets	6,535	6,852	61,178	
Other	5,056	12,843	114,669	
Allowance for doubtful accounts	(655)	(598)	(5,339)	
Total current assets	260,200	268,764	2,399,678	
Non-current assets				
Property, plant and equipment				
Buildings and structures	*3 85,438	*3 88,570	*3 790,803	
Machinery, vehicles, tools, furniture and fixtures	*3 51,759	*3 54,567	*3 487,205	
Land	*2 58,803	*2, *3 60,278	*2, *3 538,196	
Leased assets	2,349	2,414	21,553	
Construction in progress	353	760	6,785	
Accumulated depreciation	(105,064)	(108,013)	(964,401)	
Total property, plant and equipment	93,640	98,577	880,151	
Intangible assets	2,749	5,323	47,526	
Investments and other assets				
Investment securities	*1, *3 39,765	*1, *3 41,539	*1, *3 370,883	
Deferred tax assets	6,281	5,326	47,553	
Other	*3 5,797	*3 6,213	*3 55,473	
Allowance for doubtful accounts	(753)	(869)	(7,758)	
Total investments and other assets	51,090	52,209	466,151	
Total non-current assets	147,480	156,110	1,393,839	
Total assets	¥ 407,681	¥ 424,874	\$ 3,793,517	

The accompanying notes are an integral part of financial statements.

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2016	2017	2017
<b>Liabilities</b>			
Current liabilities			
Notes payable, accounts payable for construction contracts and other	¥ 85,280	¥ 82,398	\$ 735,696
Short-term loans payable	*3 7,686	*3 10,920	*3 97,500
Lease obligations	395	425	3,794
Income taxes payable	6,260	5,375	47,991
Advances received on uncompleted construction contracts	19,088	19,600	175,000
Provision for warranties for completed construction	974	1,226	10,946
Provision for loss on construction contracts	*5 2,391	*5 4,050	*5 36,160
Other	21,235	21,792	194,571
Total current liabilities	143,312	145,789	1,301,687
Non-current liabilities			
Convertible bond-type bonds with subscription rights to shares	20,100	20,080	179,285
Long-term loans payable	*3 5,567	*3 7,581	*3 67,687
Lease obligations	662	795	7,098
Deferred tax liabilities for land revaluation	*2 6,830	*2 6,789	*2 60,616
Net defined benefit liability	30,964	28,269	252,401
Other	2,263	2,213	19,758
Total non-current liabilities	66,388	65,728	586,857
Total liabilities	209,700	211,518	1,888,553
<b>Net assets</b>			
Shareholders' equity			
Capital stock	10,264	10,264	91,642
Capital surplus	6,349	6,350	56,696
Retained earnings	168,576	182,458	1,629,089
Treasury shares	(565)	(575)	(5,133)
Total shareholders' equity	184,624	198,496	1,772,285
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	12,460	12,418	110,875
Deferred gains or losses on hedges	(575)	(522)	(4,660)
Revaluation reserve for land	*2 (5,302)	*2 (4,861)	*2 (43,401)
Remeasurements of defined benefit plans	1,309	1,460	13,035
Total accumulated other comprehensive income	7,891	8,494	75,839
Non-controlling interests	5,464	6,364	56,821
Total net assets	197,980	213,356	1,904,964
Total liabilities and net assets	¥ 407,681	¥ 424,874	\$ 3,793,517

The accompanying notes are an integral part of financial statements.

# Consolidated Statement of Income

KANDENKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2016 AND 2017

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2016	2017	2017	
Net sales of completed construction contracts	¥ 447,673	¥ 470,943	\$ 4,204,848	
Cost of sales of completed construction contracts	*1, *2 409,491	*1, *2 421,208	*1, *2 3,760,785	
Gross profit (loss) on completed construction contracts	38,182	49,734	444,053	
Selling, general and administrative expenses	*3 21,765	*3 23,337	*3 208,366	
Operating profit (loss)	16,416	26,397	235,687	
Non-operating income				
Interest income	40	44	392	
Dividend income	712	766	6,839	
Insurance premiums refunded cancellation	21	230	2,053	
Other	298	352	3,142	
Total non-operating income	1,071	1,394	12,446	
Non-operating expenses				
Interest expenses	110	213	1,901	
Financing expenses	130	—	—	
Other	170	232	2,071	
Total non-operating expenses	410	446	3,982	
Ordinary profit (loss)	17,077	27,345	244,151	
Extraordinary income				
Gain on bargain purchase	—	135	1,205	
Gain on sales of investment securities	1,324	34	303	
Other	28	—	—	
Total extraordinary income	1,353	170	1,517	
Extraordinary losses				
Loss on retirement of non-current assets	114	269	2,401	
Impairment loss	*5 1,025	101	901	
Other	42	27	241	
Total extraordinary losses	1,182	397	3,544	
Profit (loss) before income taxes	17,248	27,118	242,125	
Income taxes - current	6,777	8,243	73,598	
Income taxes - deferred	419	627	5,598	
Total income taxes	7,196	8,871	79,205	
Profit (loss)	10,052	18,246	162,910	
Profit (loss) attributable to non-controlling interests	640	655	5,848	
Profit (loss) attributable to owners of parent	¥ 9,412	¥ 17,591	\$ 157,062	

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, 2016 AND 2017

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2016	2017	2017	
Profit (loss)	¥ 10,052	¥ 18,246	\$ 162,910	
Other comprehensive income				
Valuation difference on available-for-sale securities	(2,983)	(40)	(357)	
Deferred gains or losses on hedges	(243)	53	473	
Revaluation reserve for land	379	—	—	
Remeasurements of defined benefit plans, net of tax	(66)	163	1,455	
Total other comprehensive income	“1 (2,914)	“1 176	“1 1,571	
Comprehensive income	¥ 7,137	¥ 18,422	\$ 164,482	
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent	6,530	17,753	158,508	
Comprehensive income attributable to non-controlling interests	¥ 607	¥ 669	\$ 5,973	

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, 2016

	(Millions of Yen)					
	Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	
Balance at beginning of current period	¥ 10,264	¥ 6,268	¥ 162,347	¥ (553)	¥ 178,327	
Changes of items during period						
Purchase of shares of consolidated subsidiaries		80			80	
Dividends of surplus			(2,451)		(2,451)	
Profit (loss) attributable to owners of parent			9,412		9,412	
Reversal of revaluation reserve for land			(732)		(732)	
Purchase of treasury shares				(12)	(12)	
Disposal of treasury shares		—		—	—	
Net changes of items other than shareholders' equity						
Total changes of items during period	—	80	6,228	(12)	6,296	
Balance at end of current period	¥ 10,264	¥ 6,349	¥ 168,576	¥ (565)	¥ 184,624	

	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	¥ 15,402	¥ (332)	¥ (6,414)	¥ 1,385	¥ 10,040	¥ 4,976	¥ 193,345
Changes of items during period							
Purchase of shares of consolidated subsidiaries							80
Dividends of surplus							(2,451)
Profit (loss) attributable to owners of parent							9,412
Reversal of revaluation reserve for land							(732)
Purchase of treasury shares							(12)
Disposal of treasury shares							—
Net changes of items other than shareholders' equity	(2,941)	(243)	1,111	(75)	(2,149)	487	(1,661)
Total changes of items during period	(2,941)	(243)	1,111	(75)	(2,149)	487	4,634
Balance at end of current period	¥ 12,460	¥ (575)	¥ (5,302)	¥ 1,309	¥ 7,891	¥ 5,464	¥ 197,980

The accompanying notes are an integral part of financial statements.

YEAR ENDED MARCH 31, 2017

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	¥ 10,264	¥ 6,349	¥ 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)
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)
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, 2017

(Thousands of U.S. Dollars)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	\$ 91,642	\$ 56,687	\$ 1,505,142	\$ (5,044)	\$ 1,648,428
Changes of items during period					
Purchase of shares of consolidated subsidiaries		(0)			(0)
Dividends of surplus			(29,178)		(29,178)
Profit (loss) attributable to owners of parent			157,062		157,062
Reversal of revaluation reserve for land			(3,928)		(3,928)
Purchase of treasury shares				(89)	(89)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	—	0	123,937	(89)	123,857
Balance at end of current period	\$ 91,642	\$ 56,696	\$ 1,629,089	\$ (5,133)	\$ 1,772,285

	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	\$ 111,250	\$ (5,133)	\$ (47,339)	\$ 11,687	\$ 70,455	\$ 48,785	\$ 1,767,678
Changes of items during period							
Purchase of shares of consolidated subsidiaries							(0)
Dividends of surplus							(29,178)
Profit (loss) attributable to owners of parent							157,062
Reversal of revaluation reserve for land							(3,928)
Purchase of treasury shares							(89)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	(375)	473	3,928	1,348	5,383	8,035	13,419
Total changes of items during period	(375)	473	3,928	1,348	5,383	8,035	137,276
Balance at end of current period	\$ 110,875	\$ (4,660)	\$ (43,401)	\$ 13,035	\$ 75,839	\$ 56,821	\$ 1,904,964

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, 2016 AND 2017

	(Millions of Yen)		(Thousands of U.S. Dollars)	
	2016	2017	2017	
Cash flows from operating activities				
Profit (loss) before income taxes	¥ 17,248	¥ 27,118	\$ 242,125	
Depreciation and amortization	4,320	4,774	42,625	
Impairment loss	1,025	101	901	
Gain on bargain purchase	—	(135)	(1,205)	
Increase (decrease) in allowance for doubtful accounts	(940)	(51)	(455)	
Increase (decrease) in provision for loss on construction contracts	(733)	1,654	14,767	
Increase (decrease) in net defined benefit liability	(2,341)	(2,323)	(20,741)	
Interest and dividend income	(752)	(811)	(7,241)	
Interest expenses	110	213	1,901	
Loss (gain) on sales of investment securities	(1,309)	(34)	(303)	
Decrease (increase) in notes and accounts receivable - trade	(385)	(7,245)	(64,687)	
Decrease (increase) in costs on uncompleted construction contracts	(12,639)	4,227	37,741	
Decrease (increase) in other inventories	(1,492)	(403)	(3,598)	
Increase (decrease) in notes and accounts payable - trade	1,355	(3,831)	(34,205)	
Increase (decrease) in advances received on uncompleted construction contracts	7,223	(215)	(1,919)	
Other, net	8,397	(7,328)	(65,428)	
Subtotal	19,087	15,709	140,258	
Interest and dividend income received	754	811	7,241	
Interest expenses paid	(110)	(233)	(2,080)	
Income taxes (paid) refund	(1,688)	(9,535)	(85,133)	
Net cash provided by (used in) operating activities	18,042	6,751	60,276	
Cash flows from investing activities				
Net decrease (increase) in time deposits	(2,570)	(2,000)	(17,857)	
Purchase of securities	(1,000)	(11,999)	(107,133)	
Proceeds from sales and redemption of securities	2,000	9,000	80,357	
Purchase of property, plant and equipment	(7,869)	(7,290)	(65,089)	
Proceeds from sales of property, plant and equipment	161	142	1,267	
Purchase of investment securities	(495)	(1,340)	(11,964)	
Proceeds from sales and redemption of investment securities	3,537	45	401	
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(2,445)	(21,830)	
Payments of loans receivable	(1,100)	(0)	(0)	
Collection of loans receivable	30	33	294	
Other, net	203	(2,011)	(17,955)	
Net cash provided by (used in) investing activities	(7,101)	(17,867)	(159,526)	
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	(506)	2,357	21,044	
Proceeds from long-term loans payable	4,364	2,036	18,178	
Repayments of long-term loans payable	(1,088)	(702)	(6,267)	
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	20,100	—	—	
Repayments of lease obligations	(558)	(532)	(4,750)	
Cash dividends paid	(2,451)	(3,268)	(29,178)	
Other, net	(51)	(60)	(535)	
Net cash provided by (used in) financing activities	19,807	(169)	(1,508)	
Effect of exchange rate change on cash and cash equivalents	(7)	(1)	(8)	
Net increase (decrease) in cash and cash equivalents	30,741	(11,286)	(100,767)	
Cash and cash equivalents at beginning of period	40,157	70,899	633,026	
Cash and cash equivalents at end of period	¥ 70,899	¥ 59,612	\$ 532,250	

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, 2016 AND 2017

## 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, 2017 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥112 =U.S.\$1.00, the exchange rate prevailing on March 31, 2017.

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: 24

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.

Saitama 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.

Among these subsidiaries, Kanagawa Power Techno Co., Ltd. and Saitama Power Techno Co., Ltd., which were established on April 1, 2016, Sato Kensetsu Kogyo Co., Ltd., whose shares were acquired by the Company on October 27, 2016, and SYSTEC ENGINEERING Co., Ltd., which is a subsidiary of Sato Kensetsu Kogyo Co., Ltd., have been included

in the scope of consolidation from the year ended March 31, 2017 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.

### CHANGES IN PRESENTATION

#### Consolidated statement of income

Because the amount of "insurance premiums refunded cancellation," which was included in "other" in "non-operating income" in the year ended March 31, 2016, has exceeded 10% of the total amount of non-operating income, this item is presented as a separate item from the year ended March 31, 2017. The consolidated financial statements for the year ended March 31, 2016 have been reclassified to reflect this change in presentation.

As a result, ¥319 million, which was presented in "other" in "non-operating income," has been reclassified to ¥21 million of "insurance premiums refunded cancellation," and ¥298 million of "other."

Because the amount of "loss on retirement of non-current assets," which was included in "other" in "extraordinary losses" in the year ended March 31, 2016, has exceeded 10% of the total amount of extraordinary losses, this item is presented as a separate item from the year ended March 31, 2017. The consolidated financial statements for the year ended March 31, 2016 have been reclassified to reflect this change in presentation.

As a result, ¥156 million, which was presented in "other" in "extraordinary losses," has been reclassified to ¥114 million of "loss on retirement of non-current assets," and ¥42 million of "other."

#### (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.

### ADDITIONAL INFORMATION

"Implementation Guidance on Recoverability of Deferred Tax Assets"  
(Accounting Standards Board of Japan ("ASBJ") Guidance No. 26, March 28, 2016) has been applied effective from the year ended March 31, 2017.



## 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	
	2016	2017	2017	
Investment securities (Stocks)	¥ 826	¥ 1,377	\$ 12,294	
Investment securities (Investments in capital)	—	82	732	

\*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

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Difference between the fair value of the revalued land at end of year and its book value after revaluation	¥ (4,627)	¥ (3,478)	\$ (31,053)	

\*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	
	2016		2017		2017	
Cash and deposits	¥ 1,380	¥ [—]	¥ 1,969	¥ [—]	\$ 17,580	\$ [—]
Notes receivable, accounts receivable from completed construction contracts and other	175	[—]	57	[—]	508	[—]
Buildings and structures	546	[546]	831	[609]	7,419	[5,437]
Machinery, vehicles, tools, furniture and fixtures	5,662	[5,662]	6,669	[6,669]	59,544	[59,544]
Land	—	[—]	558	[—]	4,982	[—]
Investments and other assets – Other (lease deposits)	7	[—]	7	[—]	62	[—]
Total	¥ 7,772	¥ [6,209]	¥ 10,094	¥ [7,279]	\$ 90,125	\$ [64,991]
Short-term loans payable	¥ 746	¥ [746]	¥ 890	¥ [601]	\$ 7,946	\$ [5,366]
Long-term loans payable	4,967	[4,967]	6,941	[6,173]	61,973	[55,116]
Total	¥ 5,713	¥ [5,713]	¥ 7,832	¥ [6,775]	\$ 69,928	\$ [60,491]

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	
	2016	2017	2017	
Buildings and structures	¥ —	¥ 1	\$ 8	
Land	—	26	232	
Investment securities	44	44	392	
Investments and other assets – Other (long-term loans receivable)	130	130	1,160	
Total	¥ 174	¥ 201	\$ 1,794	

4. Contingent liabilities

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

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Employees (housing loans)	¥ 1,581	¥ 1,356	\$ 12,107	

\*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	
	2016	2017	2017	
	¥ 16	¥ 106	\$ 946	

## 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	
	2016	2017	2017	
	¥ 1,849	¥ 3,165	\$ 28,258	

\*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	
	2016	2017	2017	
	¥ 75	¥ 163	\$ 1,455	

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

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Employees' salaries and allowances	¥ 10,541	¥ 10,948	\$ 97,750	
Retirement benefit expenses	762	699	6,241	

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	
	2016	2017	2017	
	¥ 1,093	¥ 1,188	\$	10,607

\*5. Impairment loss

The Companies recorded impairment losses for the following asset groups.

For the year ended March 31, 2016			
Location	Purpose of Use	Type	Number of assets
Tochigi prefecture and others	Idle assets	Land	27

Idle assets that impairment losses were recognized were grouped by individual properties.

The book value of the above asset group was reduced to the respective recoverable amount, due to decline in land prices of the idle assets. The decline was recorded as impairment losses of ¥1,025 million in extraordinary losses.

The recoverable amount of the asset group was measured at the net sales price, primarily based on the market value of standard sites and the assessed value of inheritance tax by roadside land prices.

## For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

## 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	
	2016	2017	2017	
Valuation difference on available-for-sale securities:				
Losses arising during the year	¥ (3,718)	¥ (37)	\$	(330)
Reclassification adjustments	(1,094)	(24)		(214)
Amount before income tax effect	(4,812)	(62)		(553)
Income tax effect	1,829	21		187
Valuation difference on available-for-sale securities	(2,983)	(40)		(357)
Deferred gains or losses on hedges				
Gains (losses) arising during the year	(243)	53		473
Revaluation reserve for land				
Income tax effect	379	—		—
Remeasurements of defined benefit plans:				
Gains (losses) arising during the year	(156)	653		5,830
Reclassification adjustments	(0)	(429)		(3,830)
Amount before income tax effect	(156)	224		2,000
Income tax effect	90	(61)		(544)
Remeasurements of defined benefit plans, net of tax	(66)	163		1,455
Total other comprehensive income	¥ (2,914)	¥ 176	\$	1,571

## NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2016

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

	As of April 1, 2015	Increase	Decrease	(Shares) As of March 31, 2016
Shares issued:				
Common shares	205,288,338	—	—	205,288,338
Total	205,288,338	—	—	205,288,338
Treasury shares:				
Common shares	993,773	15,869	—	1,009,642
Total	993,773	15,869	—	1,009,642

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

### 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 26, 2015	Common shares	¥1,225 million	¥6.0	March 31, 2015	June 29, 2015
Board of directors' meeting on October 30, 2015	Common shares	¥1,225 million	¥6.0	September 30, 2015	December 4, 2015

#### (2) Dividends whose record date fell in the year ended March 31, 2016, but whose effective date comes after March 31, 2016

Resolution	Class of shares	Total dividends	Source of dividend funds	Dividends per share	Record date	Effective date
Ordinary general meeting of shareholders on June 29, 2016	Common shares	¥1,634 million	Retained earnings	¥8.0	March 31, 2016	June 30, 2016



For the year ended March 31, 2017

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

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 29, 2016	Common shares	¥1,634 million \$14,589 thousand	¥8.0 \$0.07	March 31, 2016	June 30, 2016
Board of directors' meeting on October 31, 2016	Common shares	¥1,634 million \$14,589 thousand	¥8.0 \$0.07	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 \$21,883 thousand	Retained earnings	¥12.0 \$0.10	March 31, 2017	June 28, 2017

## 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
		2016	2017	2017
Cash and deposits	¥	77,360	¥ 60,073	\$ 536,366
Time deposits with maturities of more than three months		(9,461)	(11,461)	(102,330)
Short-term investments with maturities of three months or less from the purchase date		2,999	10,999	98,205
Cash and cash equivalents	¥	70,899	¥ 59,612	\$ 532,250

## 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 subscription rights to shares.

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 subscription rights to shares 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, 2016					
	Carrying amount		Fair value		Difference	
(1) Cash and deposits	¥	77,360	¥	77,360	¥	—
(2) Notes receivable, accounts receivable from completed construction contracts and other		129,855				
Allowance for doubtful accounts (*1)		(529)				
		129,326		129,326		—
(3) Securities and investment securities						
1) Held-to-maturity securities		3,009		3,009		(0)
2) Available-for-sale securities		37,410		37,410		—
(4) Notes payable, accounts payable for construction contracts and other (*2)		(85,280)		(85,280)		—
(5) Short-term loans payable (*2)		(7,686)		(7,686)		—
(6) Convertible bond-type bonds with subscription rights to shares (*2)		(20,100)		(20,450)		350
(7) Long-term loans payable (*2)		(5,567)		(5,585)		17
(8) Derivative transactions (*3)	¥	(575)	¥	(575)	¥	—

(\*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, 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 subscription rights to shares (*2)		(20,080)		(21,720)		1,639
(7) Long-term loans payable (*2)		(7,581)		(7,595)		13
(8) Derivative transactions (*3)	¥	(522)	¥	(522)	¥	—

Thousands of U.S. Dollars

	For the year ended March 31, 2017		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	\$ 536,366	\$ 536,366	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,242,312		
Allowance for doubtful accounts (*1)	(4,723)		
	1,237,589	1,237,589	—
(3) Securities and investment securities			
1) Held-to-maturity securities	134,357	134,348	(0)
2) Available-for-sale securities	334,919	334,919	—
(4) Notes payable, accounts payable for construction contracts and other (*2)	(735,696)	(735,696)	—
(5) Short-term loans payable (*2)	(97,500)	(97,500)	—
(6) Convertible bond-type bonds with subscription rights to shares (*2)	(179,285)	(193,928)	14,633
(7) Long-term loans payable (*2)	(67,687)	(67,812)	116
(8) Derivative transactions (*3)	\$ (4,660)	\$ (4,660)	\$ —

(\*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 subscription rights to shares

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

## (7) Long-term loans payable

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	
	2016	2017	2017	
Unlisted stocks, etc.	¥ 3,345	¥ 3,979	\$ 35,526	

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, 2016			
	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	¥ 77,360	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	129,738	117	—	—
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	—	10	—	—
Held-to-maturity securities (corporate bonds)	3,000	—	—	—
Held-to-maturity securities (other)	—	—	—	—
Available-for-sale securities with maturities (other)	1,000	—	—	—
Total	¥ 211,099	¥ 127	¥ —	¥ —

	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	¥ —	¥ —

	Thousands of U.S. Dollars			
	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	\$ 536,366	\$ —	\$ —	\$ —
Notes receivable, accounts receivable from completed construction contracts and other	1,184,392	57,910	—	—
Securities and investment securities				
Held-to-maturity securities (government/municipal bonds)	—	89	—	—
Held-to-maturity securities (corporate bonds)	71,428	—	—	—
Held-to-maturity securities (other)	53,571	8,928	—	—
Available-for-sale securities with maturities (other)	8,928	—	—	—
Total	\$ 1,854,696	\$ 66,928	\$ —	\$ —

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

Millions of Yen

	For the year ended March 31, 2016					
	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	¥ 7,686	¥ —	¥ —	¥ —	¥ —	¥ —
Convertible bond-type bonds with subscription rights to shares	—	—	—	—	20,000	—
Long-term loans payable	—	662	773	708	543	2,880
Total	¥ 7,686	¥ 662	¥ 773	¥ 708	¥ 20,543	¥ 2,880

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 subscription rights to shares	—	—	—	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

Thousands of U.S. Dollars

	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	\$ 97,500	\$ —	\$ —	\$ —	\$ —	\$ —
Convertible bond-type bonds with subscription rights to shares	—	—	—	178,571	—	—
Long-term loans payable	—	14,125	9,187	5,875	3,053	35,428
Total	\$ 97,500	\$ 14,125	\$ 9,187	\$ 184,446	\$ 3,053	\$ 35,428

## SECURITIES

### 1. Held-to-maturity securities

Millions of Yen

	For the year ended March 31, 2016					
	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		2,999		2,999		(0)
Other		—		—		—
Subtotal	¥	3,009	¥	3,009	¥	(0)
Total	¥	3,009	¥	3,009	¥	(0)

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)

Thousands of U.S. Dollars

	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	\$	89	\$	80	\$	(0)
Corporate bonds		71,419		71,419		(0)
Other		62,839		62,839		—
Subtotal	\$	134,357	\$	134,348	\$	(0)
Total	\$	134,357	\$	134,348	\$	(0)

## 2. Available-for-sale securities

Millions of Yen

	For the year ended March 31, 2016					
	Carrying amount		Acquisition cost		Difference	
Securities whose carrying amount exceeds their acquisition cost:						
Stocks	¥	33,560	¥	14,873	¥	18,687
Bonds		—		—		—
Other		—		—		—
Subtotal	¥	33,560	¥	14,873	¥	18,687
Securities whose carrying amount does not exceed their acquisition cost:						
Stocks	¥	2,849	¥	3,524	¥	(674)
Bonds		—		—		—
Other		1,000		1,000		—
Subtotal	¥	3,849	¥	4,524	¥	(674)
Total	¥	37,410	¥	19,398	¥	18,012

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

Thousands of U.S. Dollars

	For the year ended March 31, 2017					
	Carrying amount		Acquisition cost		Difference	
Securities whose carrying amount exceeds their acquisition cost:						
Stocks	\$	302,160	\$	139,607	\$	162,544
Bonds		—		—		—
Other		—		—		—
Subtotal	\$	302,160	\$	139,607	\$	162,544
Securities whose carrying amount does not exceed their acquisition cost:						
Stocks	\$	23,830	\$	26,044	\$	(2,214)
Bonds		—		—		—
Other		8,928		8,928		—
Subtotal	\$	32,758	\$	34,973	\$	(2,214)
Total	\$	334,919	\$	174,580	\$	160,330



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

Millions of Yen

	For the year ended March 31, 2016					
	Sales amount		Total gain on sales		Total loss on sales	
Stocks	¥	2,537	¥	1,324	¥	15
Bonds		—		—		—
Other		—		—		—
Total	¥	2,537	¥	1,324	¥	15

#### For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

### 4. Impairment loss on securities

#### For the year ended March 31, 2016

Disclosure is omitted due to immateriality.

#### For the year ended March 31, 2017

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, 2016					
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	¥3,411 million		
		Long-term loans payable (forecasted transaction)	¥1,468 million	¥4,804 million	¥(575) million

Notes:

1. Calculation method for fair value:

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

2. Since interest rate swaps are difficult to be classified by hedged items, the totals for "contract amount due after one year" and "fair value" are shown above.

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	¥518 million	¥419 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.

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 \$42,892 thousand	¥ 4,540 million \$40,535 thousand	¥ (522) million \$(4,660) 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	¥ 1,149 million \$10,258 thousand	¥ 1,018 million \$ 9,089 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.

## 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 a multi-employer welfare benefit 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 welfare benefit 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 retirement benefit expenses.

### 2. Defined benefit plans

#### (1) Changes in defined benefit obligations

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Balance at beginning of year	¥ 72,683	¥ 70,005	\$ 625,044	
Current service cost	2,234	2,244	20,035	
Interest cost	632	607	5,419	
Actuarial gains and losses	(252)	(390)	(3,482)	
Benefit paid	(5,245)	(5,197)	(46,401)	
Increase accompanying with new consolidation	—	670	5,982	
Decrease accompanying with transfer to defined contribution plans	(46)	—	—	
Balance at end of year	¥ 70,005	¥ 67,940	\$ 606,607	

#### (2) Changes in plan assets

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Balance at beginning of year	¥ 39,534	¥ 39,040	\$ 348,571	
Expected return on plan assets	592	585	5,223	
Actuarial gains and losses	(409)	263	2,348	
Contributions by the employer	3,239	3,246	28,982	
Benefits paid	(3,917)	(3,855)	(34,419)	
Increase accompanying with new consolidation	—	388	3,464	
Other	—	2	17	
Balance at end of year	¥ 39,040	¥ 39,670	\$ 354,196	

#### (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	
	2016	2017	2017	
Funded defined benefit obligations	¥ 50,558	¥ 48,490	\$ 432,946	
Plan assets	(39,040)	(39,670)	(354,196)	
	¥ 11,517	¥ 8,819	\$ 78,741	
Unfunded defined benefit obligations	19,447	19,449	173,651	
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 30,964	¥ 28,269	\$ 252,401	
Net defined benefit liability	¥ 30,964	¥ 28,269	\$ 252,401	
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 30,964	¥ 28,269	\$ 252,401	

#### (4) Breakdown of retirement benefit expenses

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Current service cost	¥ 2,234	¥ 2,244	\$ 20,035	
Interest cost	632	607	5,419	
Expected return on plan assets	(592)	(585)	(5,223)	
Actuarial gains and losses recognized in the year	(12)	(441)	(3,937)	
Past service cost recognized in the year	12	12	107	
Other	218	262	2,339	
Total	¥ 2,491	¥ 2,099	\$ 18,741	

#### (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	
	2016	2017	2017	
Past service cost	¥ (12)	¥ (12)	\$ (107)	
Actuarial gains and losses	169	(212)	(1,892)	
Total	¥ 156	¥ (224)	\$ (2,000)	

#### (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	
	2016	2017	2017	
Unrecognized past service cost	¥ 25	¥ 12	\$ 107	
Unrecognized actuarial gains and losses	(1,876)	(2,088)	(18,642)	
Total	¥ (1,851)	¥ (2,076)	\$ (18,535)	

#### (7) Plan assets

##### (a) Breakdown of plan assets

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

	2016	2017
General account	43%	42%
Bonds	35%	35%
Equities	21%	22%
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

	2016	2017
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 welfare benefit pension fund accounted for in the same manner) of the Companies was ¥1,646 million and ¥1,627 million (\$14,526 thousand) for the years ended March 31, 2016 and 2017, respectively.

## DEFERRED TAX ACCOUNTING

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

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Deferred tax assets:				
Net defined benefit liability	¥ 9,557	¥ 8,708	\$ 77,750	
Depreciation and amortization	3,652	3,656	32,642	
Provision for loss on construction contracts	738	1,253	11,187	
Allowance for doubtful accounts	425	422	3,767	
Loss carry-forward	119	255	2,276	
Others	7,485	7,730	69,017	
Subtotal	21,978	22,026	196,660	
Valuation allowance	(2,176)	(2,908)	(25,964)	
Total	¥ 19,801	¥ 19,118	\$ 170,696	
Deferred tax liabilities:				
Valuation difference on available-for-sale securities	¥ (5,482)	¥ (5,463)	\$ (48,776)	
Reserve for advanced depreciation of non-current assets	(997)	(1,019)	(9,098)	
Reserve for special depreciation	(455)	(373)	(3,330)	
Others	(85)	(171)	(1,526)	
Total	¥ (7,021)	¥ (7,028)	\$ (62,750)	
Net deferred tax assets	¥ 12,779	¥ 12,089	\$ 107,937	

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

	Millions of Yen		Thousands of U.S. Dollars	
	2016	2017	2017	
Deferred tax liabilities for land revaluation	¥ (6,830)	¥ (6,789)	\$ (60,616)	

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

	2016	2017
Statutory tax rate	33.1%	30.9%
(Adjustments)		
Expenses not deductible for tax purposes	2.5%	1.5%
Non-taxable dividend income	(0.5%)	(0.3%)
Per capita levy of inhabitant taxes	1.2%	1.0%
Increase in valuation allowance	0.8%	1.2%
Reversal of revaluation reserve for land	(1.7%)	(0.6%)
Adjustment of deferred tax assets at end of year resulting from tax rate changes	6.2%	—%
Others-net	0.1%	(1.0%)
Effective tax rate after adopting tax effect accounting	41.7%	32.7%



## SEGMENT INFORMATION, ETC.

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### (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, 2016						
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)		
Net sales:							
Customers	¥ 437,231	¥ 10,442	¥ 447,673	¥ –	¥ 447,673		
Inter-segment	2,247	34,947	37,195	(37,195)	–		
Total	¥ 439,479	¥ 45,390	¥ 484,869	¥ (37,195)	¥ 447,673		
Segment profit	¥ 15,149	¥ 1,527	¥ 16,677	¥ (260)	¥ 16,416		
Segment assets	¥ 370,723	¥ 59,124	¥ 429,848	¥ (22,166)	¥ 407,681		
Other items:							
Depreciation and amortization	¥ 3,545	¥ 880	¥ 4,426	¥ (105)	¥ 4,320		
Increase in property, plant and equipment and intangible assets	2,990	2,859	5,849	(226)	5,622		

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, 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		

Thousands of U.S. Dollars

	For the year ended March 31, 2017						
	Engineering	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated total (Note 3)		
Net sales:							
Customers	\$ 4,120,098	\$ 84,741	\$ 4,204,848	\$ –	\$ 4,204,848		
Inter-segment	1,741	229,303	231,044	(231,044)	–		
Total	\$ 4,121,839	\$ 314,053	\$ 4,435,892	\$ (231,044)	\$ 4,204,848		
Segment profit	\$ 223,053	\$ 13,107	\$ 236,169	\$ (482)	\$ 235,687		
Segment assets	\$ 3,375,053	\$ 544,071	\$ 3,919,125	\$ (125,607)	\$ 3,793,517		
Other items:							
Depreciation and amortization	\$ 33,196	\$ 10,062	\$ 43,258	\$ (633)	\$ 42,625		
Increase in property, plant and equipment and intangible assets	61,044	47,651	108,705	(2,169)	106,535		

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, 2016

### 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, Incorporated	¥165,459 million	Engineering

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

Customer Name	Net sales	Related segment
Tokyo Electric Power Company Group	\$1,543,491 thousand	Engineering

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

Millions of Yen

	For the year ended March 31, 2016							
	Engineering		Other (Note)		Corporate/elimination		Total	
Impairment loss	¥	1,025	¥	0	¥	—	¥	1,025

Note: "Other" is related to real estate business.

For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

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

For the year ended March 31, 2016

Disclosure is omitted due to immateriality.

For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

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

For the year ended March 31, 2016

Not applicable.

For the year ended March 31, 2017

Disclosure is omitted due to immateriality.

(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, 2016						
Type	Name	Location	Capital stock	Description of business	Ratio of voting rights held	Relation to the related party
Other affiliates	Tokyo Electric Power Company, Incorporated	Chiyoda-ku, Tokyo	¥1,400,975 million	Electric power business	(Held) Direct 46.6% Indirect 1.2%	Electric work contract

Type	Name	Nature of transaction	Amount of transaction	Account	Balance at end of year
Other affiliates	Tokyo Electric Power Company, Incorporated	Installation of electric work	¥156,541 million	Notes receivable, accounts receivable from completed construction contracts and other	¥30,614 million
				Advances received on uncompleted construction contracts	¥ 281 million
		Purchase of raw materials	¥ 38,344 million	Notes payable, accounts payable for construction contracts and other	¥ 2,208 million

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 \$12,508,705 thousand	Electric power business	(Held) Direct —% Indirect 47.8%	Electric work contract
	TEPCO Power Grid, Incorporated	Chiyoda-ku, Tokyo	¥ 80,000 million \$ 714,285 thousand	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 \$ 112,776 thousand	Notes receivable, accounts receivable from completed construction contracts and other	¥ 7,376 million \$ 65,857 thousand
				Advances received on uncompleted construction contracts	¥ 132 million \$ 1,178 thousand
	TEPCO Power Grid, Incorporated	Installation of electric work	¥ 146,793 million \$1,310,651 thousand	Notes receivable, accounts receivable from completed construction contracts and other	¥ 22,753 million \$203,151 thousand
				Advances received on uncompleted construction contracts	¥ 626 million \$ 5,589 thousand
		Purchase of raw materials	¥ 35,587 million \$ 317,741 thousand	Notes payable, accounts payable for construction contracts and other	¥ 1,839 million \$ 16,419 thousand

Notes:

- Above transaction amounts do not include consumption taxes and above balances at the end of the year include consumption taxes.
- 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.
- On April 1, 2016, Tokyo Electric Power Company, Incorporated, which was previously classified as "other affiliates," transferred its fuel and thermal power generation business, general power transmission and distribution business, and retail electricity business through company splits to TEPCO Fuel & Power, Incorporated, TEPCO Power Grid, Incorporated, and TEPCO Energy Partner, Incorporated, respectively. In this way, the company introduced a holding company system and changed its trade name to Tokyo Electric Power Company Holdings, Incorporated. All the Company's shares held by Tokyo Electric Power Company Holdings, Incorporated were transferred to and succeeded by the said company's wholly owned subsidiary TEPCO Power Grid, Incorporated. Accordingly, in the year ended March 31, 2017, other affiliates of the Company became the two companies of Tokyo Electric Power Company Holdings, Incorporated and TEPCO Power Grid, Incorporated.



## PER SHARE INFORMATION

	Yen		U.S. Dollars
	2016	2017	2017
Net assets per share	¥ 942.42	¥ 1,013.33	\$ 9.04
Earnings per share	46.07	86.11	0.76
Diluted earnings per share	46.06	79.34	0.70

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
	2016	2017	2017
Earnings per share			
Profit attributable to owners of parent	¥ 9,412	¥ 17,591	\$ 157,062
Amount not attributable to common shareholders	—	—	—
Profit attributable to owners of parent applicable to common shares	9,412	17,591	157,062

	Thousands of Shares	
	2016	2017
Weighted average number of common shares during the year	204,286	204,273

	Millions of Yen		Thousands of U.S. Dollars
	2016	2017	2017
Diluted earnings per share			
Adjustment of profit attributable to owners of parent	—	(13)	(116)
[Interest expenses, net of tax included in the above]	[—]	[(13)]	[(116)]

	Thousands of Shares	
	2016	2017
Increase in common shares	47	17,256
[Convertible bond-type bonds with subscription rights to shares included in the above]	[47]	[17,256]
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
	2016	2017	2017
Total net assets	¥ 197,980	¥ 213,356	\$ 1,904,964
Amount deducted from total net assets	5,464	6,364	56,821
[Non-controlling interests included in the above]	[5,464]	[6,364]	[56,821]
Total net assets related to common shares	192,516	206,991	1,848,133

	Thousands of Shares	
	2016	2017
Number of common shares outstanding at end of year	204,278	204,268

## SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

# CONSOLIDATED SUPPLEMENTAL SCHEDULES

## (Schedule of bonds)

Company name	Issue type	Issuance date	As of April 1, 2016	As of March 31, 2017	Interest rate (%)	Collateral	Maturity
Kandenko Co., Ltd.	Euro-yen convertible bond-type bonds with subscription rights to shares due 2021, subject to call	March 31, 2016	¥ 20,100 million \$179,464 thousand	¥ 20,080 million \$179,285 thousand	—	None	March 31, 2021
Total	—	—	¥ 20,100 million \$179,464 thousand	¥ 20,080 million \$179,285 thousand	—	—	—

Notes:

1. Information on convertible bond-type bonds with subscription rights to shares is as follows:

Shares to be issued	Common shares
Issuance price of subscription rights to shares	Gratis
Issuance price of shares	¥ 1,159 \$ 10.34
Total issuance value	¥ 20,100 million \$179,464 thousand
Total issuance value of shares issued through the exercise of subscription rights to shares	¥ — million
Grant ratio of subscription rights to shares (%)	100
Exercise period of subscription rights to shares	April 14, 2016 to March 17, 2021

Upon the exercise of each of the subscription rights to shares, the bonds relating to the subscription rights to shares 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, 2017 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 \$178,571 thousand	—

## (Schedule of loans)

	As of April 1, 2016	As of March 31, 2017	Average interest rate (%)	Maturity
Short-term loans payable	¥ 7,134 million \$ 63,696 thousand	¥ 10,122 million \$ 90,375 thousand	0.7	—
Current portion of long-term loans payable	¥ 552 million \$ 4,928 thousand	¥ 798 million \$ 7,125 thousand	2.0	—
Current portion of lease obligations	¥ 395 million \$ 3,526 thousand	¥ 425 million \$ 3,794 thousand	—	—
Long-term loans payable (excluding current portion of long-term loans payable)	¥ 5,567 million \$ 49,705 thousand	¥ 7,581 million \$ 67,687 thousand	2.2	2018 to 2032
Lease obligations (excluding current portion of lease obligations)	¥ 662 million \$ 5,910 thousand	¥ 795 million \$ 7,098 thousand	—	2018 to 2024
Other interest-bearing debt	—	—	—	—
Total	¥ 14,311 million \$ 127,776 thousand	¥ 19,723 million \$ 176,098 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, 2017 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	¥ 1,582 million \$ 14,125 thousand	¥ 1,029 million \$ 9,187 thousand	¥ 658 million \$ 5,875 thousand	¥ 342 million \$ 3,053 thousand
Lease obligations	¥ 325 million \$ 2,901 thousand	¥ 245 million \$ 2,187 thousand	¥ 161 million \$ 1,437 thousand	¥ 43 million \$ 383 thousand

## (Schedule of Asset Retirement Obligations)

The amounts of asset retirement obligations as of April 1, 2016 and March 31, 2017 are less than 1% of the total liabilities and net assets as of April 1, 2016 and March 31, 2017. Therefore, the disclosure is omitted.

## OTHERS

Quarterly information for the year ended March 31, 2017

Cumulative period	First quarter	Second quarter	Third quarter	Fourth quarter
Net sales	¥ 105,726 million \$ 943,982 thousand	¥ 218,317 million \$ 1,949,258 thousand	¥ 313,760 million \$ 2,801,428 thousand	¥ 470,943 million \$ 4,204,848 thousand
Profit before income taxes	¥ 6,880 million \$ 61,428 thousand	¥ 13,108 million \$ 117,035 thousand	¥ 16,991 million \$ 151,705 thousand	¥ 27,118 million \$ 242,125 thousand
Profit attributable to owners of parent	¥ 4,485 million \$ 40,044 thousand	¥ 8,626 million \$ 77,017 thousand	¥ 11,199 million \$ 99,991 thousand	¥ 17,591 million \$ 157,062 thousand
Earnings per share	¥ 21.96 \$ 0.19	¥ 42.23 \$ 0.37	¥ 54.82 \$ 0.48	¥ 86.11 \$ 0.76
Each quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share	¥ 21.96 \$ 0.19	¥ 20.27 \$ 0.18	¥ 12.59 \$ 0.11	¥ 31.29 \$ 0.27

# 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, 2017, 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.

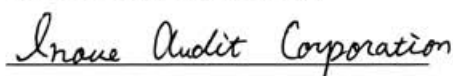
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *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, 2017, 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, 2017 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, 2017

# 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).
May 1962	Kanto Sekizai Kogyo Co., Ltd. (now K Lease Co., Ltd.) is established.
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 Kanden 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, and power line engineering work is put under the head office's direct jurisdiction.
July 2015	The Fukushima Headquarters is established. The Kanko Fudousan Kanri Co., Ltd. absorbs K Lease Co., Ltd. in a merger operation and changes its trading name to K Asset Management Co., Ltd.
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)



## Stock Information (As of March 31, 2017)

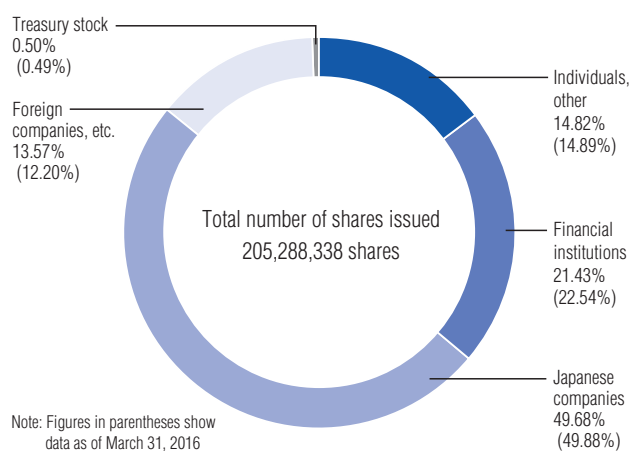
The shares of common stock of the Company are listed on the First Section of the Tokyo Stock Exchange. On March 31, 2017, there were a total of 8,712 shareholders.

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

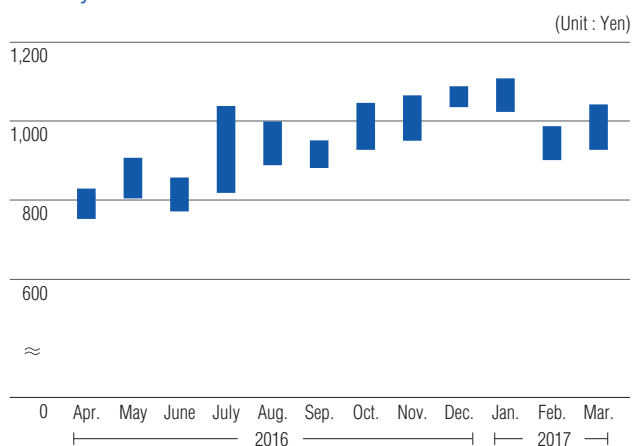
### Principal Shareholders

	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)	10,391,000	5.06
3	Mizuho Bank, Ltd.	8,121,839	3.95
4	The Master Trust Bank of Japan, Ltd. (Trust Account)	7,683,000	3.74
5	Kandenko Group Employees Shareholding Association	5,965,079	2.90
6	Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,644,000	1.28
7	Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,644,000	0.80
8	EVERGREEN	1,483,000	0.72
9	The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,402,000	0.68
10	STATE STREET BANK AND TRUST COMPANY 505001	1,342,784	0.65
	Total	135,430,254	65.97

### 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. <a href="http://www.kandenko.co.jp/index.html">http://www.kandenko.co.jp/index.html</a>
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, 2017)

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

## Network

Domestic Offices		Overseas Offices	
<b>Head Office</b>	<b>4-8-33 Shibaura, Minato-ku, Tokyo, Japan</b>		
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	3-22-15 Negishi, Minami-ku, Saitama, Japan	Indonesia Representative Office	5th 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, 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, Japan		
Tohoku Branch	Sendai Daiichi Seimei Tower Building, 4-6-1 Ichibancho, Aoba-ku, Sendai, Japan		
Nagano Branch	1629-32 Midoricho, Nagano, Japan		

# KANDENKO

<http://www.kandenko.co.jp/en/>



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