

2017

FINANCIAL STATEMENTS

MARCH 31, 2016-2017

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Consolidated Balance Sheets

As of March 31, 2016 and 2017

	Millions of yen	
	March 31,	
	2016	2017
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 9,184	¥ 15,111
Notes and accounts receivable	18,802	16,724
Real estate for sale	3,567	3,565
Cost of construction in progress	349	708
Cost of uncompleted development projects	41	41
Inventories.....	86	91
Deferred income taxes.....	479	510
Other current assets.....	947	1,260
Less: allowance for doubtful accounts	(247)	(51)
Total current assets	<u>33,209</u>	<u>37,959</u>
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	11,141	12,031
Machinery and equipment	2,875	2,840
Tools, furniture and fixtures	2,744	2,769
Golf course	771	771
Land.....	6,234	6,339
Construction in progress	31	10
Other non-current assets	47	47
Less: accumulated depreciation	(9,969)	(10,210)
Total tangible fixed assets	<u>13,873</u>	<u>14,596</u>
Intangible fixed assets	225	228
Investments:		
Investment securities	5,122	6,128
Long-term loans	26	25
Deferred income taxes.....	412	345
Other investments	1,355	1,375
Less: allowance for doubtful accounts	(32)	(32)
Total investments	<u>6,883</u>	<u>7,841</u>
Total non-current assets	<u>20,981</u>	<u>22,665</u>
Total assets.....	<u>¥ 54,190</u>	<u>¥ 60,624</u>

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2016 and 2017

	Millions of yen	
	March 31,	
	2016	2017
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 14,160	¥ 14,403
Income taxes payable	683	1,362
Advances received on construction in progress	4,397	6,572
Advances received on uncompleted development business	—	0
Accrued bonuses to employees	311	419
Accrued bonuses to directors and statutory auditors	46	47
Accrued warranty	41	67
Allowance for losses on construction contracts	—	83
Other current liabilities	1,726	1,680
Total current liabilities	<u>21,365</u>	<u>24,633</u>
Non-current Liabilities:		
Net defined benefit liability	366	47
Membership deposit	2,508	2,370
Deferred income taxes	1,314	1,634
Other non-current liabilities	235	194
Total non-current liabilities	<u>4,423</u>	<u>4,245</u>
Total liabilities	<u>25,788</u>	<u>28,878</u>
NET ASSETS		
Shareholders' Equity:		
Common stock	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 68,368,532 shares as of March 31, 2016 and 2017		
Capital surplus	5,502	5,707
Retained earnings	12,986	15,686
Treasury shares	(1,262)	(1,266)
Total shareholders' equity	<u>26,342</u>	<u>29,243</u>
Accumulated Other Comprehensive Income:		
Unrealized gain (loss) on other securities	1,085	1,807
Unrealized gain (loss) on hedging derivatives	1	9
Foreign currency translation adjustment	415	355
Remeasurements of defined benefit plans	(216)	(94)
Total accumulated other comprehensive income	<u>1,285</u>	<u>2,077</u>
Non-controlling interests	775	426
Total net assets	<u>28,402</u>	<u>31,746</u>
Total liabilities and net assets	<u>¥ 54,190</u>	<u>¥ 60,624</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income
For the years ended March 31, 2016 and 2017

	Millions of yen	
	March 31,	
	2016	2017
Net Sales:		
Construction contracts	¥ 67,640	¥ 66,615
Real estate development and other.....	4,689	4,444
	72,329	71,058
Cost of Sales:		
Construction contracts	60,792	58,822
Real estate development and other.....	3,108	3,081
	63,901	61,903
Gross profit.....	8,429	9,155
Selling, General and Administrative Expenses.....	4,739	4,299
Operating income	3,690	4,857
Non-operating Income (Expenses):		
Interest and dividend income	167	131
Interest expenses.....	(27)	(26)
Provision of allowance for doubtful accounts.....	—	(20)
Foreign exchange losses.....	(215)	(111)
Other, net.....	91	98
	3,704	4,928
Special Items:		
Gain on sales of non-current assets	0	210
Gain on sales of investment securities	0	34
Loss on disposal of non-current assets.....	(29)	(89)
Loss on valuation of investment securities.....	—	(0)
Impairment loss	(167)	—
Other, net.....	(1)	0
Income before income taxes.....	3,508	5,083
Income Taxes:		
Current.....	933	1,729
Deferred.....	389	30
Profit.....	2,186	3,325
Profit attributable to non-controlling interests.....	18	3
Profit attributable to owners of parent.....	¥ 2,168	¥ 3,322

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2016 and 2017

	Millions of yen	
	March 31,	
	2016	2017
Profit.....	¥ 2,186	¥ 3,325
Other Comprehensive Income:		
Unrealized gain (loss) on other securities	(640)	721
Unrealized gain (loss) on hedging derivatives.....	(18)	8
Foreign currency translation adjustment.....	29	(117)
Remeasurements of defined benefit plans.....	(100)	122
Total other comprehensive income	(729)	734
Comprehensive Income	1,457	4,059
Comprehensive income attributable to:		
Owners of parent.....	1,554	4,114
Non-controlling interests.....	(96)	(55)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Equity

For the years ended March 31, 2016 and 2017

	Millions of yen											
	Number of shares of common stock (thousands)	Shareholder's equity				Accumulated other comprehensive income						Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury shares	Unrealized	Unrealized	Foreign	Remeasurements		Non-controlling interests	
						gain (loss) on other securities	gain (loss) on hedging derivatives	currency translation adjustment	of defined benefits plans			
Balance at March 31, 2015.....	68,369	9,116	5,066	11,563	(1,276)	1,725	19	271	(116)	1,670	28,040	
Dividends of surplus.....	—	—	—	(745)	—	—	—	—	—	—	(745)	
Profit attributable to owners of parent.....	—	—	—	2,168	—	—	—	—	—	—	2,168	
Purchase of treasury shares.....	—	—	—	—	(7)	—	—	—	—	—	(7)	
Disposal of treasury shares.....	—	—	6	—	20	—	—	—	—	—	26	
Change in treasury shares of parent arising from transactions with non-controlling interests.....	—	—	430	—	—	—	—	—	—	—	430	
Net changes of items other than shareholders' equity.....	—	—	—	—	—	(639)	(18)	144	(100)	(895)	(1,510)	
Total changes of items during period.....	—	—	436	1,423	13	(639)	(18)	144	(100)	(895)	362	
Balance at March 31, 2016.....	<u>68,369</u>	<u>9,116</u>	<u>5,502</u>	<u>12,986</u>	<u>(1,262)</u>	<u>1,085</u>	<u>1</u>	<u>415</u>	<u>(216)</u>	<u>775</u>	<u>28,402</u>	
Balance at March 31, 2016.....	68,369	9,116	5,502	12,986	(1,262)	1,085	1	415	(216)	775	28,402	
Dividends of surplus.....	—	—	—	(622)	—	—	—	—	—	—	(622)	
Profit attributable to owners of parent.....	—	—	—	3,322	—	—	—	—	—	—	3,322	
Purchase of treasury shares.....	—	—	—	—	(4)	—	—	—	—	—	(4)	
Change in treasury shares of parent arising from transactions with non-controlling interests.....	—	—	205	—	—	—	—	—	—	—	205	
Net changes of items other than shareholders' equity.....	—	—	—	—	—	722	8	(59)	122	(349)	443	
Total changes of items during period.....	—	—	205	2,700	(4)	722	8	(59)	122	(349)	3,344	
Balance at March 31, 2017.....	<u>68,369</u>	<u>9,116</u>	<u>5,707</u>	<u>15,686</u>	<u>(1,266)</u>	<u>1,807</u>	<u>9</u>	<u>355</u>	<u>(94)</u>	<u>426</u>	<u>31,746</u>	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the year ended March 31, 2016 and 2017

	Millions of yen	
	2016	2017
Cash flows from operating activities:		
Income before income taxes	¥ 3,508	¥ 5,083
Adjustments for:		
Depreciation	777	679
Impairment loss.....	167	—
Interest and dividend income.....	(167)	(131)
Interest expenses	27	26
Foreign exchange (gains) losses.....	21	107
(Gain) loss on sales of investment securities.....	(0)	(34)
(Gain) loss on valuation of investment securities	—	0
(Gain) loss on sales of non-current assets.....	(0)	(210)
Loss on disposal of non-current assets	29	89
Increase (decrease) in net defined benefit liability.....	(146)	(145)
Increase (decrease) in accrued warranty	18	26
Increase (decrease) in allowance for losses on construction contracts	(306)	83
Increase (decrease) in accrued bonuses to employees	64	108
Increase (decrease) in accrued bonuses to directors and statutory auditors	(0)	1
Increase (decrease) in allowance for doubtful accounts	173	(196)
(Increase) decrease in notes and accounts receivable.....	(7,022)	2,076
(Increase) decrease in cost of construction in progress and cost of uncompleted development projects	2,011	(358)
(Increase) decrease in real estate for sale and inventories.....	171	(5)
Increase (decrease) in other current assets.....	202	(301)
Increase (decrease) in notes and accounts payable	3,219	243
Increase (decrease) in advances received on construction in progress.....	(1,038)	2,174
Increase (decrease) in other current and non-current liabilities	25	(204)
Other.....	36	92
Sub-total	1,769	9,206
Interest and dividend income received.....	166	128
Interest expenses paid	(27)	(26)
Income taxes paid.....	(1,337)	(1,132)
Net cash provided by (used in) operating activities.....	570	8,176
Cash flows from investing activities:		
Payment into time deposit.....	(911)	(891)
Proceeds from withdrawal of time deposit	920	911
Payments for purchase of tangible fixed assets	(486)	(1,695)
Proceeds from sale of tangible fixed assets	0	295
Payments for purchase of intangible fixed assets.....	(12)	(33)
Payments for purchase of investment securities.....	(5)	(39)
Proceeds from sales of investment securities.....	6	37
Proceeds from redemption of investment securities.....	—	50
Payments for loans	(22)	(7)
Proceeds from recovery of loans.....	5	8
Other.....	1	(33)
Net cash provided by (used in) investing activities.....	(503)	(1,398)
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	(1,000)	—
Purchase of treasury shares	(6)	(4)
Disposal of treasury shares	49	—
Cash dividends paid.....	(743)	(623)
Cash dividends paid to non-controlling interests.....	(2)	(2)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(399)	(87)
Other.....	(6)	(15)
Net cash provided by (used in) financing activities	(2,107)	(730)
Effect of exchange rate changes on cash and cash equivalents.....	34	(101)
Net increase (decrease) in cash and cash equivalents	(2,006)	5,947
Cash and cash equivalents of beginning of year.....	10,479	8,472
Cash and cash equivalents of end of year.....	¥ 8,472	¥ 14,419

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

(a) Accounting principles

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Kitano Construction Corp. (the "Company") and its subsidiaries prepared 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, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

(b) Scope of consolidation

The Company had 4 subsidiaries (majority-owned companies) as at March 31, 2017 (4 for 2016). The consolidated financial statements in fiscal years ended March 31, 2017 include the accounts of the Company and 4 (4 for 2016) of its subsidiaries (the "Companies"), which are listed below:

•Kawanakajima Tochi Kaihatsu Co., Ltd.	91.7% owned
•Solomon Kitano Mendana Hotel Limited.	100.0% owned
•Sakura Hanoi Plaza Investment Co., Ltd.	99.5% owned
•Asahi Agency Inc.	59.5% owned

The above consolidated subsidiaries, except for Solomon Kitano Mendana Hotel Limited and Sakura Hanoi Plaza Investment Co., Ltd., which have a fiscal year ending at December 31 of each year, have a fiscal year ending at March 31 of each year, which is the same as the fiscal year of the Company.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

All significant intercompany balances, intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation and the portion thereof attributable to non-controlling interests is charged to non-controlling interests.

(b) Recognizing revenues and costs of construction contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated based on the cost incurred to date as a percentage of the estimated total cost. The completed-contract method is applied to all other construction contracts.

(c) Inventory valuation

The cost of construction in progress, real estate for sale and the cost of uncompleted development projects are stated at cost, as determined on a specific project basis.

Materials and supplies are stated at cost, as determined based on an average method.

The net book value of inventories in the balance sheet is written down if the net realizable value declines.

(d) Depreciation

Depreciation is computed by the straight-line method; provided however, buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), facilities attached to buildings and structures acquired on or after April 1, 2016 and real estate for leasing are depreciated by the declining-balance method at rates based on the estimated useful lives of the assets, as prescribed by Japanese income tax laws. The range of useful lives is principally from 2 to 50 years for buildings and structures and from 2 to 17 years for machinery and equipment.

(e) Allowance for doubtful accounts

The balance of allowance for doubtful accounts represents the amount deemed necessary to cover possible losses estimated on an individual doubtful account basis. The amount is calculated using a certain percentage based on past experience for other accounts.

(f) Accrued warranty

Accrued warranty is provided for against the future costs of warranty from completed construction.

(g) Accrued bonuses to employees

Accrued bonuses are computed by estimating the payment required in order to provide for the payment of bonuses to employees.

(h) Accrued bonuses to directors and statutory auditors

Accrued bonuses are computed by estimating the payment required in order to provide for the payment of bonuses to directors and statutory auditors.

(i) Reserve for retirement benefits to employees

The Company recognizes accrued pension and severance costs to employees based on the actual valuation of projected benefit obligation and plan assets at fair value.

Actuarial gains and losses were recognized using mainly the straight-line method over a period of 10 years.

Prior service costs were amortized using mainly the straight-line method over a period of 10 years, the period within the estimated average remaining service life of the employees.

(j) Allowance for losses on construction contracts

The Company prepares reasonable estimated amount for future losses from construction works outstanding at fiscal year-end.

(k) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(1) Income taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

The Company and its subsidiaries account for deferred taxes in accordance with the regulations for preparation of consolidated financial statements in Japan. Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(m) Securities valuation

Held-to-maturity debt securities are carried at amortized cost.

Available-for-sale securities are classified into two categories where: (1) the fair value is available and (2) the fair value is not available.

(1) Securities whose fair value is available are valued at the quoted market price prevailing at the fiscal year-end. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of sales is determined by the moving-average method.

(2) Securities whose fair value is not available are valued at cost, determined by the moving-average method.

(n) Hedge accounting

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward exchange contracts. The related hedged items are finance for the overseas construction business. The Company is able to fix future cash flows and mitigate the deterioration of income from the construction business due to yen depreciation. The Company obtains management approval before making forward exchange contracts, and subsequently the accounting department executes and controls the contract.

(o) Consumption tax

Consumption tax payable or receivable is excluded from each account in the consolidated statements of income.

(p) Reclassification of accounts

Certain prior year amounts have been reclassified to conform with the current year's presentation.

Changes in accounting policies

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, issued on June 17, 2016) from the fiscal year under review, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

As a result, the effect of this change on operating income, ordinary income and income before income taxes for the fiscal year under review is immaterial.

Additional information

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year under review, the Company has applied the "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued on March 28, 2016).

3. Notes to Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2016	2017
(1) Items relating to non-consolidated subsidiaries and associates		
Investment securities	¥ —	¥ 5
(2) Inventories		
Materials and supplies	76	81
Merchandise	10	10
(3) The guarantee of housing construction flaw security		
Investment securities	184	184

4. Notes to Consolidated Statements of Income

	Millions of yen	
	for the year ended March 31,	
	2016	2017
(1) Allowance for losses on construction contracts included in cost of sales of construction contracts	¥ —	¥ 83
(2) Write-down of inventories included in cost of sales on real estate development and other	43	2
(3) The major components of “Selling, general and administrative expenses”		
Payroll	1,462	1,534
Retirement benefit expenses	69	96
Allowance for accrued bonuses	155	190
Provision of allowance for doubtful accounts	177	(216)
Depreciation	389	357

5. Notes to Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen	
	for the year ended March 31,	
	2016	2017
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year	¥ (974)	¥ 1,018
Reclassification adjustments	(0)	—
Total before tax effect	(974)	1,018
Tax effect	335	(297)
Net unrealized gain (loss) on other securities, net of taxes ..	(640)	721
Deferred gain (loss) on hedging derivatives, net of taxes		
Gains (losses) arising during the year	¥ (27)	¥ 11
Tax effect	9	(3)
Deferred gain (loss) on hedging derivatives, net of taxes	(18)	8
Foreign currency translation adjustment		
Gains (losses) arising during the year	¥ 29	¥ (117)
Remeasurements of defined benefit plans, net of tax		
Gains (losses) arising during the year	¥ (177)	¥ 73
Reclassification adjustments	37	102
Amount before income tax effect	(140)	175
Income tax effect	40	(53)
Remeasurements of defined benefit plans, net of tax	(100)	122
Total other comprehensive income	¥ (729)	¥ 734

6. Notes to Consolidated Statements of Changes in Equity

(a) Type and number of outstanding shares

Type of shares	March 31, 2016			
	Balance at Beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Number of shares				
Issued stock				
Common stock	68,368,532	—	—	68,368,532
Total	68,368,532	—	—	68,368,532
Treasury shares				
Common stock	6,173,459	20,506	86,664	6,107,301
Total	6,173,459	20,506	86,664	6,107,301

The summary of the main change reason

Increase by the repurchase of shares less than one unit	20,506 shares
Decrease by the sale of shares less than one unit	360 shares
Decrease by the sales of treasury shares (the Company's shares) by a consolidated subsidiary	86,304 shares

Type of shares	March 31, 2017			
	Balance at Beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Number of shares				
Issued stock				
Common stock	68,368,532	—	—	68,368,532
Total	68,368,532	—	—	68,368,532
Treasury shares				
Common stock	6,107,301	13,119	—	6,120,420
Total	6,107,301	13,119	—	6,120,420

The summary of the main change reason

Increase by the repurchase of shares less than one unit	13,119 shares
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(b) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholder's cut-off date	Effective date
June 24, 2016	Annual general meeting of shareholders	Common stock	623,267	Retained earnings	10.0	March 31, 2016	June 27, 2016

(2) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current fiscal year

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholder's cut-off date	Effective date
June 23, 2017	Annual general meeting of shareholders	Common stock	623,136	Retained earnings	10.0	March 31, 2017	June 26, 2017

7. Notes to Consolidated Statements of Cash Flows

	Millions of yen	
	March 31, 2016	March 31, 2017
Cash in hand and in banks	¥ 9,184	¥ 15,111
Time deposits with a deposit term of over 3 months	(712)	(692)
Cash and cash equivalents	¥ 8,472	¥ 14,419

8. Fair Value of Financial Instruments

The fair values and book values of financial instruments as of March 31, 2016 and March 31, 2017, other than items of which fair value are not practically available, are as follows:

	Millions of yen		
	March 31, 2016		
	Book value	Fair value	Difference
Cash in hand and in banks	¥ 9,184	¥ 9,184	¥ —
Notes and accounts receivable	18,802	18,802	—
Investment securities	4,092	4,092	—
Total	¥ 32,078	¥ 32,078	¥ —
Notes and accounts payable	¥ 14,160	¥ 14,160	¥ —
Total	¥ 14,160	¥ 14,160	¥ —
Derivative transactions	¥ 1	¥ 1	¥ —

	Millions of yen		
	March 31, 2017		
	Book value	Fair value	Difference
Cash in hand and in banks	¥ 15,111	¥ 15,111	¥ —
Notes and accounts receivable	16,724	16,724	—
Investment securities	5,027	5,027	—
Total	¥ 36,862	¥ 36,862	¥ —
Notes and accounts payable	¥ 14,403	¥ 14,403	¥ —
Total	¥ 14,403	¥ 14,403	¥ —
Derivative transactions	¥ 13	¥ 13	¥ —

(a) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen	
	March 31, 2016	March 31, 2017
	Book value	Book value
Non-listed shares *	¥ 1,031	¥ 1,102
Membership deposit *	2,508	2,370

* It is extremely difficult to determine the fair values thereof because neither market quoted prices are available nor future cash flows can be estimated.

(b) Redemption schedule for money claims and securities with maturities

Millions of yen							
March 31, 2016							
		Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years		Due after 10 years	
Cash in hand and in banks..	¥	9,174	¥ —	¥ —	¥	—	—
Notes and accounts receivable.....		18,802	—	—		—	—
Investment securities							
Government bonds.....		—	109	73		—	—
Corporate bonds.....		—	—	100		—	—

Millions of yen							
March 31, 2017							
		Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years		Due after 10 years	
Cash in hand and in banks..	¥	15,094	¥ —	¥ —	¥	—	—
Notes and accounts receivable.....		16,724	—	—		—	—
Investment securities							
Government bonds.....		—	125	57		1	—
Corporate bonds.....		—	—	50		—	—

9. Investment Securities

The following tables summarize the acquisition cost and book value of available-for-sale securities with market value as of March 31, 2016 and 2017:

Millions of yen			
March 31, 2016			
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 3,777	¥ 2,246	¥ 1,531
Government bonds.....	184	174	10
Corporate bonds.....	101	100	1
Sub-total	¥ 4,062	¥ 2,520	¥ 1,542
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 30	¥ 35	¥ (5)
Sub-total	¥ 30	¥ 35	¥ (5)
Total	¥ 4,092	¥ 2,555	¥ 1,536

Millions of yen			
March 31, 2017			
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 4,793	¥ 2,282	¥ 2,511
Government bonds.....	184	177	7
Corporate bonds.....	50	50	0
Sub-total	¥ 5,027	¥ 2,509	¥ 2,518
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ —	¥ —	¥ —
Sub-total	¥ —	¥ —	¥ —
Total	¥ 5,027	¥ 2,509	¥ 2,518

10. Derivative transactions

Derivative transactions for which hedge accounting is applied.

Currency-related transaction

Hedging method	Transaction type	Main hedged item	Millions of yen		
			Contract amount	Contract over 1 year	Fair value
Deferred hedge method	Foreign exchange forward contract Buy U.S. dollar	Forecasted foreign currency transactions	¥ 557	¥ 142	¥ 13

11. Reserve for Retirement Benefits to Employees

Employees of the Company are covered by a defined-benefit corporate pension plan and defined-contribution allowance plan. Employees of its subsidiaries are covered by termination allowance plan or defined-contribution pension plan.

Defined benefit plans

(a) Movements in retirement benefit obligations (except (c) below)

Balance at April 1, 2016.....	¥	2,697
Service cost.....		155
Interest cost.....		13
Actuarial loss (gain)		(68)
Benefits paid.....		(356)
Balance at March 31, 2017	¥	2,442

(b) Movements in plan assets (except (c) below)

Balance at April 1, 2016.....	¥	2,382
Expected return on plan assets.....		48
Actuarial loss (gain)		5
Contributions paid by the employer.....		380
Benefits paid.....		(356)
Balance at March 31, 2017	¥	2,459

(c) Movements in net defined benefit liability based on the simplified method

Balance at April 1, 2016.....	¥	50
Retirement benefit costs.....		26
Benefits paid.....		(12)
Balance at March 31, 2017	¥	63

(d) Reconciliation from net defined benefit liability and plan assets to liability for retirement benefits

Funded retirement benefit obligations	¥	2,485
Plan assets		(2,488)
		(4)
Unfunded retirement benefit obligations		50
Total net defined benefit liability (asset) at March 31, 2017		47
Net defined benefit asset		47
Total net defined benefit liability (asset) at March 31, 2017	¥	47

(e) Retirement benefit costs		
Service cost.....	¥	155
Interest cost.....		13
Expected return on plan assets.....		(48)
Net actuarial loss amortizations.....		110
Past service cost amortization.....		(8)
Retirement benefit costs calculated by simplified method.....		26
Total retirement benefit costs for the year ended March 31, 2017.....	¥	249
(f) Remeasurements of defined benefit plans, before tax		
Past service cost.....	¥	(8)
Actuarial gains / losses.....		183
Total.....	¥	175
(g) Breakdown of items recognized in accumulated other comprehensive income		
Unrealized past service cost.....	¥	158
Unrecognized actuarial differences.....		(23)
Total.....	¥	135
(h) Plan assets		
Bonds.....		24%
Securities.....		20%
General accounts.....		46%
Other.....		10%
Total.....		100%
(i) Long-term expected rate of return		
Current and target asset allocations as well as historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.		
(j) Actuarial assumptions		
Discount rate.....		0.5%
Rate of expected return on plan assets.....		2.0%
(k) Defined contribution plans		
Amount of contributions to defined contribution plans by the Company and its subsidiaries was ¥53 million.		

12. Income Taxes

(a) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are presented below:

	Millions of yen	
	March 31,	
	2016	2017
Deferred tax assets:		
Write-down of fixed assets.....	¥ 746	¥ 747
Allowance for doubtful accounts.....	87	27
Write-down of marketable securities.....	155	156
Intercompany profits.....	242	228
Loss on valuation of real estate for sale.....	304	304
Operating loss carry forwards.....	63	63
Net defined benefit liability.....	111	8
Other.....	481	669
Total gross deferred tax assets.....	2,190	2,202
Valuation allowance.....	(1,263)	(1,362)
	927	839
Deferred tax liabilities:		
Reserve for special depreciation.....	(120)	(96)
Reserve for advanced depreciation.....	(54)	(90)
Unrealized gain (loss) on other securities.....	(450)	(747)
Difference from fair value of subsidiaries.....	(724)	(681)
Deferred gains (loss) on hedging derivatives.....	(0)	(4)
Total gross deferred tax liabilities.....	(1,350)	(1,618)
Net deferred tax assets (liabilities).....	¥ (423)	¥ (778)

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2016 and 2017 is presented below:

	As of March 31,	
	2016	2017
Statutory tax rate.....	32.8%	30.7%
Permanent differences on expenses not deductible	1.5	0.6
Permanent differences on income not taxable	(0.2)	(0.2)
Accrued bonuses to directors and statutory auditors not deductible	0.4	0.3
Inhabitant taxes per capita.....	0.6	0.4
Valuation allowance	1.8	1.8
Influence by effective tariff change.....	0.8	—
Other.....	0.0	1.0
Effective tax rate.....	<u>37.7%</u>	<u>34.6%</u>

13. Segment Information

(a) The Company and its subsidiaries operate principally in the following 4 industrial segments:

Construction..... Construction, engineering works, development and sale of real estate.

Golf courses..... Management of golf courses

Hotels..... Management of hotels

Advertising agent Management of advertising agent

(b) The segment information of the Company and its subsidiaries for the years ended March 31, 2016 and 2017 is presented below:

Millions of Yen								
2016								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 68,421	¥ 248	¥ 2,038	¥ 1,623	¥ 72,329	¥ —	¥ 72,329	
Intersegment or transfer	33	4	5	114	155	(155)	—	
Total	68,454	251	2,042	1,737	72,485	(155)	72,329	
Operating income	¥ 3,454	¥ (4)	¥ 156	¥ 62	¥ 3,668	¥ 22	¥ 3,690	
II . Other								
Depreciation	293	44	460	8	805	(28)	777	

Millions of Yen								
2017								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 67,348	¥ 233	¥ 1,881	¥ 1,596	¥ 71,058	¥ —	¥ 71,058	
Intersegment or transfer	1	4	9	76	91	(91)	—	
Total	67,349	238	1,890	1,673	71,149	(91)	71,058	
Operating income	¥ 4,846	¥ (3)	¥ (67)	¥ 53	¥ 4,829	¥ 28	¥ 4,857	
II . Other								
Depreciation	280	39	379	9	707	(28)	679	

14. Per Share Data

Net assets per share and earnings per share as of and for the years ended March 31, 2016 and 2017 are as follows:

	Yen	
	2016	2017
Net assets per share	¥ 443.73	¥ 503.15
Earnings per share – primary.....	34.84	53.36

1. Basis of net income per share of common stock

	Millions of yen	
	2016	2017
Profit attributable to owners of parent.....	¥ 2,168	¥ 3,322
Profit pertaining to common stock	¥ 2,168	¥ 3,322
Average outstanding shares of common stock.....	62,218 thousand shares	62,255 thousand shares

2. Basis of net assets per share of common stock

	Millions of Yen	
	2016	2017
Net assets.....	¥ 28,402	¥ 31,746
Amounts deducted from net assets.....	775	426
Non-controlling interests.....	775	426
Net assets applicable to common stock	27,627	31,320
Number of shares of common stock at end of year	62,261 thousand shares	62,248 thousand shares

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Directors

Yoshikatsu Yamazaki

Zentaro Ozawa

Outside Directors

Yoshinori Uda

Fumiko Yazaki

Statutory Auditors

Permanent Auditor

Noboru Takizawa

Outside Auditors

Yoshichika Owa

Toshiyuki Nishimura

Nobuyoshi Sakai

Executive Officers

President and Executive Officer

Takahiro Kitano *

Senior Executive Officer

Yoshikatsu Yamazaki *

Managing Executive Officers

Itsuo Takeuchi

Zentaro Ozawa *

Kiyoto Kitagawa

Executive Officers

Shuichi Moriyasu

Atsushi Gomyo

Satoshi Kubo

Mitsuya Minamisawa

Masakatsu Kobayashi

Hironori Terashima

Issei Mori

Yoshito Iwasaki

Sadao Sugimura

Kenichi Oguma

* : Member of Board of Directors

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